The Economist Group

Interim report 2007

Interim report

Six months ended September 30th 2007

Chairman's statement

Overall, the first half of the year has gone very well, with operating profit up 25% to £20.8m. This strong performance was driven by both operating efficiencies and revenue gains; our turnover for the period stands at £124.6m, up 4%. Excluding exceptional items, underlying profit before tax and earnings also grew strongly. Last year's results were boosted by the exceptional profit on the disposal of our interest in Commonwealth Business Media, Inc, and, as a result, profit before tax of £22.1m is 23% lower than last year, and our earnings per share of 59.2p are 18.1p lower.

The Board has increased the interim dividend from 21.0p to 25.2p. This is in line with our policy of setting the interim dividend at one-third of the prior year's full dividend (before any special dividend). The Board has also agreed to pay a special dividend of £23m or 91.3p per share to reflect our aim to operate the company on a broadly cash-neutral basis.

We began this year with three priorities for the business: to beat ambitious profit targets; to execute our plans for internet development, with the expansion of our existing dotcoms as a primary focus; and to build on our presence in India. I am happy to report that good progress has been made towards each of these objectives.

First, the Group set bold financial targets which it succeeded in meeting in the first half. This was the result of a solid revenue performance in the face of a weak dollar and continued careful control of costs. Highlights include further rises in circulation revenue at *The Economist*, increased electronic advertising revenues, a strong showing by the Economist Intelligence Unit, a very good half year for EuroFinance, and cost efficiencies as a result of strides forward in the effectiveness of our marketing activity.

Second, we have invested in our electronic businesses and are seeing the results. Economist.com has delivered significant traffic growth. Monthly unique users increased on average by 39% year-on-year, reaching 2.6m in September 2007. Innovations on the site, including a rankings microsite, new country briefings, a unique Oxford-style debate series, new podcasts and a full, weekly audio edition of *The Economist*, have helped drive this growth. There has been progress too in our business-information activities, with the Economist Intelligence Unit continuing to develop the products clients need by creating simpler, more timely online offerings. For example, Country Reports, previously delivered on a quarterly basis, are now updated in full every month.

Third, we are building our presence in India to capitalise on the opportunities of a rapidly growing market. The Group has set up operations in India with a new office in Delhi. Research has suggested that *The Economist*'s potential for growth here is excellent. The Economist Intelligence Unit is expanding its business and increasing the number of research products and conferences it produces about India and for the local market. A quarterly, *CFO India,* was launched in June, and a new CFO Rising event in Mumbai was successful.

A number of further achievements from the first half-year are worth highlighting. *The Economist* continued its excellent track record in circulation gains, with average worldwide weekly figures up 11% on last year to 1,260,457 for the January-June ABC (Audit Bureau of Circulations) period. Growth in North America was particularly strong, with weekly circulation increasing by 16% to almost 700,000.

Intelligent Life, which is designed to appeal to our readers in a different context, was re-launched in September as a quarterly magazine. Under its new editor, Edward Carr, *Intelligent Life* explores the passions and pleasures of the 21st century: from travel and food to philanthropy and health; from fashion and shopping to design and the arts.

The Economist Intelligence Unit has had an excellent first half, with revenues increasing 10% year-on-year. Custom research performed well, at 36% ahead of last year, as did our industry and management products. A 13% rise in conference revenues was driven largely by our focus on high-profile government roundtables. The most recent example of the reinvigoration of this franchise was the launch of the first government roundtable in New York City, which was opened by Mayor Michael Bloomberg and generated extensive media coverage.

The CFO brand family has been more of a mixed bag. EuroFinance's International Cash and Treasury Management conference, held in Vienna in September, broke all previous revenue records and attracted 2,000 attendees. But declining print advertising revenue for *CFO* in the United States has continued to affect results. Our focus is on developing the brand’s presence online, with a more relevant offering, including more compelling content and enhanced services.

Roll Call, which serves the needs of decision-makers on Capitol Hill, saw revenues rise again as it continued to benefit from advocacy advertising focused on energy and healthcare in particular. The integration of our most recent acquisition, GalleryWatch, a provider of online legislative information, has been progressing smoothly. Customer renewal rates for subscriptions to its federal legislative tracking services have been running at a record level of 87% in the first half of the year. *European Voice*, which takes the *Roll Call* concept and extends it to Brussels, saw revenue rise 9% in the first six months of the financial year, driven by higher print and electronic advertising.

