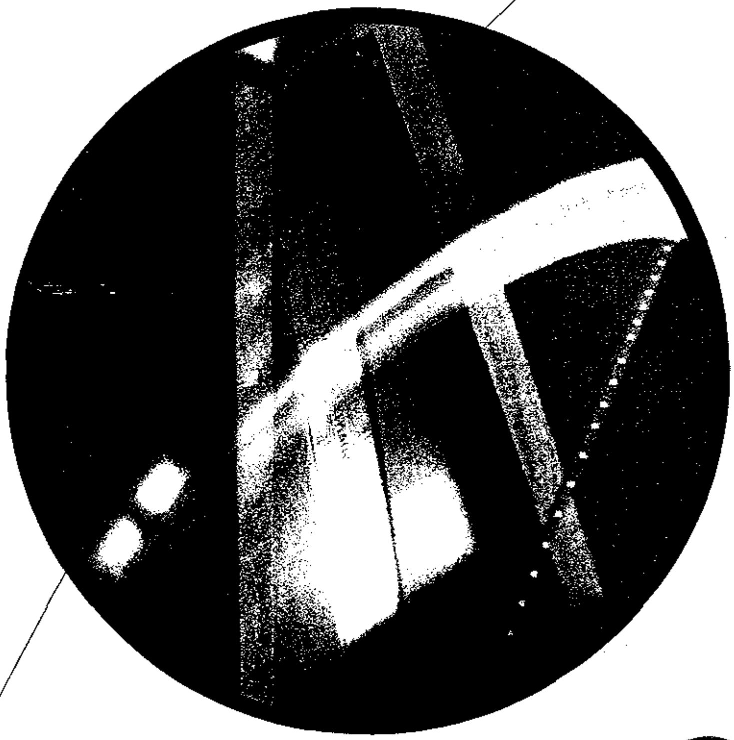


2000
Annual report

The Economist Group

THE ECONOMIST NEWSPAPER LIMITED
AND ITS SUBSIDIARY COMPANIES
REGISTERED NUMBER: 236383

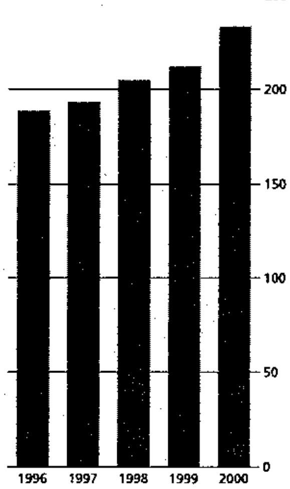
Review of the year

Business reports

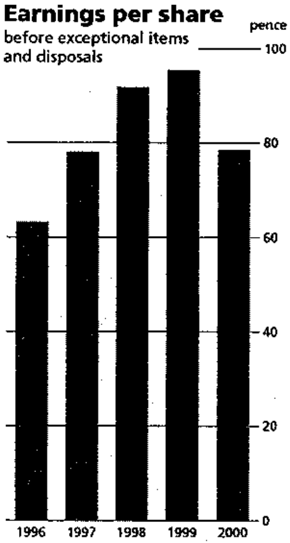
Report and accounts

2000

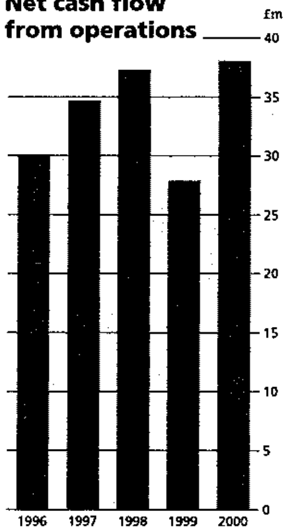
Total group turnover



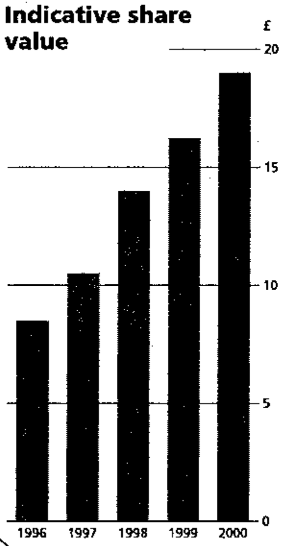
Earnings per share
before exceptional items and disposals



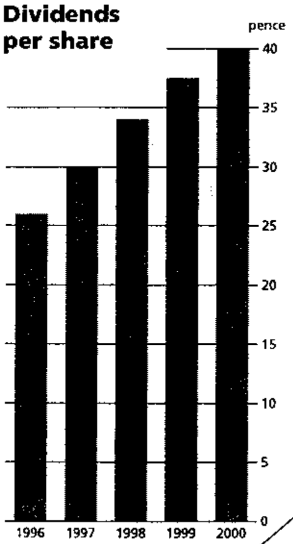
Net cash flow from operations

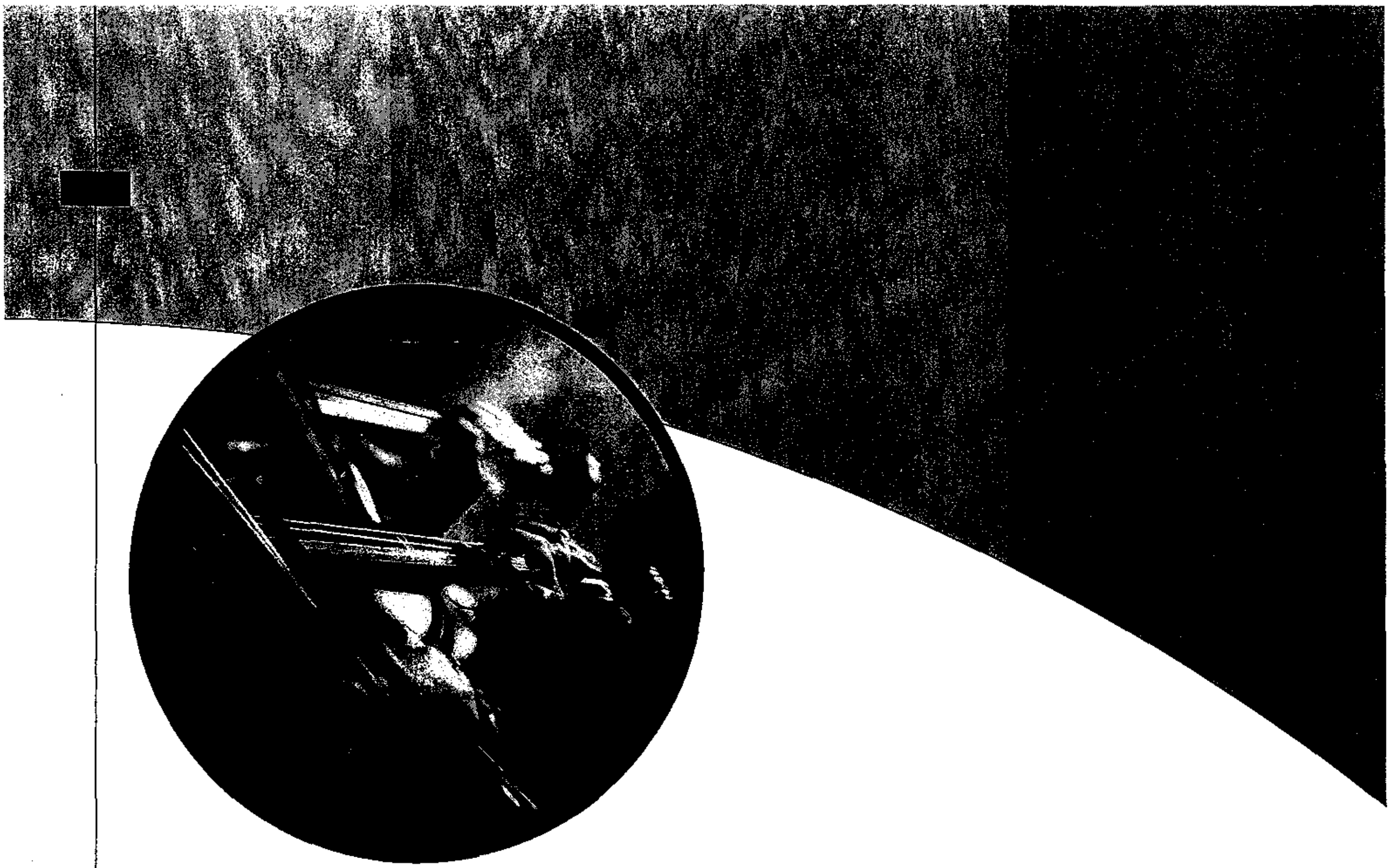


Indicative share value



Dividends per share





From the Chairman and the Chief Executive

We are transforming The Economist Group from a largely print-based publishing company into a world-class firm as we fully embrace the opportunities of electronic media. Much has been done already and the pace of change will continue and accelerate for some time yet. Some of the benefits will take time to come through but the investment is focused and necessary. The underlying business remains strongly cash-generative and we have funded developments using our internal resources.

Trading results reflect a strong underlying position, with excellent results from *The Economist* newspaper and specialist magazines.

	2000 £m	1999 £m
The Economist newspaper	26.0	22.6
The Economist Intelligence Unit	0.5	3.6
Brand businesses	1.5	2.4
Specialist magazines	5.2	3.5
The Journal of Commerce	(0.9)	1.5
Property	1.9	1.8
Profit contribution from businesses	34.3	35.4

The Economist newspaper had a record year with revenue and profits strongly ahead. Advertising revenue was 24% higher than last year, boosted by strong markets in most regions. Circulation volume continued to grow, averaging 723,000 copies per issue, an increase of 4% on the previous year.

As we reported at the interim stage, we invested in The Economist Intelligence Unit's transformation into an electronic business, which necessarily reduced earnings for the year. A strong performance from the conference division helped to ensure revenues were ahead of the previous year. Electronic revenues were 60% higher than last year. The EIU now offers a comprehensive database of EIU publications at eiu.com; a daily Internet briefing service, EIU Views*Wire*; a data service, EIU Country*Data*; and ebusinessforum.com, a specialised website on e-business issues.

Investment in Economist.com and lower diary sales caused a reduction in brand businesses' profit.

