The Economist Group

Interim report 2011

Interim report

Six months ended September 30th 2011

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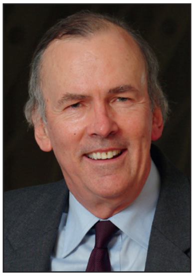
Chairman's statement



Despite difficult economic conditions in many parts of the world, the Group's operating profit rose by 6% to £26.2m in the first half of the year, and revenues increased by 4% to £164.3m. Had it not been for a weaker US dollar, underlying operating profit would have grown by 11% and revenues by 8%.

In line with our usual practice, the interim dividend will be one-third of the previous year's full-year normal dividend—so 37.5p, a 10% increase over last year. Given the Group's strong cashflow, the Board has also decided to pay a special dividend of 40p per share. Although we have now paid a special dividend in six of the past seven years, it is worth stressing that the Board considers the possibility of a special dividend one year at a time. The criterion remains the Group's cash position alongside the likely needs of the business (including the cost of normal dividends). The Board will favour a special dividend only when it is confident the Group has more cash than it needs.

We continued to invest in digital editions of *The Economist*, launching new applications for Android smartphones, Barnes & Noble's Nook and Amazon's new Fire device, adding to those already available on the iPad, iPhone and Kindle. Encouragingly, the demand for digital editions has exceeded our expectations. Readers have downloaded the Apple and Android versions to more than three million tablets and smartphones, and *The Economist* is read on more than one million of these devices every month. That figure includes those who read the editor's weekly choice of six free articles, which allow potential subscribers to sample the newspaper. *The Economist* online is also growing strongly. The number of monthly visitors has risen by 45% since September 2010, to more than seven million.

Overall, then, sales of *The Economist* made excellent progress. Print circulation grew by 3% to 1,486,838 copies in the January-June 2011 ABC audit period compared with the same period last year. Paid digital circulation (unaudited) was, by the end of October 2011, more than 100,000, and a further 300,000 print

Revenue
+4%
to £164.3m

Operating profit
+6%
to £26.2m

subscribers also read the newspaper on a digital device each week. Advertising revenue across all these formats grew by 12% at constant dollar exchange rates. There were, however, big differences between the regions, with advertising sold in America growing by 31% and in Asia by 29%, whereas continental Europe, the Middle East and Africa (CEMEA) was flat and the UK declined by 16%.

In the UK, circulation of *The Economist* rose by 8% to 210,318, and its "Where do you stand?" poster campaign was recognised with an IPA Advertising Effectiveness Award. Overall, however, we were hit by the steep fall in the UK advertising market.

The CEMEA division had mixed results. Revenues in the Middle East and Africa fell by 18%, affected by the turmoil in the region. This was outweighed by growth in demand for luxury-goods advertising (particularly in northern Europe), as well as sponsored research and EuroFinance events.

The business in Asia has seen buoyant demand for domestic advertising in *The Economist* to complement its revenues from international advertising sales, which also grew strongly. We now have advertising editions for Hong Kong and Singapore alongside the local advertising edition in India, where circulation of *The Economist* reached 35,300 in September, an increase of 22% over the same month last year.

In the Americas, the Group rebounded strongly after a weak first half last year, and advertising was up 36%. The Ideas People Channel, an advertising network we launched last year, has made a promising start. Economist Education produced its first e-learning course, on doing business in emerging markets, with four more courses planned in the coming months.

The Economist print and online advertising
+12%

Digital editions: app downloads (since launch)
3m+

At CQ Roll Call we introduced a series of Executive Briefings, starting with defence and transport, with another 14 topics still to come. In November, to complement Capwiz, our service for mobilising grass-roots campaigns, we acquired Illumen, which provides powerful new tools for organisations to use with their constituents. We have also continued to improve Capwiz itself. It is now available on mobile devices and has been adapted to feed into social-media sites. CQ Roll Call circulation and subscription revenues grew solidly in the first half despite a tightening of government spending and a slow federal legislative agenda, but the weak market for advocacy advertising hit our advertising revenues.

At the Economist Intelligence Unit, revenue grew by 10% at constant exchange rates compared with last year. Subscription revenues from country and industry analysis and forecasting rose by 6%, with renewal rates of more than 90%. We also boosted the EIU's ability to do tailored research for individual customers, leading to 40% growth in custom-research revenue.

