

# Interim report 2009

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Six months ended September 30th 2009

## Contents

- 3 Chairman's statement
- 7 Profit and loss account
- 8 Balance sheet
- 9 Cashflow statement
- 10 Reconciliation of net cashflow to movement in net funds
- 10 Statement of total recognised gains and losses
- 11 Reconciliation of movement in equity shareholders' funds
- 11 Analysis of results by business
- 12 Notes to the financial information



## Chairman's statement



The Group made an operating profit of £20.2m in the first half of the year, down £2.1m or 10% on last year. Revenues were £143m, up 2%. Advertising markets have been tough, with advertising revenue down 22% compared with last year. On average, the dollar has been stronger this year than last, so at a constant exchange rate, advertising would have declined 30%. However, the fall in advertising has been partly offset by growth elsewhere. Subscription revenue across our businesses has increased 32%, boosted by our recent acquisitions. We have also reduced costs. For example, excluding our acquisitions, we have reduced staff numbers by 11%. At constant exchange rates and excluding acquisitions, we have cut total costs by 12%.

The combined effect of all these factors is that the company remains very cash-generative, and the Board is confident that this will extend into the future. In considering the amount of cash to be distributed to shareholders, the Board has therefore made two decisions.

First, and in line with our policy of setting the interim dividend at one third of the previous year's total dividend (excluding any special dividend), the Board has raised the interim dividend to 32.4p, up 7.6% on last year's figure. The Board has also agreed to pay a special dividend of £8m or 31.7p per share. Both these dividends will be paid in December. At the same time, the company will be paying a lump-sum contribution of £5m into the UK defined benefit pension scheme.

In August we completed the purchase of Congressional Quarterly (CQ), based in Washington, DC. We financed the acquisition with cash and \$85m of long-term debt. CQ provides information about the workings of Congress and, like *Roll Call*, offers advertising channels to reach politicians and their staff on Capitol Hill. Along with *Roll Call*, Capitol Advantage (which we bought last year) and GalleryWatch, CQ forms part of the new CQ-Roll Call Group. We expect the full-year revenue of the CQ-Roll Call Group to be more than \$100m. We have reorganised

Operating profit

**-10%**

to £20.2m

Net cash from operating activities

**+27%**

to £12.4m

the business to remove overlapping functions, incurring \$1.3m of restructuring costs in the first half of the year.

Circulation of *The Economist* continues to grow. For the January-June 2009 ABC period, circulation was 1,418,013, some 81,000 copies more than the year before, with all regions growing. News-stand sales, though, are lower than last year, partly because of economic conditions and partly because last year's coverage of the US presidential elections and the economic crisis lifted news-stand sales to record levels in many countries.

All regions are having a challenging year, particularly on the advertising side. At constant exchange rates, Asia ad revenues are down 59% on the previous year, the Americas' advertising (not including the CQ-Roll Call Group) is down 29%, CEMEA's is down 35%, the UK's is down 26% and Roll Call's 18%.

Many areas are, however, doing well. In America, the readership as well as the circulation of *The Economist* continues to grow. US readership is now 2.9m, up 14% on a year ago, as measured by the influential MRI survey.

In the United States, we launched *The Economist* on the Kindle, Amazon's e-reader, in July. Since then it has consistently been among the biggest selling magazines on the Kindle, despite charging a much higher price than other similar publications.

In India, our circulation continues to grow: in January-June 2009 it was nearly 23,000, up 27% on the previous year. In Asia as a whole, despite the weakness of the pan-regional advertising market, we continue to attract new advertisers who recognise the unique abilities of The Economist Group to bring their brands to an international audience.

Our CEMEA business (Continental Europe, Middle East and Africa) opened its regional headquarters in Geneva in July. Bringing our operations and

Circulation of *The Economist*

**+6%**

year on year, to 1.4m  
(Jan-Jun 2009, ABC)

Economist.com page views

**+9%**

year on year, to 145m  
(IBM SurfAid)

management into the heart of the region will allow us to serve our clients more quickly and efficiently. We closed the Vienna office in September.

In the UK we launched a new advertising campaign for *The Economist* in cinemas. This forms part of our plan to build a wider audience for the newspaper among the intellectually curious.

At Economist.com we continue to build the site as the best place on the web for discussion and debate. In June our online debate series won the Association of Online Publishers' Innovation Award. The judges noted that our debates "have engaged *The Economist's* audience in a new and compelling way, and the commercial success ... generated in the last year is extraordinary."

