

Interim report 2014

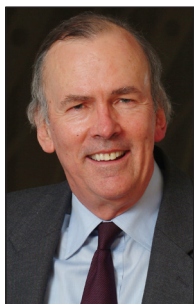
Interim report

Six months ended September 30th 2014

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Chairman's statement



The Group's profit in the first half was 3% lower than in the same period last year and revenue 7% lower. These results were held back by a weaker dollar; at constant exchange rates, profit was 1% ahead and revenue down just 2%.

Behind those headlines, a lot has been happening. The brutal decline in print advertising continues—down 20% in the half-year—but the rest of the Group is getting better at offsetting it. Taking *The Economist* and its associated businesses first, here are two examples. One, sales of full-price subscriptions of *The Economist* are rising while the number of discounted copies is falling. This has brought a 5% increase in the gross profit from circulation (at constant exchange rates, it would have been 10%). Two, as clients shift their marketing budgets from print to other ways of attracting attention, we are following them. Revenue from content management and marketing services was up 29%. Within that, TVC—a small digital-media agency we bought in 2012—increased its revenues by 74%.

You will see the same mixed picture elsewhere in the Group. Our Washington businesses have had a difficult time, not least because of print advertising, but have kept their costs under tight control. On the other hand, the Economist Intelligence Unit (EIU) had a solid six months, with revenues up a little on the same period last year at constant exchange rates. Within that total, revenues from custom research rose by 21%, and the EIU's Healthcare division saw an 11% rise in the revenues of Clearstate, another small acquisition we made in 2012.

The lesson we draw from the past six years or so is clear: rather than spending a lot of time and money trying to slow the decline in print advertising, we should concentrate on boosting other revenues. Please don't be tempted to think of victory—there's no such thing as "victory" in today's media industry, just good and bad ways of adjusting—but we are encouraged to do more of what we have been doing.

Revenue	Operating profit	Operating profit margin	Circulation of <i>The Economist</i>
£148.7m	£24.0m	16.2%	1.6m

The second half of the year has started on a positive note. *The Economist* has launched a new daily app and e-mail service called Espresso, which is free to subscribers but will be sold to others. It has been well received, and we hope the marketing campaign around it will also attract new readers for everything *The Economist* produces.

For the Group as a whole, it is helpful that the dollar has strengthened against sterling, so what was a negative for our results in the first half could become a plus in the rest of the year. Against that, economic confidence has recently taken a knock everywhere, and there may be more bad news to come.

Your Board has tried to take all these factors into account in reaching its decision on dividends. As usual, the normal half-year dividend is one-third of the previous full-year dividend. The Board has also reviewed the scope for a special dividend, and concluded that the Group has some surplus cash that should be distributed to shareholders. The interim dividend is therefore 45.7p per share, supplemented by a special dividend of 23.8p per share. Both will be paid to shareholders on December 17th.

Rupert Pennant-Rea
Chairman

Profit and loss account

	NOTE	Six months to Sept 30th 2014 £000	Six months to Sept 30th 2013 £000	Twelve months to March 31st 2014 £000
Turnover		148,684	159,565	331,545
Operating profit		24,018	24,804	59,005
Profit on sale of business		-	351	297
Profit on ordinary activities before finance charges		24,018	25,155	59,302
Net finance costs		(562)	(1,163)	(2,378)
Profit on ordinary activities before taxation		23,456	23,992	56,924
Taxation on profit on ordinary activities		(5,395)	(5,758)	(12,945)
Profit for the period		18,061	18,234	43,979
Basic earnings per share (pence)	4	72.2	72.9	175.8
Dividends paid per share (pence)	5	94.0	88.7	163.4

Balance sheet

	As at Sept 30th 2014	As at Sept 30th 2013	As at March 31st 2014
	£000	£000	£000
Fixed assets			
Intangible assets	99,545	107,596	101,587
Tangible assets	26,588	27,728	27,223
	126,133	135,324	128,810
Current assets			
Stocks and work-in-progress	2,912	3,265	2,695
Debtors	56,729	53,388	61,337
Deferred taxation	1,648	2,314	1,648
Cash at bank and in hand	37,971	24,403	42,854
	99,260	83,370	108,534
Creditors: amounts falling due within one year	(81,889)	(71,454)	(81,411)
Unexpired subscriptions and deferred revenue	(95,117)	(94,884)	(100,330)
Net current liabilities	(77,746)	(82,968)	(73,207)
Total assets less current liabilities	48,387	52,356	55,603
Creditors: amounts falling due after more than one year	(49,545)	(50,786)	(48,939)
Net (liabilities)/assets excluding pension and other post-retirement obligations	(1,158)	1,570	6,664
Pension and other post-retirement obligations (net of deferred tax)	(20,123)	(12,451)	(11,183)
Net liabilities	(21,281)	(10,881)	(4,519)
Capital and reserves			
Called-up share capital	1,260	1,260	1,260
Profit and loss account	(22,541)	(12,141)	(5,779)
Total shareholders' deficit	(21,281)	(10,881)	(4,519)

