The Economist Group

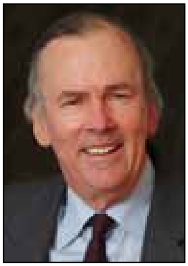
Interim report 2010

Interim report

Six months ended September 30th 2010

Contents

Chairman's statement



The Group's operating profit grew strongly in the first half of the year, by 23%, to £24.8m. Revenues increased by 11%, to £158.0m. Operating margin improved by 1.6 percentage points, to 15.7%, reflecting last year's cost reductions, the acquisition of Congressional Quarterly (CQ) and its integration into our Washington-based operations, and the sale of CFO. We bought CQ in August 2009, so this year's first-half results reflect the full benefits of its revenue and profits. The stronger US dollar also helped. Profit after tax was only slightly higher, as we benefited last year from one-off releases of various tax-related accounting provisions.

In line with our usual practice, the interim dividend will be a third of the previous year's full-year normal dividend—so 34.1p, an increase of 5.2% on last year. As the Group continues to generate significant cash and we expect this to continue, the Board has also decided to pay a special dividend of £10m or 39.7p per share. Both dividends will be paid in December.

Last year we continued to reduce costs in the face of the economic downturn, and they have remained under tight control. This has allowed us to reinvest some of the revenue growth that has come particularly from advertising in *The Economist*. We are increasing our spending on marketing *The Economist*; building an online advertising network of like-minded publishers; creating online virtual fairs (eg, bringing business schools together with possible MBA students); launching digital editions of *The Economist*; and increasing investment in the Economist Intelligence Unit and CQ Roll Call.

The Economist's global circulation continued to grow: the January-June 2010 ABC audit registered 1,443,083 copies, an increase of 25,070 over the same period last year. All regions made some progress, with the highlights being subscription growth in the UK and North America. In addition, the paper's print advertising revenues rose by 10% compared with last year at constant exchange rates. Two

Revenue	Operating profit
+11% to £158.0m	**+23%** to £24.8m

main drivers of advertising growth were a rebound in Asia, where advertising sales were up 77%, and in the UK, where they rose by 18%, although both were still below the peaks of two years ago. *Intelligent Life*'s advertising revenues grew by more than 40%.

The development of digital editions of *The Economist* has been a priority for the Group. In August we launched a UK edition for the Kindle: like the US edition we launched last year, it has been one of Kindle's best-selling magazines. We have just released iPhone and iPad editions of *The Economist*, with editions for more devices planned over the coming months.

We also made big changes to *The Economist* online, where advertising revenues grew by 11% at constant exchange rates compared with last year. We launched a new homepage and also an expert forum of economists called "Economics by invitation", increasing the number of visitors to the site and their participation in it.

In Britain, we launched a new advertising campaign emphasising the quality of content and analysis in *The Economist*. The posters, showing both sides of an argument (eg, in favour of and against legalising drugs), ask "Where do you stand?" It has helped to widen the audience of readers and has brought in new subscribers.

Our business in continental Europe, Middle East and Africa (CEMEA) has continued to expand, and we opened a commercial office in Johannesburg. We also launched an Africa Business Group, a network for executives in sub-Saharan Africa who meet to share their experiences and to benefit from the Group's information.

In India our investment continues, with circulation of *The Economist* reaching 29,000 in September, 15% higher than the same month last year.

Operating margin
+1.6
percentage points
to 15.7%

The Economist print and online advertising
+12%

We restructured the Economist Intelligence Unit as a global business from April 1st and have started programmes to upgrade the content and customer experience of EIU.com. The EIU has also developed "Access China", providing data, analysis and forecasts on 287 Chinese cities. At constant exchange rates, the EIU's revenues were roughly the same as last year, but we are confident it is building a strong platform for growth.

At CQ Roll Call, we saw the benefits of the integration of all our Washington businesses. Profitability increased, as did the sales of electronic subscription products, including those directed at grass-roots campaigning (Capwiz) and managing congressional contacts (Knowlegis). However, this has been a year of congressional elections and a shortened congressional calendar, which led to a 16% decline in advertising revenues for *Roll Call*. We are confident the business's strong brands and improving products will stand it in good stead when Congress returns.

Overall, the Group continues to do well. Given the nature of our business and its geographical spread, it is always affected by changing economic conditions. In addition, the way that people buy and use information is changing rapidly and perhaps fundamentally, so we must remain nimble and be ready to invest to support our great brands.