Amongst our specialist magazines, the *CFO* brand family had an excellent year. *CFO* magazine in the US reported record revenues and profits on an increased circulation of 435,000 copies per issue. The two recently launched sister titles, *CFO Europe* and *CFO Asia*, also had good years and are both well ahead of their launch plans. As previously reported, *Treasury & Risk Management* was sold during the year with a pre-tax gain of £1.6m. *Capital Style*, our Washington-based consumer magazine, was closed in May 2000. We will continue to make changes to the portfolio if our performance targets are not met as we review each business.

Performance at The Journal of Commerce continued to be affected by tough conditions in the maritime transportation industry. There has been a strategic shift in the industry, and we have made some strategic changes to match. We replaced the daily newspaper by launching a new weekly product, *JoC WEEK*, and by significantly improving content and functionality online at joc.com. We believe that The Journal of Commerce's portfolio of products is now much better suited to serve the information needs of its market in today's digital age.

The group's underlying businesses remain fundamentally strong; but the year's results have been affected by some significant accounting adjustments. As a result of applying our accounting policy for goodwill, we are writing off £72m of goodwill in The Journal of Commerce and other businesses. We are also taking the costs of tightening the balance sheet as we introduce new systems. Both the goodwill write-off and other balance-sheet items are included in exceptional items. After exceptional items and tax, the group shows a loss for the year of £63.1m. The £72m goodwill was originally charged against reserves at the time of the related acquisitions.

The adjustment this year involves reallocating the charge from reserves to profit and has no net effect on either shareholders' funds or cash. The group's cash flow for the year was strong and our net funds were £31.8m at March 31st 2000 compared with £19.6m at March 31st 1999.

The directors recommend increasing the final dividend to 28.7 pence, making the dividend for the year 40 pence, an increase of 6.7% on the previous year. The indicative share value has increased to £19 per share, up from £16.25p at March 31st 1999, an increase of 17% in the year.

During the course of the year, we undertook a thorough review of the group's corporate strategy. We are developing outstanding global media brands for the high-end audience, roughly the top 10% of income earners who are internationally-minded business and world leaders.

To achieve success we will: focus on our core businesses; extend *The Economist* and CFO brands; exploit new media; and continue to build value for the group in its other businesses. To meet these strategic objectives we aim to develop a unique set of capabilities: our global brand management strengths; our strongly independent, high-quality content; our superior customer insight; our excellent relationships with advertisers; our top-quality electronic offering; and the network of world-class international media professionals we employ.

In order to drive this process forward we have entered the new year with a strengthened management team and structure. Economist.com and CFO.com have been established; the EIU has changed its management structure from one based on regional lines to one based on function; and conferences have moved from being part of the EIU to the newly formed Economist Enterprises. Further, some new senior managers are being appointed at a group level to help us develop our capabilities.

The main markets in which the group operates appear healthy, with some tangible signs of recovery in Asia, and the new financial year has started satisfactorily for the group. We continue to benefit from strong advertising from technology companies but our revenues would be adversely affected if there was a significant change in this sector's fortunes. The world economy remains extremely vulnerable to a slowdown in the US.

Revenue across the group from electronic products continues to increase at a rapid rate, with total electronic revenues of £16.6m, 33% higher than last year.

The role our staff plays in the group's success is critical, and we would like to thank each of them for their contribution. We are convinced that the new strategy will continue to offer a stimulating and rewarding environment in which to work. Over the next three years we plan to invest heavily, in particular in our Internet businesses. We are in a period of rapid development of our new businesses and an exciting phase in the development of the group. We are confident that we will create a well-positioned global media company, with potential to outperform in the years ahead. Much work still needs to be done, but the foundations have been laid.

DOMINIC CADBURY
HELEN ALEXANDER

Financial review

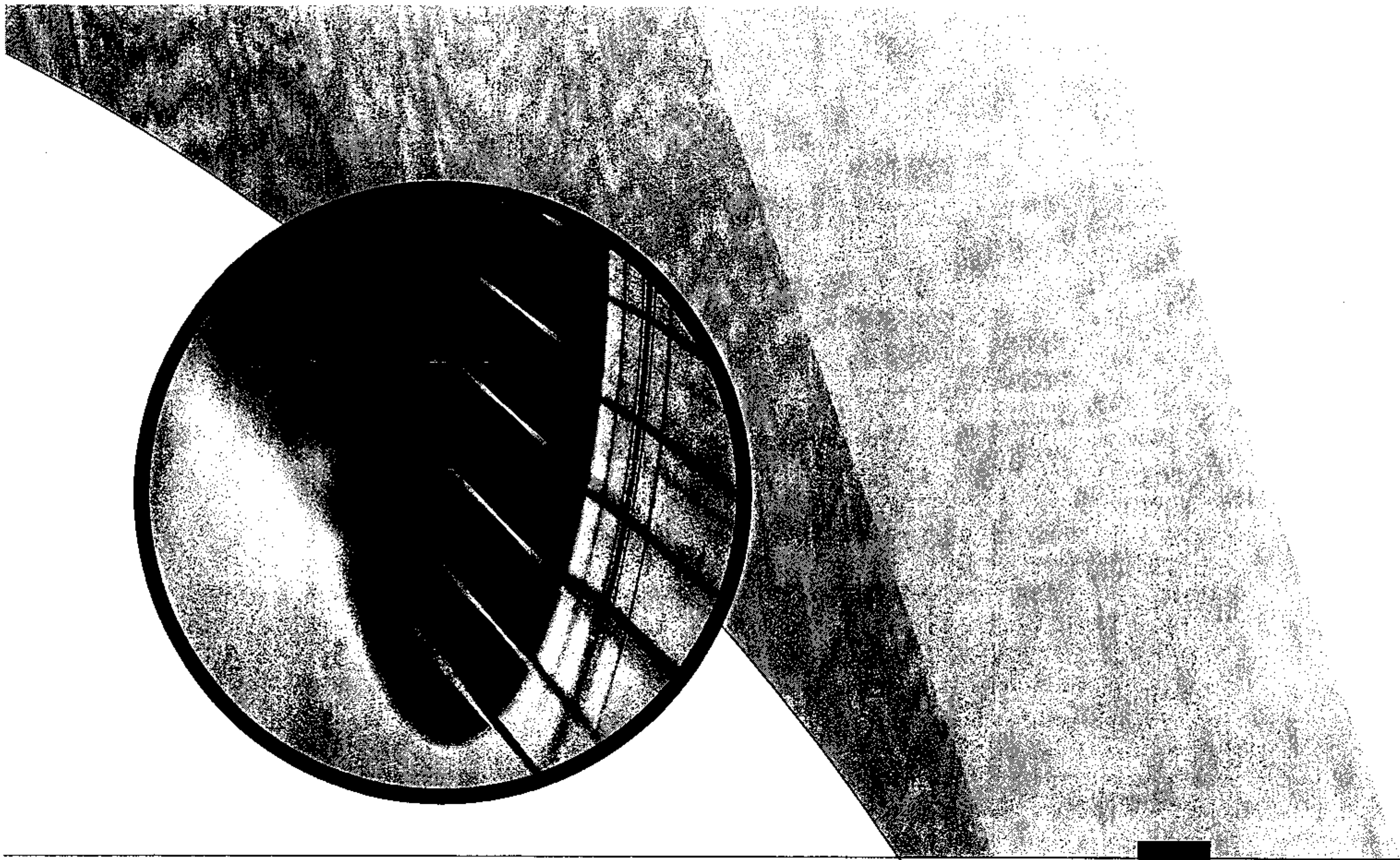
Cash flow and gearing Our cash from operations this year was £38.1m, 36% higher than the previous year. The net cash inflow after investing in fixed assets and paying tax and dividends was £11.8m, compared with £4.5m the previous year. The group repaid £5.2m of borrowings during the year, leaving it with debt of £12m at March 31st 2000. Cash and current asset investments increased to £43.8m. Cash and current asset investments less borrowings at March 31st 2000 were £31.8m compared with £19.6m at March 31st 1999.

Dividend policy The company has substantially increased its dividends in recent years and payments have more than doubled in the last five years. Apart from our objective of producing high shareholder returns, when we review our dividend policy we aim to reflect earnings, investments and cover. The board's recommendation for the final dividend is 28.7p, making a full-year dividend of 40p, which is a 6.7% increase on last year. The dividend is covered 2 times by earnings before exceptionals and represents a yield of 2.1% on the share valuation of £19.

Taxation This year has seen a continuing rise in the underlying rate of tax, with the rate rising from 27% to 33%, mainly as a result of more profit being earned in higher tax areas, especially the US. The effect of the exceptional items, particularly the goodwill impairment charge for which no tax relief is available, is to leave £10.9m of tax payable even though there is a £52m pre-tax loss.

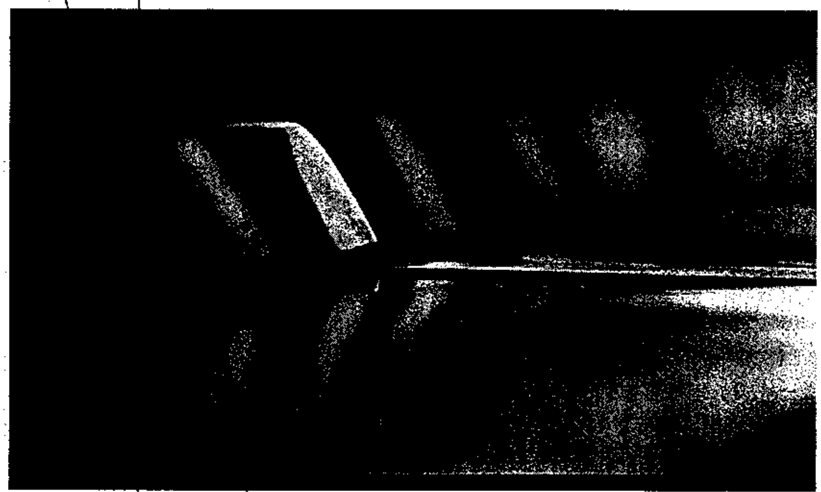
European monetary union There has been no widespread adoption of trading in euros in the publishing industry. We still expect the speed of adoption to pick up, particularly in business-to-business transactions, but so far this has been slower than expected. We will aim to be ready for this increased use and for sterling's potential entry into the union.