All this encouraging news needs to be set against the near-certainty of tougher times to come. The Group will get some protection from its varied operations and strong brands, but management is also working to contain costs. At the same time, we will not neglect the longer-term commercial opportunities that come from changes in consumer needs and behaviour, and will continue to invest to take advantage of them.

Rupert Pennant-Rea
Chairman

Profit and loss account

	NOTE	**Six months to Sept 30th 2011 £000**	Six months to Sept 30th 2010 £000	Twelve months to March 31st 2011 £000
Turnover		**164,272**	158,003	347,159
Operating profit		**26,196**	24,821	63,289
Net interest payable		**(1,188)**	(1,675)	(3,777)
Profit on ordinary activities before taxation		**25,008**	23,146	59,512
Taxation on profit on ordinary activities		**(6,752)**	(6,249)	(15,341)
Profit for the period		**18,256**	16,897	44,171
Basic earnings per share (pence)	4	**72.9**	67.5	176.5
Dividends paid per share (pence)	5	**78.5**	70.0	143.8

Balance sheet

	As at Sept 30th 2011 £000	As at Sept 30th 2010 £000	As at March 31st 2011 £000
Fixed assets			
Intangible assets	**99,432**	103,710	98,883
Tangible assets	**25,842**	21,678	25,468
	125,274	125,388	124,351
Current assets			
Stocks and work-in-progress	**3,020**	2,767	1,830
Debtors: amounts falling due within one year	**63,369**	53,754	64,763
Deferred taxation	**5,462**	9,896	5,336
Cash and deposits	**34,819**	23,829	54,130
	106,670	90,246	126,059
Creditors: amounts falling due within one year	**(60,244)**	(51,541)	(71,110)
Unexpired subscriptions and deferred revenue	**(106,654)**	(97,838)	(110,514)
Net current liabilities	**(60,228)**	(59,133)	(55,565)
Total assets less current liabilities	**65,046**	66,255	68,786
Creditors: amounts falling after more than one year	**(64,172)**	(69,961)	(65,158)
Provisions for liabilities and charges	-	(290)	-
Net assets/(liabilities) excluding pension and other post-retirement liabilities	**874**	(3,996)	3,628
Pension and other post-retirement liabilities (net of deferred tax)	**(6,484)**	(6,906)	7,936
Net (liabilities)/assets	**(5,610)**	(10,902)	11,564
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**(6,870)**	(12,162)	10,304
Total shareholders' (deficit)/funds	**(5,610)**	(10,902)	11,564

Cashflow statement

	Six months to Sept 30th 2011	Six months to Sept 30th 2010	Twelve months to March 31st 2011
	£000	£000	£000
Net cash inflow from operating activities	**8,737**	12,573	77,532
Returns on investments and servicing of finance			
Interest received	**262**	18	54
Interest paid	**(2,795)**	(2,963)	(6,090)
Finance lease interest paid	**(104)**	(104)	(208)
	(2,637)	(3,049)	(6,244)
Taxation			
UK corporation tax paid	**(1,383)**	(4,475)	(9,353)
Overseas tax paid	**(1,234)**	(1,281)	(2,051)
	(2,617)	(5,756)	(11,404)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(1,107)**	(1,097)	(4,011)
Acquisitions and disposals			
Cash received from sale of business	**213**	172	-
Equity dividends paid to shareholders	**(19,654)**	(17,518)	(35,990)
Cash (outflow)/inflow before use of liquid resources and financing	**(17,065)**	(14,675)	19,883
Management of liquid resources			
Cash drawn from/(placed on) short-term deposits	**10,877**	(2,052)	(27,021)
Financing			
Capital element of finance lease rental payments	**(1)**	(1)	(2)
Sale of own shares	**30**	116	250
Drawdown of unsecured loan facility	**5,000**	9,570	17,070
Repayment of unsecured loan facility	**(8,347)**	(11,521)	(22,503)
	(3,318)	(1,836)	(5,185)
Decrease in net cash	**(9,506)**	(18,563)	(12,323)