Rupert Pennant-Rea
Chairman

Profit and loss account

	NOTES	**Six months to Sept 30th 2010 £000**	Six months to Sept 30th 2009 £000	Twelve months to March 31st 2010 £000
Turnover		**158,003**	142,955	319,932
Operating profit		**24,821**	20,176	57,535
Profit on sale of fixed asset investments		-	-	354
Loss on sale and closure of businesses		-	-	(1,320)
Profit on ordinary activities before finance charges		**24,821**	20,176	56,569
Net interest payable		**(1,675)**	(2,143)	(6,556)
Profit on ordinary activities before taxation		**23,146**	18,033	50,013
Taxation on profit on ordinary activities		**(6,249)**	(1,533)	(11,845)
Profit for the period		**16,897**	16,500	38,168
Basic earnings per share (pence)	4	**67.5**	65.9	152.5
Dividends paid per share (pence)	5	**70.0**	67.2	131.3

Balance sheet

	As at Sept 30th 2010 £000	As at Sept 30th 2009 £000	As at March 31st 2010 £000
Fixed assets			
Intangible assets	**103,710**	111,584	110,266
Tangible assets	**21,678**	22,665	22,063
	125,388	134,249	132,329
Current assets			
Stocks and work-in-progress	**2,767**	2,618	1,637
Debtors: amounts falling due within one year	**53,754**	46,032	57,498
Deferred taxation	**9,896**	6,206	10,130
Cash and deposits	**23,829**	14,922	41,153
	90,246	69,778	110,418
Creditors: amounts falling due within one year	**(51,541)**	(44,311)	(58,503)
Unexpired subscriptions and deferred revenue	**(97,838)**	(92,783)	(109,222)
Net current liabilities	**(59,133)**	(67,316)	(57,307)
Total assets less current liabilities	**66,255**	66,933	75,022
Creditors: amounts falling after more than one year	**(69,961)**	(75,473)	(76,239)
Provisions for liabilities and charges	**(290)**	(182)	(291)
Net liabilities excluding pension and other post-retirement liabilities	**(3,996)**	(8,722)	(1,508)
Pension and other post-retirement liabilities (net of deferred tax)	**(6,906)**	(16,275)	(281)
Net liabilities	**(10,902)**	(24,997)	(1,789)
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**(12,162)**	(26,257)	(3,049)
Total shareholders' deficit	**(10,902)**	(24,997)	(1,789)

Cashflow statement

	Six months to Sept 30th 2010 £000	Six months to Sept 30th 2009 £000	Twelve months to March 31st 2010 £000
Net cash inflow from operating activities	**12,573**	12,386	63,407
Returns on investments and servicing of finance			
Interest received	**18**	84	147
Interest paid	**(2,963)**	(1,013)	(3,753)
Debt issue costs	-	(812)	(812)
Finance lease interest paid	**(104)**	(104)	(208)
	(3,049)	(1,845)	(4,626)
Taxation			
UK corporation tax paid	**(4,475)**	(5,830)	(10,457)
Overseas tax paid	**(1,281)**	(896)	(1,913)
	(5,756)	(6,726)	(12,370)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(1,097)**	(353)	(1,796)
Acquisitions and disposals			
Purchase of subsidiary undertaking	-	(59,866)	(60,305)
Cash acquired with subsidiary undertaking	-	3	3
Cash received from sale of business	**172**	-	2,250
Consideration on sale of fixed asset investment	-	-	354
	172	(59,863)	(57,698)
Equity dividends paid to shareholders	**(17,518)**	(16,822)	(32,863)
Cash outflow before use of liquid resources and financing	**(14,675)**	(73,223)	(45,946)
Management of liquid resources			
Cash (placed on)/drawn from short-term deposits	**(2,052)**	24,794	21,668
Financing			
Capital element of finance lease rental payments	**(1)**	(1)	(1)
Sale/(purchase) of own shares	**116**	(145)	(142)
Drawdown of unsecured loan facility	**9,570**	52,704	62,705
Repayment of unsecured loan facility	**(11,521)**	(2,938)	(14,782)
	(1,836)	49,620	47,780
(Decrease)/increase in net cash	**(18,563)**	1,191	23,502

Reconciliation of net cashflow to movement in net funds/(debt)

