The Economist Group

Interim report 2013

Interim report

Six months ended September 30th 2013

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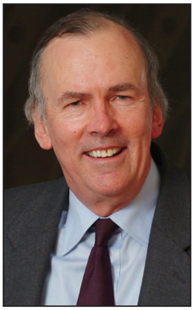
Chairman's statement



At first glance the figures in this report look disappointing, but half-year comparisons are often misleading. On this occasion the biggest anomaly is the timing of the flagship EuroFinance International conference – last year in September, this year October. The revenue and profit from the conference will come through in the full-year results we will report next summer. Excluding this factor, like-for-like revenue fell by 4% and operating profit by 5%. As I mentioned to you in July, we have also increased our spending on marketing *The Economist*, which more than explains the rest of the fall in Group profits.

The underlying picture is therefore basically what we expected: falls in print advertising, extra marketing spend – but matched by growth in other revenues and the benefits of tight cost control. As usual, the cashflow has been strong, allowing us to repay the debt we took on to buy Capitol Advantage and also to make a special payment of £5m into the pension scheme.

When a business is running according to plan, it is easier for a board to decide how much to distribute to shareholders and how much to hold back. As usual, the interim dividend will be one-third of last year's total – ie, 43p a share, which is 7% more than we paid this time last year. We have also carefully considered whether there is scope for a special dividend, and decided to pay 31.7p a share. This will still leave the Group with the cash it needs for developing its various businesses, plus a cushion against unknown unknowns.

You may be tempted to stop reading at this point, but I hope you won't; for what is happening in your Group has big implications for its future. Above all, the business model of the newspaper is being transformed. Advertisers, whose spending sustained its profits for decades, are moving away from print into digital (for which, alas, they pay much less) and also into other ways of promoting their wares: sponsorship, specially staged events, reports, watchable clips for social media and so on. Although *The Economist* remains an excellent medium for clients who want to advertise, we would be deluding ourselves if we imagined that the decline in our print advertising revenue had now come to an end.

The newspaper therefore has to get more revenue from selling its content – a challenge that, thanks to the skills of the editor and his team, is much more manageable for

Revenue	Operating profit	Operating profit margin	Circulation of *The Economist*
£159.6m	£24.8m	15.5%	1.6m

the Group than for many other publishers. We now offer several different formats for reading *The Economist*, and an encouraging number of new subscribers are choosing to buy a bundle of both print and tablet, for which they pay a premium price. The tricky part, of course, is to increase the revenue we get from each subscriber without losing circulation. We are still a long way from achieving our targets for both, but so far we are moving in the right direction. Circulation is steady at 1.6 million, and revenue per copy from our paying subscribers is up by 5% compared with the same period last year.

Elsewhere in the Group the tests may be less momentous, but each one matters. To mention just a few, the Economist Intelligence Unit (EIU) continues to increase its revenue from reports commissioned by clients; and its Healthcare division – helped by the EIU's global sales team – is starting to make progress in new markets. In Washington DC, CQ Roll Call, like the newspaper, is also seeing a fall in advertising revenue and a tightening of the market for its subscription products, but tough action on costs has led to a sharp recovery in profits.

The first half of the financial year also saw a change at the top of the Group. After five years as chief executive, Andrew Rashbass left to run the news division of Thomson-Reuters. The directors wish him well, and thank him for all he did for the Group. In his place the Board appointed Chris Stibbs, who had been the Group's finance director. He has decided to organise *The Economist* Businesses under two revenue headings: one selling content, the other selling marketing services to capture more of the spending of our clients and customers. The EIU and CQ Roll Call continue as discrete businesses.

Looking ahead, we will carry on investing for the long-term health of the Group. Among other things, this means spending more on promoting *The Economist*, which is bound to produce a reduction in profits for the full year 2013-14 compared with 2012-13. Please treat this as evidence that we are doing the right things to offset the decline in print advertising, and to ensure the Group remains on firm ground.