Cashflow statement

	Six months to Sept 30th 2014	Six months to Sept 30th 2013	Twelve months to March 31st 2014
	£000	£000	£000
Net cash inflow from operating activities	12,716	18,443	68,960
Returns on investments and servicing of finance			
Interest received	34	14	32
Interest paid	(2,345)	(2,566)	(4,909)
Finance lease interest paid	(104)	(104)	(208)
	(2,415)	(2,656)	(5,085)
Taxation			
UK corporation tax paid	(5,321)	(2,756)	(6,876)
Overseas tax paid	(529)	(2,112)	(2,566)
	(5,850)	(4,868)	(9,442)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,022)	(1,883)	(3,115)
Acquisitions and disposals			
Purchase of subsidiary undertakings	(2,245)	(735)	(735)
Cash received from sale of business	-	236	38
	(2,245)	(499)	(697)
Equity dividends paid to shareholders	(23,506)	(22,215)	(40,906)
Net cash (outflow)/inflow before use of liquid resources and financing	(22,322)	(13,678)	9,715
Management of liquid resources			
Cash drawn from/(placed on) short-term deposits	6,201	3,568	(12,595)
Financing			
Capital element of finance lease rental payments	(1)	(1)	(2)
Sale/(purchase) of own shares	86	(619)	(999)
Drawdown of unsecured loan facility	28,459	7,000	19,000
Repayment of unsecured loan facility	(11,632)	(6,565)	(22,566)
	16,912	(185)	(4,567)
Increase/(decrease) in cash	791	(10,295)	(7,447)

Reconciliation of net cashflow to movement in net debt

	Six months to Sept 30th 2014	Six months to Sept 30th 2013	Twelve months to March 31st 2014
	£000	£000	£000
Increase/(decrease) in cash	791	(10,295)	(7,447)
Cash (inflow)/outflow from (increase)/decrease in liquid resources	(6,201)	(3,568)	12,595
Cash (inflow)/outflow from debt financing	(16,827)	(435)	3,566
Cash outflow from decrease in lease financing	1	1	2
Change in net debt resulting from cashflows	(22,236)	(14,297)	8,716
Other non-cash changes	25	(41)	(81)
Exchange translation differences	(426)	2,811	3,975
Movement in net debt in period	(22,637)	(11,527)	12,610
Net debt at beginning of period	(15,262)	(27,872)	(27,872)
Net debt at end of period	(37,899)	(39,399)	(15,262)

Statement of total recognised gains and losses

	Six months to Sept 30th 2014	Six months to Sept 30th 2013	Twelve months to March 31st 2014
	£000	£000	£000
Profit for the period	18,061	18,234	43,979
Exchange translation differences arising on consolidation	(209)	(1,033)	(1,136)
Actual return less expected return on pension scheme assets	3,534	(5,326)	(824)
Experience gains arising on pension scheme liabilities	13	76	-
Changes in assumptions underlying the present value of pension scheme liabilities	(17,539)	13,191	8,025
Actuarial gain on other post-retirement benefits	-	-	275
UK deferred tax attributable to the actuarial loss/(gain)	2,798	(1,826)	(1,570)
Total recognised gains for the period	6,658	23,316	48,749

Reconciliation of movement in total shareholders' deficit

	Six months to Sept 30th 2014	Six months to Sept 30th 2013	Twelve months to March 31st 2014
	£000	£000	£000
Profit for the period	18,061	18,234	43,979
Dividends paid	(23,506)	(22,215)	(40,906)
Retained (loss)/profit	(5,445)	(3,981)	3,073
Net sale/(purchase) of own shares	86	(619)	(999)
Other recognised (losses)/gains	(11,194)	6,115	5,906
Exchange translation differences arising on consolidation	(209)	(1,033)	(1,136)
Net (increase in)/reduction in shareholders' deficit	(16,762)	482	6,844
Opening shareholders' deficit	(4,519)	(11,363)	(11,363)
Closing shareholders' deficit	(21,281)	(10,881)	(4,519)

Analysis of results by business

	Six months to Sept 30th 2014	Six months to Sept 30th 2013	Twelve months to March 31st 2014
	£000	£000	£000
Turnover by business			
The Economist Businesses	102,588	109,198	232,670
The Economist Intelligence Unit	22,860	23,970	47,455
CQ Roll Call	21,328	24,604	47,812
Other businesses	1,908	1,793	3,608
	148,684	159,565	331,545
Operating profit by business			
The Economist Businesses	13,475	13,412	35,748
The Economist Intelligence Unit	5,561	6,020	12,147
CQ Roll Call	2,856	3,437	7,291
Other businesses	2,126	1,935	3,819
	24,018	24,804	59,005

Notes to the financial information

1. The interim financial information for the six months to September 30th 2014 was approved by the Board of directors on November 25th 2014 and is unaudited.
2. The financial information for the year ended March 31st 2014 has been extracted from the full accounts for that period, 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 2014 has been prepared on the basis of the accounting policies set out in the 2014 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 72.0p (2013: 72.7p).
5. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2013: £0.1m).

The dividend per share of 94.0p for the six months to September 30th 2014 is the final dividend for the year ending March 31st 2014 paid in July 2014. The dividend per share of 88.7p for the six months to September 30th 2013 is the final dividend for the year ending March 31st 2013 paid in July 2013. The dividend per share of 163.4p for the 12 months to March 31st 2014 includes interim, final and special dividends paid in that year.

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