	Six months to Sept 30th 2010	Six months to Sept 30th 2009	Twelve months to March 31st 2010
	£000	£000	£000
(Decrease)/increase in cash	**(18,563)**	1,191	23,502
Cash outflow/(inflow) from increase/ (decrease) in liquid resources	**2,052**	(24,794)	(21,668)
Cash outflow/(inflow) from debt financing	**1,951**	(49,766)	(47,923)
Cash outflow from decrease in lease financing	**1**	1	1
Change in net funds resulting from cashflows	**(14,559)**	(73,368)	(46,088)
Other non-cash changes	**(41)**	799	757
Exchange translation differences	**2,175**	(2,122)	(5,773)
Movement in net funds in period	**(12,425)**	(74,691)	(51,104)
Net (debt)/funds at beginning of period	**(40,714)**	10,390	10,390
Net debt at end of period	**(53,139)**	(64,301)	(40,714)

Statement of total recognised gains and losses

	Six months to Sept 30th 2010	Six months to Sept 30th 2009	Twelve months to March 31st 2010
	£000	£000	£000
Profit for the period	**16,897**	16,500	38,168
Exchange translation differences arising on consolidation	**56**	1,146	1,813
Actual return less expected return on pension scheme assets	**(1,457)**	23,577	34,139
Experience gains arising on the pension scheme liabilities	-	-	7,866
Changes in assumptions underlying the present value of the scheme liabilities	**(10,577)**	(38,276)	(39,716)
Actuarial loss on other post-retirement benefits	-	-	(246)
UK deferred tax attributable to the actuarial loss/(gain)	**3,370**	4,116	(572)
Total recognised gains for the period	**8,289**	7,063	41,452

Reconciliation of movement in equity shareholders' funds

	Six months to Sept 30th 2010	Six months to Sept 30th 2009	Twelve months to March 31st 2010
	£000	£000	£000
Profit for the period	**16,897**	16,500	38,168
Dividends paid	**(17,518)**	(16,822)	(32,863)
Retained (loss)/profit	**(621)**	(322)	5,305
Net sale/(purchase) of own shares	**116**	(145)	(142)
Other recognised (losses)/gains	**(8,664)**	(10,583)	1,471
Exchange translation differences arising on consolidation	**56**	1,146	1,813
Goodwill previously written off relating to business now sold	-	-	4,857
Net (deduction from)/ addition to shareholders' funds	**(9,113)**	(9,904)	13,304
Opening shareholders' deficit	**(1,789)**	(15,093)	(15,093)
Closing shareholders' deficit	**(10,902)**	(24,997)	(1,789)

Analysis of results by business

	Six months to Sept 30th 2010	Six months to Sept 30th 2009	Twelve months to March 31st 2010
	£000	£000	£000
Turnover by business			
United Kingdom	**22,794**	21,506	47,568
CEMEA	**26,607**	26,250	61,971
Americas and CQ Roll Call	**74,463**	65,550	148,487
Asia	**13,733**	9,868	22,349
Economist Intelligence Unit	**18,569**	18,092	36,091
Other businesses	**1,837**	1,689	3,466
	158,003	142,955	319,932
Operating profit by business			
United Kingdom	**5,188**	5,879	14,492
CEMEA	**1,383**	(1,493)	7,341
Americas and CQ Roll Call	**11,112**	8,895	22,391
Asia	**298**	(712)	(944)
Economist Intelligence Unit	**4,932**	5,755	10,635
Other businesses	**1,908**	1,852	3,620
	24,821	20,176	57,535

Notes to the financial information

1. The interim financial information for the six months to September 30th 2010 was approved by the Board of directors on November 23rd 2010 and is unaudited.

2. The financial information for the year ended March 31st 2010 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 a statement under section 237 of the Companies Act 1985.

3. The interim financial information for the six months ended September 30th 2010 has been prepared on the basis of the accounting policies set out in the 2010 annual report. The main change to the basis of presentation relates to the disclosure of the results of the Economist Intelligence Unit, which was reorganised into a separate global business unit with effect from April 1st 2010.

4. The shares held by the Employee Share Ownership Plan (ESOP) are excluded from the calculation of earnings per share. Earnings per share before non-operating exceptional items are 67.5p (2009: 65.9p) and are based on profit after tax of £16.9m (2009: £16.5m). Diluted earnings per share are 67.4p (2009: 65.9p).

5. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2009: £0.1m).

   The dividend per share of 70.0p for the six months to September 30th 2010 is the second interim dividend of 60.0p for the year ending March 31st 2010 paid in April 2010 and the final dividend in respect of the year of 10.0p paid in July 2010 (2009: 67.2p). The dividend per share of 131.3p for the 12 months to March 31st 2010 includes interim, final and special dividends paid in that year.

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