Rupert Pennant-Rea
Chairman

Profit and loss account

	NOTE	**Six months to Sept 30th 2013 £000**	Six months to Sept 30th 2012 £000	Twelve months to March 31st 2013 £000
Turnover		**159,565**	170,866	345,961
Operating profit		**24,804**	29,156	67,505
Profit on sale of business	4	**351**	-	-
Profit on ordinary activities before finance charges		**25,155**	29,156	67,505
Net interest payable		**(1,163)**	(1,541)	(3,513)
Profit on ordinary activities before taxation		**23,992**	27,615	63,992
Taxation on profit on ordinary activities		**(5,758)**	(7,456)	(15,306)
Profit for the period		**18,234**	20,159	48,686
Basic earnings per share (pence)	5	**72.9**	80.5	194.4
Dividends paid per share (pence)	6	**88.7**	83.0	163.2

Balance sheet

	As at Sept 30th 2013 £000	As at Sept 30th 2012 £000	As at March 31st 2013 £000
Fixed assets			
Intangible assets	**107,596**	107,965	116,242
Tangible assets	**27,728**	24,553	28,329
	135,324	132,518	144,571
Current assets			
Stocks and work-in-progress	**3,265**	2,549	2,193
Debtors	**53,388**	54,863	67,740
Deferred taxation	**2,314**	4,564	2,348
Cash at bank and in hand	**24,403**	42,303	38,705
	83,370	104,279	110,986
Creditors: amounts falling due within one year	**(71, 454)**	(85,163)	(71,668)
Unexpired subscriptions and deferred revenue	**(94,884)**	(91,632)	(108,001)
Net current liabilities	**(82,968)**	(72,516)	(68,683)
Total assets less current liabilities	**52,356**	60,002	75,888
Creditors: amounts falling after more than one year	**(50,786)**	(54,468)	(63,030)
Net assets excluding pension and other post-retirement obligations	**1,570**	5,534	12,858
Pension and other post-retirement obligations (net of deferred tax)	**(12,451)**	(14,416)	(24,221)
Net liabilities	**(10,881)**	(8,882)	(11,363)
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**(12,141)**	(10,142)	(12,623)
Total shareholders' deficit	**(10,881)**	(8,882)	(11,363)

Cashflow statement

	Six months to Sept 30th 2013 £000	Six months to Sept 30th 2012 £000	Twelve months to March 31st 2013 £000
Net cash inflow from operating activities	**18,443**	11,354	59,941
Returns on investments and servicing of finance			
Interest received	**14**	253	81
Interest paid	**(2,566)**	(2,643)	(5,337)
Finance lease interest paid	**(104)**	(104)	(208)
	(2,656)	(2,494)	(5,464)
Taxation			
UK corporation tax paid	**(2,756)**	(6,109)	(11,643)
Overseas tax paid	**(2,112)**	(799)	(1,236)
	(4,868)	(6,908)	(12,879)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(1,883)**	(914)	(2,508)
Acquisitions and disposals			
Purchase of subsidiary undertakings	**(735)**	(5,720)	(10,983)
Cash acquired with subsidiary undertakings	**-**	79	1,415
Cash received from sale of business	**236**	-	-
	(499)	(5,641)	(9,568)
Equity dividends paid to shareholders	**(22,215)**	(20,780)	(40,871)
Net cash outflow before use of liquid resources and financing	**(13,678)**	(25,383)	(11,349)
Management of liquid resources			
Cash drawn from short-term deposits	**3,568**	3,735	7,555
Financing			
Capital element of finance lease rental payments	**(1)**	(1)	(2)
(Purchase)/sale of own shares	**(619)**	359	232
Drawdown of unsecured loan facility	**7,000**	20,000	39,900
Repayment of unsecured loan facility	**(6,565)**	(3,470)	(41,920)
	(185)	16,888	(1,790)
Decrease in cash	**(10,295)**	(4,760)	(5,584)