There are always uncertainties and today we have more than enough to deter complacency. The market is changing, with some print advertising continuing to migrate to the internet. Further, it is not clear how recent volatility in the financial markets will play out in either the consumer or advertising markets. Meanwhile, the continuing decline in the US dollar has an obvious effect on our sterling profits.

Problems notwithstanding, the momentum of our business remains strong. We look forward to continuing progress in the second half-year.

Robert Wilson
Chairman

Profit and loss account

	NOTES	**Six months to Sept 30th 2007 £000**	Six months to Sept 30th 2006 £000	Twelve months to March 31st 2007 £000
Turnover		**124,574**	119,860	247,746
Operating profit		**20,845**	16,632	36,139
Profit on sale of fixed asset investments	4	**-**	11,004	11,192
Profit on ordinary activities before finance income		**20,845**	27,636	47,331
Net finance income		**1,296**	1,239	1,859
Profit on ordinary activities before taxation		**22,141**	28,875	49,190
Taxation on profit on ordinary activities		**(7,306)**	(9,529)	(15,409)
Profit on ordinary activities after taxation		**14,835**	19,346	33,781
Basic earnings per share (pence)	5	**59.2**	77.3	134.9
Dividends per share (pence)	6	**54.5**	43.8	203.8

Balance sheet

	As at Sept 30th 2007 £000	As at Sept 30th 2006 £000	As at March 31st 2007 £000
Fixed assets			
Intangible assets	**15,970**	12,305	16,402
Tangible assets	**23,681**	24,505	24,148
	39,651	36,810	40,550
Current assets			
Stocks and work-in-progress	**2,884**	1,838	1,591
Debtors due within one year	**44,826**	42,089	47,856
Deferred taxation	**6,089**	2,857	6,163
Cash and deposits	**15,730**	51,748	31,263
	69,529	98,532	86,873
Creditors due within one year	**(40,679)**	(41,251)	(56,000)
Unexpired subscriptions and deferred revenue	**(63,059)**	(59,174)	(66,528)
Net current liabilities	**(34,209)**	(1,893)	(35,655)
Total assets less current liabilities	**5,442**	34,917	4,895
Creditors due after one year	**(2,844)**	(2,526)	(2,858)
Provisions for liabilities and charges	**(365)**	(320)	(440)
Net assets excluding pension and other post-retirement liabilities	**2,233**	32,071	1,597
Pension and other post-retirement liabilities (net of deferred tax)	**(708)**	(19,532)	(9,493)
Net assets/(liabilities) including pension and other post-retirement liabilities	**1,525**	12,539	(7,896)
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**265**	11,279	(9,156)
Equity shareholders' funds	**1,525**	12,539	(7,896)

Cashflow statement

	NOTES	Six months to Sept 30th 2007 £000	Six months to Sept 30th 2006 £000	Twelve months to March 31st 2007 £000
Net cash inflow from operating activities	7	**5,150**	3,107	33,402
Returns on investments and servicing of finance				
Interest received		**392**	970	1,824
Interest paid		**(51)**	(4)	(264)
Finance lease interest paid		**(104)**	(100)	(207)
		237	866	1,353
Taxation				
UK corporation tax paid		**(5,889)**	(2,662)	(4,975)
Overseas tax paid		**(68)**	(3,060)	(4,911)
		(5,957)	(5,722)	(9,886)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(932)**	(705)	(1,659)
Acquisitions and disposals				
Purchase of subsidiary undertaking		**-**	-	(5,741)
Cash acquired with subsidiary undertaking		**-**	-	121
Sale of fixed asset investment	4	**-**	11,004	11,052
		-	11,004	5,432
Equity dividends paid		**(13,653)**	(10,958)	(51,013)
Cash outflow before use of liquid resources and financing		**(15,155)**	(2,408)	(22,371)
Management of liquid resources				
Cash drawn from short-term deposits		**9,907**	1,651	25,995
Financing				
Capital element of finance lease rental payments		**(1)**	(1)	(2)
Sale of own shares		**263**	182	533
Drawdown of unsecured loan facility		**3,000**	-	13,000
Repayment of unsecured loan facility		**(3,000)**	-	(13,000)
		262	181	531
(Decrease)/increase in net cash		**(4,986)**	(576)	4,155