Around the world, the Economist Intelligence Unit is increasingly selling information tailored to particular clients' needs. In the UK, for example, projects on industry and management topics, which are often commissioned for public distribution, grew in value by 54% year on year.

Advertising is likely to remain weak for some time. Some clients are booking their advertising only days before the ad is due to run, making it hard to see into the future. All purchasing decisions—whether for EIU subscriptions, a news-stand copy of *The Economist*, or a place at one of our conferences—are being carefully considered, so we expect it to be a difficult year all round.

More generally, we are undoubtedly facing structural changes in our market places as well as the cyclical effects of the economic downturn. However, we continue to do better than most of our competitors and, with our wide range of revenue and our geographical spread, we are well placed to meet the challenges of our markets; and our strong brands position us well for the future.

**Rupert Pennant-Rea**

Chairman



## Profit and loss account

|  | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|--|---------------------------------|---------------------------------|-------------------------------------|
| NOTES  | £000                            | £000                            | £000                                |
| <b>Turnover</b>                                      |                                 |                                 |                                     |
| Continuing operations                                | 138,061                         | 139,560                         | 306,725                             |
| Acquisitions   | 4,894                           | -                               | 6,072                               |
|  | <b>142,955</b>                  | 139,560                         | 312,797                             |
| <b>Operating profit</b>                              |                                 |                                 |                                     |
| Continuing operations                                | 21,181                          | 22,311                          | 54,566                              |
| Acquisitions   | (1,005)                         | -                               | 1,141                               |
|  | <b>20,176</b>                   | 22,311                          | 55,707                              |
| Net finance (charge)/income                          | (2,143)                         | 269                             | (10)                                |
| <b>Profit on ordinary activities before taxation</b> | <b>18,033</b>                   | 22,580                          | 55,697                              |
| Taxation on profit on ordinary activities            | (1,533)                         | (7,000)                         | (17,821)                            |
| <b>Profit on ordinary activities after taxation</b>  | <b>16,500</b>                   | 15,580                          | 37,876                              |
| Basic earnings per share (pence)                     | 4                               | 65.9                            | 151.2                               |
| Dividends per share (pence)                          | 5                               | 67.2                            | 95.3                                |



## Balance sheet

|  | As at<br>Sept 30th 2009 | As at<br>Sept 30th 2008 | As at<br>March 31st 2009 |
|--|-------------------------|-------------------------|--------------------------|
| NOTES  | £000                    | £000                    | £000                     |
| <b>Fixed assets</b>  |                         |                         |                          |
| Intangible assets  | 6 111,584               | 38,491                  | 46,767                   |
| Tangible assets  | 22,665                  | 23,088                  | 22,482                   |
|  | <b>134,249</b>          | 61,579                  | 69,249                   |
| <b>Current assets</b>  |                         |                         |                          |
| Stocks and work-in-progress  | 2,618                   | 3,261                   | 2,686                    |
| Debtors due within one year  | 46,032                  | 52,776                  | 55,624                   |
| Deferred taxation  | 6,206                   | 6,515                   | 6,349                    |
| Cash and deposits  | 14,922                  | 10,503                  | 42,354                   |
|  | <b>69,778</b>           | 73,055                  | 107,013                  |
| Creditors due within one year  | <b>(44,311)</b>         | (49,382)                | (60,928)                 |
| Unexpired subscriptions and deferred revenue                                   | <b>(92,783)</b>         | (79,179)                | (96,045)                 |
| <b>Net current liabilities</b>   | <b>(67,316)</b>         | (55,506)                | (49,960)                 |
| <b>Total assets less current liabilities</b>                                   | <b>66,933</b>           | 6,073                   | 19,289                   |
| Creditors due after one year   | <b>(75,473)</b>         | (23,611)                | (27,753)                 |
| Provisions for liabilities and charges   | <b>(182)</b>            | (232)                   | (337)                    |
| <b>Net liabilities excluding pension and other post-retirement liabilities</b> | <b>(8,722)</b>          | (17,770)                | (8,801)                  |
| Pension and other post-retirement (liabilities)/assets net of deferred tax     | <b>(16,275)</b>         | 2,509                   | (6,292)                  |
| <b>Net liabilities including pension and other post-retirement liabilities</b> | <b>(24,997)</b>         | (15,261)                | (15,093)                 |
| <b>Capital and reserves</b>  |                         |                         |                          |
| Called-up share capital  | 1,260                   | 1,260                   | 1,260                    |
| Profit and loss account  | <b>(26,257)</b>         | (16,521)                | (16,353)                 |
| <b>Equity shareholders' deficit</b>  | <b>(24,997)</b>         | (15,261)                | (15,093)                 |