Professionalising systems and financial analysis This year we moved the London and New York finance departments on to a new finance system. No year 2000 problems were encountered. The new system allows us to pay suppliers by BACS and we are paying more efficiently than ever before. The introduction of this new global system is very important and we are on course to



roll it out to other international offices during the coming year. As part of this implementation and improvement process we reviewed our balance sheet and related accounting treatment carefully, to ensure a prudent view was taken. We decided to take an impairment write-off for the goodwill of The Journal of Commerce and other businesses, as described on page 6 and in note 3 to the accounts. This is an accounting adjustment with no net effect on shareholder funds or cash. We also took a further £7m cost for other balance-sheet items identified during the introduction of new systems. With the assistance of better systems and skilled staff, we are rapidly enhancing the quality of investment appraisal, in order to improve returns and better manage risks.

KIRAN MALIK



Five-year summary

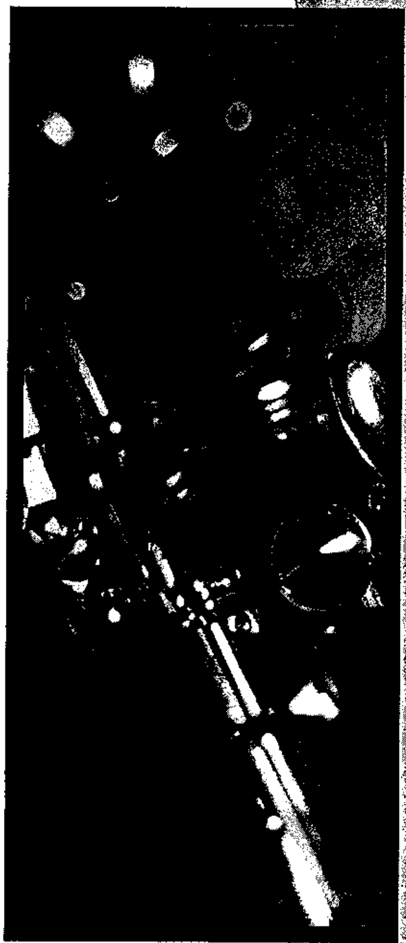
Profit and loss	2000 £000	1999 £000	1998 £000	1997 £000	1996 £000
Turnover	233,675	212,559	205,024	193,515	188,659
Operating profit before exceptionals	28,436	32,573	24,115	19,595	15,722
(Loss)/profit on ordinary activities before interest	(52,979)	31,932	25,308	27,865	25,722
Net interest	861	213	(232)	(1,143)	(1,725)
(Loss)/profit before taxation	(52,118)	32,145	25,076	26,722	23,997
(Loss)/profit after taxation	(63,058)	23,448	18,884	20,077	17,682

Balance sheet					
Intangible assets	–	–	–	370	658
Fixed assets	36,038	35,811	33,575	35,342	36,398
Investments	–	–	–	–	133
Net current liabilities	(11,825)	(14,569)	(17,051)	(12,769)	(13,872)
Long-term creditors and provisions	(22,270)	(18,991)	(29,131)	(47,764)	(56,629)
Net assets/(liabilities)	1,943	2,251	(12,607)	(24,821)	(33,312)

Ratios	2000	1999	1998	1997	1996
Operating profit (before exceptional items) to turnover	12.2%	15.30%	13.80%	13.20%	12.60%
Earnings per share	(251.5p)	93.4p	74.9p	79.7p	70.2p
Earnings per share before exceptional items and disposals	78.5p	95.6p	91.9p	75.1p	63.3p

Dividends and cash flow					
Dividend per share	40p	37.5p	34p	30p	26p
Times covered (excluding exceptional items)	2.0	2.5	2.2	2.7	2.7
Net cash from operating activities (£000)	£38,106	£27,924	£37,263	£34,669	£30,129
Indicative share value	£19.00	£16.25	£14.00	£10.50	£8.50

2000



The Group

As highlighted in the Chairman's and Chief Executive's report, last year proved a milestone in the development of the group. We have a new strategy in place, offering a solid framework together with a clear list of priorities and objectives that will position The Economist Group for continued strong growth in the years ahead. Our strategy is built on the following cornerstones.

Developing a portfolio of global media brands for the high-end audience We are focusing on those brands that serve the needs of that market. In *The Economist*, including the Economist Intelligence Unit, and CFO brand families we have core brands that do just that. We will aim to add to this stable when an appropriate business can be acquired. The high-end audience is a market which is roughly defined as the top 10% of income earners who are internationally-minded business and world leaders. A high proportion of our current market falls within this definition; in the future we will increase our share of this market.

Extending *The Economist* and *CFO* brands Existing products will be nurtured and new businesses developed. CFO Enterprises is being rolled out internationally, and a new business unit, Economist Enterprises, was formed on April 1st 2000. It will develop existing Economist branded products and services such as conferences and peer groups, and will build new ones including our new television programme, *E Vision*.

Exploiting new media We are seizing opportunities for the group online and we already have some major electronic businesses. The EIU is well on the way to becoming an Internet business, and we are investing heavily in Economist.com and CFO.com to make them world-class electronic products. Our objectives are: to make Economist.com the premier online source of analysis on global business and current affairs for our target audience; and at CFO.com to build the world's leading Internet destination site for senior financial executives. We will also form partnerships with other businesses outside the group where there is a compelling reason to do so.

Developing unique capabilities We need to be first-class across a range of capabilities, and we are working on six areas that will help us gain a sustainable advantage: our global brand management strengths; our strongly independent, high-quality content; our superior customer insight; our excellent relationships with advertisers; our leading-edge electronic offering; and the network of world-class international media professionals we employ.

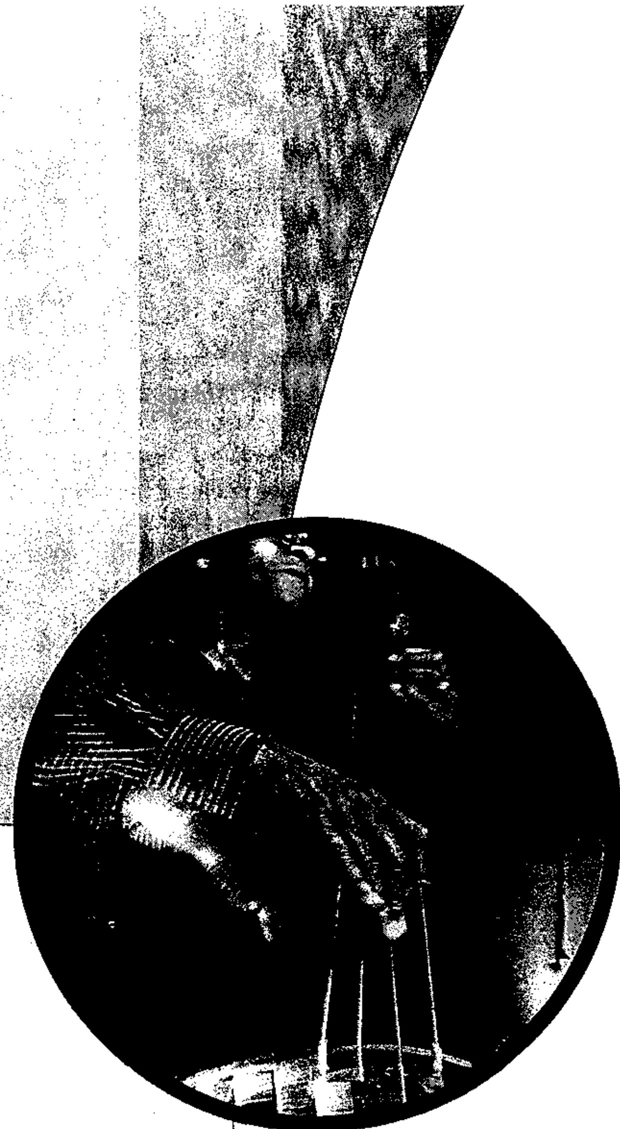
Continuing to build value for the group in its other businesses The other group businesses have their own objectives and targets and will go on being run to create value.

We have a strengthened management team and new structure to drive the strategy forward. We continue to improve the development and training of our people. During the year we completed a number of new management programmes and extended our range of skills training to include selling, e-marketing, project management and IT skills. We will continue to expand these programmes in the current year, and also carry out a group-wide e-skills audit and design a programme to enhance these skills. Our overall priority is to build the key capabilities that are critical for us to achieve our strategic goals.

As well as building the businesses and developing new capabilities, we also need to ensure that the infrastructure is in place to support this growth. Our new accounting and information system has been implemented in London and New York, and will be installed in other international offices during the current financial year. We are already benefiting from the new system and look forward to further advances once the system is put in place worldwide.

We continue to invest in improving the reliability and quality of our basic IT infrastructure. Y2K problems were successfully avoided, but we will continue to monitor the systems.

Ryder Street Properties, the group's UK property holding company, continues to hold the head-lease for the group's London headquarters at 25 St James's Street, as well as the lease for 15 Regent Street, where we are now sole tenants. The complex at 25 St James's Street remains fully let, and rental income has benefited from a rising property market.

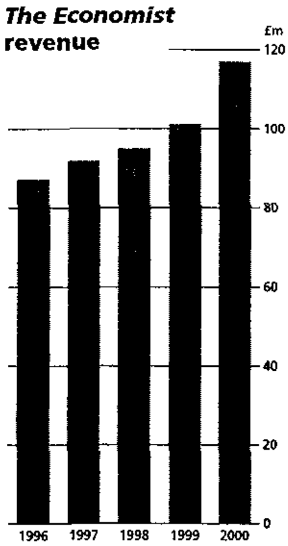


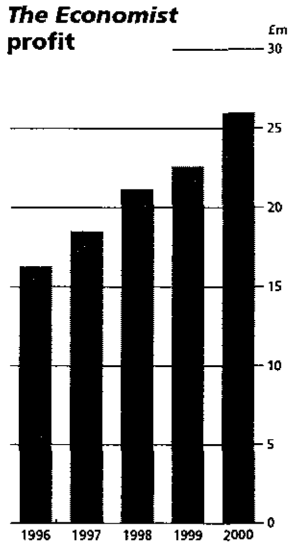
The Economist brand family

The Economist brand family comprises *The Economist* newspaper, the Economist Intelligence Unit, Economist.com and a newly formed unit, Economist Enterprises.