Reconciliation of net cashflow to movement in net funds

	Six months to Sept 30th 2007 £000	Six months to Sept 30th 2006 £000	Twelve months to March 31st 2007 £000
(Decrease)/increase in cash	**(4,986)**	(576)	4,155
Cash inflow from decrease in liquid resources	**(9,907)**	(1,651)	(25,995)
Cash outflow from decrease in lease financing	**1**	1	2
Change in net funds resulting from cashflows	**(14,892)**	(2,226)	(21,838)
Exchange translation differences	**(641)**	(779)	(1,650)
Movement in net funds in period	**(15,533)**	(3,005)	(23,488)
Net funds at beginning of period	**28,738**	52,226	52,226
Net funds at end of period	**13,205**	49,221	28,738

Statement of total recognised gains and losses

	Six months to Sept 30th 2007 £000	Six months to Sept 30th 2006 £000	Twelve months to March 31st 2007 £000
Profit after taxation	**14,835**	19,346	33,781
Exchange translation differences arising on foreign currency net investments	**254**	816	1,253
Actual return less expected return on pension scheme assets	**(1,218)**	(1,285)	904
Experience gains/(losses) arising on the pension scheme liabilities	**5**	(1)	(433)
Changes in assumptions underlying the present value of the scheme liabilities	**12,245**	669	5,361
Actuarial loss on other post-retirement benefits	**-**	-	(167)
UK deferred tax attributable to the actuarial (gain)/loss	**(3,310)**	185	(1,700)
Total recognised gains for the period	**22,811**	19,730	38,999

Reconciliation of movement in equity shareholders' funds

	Six months to Sept 30th 2007	Six months to Sept 30th 2006	Twelve months to March 31st 2007
	£000	£000	£000
Profit for the half-year/year	**14,835**	19,346	33,781
Dividends paid	**(13,653)**	(10,958)	(51,013)
Retained profit/(loss)	**1,182**	8,388	(17,232)
Net sale of own shares	**263**	182	533
Other recognised gains/(losses)	**7,722**	(432)	3,965
Exchange translation differences arising on consolidation	**254**	816	1,253
Net addition to/(deduction from) shareholders' funds	**9,421**	8,954	(11,481)
Opening shareholders' funds	**(7,896)**	3,585	3,585
Closing shareholders' funds	**1,525**	12,539	(7,896)

Analysis of results by class of business

	Six months to Sept 30th 2007	Six months to Sept 30th 2006	Twelve months to March 31st 2007
	£000	£000	£000
Turnover by business			
The Economist brand family	**100,995**	97,208	205,457
CFO brand family	**12,795**	13,365	24,324
Government brands	**8,768**	7,596	14,414
Other businesses	**2,016**	1,691	3,551
	124,574	119,860	247,746
Operating profit by business			
The Economist brand family	**15,078**	10,610	27,094
CFO brand family	**1,359**	2,119	2,361
Government brands	**3,253**	3,106	4,341
Other businesses	**1,586**	1,115	3,074
Goodwill amortisation	**(431)**	(318)	(731)
	20,845	16,632	36,139

Notes to the financial information

1. The interim financial information for the six months to September 30th 2007 was approved by the Board of directors on November 27th 2007 and is unaudited.

2. The financial information for the year ended March 31st 2007 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 2007 has been prepared on the basis of the accounting policies set out in the 2007 annual report.

4. The profit on the sale of investments in the prior year relates to the sale of the Group's 18.6% convertible preference shareholding in Commonwealth Business Media, Inc 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 November 2001.

5. 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 59.2p (2006: 48.3p), based on profit after tax of £14.8m (2006: £12.1m). Diluted earnings per share are 59.1p (2006: 77.1p).

6. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2006: £0.1m).

   The dividend per share of 54.5p for the six months to September 30th 2007 is the final dividend for the year ending March 31st 2007 paid in July 2007 (2006: 43.8p). The dividends per share of 203.8p for the 12 months to March 31st 2007 include interim and final dividends of 64.8p paid in that year and a special dividend of 139.0p paid in December 2006.

7. Net cash inflow from operating activities of £5.2m is after a £0.9m lump sum cash contribution into the UK defined benefit pension scheme in April 2007. A £10.5m lump sum payment was also made in April 2006.

The Economist Newspaper Limited and its subsidiary companies
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