## Cashflow statement

|  | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|--|---------------------------------|---------------------------------|-------------------------------------|
|  | £000                            | £000                            | £000                                |
| <b>Net cash inflow from operating activities</b>                 | <b>12,386</b>                   | 9,759                           | 56,690                              |
| <b>Returns on investments and servicing of finance</b>           |                                 |                                 |                                     |
| Interest received  | 84                              | 170                             | 284                                 |
| Interest paid  | (572)                           | (294)                           | (832)                               |
| Other finance charges paid                                       | (1,253)                         | -                               | -                                   |
| Finance lease interest paid                                      | (104)                           | (104)                           | (208)                               |
|  | <b>(1,845)</b>                  | (228)                           | (756)                               |
| <b>Taxation</b>  |                                 |                                 |                                     |
| UK corporation tax paid  | (5,830)                         | (2,847)                         | (8,248)                             |
| Overseas tax paid  | (896)                           | (2,409)                         | (4,058)                             |
|  | <b>(6,726)</b>                  | (5,256)                         | (12,306)                            |
| <b>Capital expenditure and financial investment</b>              |                                 |                                 |                                     |
| Purchase of tangible fixed assets                                | (353)                           | (958)                           | (1,185)                             |
| <b>Acquisitions and disposals</b>                                |                                 |                                 |                                     |
| Purchase of subsidiary undertaking                               | (59,866)                        | (21,743)                        | (22,204)                            |
| Cash acquired with subsidiary undertaking                        | 3                               | 479                             | 527                                 |
|  | <b>(59,863)</b>                 | (21,264)                        | (21,677)                            |
| <b>Equity dividends paid</b>                                     | <b>(16,822)</b>                 | (16,337)                        | (23,879)                            |
| <b>Cash outflow before use of liquid resources and financing</b> | <b>(73,223)</b>                 | (34,284)                        | (3,113)                             |
| <b>Management of liquid resources</b>                            |                                 |                                 |                                     |
| Cash drawn from/(placed on) short-term deposits                  | 24,794                          | 5,462                           | (19,358)                            |
| <b>Financing</b>   |                                 |                                 |                                     |
| Capital element of finance lease rental payments                 | (1)                             | (1)                             | (1)                                 |
| (Purchase)/sale of own shares                                    | (145)                           | 430                             | (17)                                |
| Loan of more than one year                                       | 51,704                          | 22,089                          | -                                   |
| Drawdown of unsecured loan facility                              | 1,000                           | 15,000                          | 38,088                              |
| Repayment of unsecured loan facility                             | (2,938)                         | (13,079)                        | (17,427)                            |
|  | <b>49,620</b>                   | 24,439                          | 20,643                              |
| <b>Increase/(decrease) in cash</b>                               | <b>1,191</b>                    | (4,383)                         | (1,828)                             |

## Reconciliation of net cashflow to movement in net funds

|  | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|--|---------------------------------|---------------------------------|-------------------------------------|
|  | £000                            | £000                            | £000                                |
| Increase / (decrease) in cash  | 1,191                           | (4,383)                         | (1,828)                             |
| Cash (inflow)/outflow from (decrease)/<br>increase in liquid resources | (24,794)                        | (5,462)                         | 19,358                              |
| Cash inflow from debt financing  | (49,766)                        | (24,010)                        | (20,661)                            |
| Cash outflow from decrease in lease financing                          | 1                               | 1                               | 1                                   |
| <b>Change in net funds resulting<br/>from cashflows</b>                | <b>(73,368)</b>                 | <b>(33,854)</b>                 | <b>(3,130)</b>                      |
| Other non-cash changes   | 799                             | -                               | -                                   |
| Exchange translation differences                                       | (2,122)                         | (1,477)                         | (4,064)                             |
| Movement in net funds in period  | (74,691)                        | (35,331)                        | (7,194)                             |
| Net funds at beginning of period                                       | 10,390                          | 17,584                          | 17,584                              |
| <b>Net debt at end of period</b>                                       | <b>(64,301)</b>                 | <b>(17,747)</b>                 | <b>10,390</b>                       |