Reconciliation of net cashflow to movement in net debt

	Six months to Sept 30th 2011	Six months to Sept 30th 2010	Twelve months to March 31st 2011
	£000	£000	£000
Decrease in cash	**(9,506)**	(18,563)	(12,323)
Cash (inflow)/outflow from (decrease)/ increase in liquid resources	**(10,877)**	2,052	27,021
Cash outflow from debt financing	**3,347**	1,951	5,433
Cash outflow from decrease in lease financing	**1**	1	2
Change in net debt resulting from cashflows	**(17,035)**	(14,559)	20,133
Other non-cash changes	**(41)**	(41)	(81)
Exchange translation differences	**(1,524)**	2,175	2,861
Movement in net debt in period	**(18,600)**	(12,425)	22,913
Net debt at beginning of period	**(17,801)**	(40,714)	(40,714)
Net debt at end of period	**(36,401)**	(53,139)	(17,801)

Statement of total recognised gains and losses

	Six months to Sept 30th 2011	Six months to Sept 30th 2010	Twelve months to March 31st 2011
	£000	£000	£000
Profit for the period	**18,256**	16,897	44,171
Exchange translation differences arising on consolidation	**721**	56	209
Actual return less expected return on pension scheme assets	**(16,106)**	(1,457)	2,621
Experience gains arising on pension scheme liabilities	**284**	-	58
Changes in assumptions underlying the present value of pension scheme	**(6,512)**	(10,577)	3,485
Actuarial gain on other post-retirement benefits	-	-	151
UK deferred tax attributable to the actuarial (loss)/gain	**5,807**	3,370	(1,602)
Total recognised gains for the period	**2,450**	8,289	49,093

Reconciliation of movement in equity shareholders' funds

	Six months to Sept 30th 2011	Six months to Sept 30th 2010	Twelve months to March 31st 2011
	£000	£000	£000
Profit for the period	**18,256**	16,897	44,171
Dividends paid	**(19,654)**	(17,518)	(35,990)
Retained (loss)/profit	**(1,398)**	(621)	8,181
Net sale of own shares	**30**	116	250
Other recognised (losses)/gains	**(16,527)**	(8,664)	4,713
Exchange translation differences arising on consolidation	**721**	56	209
Net (deduction from)/ addition to shareholders' funds	**(17,174)**	(9,113)	13,353
Opening shareholders' funds/(deficit)	**11,564**	(1,789)	(1,789)
Closing shareholders' (deficit)/funds	**(5,610)**	(10,902)	11,564

Analysis of results by business

	Six months to Sept 30th 2011	Six months to Sept 30th 2010	Twelve months to March 31st 2011
	£000	£000	£000
Turnover by business			
United Kingdom	**22,121**	22,794	52,588
CEMEA	**28,095**	26,607	63,791
Americas and CQ Roll Call	**78,238**	74,463	159,841
Asia	**14,800**	13,733	29,427
Economist Intelligence Unit	**19,430**	18,569	38,144
Other businesses	**1,588**	1,837	3,368
	164,272	158,003	347,159
Operating profit by business			
United Kingdom	**5,469**	5,188	14,319
CEMEA	**1,500**	1,383	10,900
Americas and CQ Roll Call	**13,780**	11,112	25,408
Asia	**781**	298	774
Economist Intelligence Unit	**3,989**	4,932	9,138
Other businesses	**677**	1,908	2,750
	26,196	24,821	63,289

Notes to the financial information

1. The interim financial information for the six months to September 30th 2011 was approved by the Board of directors on November 22nd 2011 and is unaudited.

2. The financial information for the year ended March 31st 2011 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 2011 has been prepared on the basis of the accounting policies set out in the 2011 annual report.

4. The shares held by the Employee Share Ownership Plan (ESOP) are excluded from the calculation of earnings per share. Diluted earnings per share are 72.8p (2010: 67.4p).

5. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2010: £0.1m).

   The dividend per share of 78.5p for the six months to September 30th 2011 is the final dividend for the year ending March 31st 2011 paid in July 2011. The dividend per share of 70.0p for the six months to September 30th 2010 included the second interim dividend for the year ended March 31st 2010 of 60.0p paid in April 2010 and the final dividend for that year of 10.0p paid in July 2010. The dividend per share of 143.8p for the 12 months to March 31st 2011 includes interim, final and special dividends paid in that year.