***The Economist* newspaper** had an excellent year with revenue up 16% and profit up 15% to £118m and £26m respectively. It has benefited from a strong advertising market, with the banking, technology and communications sectors particularly buoyant; its position on syndicated research has helped to improve its market share. As well as display advertising, classified and survey revenue also had record years. Worldwide circulation averaged 723,000, an increase of 4% on last year.

Further improvements continue to be made to the newspaper; we introduced a new investigative and analytical feature for business, finance and technology topics; new journalists were added in New York and San Francisco; and we started printing in second colour throughout. A highly successful special issue "Reporting on a thousand years" was produced for the millennium, achieving the best ever circulation figures for the newspaper at 830,000 copies. We were honoured that the newspaper won the prestigious Freedom Prize from the Schmidtheiny Foundation and the University of St Gallen in Switzerland, and were delighted that Matthew Symonds won the Wincott senior financial journalist of the year award.





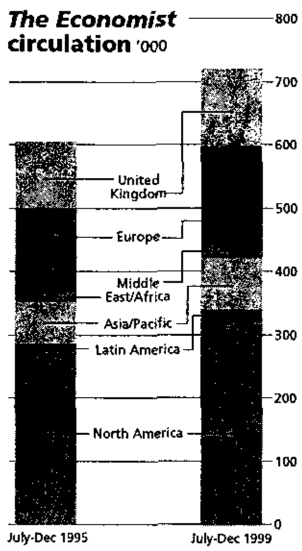
There remains huge potential for *The Economist* to continue growing and our intention is to do just that. We have ambitious circulation targets and we will be making significant investments to make this happen. We added an additional print site in California to improve our on-sale times and we are already seeing an increase in our circulation. We are investing further in improving the newspaper's content and appearance, and are continuing to expand its circulation, as well as improving the support systems.

North American circulation grew 5% over the same period last year to 324,000 and in so doing was ranked second amongst all magazines for the best circulation performance in the US by *Capell's Circulation Report*. Advertising pages for the North American edition were 34% higher than the previous year, and *The Economist* was again in the top ten list of magazines in the US for total advertising pages sold, and carried more pages of airline and bank advertising than any other magazine.

In the UK, circulation averaged 125,000, up on the same period last year, and advertising revenue grew by 20%. There were solid gains in newsstand sales. *The Economist's* advertising campaigns have continued to win awards, taking three prizes in "The 100 best posters of the century", and two prizes in the Campaign Poster Advertising Awards.

Circulation in continental Europe averaged 155,000, 4% higher than the same period last year. This increase is satisfactory and supports our decision to increase the attention given to individual markets by using more local resources and maintaining a more constant presence. As a result of this, there were some notable successes, including in France where circulation increased by 14%.

The Economist's circulation in Asia averaged 81,000 last year. The depressed economic climate resulted in a slow start on both subscriptions and advertising. However, by the end of the year advertising at least was growing fast, finishing 40% up on the previous year.



The Economist Intelligence Unit

As outlined in last year's annual report, the Economist Intelligence Unit "faces some dramatic changes in its market" and "continues to transform the way it does business in every respect, from the resources required for electronic editorial and sales to the systems that will create a platform for the future".

During the year the EIU took more major steps as part of this transformation: it set up the enterprise sales team to sell to corporate customers; it launched the EIU Online Store, an e-commerce site; it expanded EIU Views*Wire*, the daily Internet briefing service, with more events-driven analysis; and it started more frequent updating of its core country analysis.

Electronic revenues grew by over 60% in the year and will soon outstrip paper-based revenues. The EIU now has 500,000 network users, mainly amongst large corporate customers. These clients are served through the comprehensive database of EIU publications at eiu.com, EIU Views*Wire* and the data service, EIU Country*Data*.

This year, the EIU will reinvest in its position as the dominant player in country analysis. It will transform its editorial process and database management to continually update its analysis to meet users' needs. It will also make that analysis available to a wider audience, thanks to investment in e-commerce at the EIU Online Store.

The EIU has always specialised in helping companies do business across borders. Now, in the digital age, it will help them do e-business across borders. A new web service, ebusinessforum.com, will guide senior executives striving to transform their organisations into global e-businesses. Revenue grew at Pyramid, the EIU's communications division, by over 20% in the year as the pace of change in communications markets intensified.

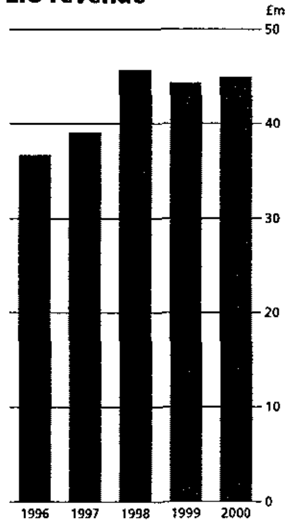
Pyramid is now launching a new advisory service analysing the Internet's impact on these markets.

Conferences had a good year with revenues increasing by 9% to £11.5m and profits increasing 47% to £3.3m. There was intense interest in e-business events. Events were held in London, Warsaw and on both coasts of America, all of which attracted a high level of interest from sponsors and delegates alike.

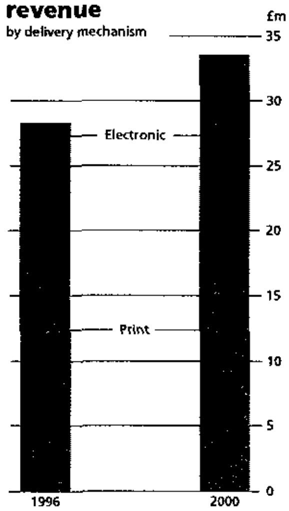
The EIU's new focus has led to a number of recent changes. We decided, with much regret, to exit from three smaller industry divisions covering Automotive, Healthcare and Financial Services. This was a hard decision as these businesses had built world-class reputations, and Automotive had been a key division for many years. However, it was clear that reversing recent sales trends would require more attention than we could give in a time of rapid change in the EIU's core country analysis business. Secondly, it was decided to move the Conference division to the newly formed Economist Enterprise division with effect from April 1st 2000. The EIU has now been reorganised on global product lines, rather than on a regional basis, and will concentrate on five core portfolios where before 18 separate divisions had existed.

As a result of this planned investment and related restructuring there was an anticipated pressure on profitability. Profit to the year-end was £480,000, which was ahead of expectations. Revenues increased to £45m. By investing now, we are firmly positioning the business for the digital era where it will continue to deliver country analysis of the highest quality under The Economist Intelligence Unit brand.

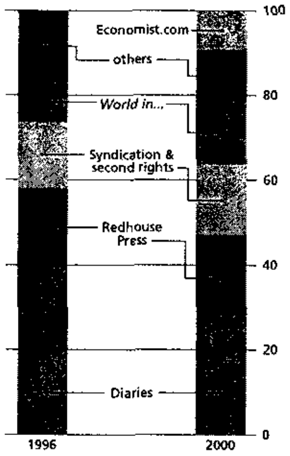
EIU revenue



EIU publishing revenue
by delivery mechanism



Brand businesses revenue
Total revenue by business unit (excluding discontinued businesses)



Economist brand businesses

Revenues at **Economist.com** increased 70% to over £1m. Economist.com intends to be "the site that makes sense of the world", in other words, that deals with information overload in global affairs, providing analysis of what matters, when it matters. It will extend, deepen and strengthen the franchise of *The Economist* brand and our relationship with our target audience.

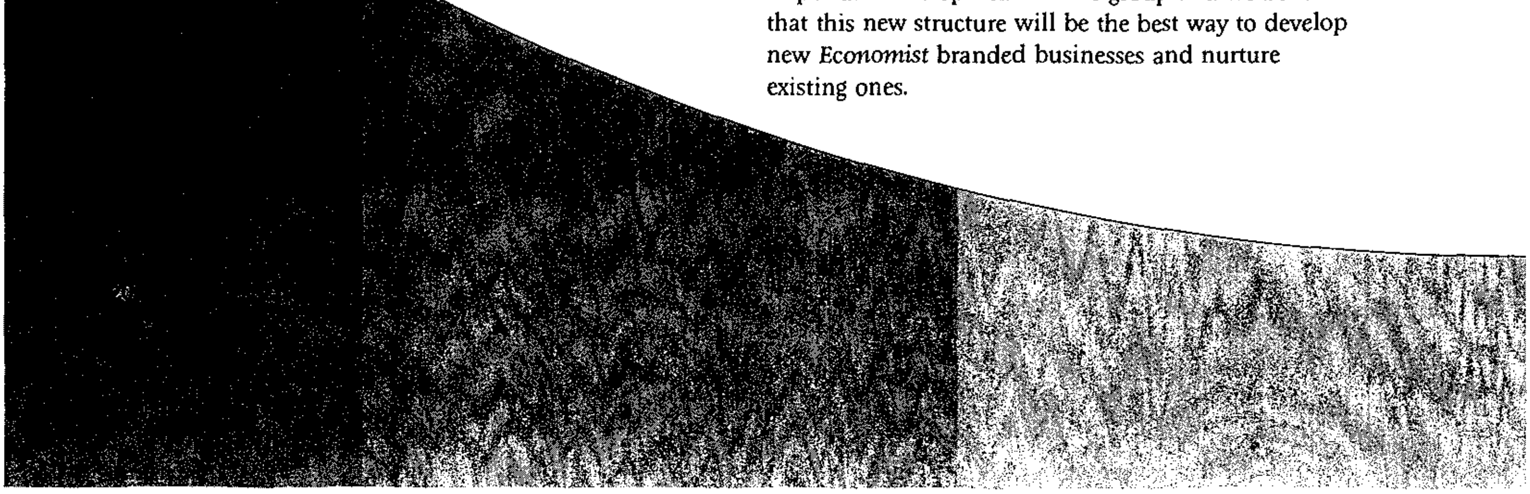
During the coming year, Economist.com will undergo a major redesign combined with additional web-only content culminating in a re-launch in early 2001. These improvements in content will be accompanied by significantly increased investment in technology and marketing.

