The Economist Group

Interim report 2006

Interim report

Six months ended September 30th 2006

Chairman's statement

The Group has made an excellent start to the year, with revenue up 22% to £119.9m. Operating profit rose by 48% and, in addition, we disposed of our interest in CBM Holdings, resulting in an exceptional profit of £11.0m.

In line with our stated policy of setting the interim dividend at one third of the previous year's total (before special dividends), the interim dividend will be raised from 19.1p to 21.0p. However, as we reported at the end of last year, we now intend to operate the company on a more or less cash-neutral basis. The first step was taken with the special dividend payment in January. The second will be a further special dividend of 139p accompanying the interim dividend. Any future special dividends will depend on cash generation and the needs of the business.

We have agreed to pay a lump sum contribution of £7.5m to reduce the deficit in the UK defined benefit pension scheme and anticipate that there will be a further lump sum contribution in the future.

The excellent performance in this half year derives mainly from strong advertising growth at *The Economist*, but our internet businesses and *Roll Call* also did well. At *The Economist*, circulation continued to rise strongly. Average worldwide weekly circulation was up 10% to 1,138,118 for the January–June ABC period, with over 600,000 in North America. Print advertising revenue rose 30% overall, with all regions performing well. There was also rapid growth at Economist.com, where revenues increased by 56% in the first half year.

The Economist Intelligence Unit is 60 years old this year and remains in good shape, continuing to develop products to meet client needs. We now assess 150 countries for operating risk (up from 60 last year) and rate 120 countries for credit risk (up from 100). Our medium- and long-term economic forecasts now cover 82 countries (up from 60). The widest coverage is our *ViewsWire* service, which provides daily analysis of political and economic events in 201 markets.

The favourable trend is also apparent in our conference business, which enjoyed particularly strong revenue increases. Our key conference offering is the government roundtable, which this year we have launched in three more countries.

Earlier this year we acquired EuroFinance Conferences. Integration with the CFO brand family has been completed and the company is doing well. Its annual flagship event, the International Cash and Treasury Management conference, held this year in Florence, attracted a record number of delegates. Elsewhere in the business, highlights include *CFO Europe*, which performed very well in the most recent European Business Readership Survey, and CFO.com, whose traffic increased significantly in the first half of the year, despite a tougher market for the American magazine.

Roll Call benefited from an active market in cause-related advertising in the first half of this financial year, with advertising revenue up 27% to £6.0m. Electronic subscription revenue has also risen strongly, up 53% over the same period last year. *Roll Call* is one of the most effective publications for reaching influential readers in Washington, DC. The Group's most recent acquisition, made in October, GalleryWatch—a small but leading provider of online legislative information for government affairs professionals—will enable *Roll Call* to address the needs of Capitol Hill decision-makers even better, while itself benefiting from *Roll Call's* resources, editorial capabilities and business network.

We have ambitious targets for the second half of the year and the year-on-year comparisons will be tougher, given the strong second half last year. We remain confident, whilst recognising the challenges: the market is changing more rapidly than in the past and, in recent months, we have seen further weakening of the US dollar. We will continue to focus on our internet businesses and look to improve our market position through investment and, where appropriate, acquisitions, as we have done with GalleryWatch for *Roll Call* and EuroFinance for the CFO brand.

As explained last year, the indicative share valuation is now performed by Ernst & Young. This change was made because both the Board and PricewaterhouseCoopers felt that it would be more appropriate for this independent valuation to be made by a third party rather than the firm that carries out the Group's audit, albeit a separate team within that firm.

I would like to welcome Rupert Pennant-Rea to the Board. Rupert was editor of *The Economist* from 1986 to 1993 and deputy governor of the Bank of England from 1993 to 1995. He is now chairman of Henderson Group and a director of several other companies. Also, in June 2006, the trustees of The Economist Group appointed Bryan Sanderson, former chairman of Standard Chartered Bank, as a trustee.