## Statement of total recognised gains and losses

|  | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|--|---------------------------------|---------------------------------|-------------------------------------|
|  | £000                            | £000                            | £000                                |
| Profit after taxation  | 16,500                          | 15,580                          | 37,876                              |
| Exchange translation differences arising<br>on consolidation                     | 1,146                           | (3,224)                         | (7,112)                             |
| Actual return less expected return on<br>pension scheme assets                   | 23,577                          | (16,702)                        | (38,867)                            |
| Experience gains arising on the<br>pension scheme liabilities                    | -                               | -                               | 1,430                               |
| Changes in assumptions underlying the<br>present value of the scheme liabilities | (38,276)                        | 11,003                          | 17,384                              |
| Actuarial gain on other post-retirement<br>benefits                              | -                               | -                               | 117                                 |
| UK deferred tax attributable to the<br>actuarial loss                            | 4,116                           | 1,596                           | 5,582                               |
| <b>Total recognised gains for the period</b>                                     | <b>7,063</b>                    | <b>8,253</b>                    | <b>16,410</b>                       |

## Reconciliation of movement in equity shareholders' funds

|  | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|--|---------------------------------|---------------------------------|-------------------------------------|
|  | £000                            | £000                            | £000                                |
| Profit for the half-year/year                                | 16,500                          | 15,580                          | 37,876                              |
| Dividends paid   | (16,822)                        | (16,337)                        | (23,879)                            |
| Retained (loss)/profit                                       | (322)                           | (757)                           | 13,997                              |
| Net (purchase)/sale of own shares                            | (145)                           | 430                             | (17)                                |
| Other recognised losses                                      | (10,583)                        | (4,103)                         | (14,354)                            |
| Exchange translation differences arising<br>on consolidation | 1,146                           | (3,224)                         | (7,112)                             |
| <b>Net deduction from shareholders' funds</b>                | <b>(9,904)</b>                  | <b>(7,654)</b>                  | <b>(7,486)</b>                      |
| Opening shareholders' deficit                                | (15,093)                        | (7,607)                         | (7,607)                             |
| <b>Closing shareholders' deficit</b>                         | <b>(24,997)</b>                 | <b>(15,261)</b>                 | <b>(15,093)</b>                     |

## Analysis of results by business

|                             | Six months to<br>Sept 30th 2009 | Six months to<br>Sept 30th 2008 | Twelve months to<br>March 31st 2009 |
|-----------------------------|---------------------------------|---------------------------------|-------------------------------------|
|                             | £000                            | £000                            | £000                                |
| <b>Turnover by business</b> |                                 |                                 |                                     |
| United Kingdom              | 24,891                          | 26,705                          | 57,270                              |
| CEMEA                       | 31,505                          | 36,954                          | 81,181                              |
| Americas                    | 53,686                          | 51,044                          | 116,970                             |
| Asia                        | 13,313                          | 14,466                          | 32,836                              |
| CQ-Roll Call Group          | 17,671                          | 8,370                           | 20,398                              |
| Other businesses            | 1,889                           | 2,021                           | 4,142                               |
|                             | <b>142,955</b>                  | <b>139,560</b>                  | <b>312,797</b>                      |

### Operating profit by business

|                       |               |               |               |
|-----------------------|---------------|---------------|---------------|
| United Kingdom        | 6,770         | 7,059         | 14,974        |
| CEMEA                 | 1,353         | 5,910         | 16,102        |
| Americas              | 7,139         | 5,015         | 15,149        |
| Asia                  | 409           | (232)         | 893           |
| CQ-Roll Call Group    | 4,437         | 3,508         | 7,060         |
| Other businesses      | 1,852         | 1,682         | 3,399         |
| Goodwill amortisation | (1,784)       | (631)         | (1,870)       |
|                       | <b>20,176</b> | <b>22,311</b> | <b>55,707</b> |

## Notes to the financial information

1. The interim financial information for the six months to September 30th 2009 was approved by the Board of directors on November 24th 2009 and is unaudited.
2. The financial information for the year ended March 31st 2009 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 2009 has been prepared on the basis of the accounting policies set out in the 2009 annual report.
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 65.9p (2008: 62.2p) and are based on profit after tax of £16.5m (2008: £15.6m). Diluted earnings per share are 65.9p (2008: 62.2p).
5. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2008: £0.1m).  
  
The dividend per share of 67.2p for the six months to September 30th 2009 is the final dividend for the year ending March 31st 2009 paid in July 2009 (2008: 65.2p). The dividends per share of 95.3p for the 12 months to March 31st 2009 include interim and final dividends paid in that year.
6. The intangible assets represent goodwill arising on acquisitions and have increased in the period due to the acquisition of Congressional Quarterly, net of amortisation and foreign exchange movements.