The World in 2000, our annual look at the year ahead, once again exceeded revenue and contribution expectations. Led by strong circulation and advertising growth, contribution exceeded £1m for the first time.

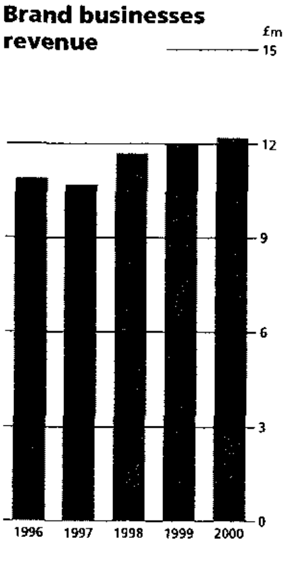
The expected rush to own a millennium Economist diary did not materialise, resulting in a tough year for diaries, with both revenues and profits lower than the previous year. Market conditions for paper diaries are likely to continue to be challenging but a number of exciting new products will be launched this year to take advantage of the web, including the re-launched, web-updateable *eCalendar Companion*.

The latest product to be added to the portfolio is *E Vision*. This is a new audiovisual/television programme made with Mentorn Barraclough Carey. To be launched later this year, this product will take *The Economist* brand into television and video while retaining its unique mix of coverage of global current affairs and business.

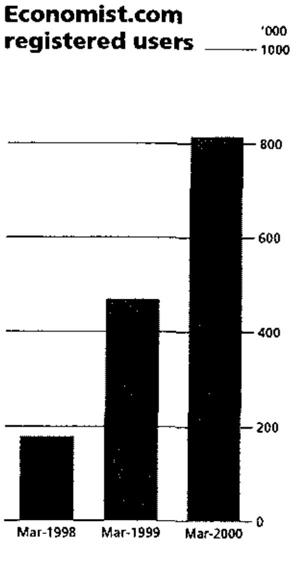
From the beginning of the new financial year, there have been a number of structural changes to reflect our strategic objectives: firstly, Economist.com is now a separate business unit standing alongside *The Economist* newspaper and The Economist Intelligence Unit as a fully fledged member of *The Economist* brand family. Secondly, a new unit called **Economist Enterprises** has been created and will comprise the existing *Economist* brand businesses, conferences, which have been transferred from the EIU, and new products and services that are yet to be launched. This is an important development for the group and we believe that this new structure will be the best way to develop new *Economist* branded businesses and nurture existing ones.



Brand businesses revenue



Economist.com registered users



The Journal of Commerce

The strategic shifts in the maritime transportation market have been matched at The Journal of Commerce. Customers' needs have changed, and we have altered the product range to meet them. The business has been repositioned to emphasise its credentials as the authoritative provider of information to the shipping and transportation industries in North America. It has improved its portfolio of products to serve its target audience better, with more focus on the flexibility of content delivery through print, electronic channels and events. We have reduced the cost base further and have also streamlined the management structure, so that one executive is responsible for the whole company.

Against this background of change, revenues for the year were £26.9m and the group incurred a loss of £900,000 before exceptional reorganisation costs of £3.6m. The Journal of Commerce's portfolio of businesses is now a very different one from that acquired five years ago, with many more electronic products and magazines.

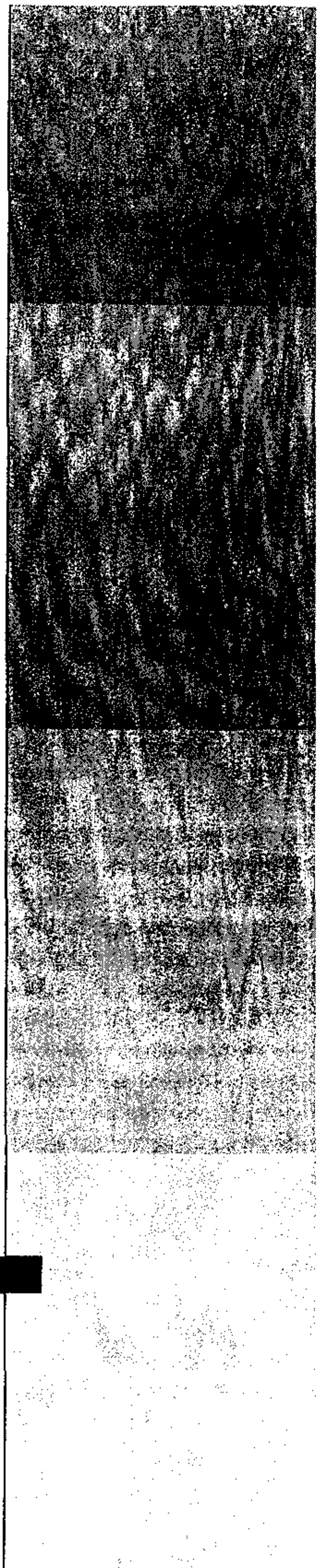
PIERS's market, the maritime container industry, has had its profitability eroded by overcapacity and falling rates. However, market conditions are now looking better, and as customers' own profitability returns, so too does their interest in exploring new business opportunities for which they need PIERS data. PIERS is continuing to offer its products on a web-based platform and during the year launched TicklerOnline, an information directory of transportation services and suppliers in the US.

During the year joc.com was redesigned and its site traffic doubled. Changes are being made to enhance the site further by offering new features including customised content delivery, integrated PIERS data and a JoC bookstore. The response from readers has been very positive. As the market changed its chosen method of information delivery, so we ceased publishing *The Journal of Commerce* as a national daily newspaper and concentrated on enhanced web delivery, supported by a weekly magazine, *JoC WEEK*, which is more analytical in its coverage. The first issue has now been successfully launched with revenues ahead of expectations.

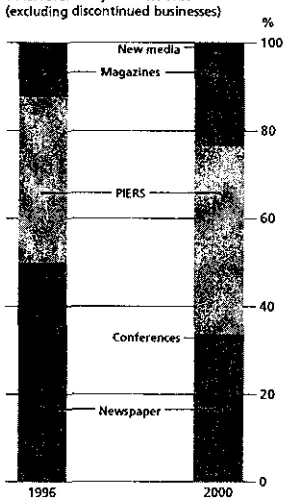
The conference division continues to grow, with revenues 21% ahead of the previous year. It held its first event in Europe, Transpo Mediterranean in Genoa, which proved a great success. Conferences now have a management and structure capable of growing their business and playing an important part in delivering the information needs of the target audience.

Within The Journal of Commerce's magazine division, *Traffic World* has continued to gain credibility as a leader in the field of transportation technology. It hosted its second annual technology conference with doubled attendance and launched Tech Centre, a web-based information product for technology firms to advertise their services to trade and transportation clients. Good progress continued to be made at *Air Cargo World* magazine, consolidating its position as the world's leading magazine serving the air cargo market.

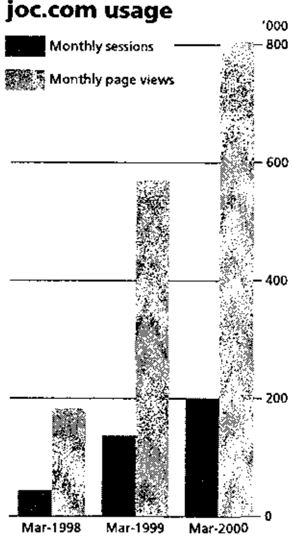
The Journal of Commerce remains the dominant information provider for the shipping and transportation industries in the US and the numerous changes we made this year will strengthen its position in the digital age.



JOC revenue
Total revenue by business unit
(excluding discontinued businesses)



joc.com usage



Specialist magazines

Overall, specialist magazines had a very good year with revenue of £31m, ahead of the previous year by 24%, and profit of £5.2m, 50% ahead of last year.

The *CFO* brand family

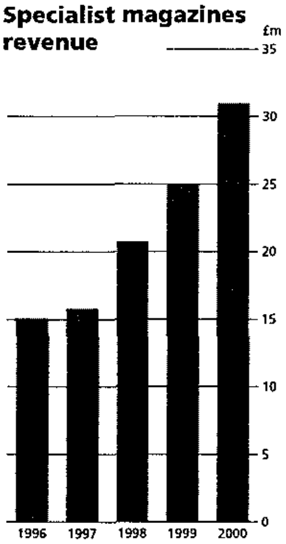
Excellent progress was made, with revenue increasing 43% to £19.9m and contribution up 17% to £5.8m.

CFO is rapidly developing into a globally recognised brand and global advertising sales are becoming an established practice for the sales teams. More than £1m of revenue was generated from such global sales in its first full year. Further, as the magazines continue to work closely together, more synergies have been realised than we had expected, particularly for shared editorial content.

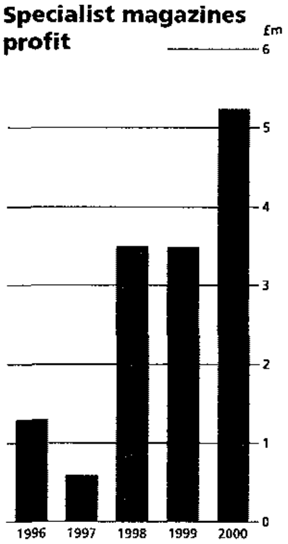
In the US, **CFO** magazine completed its most successful year ever. Advertising pages finished at an all-time record and a 40% increase over the previous year. The sales team in San Francisco was expanded to capitalise on the boom in technology advertising. Circulation is now 435,000 in the US. CFO won a Folio Award for best financial publication, as well as a Society of Publication Designers award for illustration. A new special issue on e-business was also launched in April 2000 and has already become an editorial and commercial success.

CFO Europe, in its second year, made excellent progress, well exceeding its revenue plans with the number of advertisers increased by almost 60%. Both the magazine and its publisher were recently shortlisted for two magazine awards from the Periodical Publishers Association. ***CFO Asia*** had a good year too, similarly

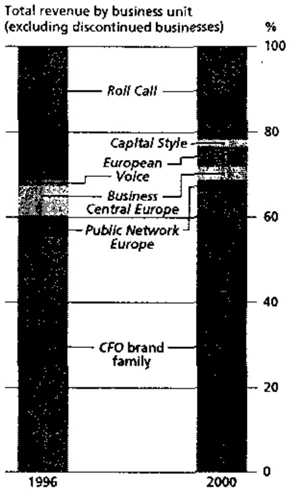
Specialist magazines revenue



Specialist magazines profit



Specialist magazines revenue
Total revenue by business unit
(excluding discontinued businesses)



exceeding its revenue plan and building substantial credibility in the region.