Robert Wilson
Chairman

Profit and loss account

	Notes	Six months to Sept 30th 2006	Six months to Sept 30th 2005 (Restated)	Twelve months to March 31st 2006 (Restated)
	NOTES	£000	£000	£000
Turnover		**119,860**	98,481	217,808
Operating profit before exceptional items and goodwill amortisation		**17,422**	12,506	31,489
Goodwill amortisation		**(318)**	–	(120)
Exceptional items	4	**(472)**	(1,249)	(2,913)
Operating profit		**16,632**	11,257	28,456
Profit on sale of fixed asset investments	5	**11,004**	278	556
Profit on ordinary activities before interest		**27,636**	11,535	29,012
Net interest receivable		**916**	1,291	2,257
Other finance income/(charges)		**323**	(112)	(337)
Profit on ordinary activities before taxation		**28,875**	12,714	30,932
Taxation on profit on ordinary activities		**(9,529)**	(4,572)	(8,819)
Profit on ordinary activities after taxation		**19,346**	8,142	22,113
Dividends	6	**(10,958)**	(9,975)	(34,615)
Retained profit/(loss) for the period		**8,388**	(1,833)	(12,502)
Basic and diluted earnings per share (pence)	7	**77.3**	32.6	88.4
Dividends per share (pence)	6	**43.8**	39.9	138.4

Balance sheet

	As at Sept 30th 2006	As at Sept 30th 2005 (Restated)	As at March 31st 2006 (Restated)
	£000	£000	£000
Fixed assets			
Intangible assets	**12,305**	–	12,623
Tangible assets	**24,505**	23,590	25,238
	36,810	23,590	37,861
Current assets			
Stocks and work-in-progress	**1,838**	2,503	2,186
Debtors due within one year	**42,089**	38,574	41,937
Deferred taxation	**2,857**	7,987	6,102
Cash and deposits	**51,748**	69,359	54,753
	98,532	118,423	104,978
Creditors due within one year	**(41,251)**	(45,329)	(45,829)
Unexpired subscriptions and deferred revenue	**(59,174)**	(52,498)	(63,995)
Net current (liabilities)/assets	**(1,893)**	20,596	(4,846)
Total assets less current liabilities	**34,917**	44,186	33,015
Creditors due after one year	**(2,526)**	(2,526)	(2,526)
Provisions for liabilities and charges	**(320)**	(422)	(424)
Net assets excluding pension and other post-retirement liabilities	**32,071**	41,238	30,065
Pension and other post-retirement liabilities (net of deferred tax)	**(19,532)**	(23,153)	(26,480)
Net assets including pension and other post-retirement liabilities	**12,539**	18,085	3,585
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**11,279**	16,825	2,325
Equity shareholders' funds	**12,539**	18,085	3,585

Cashflow statement

	Notes	Six months to Sept 30th 2006 £000	Six months to Sept 30th 2005 £000	Twelve months to March 31st 2006 £000
Net cash inflow/(outflow) from operating activities	8	**3,107**	(815)	28,612
Returns on investments and servicing of finance				
Interest received		**970**	1,594	2,642
Interest paid		**(4)**	(104)	(248)
Finance lease interest paid		**(100)**	(104)	(208)
		866	1,386	2,186
Taxation				
UK corporation tax paid		**(2,662)**	(2,243)	(3,060)
Overseas tax paid		**(3,060)**	(339)	(922)
		(5,722)	(2,582)	(3,982)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(705)**	(478)	(3,605)
Sale of fixed asset investment	5	**11,004**	–	–
		10,299	(478)	(3,605)
Acquisitions and disposals				
Purchase of subsidiary undertaking		–	–	(9,709)
Cash acquired with subsidiary undertaking		–	–	900
		–	–	(8,809)
Equity dividends paid		**(10,958)**	(9,983)	(34,615)
Cash outflow before use of liquid resources and financing		**(2,408)**	(12,472)	(20,213)
Management of liquid resources				
Cash drawn from short-term deposits		**1,651**	4,982	25,852
Financing				
Capital element of finance lease rental payments		**(1)**	(1)	(1)
Increase in short-term borrowings		–	7,970	–
Sale of own shares		**182**	139	292
		181	8,108	291
(Decrease)/increase in cash		**(576)**	618	5,930

Reconciliation of net cashflow to movement in net funds

	Six months to Sept 30th 2006	Six months to Sept 30th 2005	Twelve months to March 31st 2006
	£000	£000	£000
(Decrease)/ increase in cash	**(576)**	618	5,930
Cash inflow from decrease in liquid resources	**(1,651)**	(4,982)	(25,852)
Cash outflow from decrease in lease financing	**1**	1	1
Cash inflow from increase in debt	–	(7,970)	–
Change in net funds resulting from cashflows	**(2,226)**	(12,333)	(19,921)
Exchange translation differences	**(779)**	36	1,446
Movement in net funds in period	**(3,005)**	(12,297)	(18,475)
Net funds at beginning of period	**52,226**	70,701	70,701
Net funds at end of period	**49,221**	58,404	52,226