Reconciliation of net cashflow to movement in net debt

	Six months to Sept 30th 2013 £000	Six months to Sept 30th 2012 £000	Twelve months to March 31st 2013 £000
Decrease in cash	**(10,295)**	(4,760)	(5,584)
Cash inflow from decrease in liquid resources	**(3,568)**	(3,735)	(7,555)
Cash (inflow)/outflow from debt financing	**(435)**	(16,530)	2,020
Cash outflow from decrease in lease financing	**1**	1	2
Change in net debt resulting from cashflows	**(14,297)**	(25,024)	(11,117)
Other non-cash changes	**(41)**	(41)	(81)
Exchange translation differences	**2,811**	141	(2,726)
Movement in net debt in period	**(11,527)**	(24,924)	(13,924)
Net debt at beginning of period	**(27,872)**	(13,948)	(13,948)
Net debt at end of period	**(39,399)**	(38,872)	(27,872)

Statement of total recognised gains and losses

	Six months to Sept 30th 2013 £000	Six months to Sept 30th 2012 £000	Twelve months to March 31st 2013 £000
Profit for the period	**18,234**	20,159	48,686
Exchange translation differences arising on consolidation	**(1,033)**	(373)	920
Actual return less expected return on pension scheme assets	**(5,326)**	(4,142)	12,986
Experience gains/(losses) arising on pension scheme liabilities	**76**	175	(538)
Changes in assumptions underlying the present value of pension scheme liabilities	**13,191**	(867)	(32,631)
Actuarial loss on other post-retirement benefits	**-**	-	(281)
UK deferred tax attributable to the actuarial (gain)/loss	**(1,826)**	1,160	4,707
Total recognised gains for the period	**23,316**	16,112	33,849

Reconciliation of movement in total shareholders' deficit

	Six months to Sept 30th 2013	Six months to Sept 30th 2012	Twelve months to March 31st 2013
	£000	£000	£000
Profit for the period	**18,234**	20,159	48,686
Dividends paid	**(22,215)**	(20,780)	(40,871)
Retained (loss)/profit	**(3,981)**	(621)	7,815
Net (purchase)/sale of own shares	**(619)**	359	232
Other recognised gains/(losses)	**6,115**	(3,674)	(15,757)
Exchange translation differences arising on consolidation	**(1,033)**	(373)	920
Net addition to/(deduction from) shareholders' deficit	**482**	(4,309)	(6,790)
Opening shareholders' deficit	**(11,363)**	(4,573)	(4,573)
Closing shareholders' deficit	**(10,881)**	(8,882)	(11,363)

Analysis of results by business

	Six months to Sept 30th 2013	Six months to Sept 30th 2012	Twelve months to March 31st 2013
	£000	£000	£000
Turnover by business			
EMEA	**49,122**	57,733	116,195
Americas and CQ Roll Call	**70,904**	73,878	149,369
Asia	**15,995**	16,435	33,993
Economist Intelligence Unit	**21,834**	21,196	42,915
Other businesses	**1,710**	1,624	3,489
	159,565	170,866	345,961
Operating profit by business			
EMEA	**9,426**	12,378	26,062
Americas and CQ Roll Call	**6,029**	9,560	23,159
Asia	**2,091**	1,449	5,331
Economist Intelligence Unit	**5,385**	4,481	9,989
Other businesses	**1,873**	1,288	2,964
	24,804	29,156	67,505

Notes to the financial information

1. The interim financial information for the six months to September 30th 2013 was approved by the Board of directors on November 26th 2013 and is unaudited.

2. The financial information for the year ended March 31st 2013 has been extracted from the full accounts for that period which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report. The report did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

3. The interim financial information for the six months ended September 30th 2013 has been prepared on the basis of the accounting policies set out in the 2013 annual report.

4. On April 19th 2013 the Group sold the trade of European Voice and made a profit on sale of the business of £0.4m.

5. The shares held by the Employee Share Ownership Plan (ESOP) are excluded from the calculation of earnings per share. Diluted earnings per share are 72.7p (2012: 80.2p).

6. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2012: £0.1m).

   The dividend per share of 88.7p for the six months to September 30th 2013 is the final dividend for the year ending March 31st 2013 paid in July 2013. The dividend per share of 83.0p for the six months to September 30th 2012 is the final dividend for the year ending March 31st 2012 paid in July 2012. The dividend per share of 163.2p for the 12 months to March 31st 2013 includes interim, final and special dividends paid in that year.