CFO Enterprises exists to extend the brand to other products and services. In the US it continued to expand its portfolio of products by holding Best Practice conference events on both the east and west coasts. In Europe the CFO Excellence Awards programme was successfully launched together with the CFO European Summit and a number of custom seminars. The roll-out of Enterprise events has now started in Asia too.

Growth at **CFO.com** was extremely rapid, with traffic doubling and revenue increasing fourfold in the year. The transition from being an online edition of the magazine to a dynamic destination for financial executives is well under way with a number of new features already added, including exclusive articles, research centres, a full-service jobs board, and IPO and SEC search capabilities. We believe that CFO.com has enormous potential as the world's leading Internet site for senior financial executives, and will provide a new digital focus for the whole CFO business, covering its audience, content and advertisers.

Other titles

Public Network Europe had an improved result with revenues up 19% on the previous year, benefiting from increased interest and activity from technology and telecoms companies.

The performance of *Business Central Europe* was adversely affected by the fall in business confidence following the collapse of the Russian markets in 1998. In spite of signs of recovery in the final quarter of the financial year, revenues were 10% below the previous year, at £1m.

Roll Call had a very good year with revenues up 32% to £6.6m and contribution up 46% to £3.4m. A new website has recently been launched with a number of exclusive features and a fully interactive election map.

Over the last year revenues at *European Voice* grew 25% to £1.4m and circulation by 20%. The paper continued to build its reputation as the best source of information on what is happening in the EU institutions.

A number of ways have been identified in which *Roll Call* and *European Voice* can work together to deliver enhanced value to readers and advertisers. Both these businesses are focused on the institutions which are of critical interest to policymakers who are part of the group's global high-end audience.

2000

Trustees

Sir Campbell Fraser A trustee since 1978. President of the CBI from 1982 to 1984. Former chairman of Dunlop, Scottish Television, Tandem Computers and of the International Advisory Board of Wells Fargo. Consultant to Riversoft Ltd.

Lord Alexander of Weedon A trustee since 1990. Chancellor of Exeter University. A director of Total. Chairman of the Bar Council from 1985 to 1986, chairman of the Takeover Panel from 1987 to 1989, deputy chairman of the Securities and Investments Board from 1994 to 1996 and chairman of Natwest Group from 1989 to 1999.

Lord Renwick of Clifton Appointed a trustee in 1995. British ambassador to South Africa from 1987 to 1991 and to Washington from 1991 to 1995. Deputy chairman of Robert Fleming, director of British Airways, Billiton, Liberty International, Fluor Corporation, Richemont, South African Breweries and Canal Plus; chairman of Fluor Daniel.

Clayton Brendish Appointed a trustee in June 1999. Co-founder and executive chairman of Admiral plc. Non-executive chairman of Beacon Investment Fund, an external member of the Defence Meteorological Office Board, a member of the Independent Television Commission and an adviser to the Chancellor of the Duchy of Lancaster and the Parliamentary Secretary, Office of Public Service in respect of the Next Steps executive agencies.

Directors

Sir Dominic Cadbury Appointed non-executive chairman of the company in 1994, having served as a non-executive director since 1990. Chairman of The Wellcome Trust, deputy chairman of the Qualifications and Curriculum Authority, a director of EMI, president of the Food and Drink Federation and a member of the CBI President's Committee. Chairman of Cadbury Schweppes plc from 1993 to 2000.

Helen Alexander Appointed as a director of the company in November 1996 and as group chief executive in January 1997. Joined the company in 1984, circulation and marketing director of *The Economist* from 1987 to 1993 and managing director of the EIU from 1993 until the end of 1996. A non-executive director of Northern Foods and BT.

George Bain A Canadian who has pursued an academic career in Britain since 1963. Principal of London Business School from 1989 to 1997 and since then president and vice-chancellor of The Queen's University of Belfast. A non-executive director of Bombardier Aerospace Short Brothers, the Canada Life Assurance Company and Electra Investment Trust. Appointed as a non-executive director of the company in 1992.

Bill Emmott Editor of *The Economist* and a director of the company since 1993. Joined the company in 1980 and was formerly business affairs editor of *The Economist*. Author of three books on Japan.

John Gardiner Appointed as a non-executive director in April 1998. Chairman of Tesco plc and The Laird Group plc.

David Hanger Appointed as a director of the company in November 1996. Publisher of *The Economist*. Joined the company in 1968. Formerly advertising director of *The Economist*, group development director and director of specialist magazines. President of the International Advertising Association.

Kiran Malik Joined the company as group finance director in July 1997. Former group finance director of Associated Newspapers and previously held several senior financial positions with The Gillette Company.

Philip Mengel Appointed as a non-executive director in July 1999. Chief executive of English Welsh & Scottish Railway Ltd. Previously chief executive of Ibstock plc.

Lord Stevenson of Coddenham Appointed as a non-executive director in July 1998. Chairman of Pearson plc, Halifax plc and AerFi Group plc.

Peter Wood Appointed as a non-executive director in July 1998. Founder and former chairman of Direct Line and a director of the board of The Royal Bank of Scotland Group from June 1992 to June 1997. Until recently a director of Linea Direct Aseguradora, an advisory director of Bankinter in Spain and a non-executive director of Centrica, from which he has retired to become executive chairman of *esure*.

Remuneration Committee
Sir Dominic Cadbury, chairman
George Bain
Lord Stevenson of Coddenham
Helen Alexander (resigned November 23rd 1999)

Audit committee
John Gardiner, chairman
Sir Dominic Cadbury
Peter Wood

Group management committee
Helen Alexander
Bill Emmott
David Hanger
Kiran Malik
David Laird Director of the group's specialist magazines. Joined the group in 1978 as an advertising sales executive for *The Economist*, worked in Frankfurt and New York before becoming the publisher of CFO magazine.

Judy Little Group HR director. Joined the group in 1995 with 15 years' experience in human resources.

Nigel Ludlow Managing director of the Economist Intelligence Unit. Joined the marketing team of *The Economist* in January 1984 and subsequently became global marketing director of the EIU.

Andrew Rashbass Joined the group from Associated Newspapers in December 1997 as chief information officer; now director of Economist.com (and acting CIO until a replacement arrives).

Tony Wales Group general counsel and company secretary since 1995; about to take charge of *E Vision*, a TV and web-based project for Economist Enterprises.

Directors' report

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 2000.

Principal activities The principal activities of the group consist of publishing, the supply of business information, conferences and the letting of property. A review of the business activities and proposed future developments is in the Business Reports section.

Results and dividends The loss after tax for the financial year to March 31st 2000 was £63.1m (1999: £23.4m profit). A final dividend of 28.7p per share is proposed for the year to March 31st 2000. Together with the interim dividend already paid, this makes a total for the year of 40p (1999: 37.5p). The final dividend will be paid on July 10th 2000 to shareholders on the register at the close of business on June 6th 2000.

Significant changes in company interests In August 1999 the group sold *Treasury & Risk Management*, a specialist magazine which had been run alongside *CFO*. Proceeds were £2.1m and the gain on sale amounted to £1.6m. In May 2000 the group closed *Capital Style*, a magazine run alongside *Roll Call*.

Property values The directors have been advised that the market value of The Economist Complex at March 31st 2000 was £53m; the book value is £22.76m. Based on this information, the directors consider that the aggregate market value of all the company's properties exceeds their book value.

Transactions with related parties Details of transactions with related parties, which are to be reported under Financial Reporting Standard 8, are set out in the notes to the financial statements on page 58.

Charitable and political donations During the financial year, the group made contributions to charities amounting to £141,300 (1999: £139,600). No contributions were made for political purposes (1999: nil).

Directors The following changes occurred during the year. Sir Peter Gibbings retired as a director on June 8th 1999. Philip Mengel was appointed as a director on July 27th 1999. James Joll retired as a director on October 2nd 1999. Profiles of the continuing directors are shown on pages 28-29.

The board's appointment policy is that, subject to an overriding rule that directors should retire on reaching the age of 70, all non-executive directors are appointed for an initial fixed period of three years, renewable at the invitation of the board. In order to maintain continuity between the chairman and the company, the chairman's term of office is six years, renewable at the invitation of the board.

All executive directors have contracts of employment. Helen Alexander's contract may be terminated on 24 months' notice; the contracts of the others have shorter notice periods.

Corporate information The share capital of the company is divided into ordinary shares, "A" special shares, "B" special shares and trust shares. The trust shares are held by trustees (who are described on page 28), whose consent is needed for certain corporate activities. The rights attaching to the trust shares provide for the continued independence of the ownership of the company and the editorial independence of *The Economist*. Apart from these rights, they do not include the right to vote, receive dividends or have any other economic interest in the company. The appointments of the editor of *The Economist* and of the chairman of the company are subject to the approval of the trustees.

The general management of the business of the company is under the control of the board of directors. There are 13 seats allowable on the board, seven of which may be appointed by holders of the "A" special shares and six by the holders of the "B" special shares. There are currently 76 "A" special shareholders. The "B" special shares are all held by The Financial Times Limited. None of the "A" special or "B" special shares may be transferred without the prior approval of the trustees. In practice, all directors are chosen for their suitability to govern the company and protect the interests of all shareholders.

The ordinary shareholders are not entitled to participate in the appointment of directors, but in most other respects rank *pari passu* with the other shareholders. The transfer of ordinary shares must be approved by the board of directors.

Corporate governance As a private company, although not bound by the Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the London Stock Exchange in June 1998, the company has always sought to run its corporate affairs as if it were a publicly listed concern and therefore follows the Combined Code's recommendations as closely as is practicable and useful to shareholders. The directors' report, including the directors' report on remuneration which has been considered and approved by the board, describes how the company has applied these principles and has complied with the provisions of the Combined Code, with the following exceptions.