Statement of total recognised gains and losses

		Six months to Sept 30th 2006	Six months to Sept 30th 2005 (Restated)	Twelve months to March 31st 2006 (Restated)
	NOTES	**£000**	£000	£000
Profit after taxation		**19,346**	8,142	22,113
Exchange translation differences arising on foreign currency net investments		**816**	(1,092)	(1,440)
Actual return less expected return on pension scheme assets		**(1,285)**	7,398	14,480
Experience losses arising on the pension scheme liabilities		**(1)**	(217)	(1,415)
Changes in assumptions underlying the present value of the scheme liabilities		**669**	(11,248)	(22,014)
Actuarial loss on other post-retirement benefits		–	–	(313)
UK deferred tax attributable to the actuarial loss		**185**	1,220	2,779
Total recognised gains for the period		**19,730**	4,203	14,190
Prior period adjustment:				
Adoption of FRS 20 "Share based payments"	3	**(323)**		
Total recognised gains since last annual report		**19,407**		

Reconciliation of movement in equity shareholders' funds

	Six months to Sept 30th 2006	Six months to Sept 30th 2005 (Restated)	Twelve months to March 31st 2006 (Restated)
	£000	£000	£000
Opening shareholders' funds as previously stated	**3,908**	24,134	24,134
Prior year adjustment for FRS 20	**(323)**	(416)	(416)
Opening shareholders' funds as restated	**3,585**	23,718	23,718
Retained profit/(loss)	**8,388**	(1,833)	(12,502)
Net sale of own shares	**182**	139	292
Other recognised losses	**(432)**	(2,847)	(6,483)
Exchange translation differences arising on consolidation	**816**	(1,092)	(1,440)
Net addition to/(deduction from) shareholders' funds	**8,954**	(5,633)	(20,133)
Closing shareholders' funds	**12,539**	18,085	3,585

Analysis of results by class of business

	Six months to Sept 30th 2006	Six months to Sept 30th 2005 (Restated)	Twelve months to March 31st 2006 (Restated)
	£000	£000	£000
Turnover by business			
The Economist brand family	**97,208**	81,960	181,755
CFO brand family	**13,365**	8,743	19,881
Government brands	**7,596**	6,197	13,006
Other businesses	**1,691**	1,581	3,166
	119,860	98,481	217,808
Operating profit before exceptional items and goodwill amortisation by business			
The Economist brand family	**10,890**	8,374	23,464
CFO brand family	**2,119**	330	691
Government brands	**3,106**	2,419	4,389
Other businesses	**1,307**	1,383	2,945
	17,422	12,506	31,489

Notes to the financial information

1. The interim financial information for the six months to September 30th 2006 was approved by the Board of directors on November 28th 2006 and is unaudited.

2. The financial information for the year ended March 31st 2006 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. Except for the adoption of FRS 20 "Share based payments", the interim financial information for the six months ended September 30th 2006 has been prepared on the basis of the accounting policies set out in the 2006 annual report. The restatements relate to this.

4. The exceptional items before operating profit at September 30th 2006 relate to severance costs incurred by continuing businesses.

5. The profit on the sale of investments relates to the sale of an 18.6% holding in CBM Holdings in July 2006. In the prior period this relates to the release of provisions for warranties and claims arising on the sale of the Journal of Commerce Inc to CBM Holdings in 2002.

6. The dividend is shown net of dividends on shares held by the Employee Share Ownership Plan (ESOP) of £0.1m (2005: £0.1m).

   The dividend per share of 43.8p for the six months to September 30th 2006 is the final dividend for the year ending March 31st 2006 paid in July 2006 (2005: 39.9p). The dividends per share of 138.4p for the 12 months to March 31st 2006 include interim and final dividends of 59.0p paid in that year and a special dividend of 79.4p paid in January 2006.

7. The shares held by the ESOP are excluded from the calculation of earnings per share. There is no difference between the basic and fully diluted earnings per share. Earnings per share before all exceptional items is 50.9p (2005 restated: 35.8p) and is based on an adjusted profit after tax of £12.7m (2005 restated: £8.9m). Earnings per share before non-operating exceptional items is 48.3p (2005 restated: 32.3p) and is based on profit after tax of £12.1m (2005 restated: £8.1m).

8. Net cash inflow from operating activities of £3.1m is after a £10.5m lump sum cash contribution into the defined benefit pension scheme in April 2006. A £5.0m lump sum payment was also made in July 2005.

The Economist Newspaper Limited and its subsidiary companies
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