Given the calibre and experience of the non-executive directors, the board does not believe it is appropriate to identify a senior independent director. The long-term incentive plan was introduced before the Combined Code was published and was not put to the shareholders in general meeting for approval. The 24 months' notice period in the chief executive's contract is longer than the period of 12 months recommended in the Combined Code. The executive directors' contracts of employment do not explicitly provide for compensation commitments in the event of early termination. Some AGM procedures do not comply. In view of the company's unique capital structure which, as explained above, gives the "A" special and "B" special shareholders the right to appoint directors by direct vote, the directors do not stand for re-election.

Board The board currently comprises six non-executive directors and four executive directors. The non-executive directors are all independent of the group and have a breadth of successful commercial and professional experience. The board has been chaired since July 1994 by Sir Dominic Cadbury and has met for regular business six times in the 12 months to March 31st 2000. The board also convenes at other times on an ad hoc basis or in committee when events warrant. It is responsible for the overall direction and strategy of the group and for securing the optimum performance from the group's assets. It also exercises control by determining matters specifically reserved for it in a formal schedule which only the board may change. The board has regular reviews of matters undertaken by management under delegated authority. The company's Articles of Association require the board to obtain the consent of the trustees for some actions.

Board Committees The audit committee is made up of three non-executive directors and is chaired by John Gardiner. The committee meets not less than twice a year and assists the board in ensuring that the published financial statements give a true and fair view of the business and in securing reliable internal financial information. The committee is responsible for reviewing the suitability and effectiveness of the group's internal financial controls, the work programme and findings of both internal and external auditors and key accounting policies and judgements.

The remuneration committee is made up of three non-executive directors. It is chaired by Sir Dominic Cadbury and is responsible for remuneration policy (including policies on profit-sharing, incentive and pension schemes) and for nominations for the appointment of new directors. In order to comply with the Combined Code, Helen Alexander as chief executive resigned from the committee on November 23rd 1999.

Internal control The board is responsible for the company's systems of internal control. Following publication of guidance from the Turnbull Committee, the board has begun a formal review of the effectiveness of the company's internal controls and is introducing formal risk management procedures embedded within the businesses. The company plans to comply substantially with the recommendations of the Turnbull Committee by the end of the 2000/01 financial year.

For this report, the company has adopted the transitional approach to Section D2 of the combined code and is reporting only in respect of the systems of internal financial control. These have been designed to provide the board with reasonable assurance that it can rely on the accuracy and reliability of the financial records, and its effectiveness has been reviewed by the board. The control system includes the following key features.

- A comprehensive budgeting system which includes an annual business plan approved by the board. Monthly actual results are reported against the annual business plan and revised forecasts for the year are prepared at least three times a year. The company reports to shareholders at least twice a year.

- Financial policies and procedures are set out in a formal manual which is held by all senior managers and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with the manual's content and application.

• Formal written treasury procedures, set out in the above manual, are in operation covering banking arrangements, hedging instruments, investments of cash balances and borrowing procedures. These procedures include staff responsibilities, segregation of duties and levels of delegated authority in relation to treasury matters.

• The company has an operational audit function, which reports to the finance director but also has direct access to the chairman of the audit committee. The operational auditor attends all audit committee meetings and makes formal reports to the committee.

• The company has clearly defined guidelines for the review and approval of capital and development expenditure projects, which include annual budgets, project appraisals and designated levels of authority.

Employment policies The group recognises it is essential to keep employees informed of the progress of its business. Employees are provided with information on the group's activities and on factors relating to the financial and economic performance of the company. The group is committed to equality of opportunity in all employment practices and policies. No employee or potential employee will receive unfavourable treatment on the grounds of colour, race, creed, ethnic or national origin, disability, gender, marital status or sexual orientation. The group is also committed to the continuous improvement of employees' performance and careers by developing their skills and expertise through training and development; to encourage performance it operates a number of incentive schemes as described in the directors' report on remuneration on page 33.

Payment of suppliers The company aims to pay all of its suppliers within a reasonable period of their invoices being received and within any contractually agreed payment period, provided that the supplier also complies with all relevant terms and conditions. Subsidiary companies are responsible for agreeing the terms and conditions on which they trade with their suppliers. It is the company's aim to comply with best practice in this area as specified by the CBI's "Better Payment Practice Code".

Year 2000 The company took very seriously the potential problems for information technology systems arising from the year 2000, having set up a group-wide Year 2000 compliance project in 1997. In the event the group experienced no serious problems over the millennium period, although it is continuing to monitor other vulnerable dates during 2000. Total expenditure of approximately £200,000 was incurred in the year directly on this issue.

Annual general meeting The notice convening the annual general meeting to be held at 12.15 pm on Tuesday, July 4th 2000, can be found on page 59.

Auditors A resolution to reappoint Pricewaterhouse-Coopers as auditors of the company, and a further resolution to authorise the directors to fix their remuneration, will be proposed at the annual general meeting.

Directors' statement of responsibilities The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended March 31st 2000. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have reviewed the group's annual business plan for the coming year and the medium-term plans to March 2003. After taking into account the cash flow implications of the plans, and after comparing these with the group's committed borrowing facilities and projected gearing ratios, the directors are satisfied that it is appropriate to produce the accounts on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board
A E Wales
SECRETARY
June 6th 2000

AEWales.

Directors' report on remuneration

The committee The remuneration committee of the board is made up of three non-executive directors and has been chaired throughout the year by Sir Dominic Cadbury. The quorum necessary for the transaction of business is two members. The committee is responsible for the remuneration policy for senior executives of the group, the policy and structure of incentive schemes and guidelines for pension programmes. It also acts as a nominations committee for the appointment of new directors. In determining remuneration, the committee follows a policy designed to attract, retain and motivate high-calibre executives, aligned with the interests of shareholders. Until November 23rd 1999 Helen Alexander as chief executive was a member of the committee but she resigned at that date in order to comply with the Combined Code which recommends that all the members of a remuneration committee should be non-executive.

Profit-sharing and incentive plans The group operated five separate profit-sharing and bonus plans during the year, providing performance-based incentives for executive directors and employees.

i) The group profit-sharing plan covered all permanent employees unless they were excluded by their participation in a separate scheme. All eligible employees received a share of the group's profit before tax distributed in proportion to salary.

ii) Eligible employees also received incentive payments from business unit plans in which rewards were linked, either singly or in combination, to improvements in key areas of the business or achievement of objectives which they could influence directly.

iii) Performance units equivalent to the value of ordinary shares were awarded under the long-term incentive plan to certain group employees, including executive directors, who participate at the discretion of the remuneration committee. After three years, participants will receive a payment reflecting the total shareholder return on the company's ordinary shares over the period. The scheme provides that no payments will be made unless the group exceeds 50% or more of the average performance of London listed media companies. The amount of the release will depend on the extent to which performance exceeds this average.

In order to maintain competitive incentive packages, the remuneration committee has exercised its discretion under the scheme's rules to set aside the earnings per share hurdle for awards granted for the years ended March 31st 1999, 2000 and 2001.

iv) The senior executive bonus scheme covered the executive directors and certain senior executives, who participated at the discretion of the remuneration committee. It provided for (a) annual payments equivalent to a 2% of basic salary for every 1% of growth in the earnings per share of the company above the higher of the earnings per share over the two preceding years, subject to achieving a minimum threshold of compound growth equivalent to inflation; and (b) annual payments linked to the achievement of objectives for the participants' own business areas. Prior to the amount of such cash payments being determined, the participants were given the option to request that they take part of their award in the form of a discretionary award of notional shares, which could only be encashed three years later. Participants who received notional shares were awarded one extra performance unit under the long-term incentive plan for every three notional shares awarded under the senior executive bonus scheme.

v) In addition to the above schemes, some employees uncashed participation units in the shadow share scheme (which has been discontinued and replaced by the long-term incentive plan). The units were awarded to executive directors and senior managers at the discretion of the remuneration committee, could be encashed partially after a minimum of three years and must be encashed after six years. At encashment, the participant receives a cash payment reflecting whatever increase in the value of the company's ordinary shares has occurred since the date of the initial award, provided that earnings per share have increased by at least 10% per year compound during the period. As for the long-term incentive plan, in order to maintain competitive incentive packages, the remuneration committee has exercised its discretion under the scheme's rules to set aside the earnings per share hurdle for the remaining uncashed participation units. Participation units in the shadow share scheme will remain in being, unless the participants choose to encash them earlier, until 2004.

Directors' interests The interests of the directors in the share capital of the company, as recorded in the register of directors' interests at the year-end and including holdings in the name of a spouse, are shown in the table opposite.

Directors' remuneration The remuneration and benefits of all directors who served for all or part of the year ended March 31st 2000 (and paid for the period during which he or she was a director) is shown in the table opposite. Non-executive directors do not participate in any bonus scheme or the long-term incentive plan or any of the company's pension plans.

Directors' accrued pensions The pensions which would be paid annually on retirement at age 60 based on service with the company to March 31st 2000 are shown opposite. The table does not include any additional voluntary contributions or any resulting benefits.

Beneficial holdings	2000 "A" Special	2000 Ordinary	1999 "A" Special	1999 Ordinary
Sir Dominic Cadbury	–	–	–	2,030
Helen Alexander	25,785	–	25,785	–
Bill Emmott	25,780	–	25,780	–
David Hanger	25,780	3,000	25,780	3,000
Kiran Malik	1,000	2,500	1,000	500
George Bain	–	1,000	–	1,000
John Gardiner	–	1,000	–	1,000
Peter Wood	–	1,000	–	1,000
Philip Mengel	–	1,000	–	–
Lord Stevenson	–	1,000	–	–
Holding as trustee				
Sir Dominic Cadbury	5,600	50,360	5,600	50,360

Sir Dominic Cadbury is also a director of a family company which holds 134,000 ordinary shares, in which he has no beneficial interest.

	Salary / Fees		Bonus		Shadow shares encashment		Benefits		Total	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
Helen Alexander	215	195	–	46	–	456	20	20	235	717
Bill Emmott	186	168	14	50	369	548	17	17	586	783
David Hanger	150	140	12	40	–	456	14	15	176	651
Kiran Malik	155	132	12	40	–	–	12	12	179	184
Sir Dominic Cadbury	37	35	–	–	–	–	–	–	37	35
Sir Peter Gibbings	3	18	–	–	–	–	–	–	3	18
George Bain	18	18	–	–	–	–	–	–	18	18
John Gardiner	18	17	–	–	–	–	–	–	18	17
Philip Mengel	13	–	–	–	–	–	–	–	13	–
Lord Stevenson	18	12	–	–	–	–	–	–	18	12
Peter Wood	18	13	–	–	–	–	–	–	18	13
James Joll	9	18	–	–	–	–	–	–	9	18

The table does not include any uncashed or future entitlements under the shadow share scheme, the long-term incentive plan and the senior executive bonus scheme which are shown in other tables.

	Age at March 31st 2000	Accrued pension at March 31st 2000	Accrued pension at March 31st 1999	Increase
Helen Alexander	43	£57,589	£48,755	£8,834
Bill Emmott	43	£65,796	£56,751	£9,045
David Hanger	55	£84,598	£76,766	£7,832
Kiran Malik	49	£7,619	£3,929	£3,690

Under The Economist Group UK Pension Scheme, which all permanent UK employees are eligible to join, the executive directors are entitled to pensions which are the greater of defined contributions or defined benefits based on 1/56 of final base salary for each year of pensionable service at normal retirement age of 60. Under the scheme they are eligible for dependants' pensions and life insurance benefits. Until June 1999 the provision of the cost of benefits accruing was matched by amortisation of the surplus under SSAP 24 rules and no company contributions were made to the fund. From July 1999 company contributions have been made at the rate of 14% of pensionable salaries.

Directors' interests in shadow shares The executive directors hold the following uncashed shadow shares, which were granted in the following years.

	March 1995	June 1996	June 1997	Total
Helen Alexander	5,000	5,000	30,000	40,000
Bill Emmott	–	5,000	–	5,000
David Hanger	5,000	5,000	10,000	20,000
Kiran Malik	–	–	25,000	25,000
Base value	£5.00	£8.50	£10.50	

Directors' interests under the long-term incentive plan The executive directors hold the following performance units under the long-term incentive plan. Each unit represents an investment in an ordinary share at its current valuation at the end of the year.

	2000		1999	
	Performance units	Value £	Performance units	Value £
Helen Alexander	15,759.45	£281,485	8,691.33	£121,679
Bill Emmott	13,570.03	£242,372	7,487.92	£104,831
David Hanger	11,176.87	£199,477	6,239.93	£87,359
Kiran Malik	10,808.78	£193,220	5,883.36	£82,367

Directors' interests in notional shares under the senior executive bonus scheme The executive directors have been awarded the following notional shares (and corresponding performance units under the long-term incentive plan) under the senior executive bonus scheme.

	2000			
	Notional shares	Value £	Performance units	Value £
Helen Alexander	1232.90	£23,425	410.97	£7,808
Bill Emmott	–	–	–	–
David Hanger	394.45	£7,495	131.48	£2,498
Kiran Malik	368.18	£6,995	122.73	£2,332

	1999			
	Notional shares	Value £	Performance units	Value £
Helen Alexander	1201.68	£19,527	400.56	£6,509
Bill Emmott	–	–	–	–
David Hanger	345.10	£5,608	115.03	£1,809
Kiran Malik	216.92	£3,525	72.31	£1,175

Auditors' report

Auditors' report to the members of The Economist Newspaper Limited
We have audited the financial statements on pages 38-58, which have been prepared under the historic cost convention and the accounting policies set out on page 42.

Respective responsibilities of directors and auditors The directors are responsible for preparing the annual report. As described on page 32, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We also, at the request of the directors (because the company applies the Listing Rules of the Financial Services Authority as if it is a listed company), review whether the statement on pages 30-32 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at March 31st 2000 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
London
June 6th 2000

Consolidated profit and loss account

years ended March 31st

NOTE		2000 £000	1999 £000
1 2	Turnover	233,675	212,559
	Cost of sales	(78,899)	(75,018)
	Gross operating profit	154,776	137,541
	Distribution costs	(20,698)	(19,799)
	Marketing, development and other administrative costs	(105,642)	(85,169)
	Operating profit before exceptionals	28,436	32,573
3	Exceptional items	(82,728)	–
	Operating (loss)/profit	(54,292)	32,573
1	Profit/(loss) on sale/closure of businesses	1,313	(641)
	(Loss)/profit on ordinary activities before interest	(52,979)	31,932
4	Interest receivable and other income	2,138	1,627
5	Interest payable and other charges	(1,277)	(1,414)
1, 6	(Loss)/profit on ordinary activities before taxation	(52,118)	32,145
9	Taxation on (loss)/profit on ordinary activities	(10,940)	(8,697)
	(Loss)/profit on ordinary activities after taxation	(63,058)	23,448
10	Dividends	(10,080)	(9,450)
24	Retained (loss)/profit	(73,138)	13,998
11	Basic and diluted (loss)/earnings per share (pence)	(251.5)	93.4
11	(Loss)/earnings per share (pence) – old basis	(250.2)	93.0
11	Earnings per share (pence) before exceptional items and disposal	78.5	95.6
10	Dividends per share (pence)	40.0	37.5
	Dividend cover (times) before exceptional items and disposal	2.0	2.5

The results detailed above relate to continuing operations. Discontinued operations are not material.

Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Retained (loss)/profit (as above)	(73,138)	13,998
Goodwill transferred to profit and loss account	72,088	-
Goodwill charged to profit and loss account on disposal in year	425	680
Exchange translation differences arising on consolidation	317	180
Net (reduction)/addition to shareholders' funds	(308)	14,858
Opening shareholders' funds	2,251	(12,607)
Closing shareholders' funds	1,943	2,251

Balance sheets at March 31st

NOTE	Fixed assets	GROUP 2000 £000	GROUP 1999 £000	COMPANY 2000 £000	COMPANY 1999 £000
13	Tangible assets	36,038	35,811	6,691	6,337
14	Investments	–	–	75,977	75,977
		36,038	35,811	82,668	82,314
	Current assets				
15	Stocks and work-in-progress	3,140	2,438	1,040	1,045
16	Debtors: due after one year	–	–	11,700	11,700
16	Debtors: due within one year	52,695	46,467	34,158	26,479
17	Investments	1,468	1,997	–	–
18	Cash and deposits	42,383	34,852	1,095	913
		99,686	85,754	47,993	40,137
19	Creditors: due within one year	(60,686)	(52,929)	(68,340)	(51,489)
20	Unexpired subscriptions	(50,825)	(47,394)	(12,833)	(12,626)
	Net current liabilities	(11,825)	(14,569)	(33,180)	(23,978)
	Total assets less current liabilities	24,213	21,242	49,488	58,336
21	Creditors: due after one year	(4,548)	(4,548)	(4,548)	(4,548)
22	Provisions for liabilities and charges	(17,722)	(14,443)	(10,808)	(10,440)
1 2	Net assets	1,943	2,251	34,132	43,348
	Capital and reserves				
23	Called up share capital	1,260	1,260	1,260	1,260
24	Profit and loss account	683	991	32,872	42,088
	Equity shareholders' funds	1,943	2,251	34,132	43,348

JUNE 6TH 2000
DOMINIC CADBURY
KIRAN MALIK
DIRECTORS

Consolidated cash flow statement

years ended March 31st

NOTE		2000 £000	1999 £000
18	Net cash inflow from operating activities	38,106	27,924
	Returns on investments and servicing of finance		
	Interest received	2,165	1,946
	Interest paid	(1,315)	(1,685)
		850	261
	Taxation		
	UK corporation tax paid	(5,547)	(7,180)
	Overseas tax paid	(7,409)	(1,060)
	Taxation paid	(12,956)	(8,240)
	Capital expenditure and financial investment		
	Sale of tangible fixed assets	193	63
	Purchase of tangible fixed assets	(7,047)	(6,363)
		(6,854)	(6,300)
	Acquisitions and disposals		
	Sale of businesses	2,271	–
	Closure of businesses	–	(362)
		2,271	(362)
	Equity dividends paid	(9,652)	(8,820)
	Cash inflow before use of liquid resources and financing	11,765	4,463
18	Management of liquid resources		
	Sale/(purchase) of current asset investments	529	(1,985)
	Cash placed on short term deposits	(6,769)	(8,875)
		(6,240)	(10,860)
18	Financing		
	Loans taken out during year	–	19,200
	Repayments of amounts borrowed	(5,200)	(18,500)
		(5,200)	700
18	Increase/(decrease) in cash	325	(5,697)

Reconciliation of net cash flow to movement in net funds/(debt)		
Increase/(decrease) in cash in the year	325	(5,697)
Cash outflow from increase in liquid resources	6,240	10,860
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	5,200	(700)
Change in net funds resulting from cashflows	11,765	4,463
Exchange translation differences	437	1,130
Movement in net funds in the year	12,202	5,593
Net funds at April 1st	19,601	14,008
Net funds at March 31st	31,803	19,601

Statement of total recognised gains and losses

years ended March 31st

	2000 £000	1999 £000
(Loss)/profit after taxation for the financial year	(63,058)	23,448
Exchange translation differences arising on foreign currency net investments	317	180
Total recognised gains and losses	(62,741)	23,628

The total recognised losses of £62,741,000 above includes £72,513,000 (1999: £680,000) of goodwill write-offs included in the profit and loss account which have been added back from reserves (see page 38).

Note of historical cost profits and losses

As the financial statements are based on the historical cost convention, no separate statement of historical cost profits and losses is necessary

Principal accounting policies

A summary of the more important group accounting policies, which have been applied consistently, is set out below.

Basis of accounting The financial statements are based on the historical cost convention and in accordance with applicable accounting standards.

Turnover Turnover represents sales to third parties excluding value-added tax, other sales taxes and trade discounts.

Basis of consolidation The consolidated accounts include the accounts of all subsidiary undertakings made up to March 31st. As permitted by section 230 of the Companies Act 1985, the company's own profit and loss account is not presented. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are charged to the post-acquisition profit and loss account.

Foreign currencies Balance sheets have been translated into sterling at the rates of exchange ruling at the balance sheet date or, if appropriate, by reference to the rates of exchange fixed under the terms of related or matching foreign exchange contracts. Exchange differences arising on the retranslation of borrowings taken out to finance overseas investments are taken to reserves, together with any related tax effects. All other exchange differences are included in the profit and loss account. Profit and loss accounts are translated into sterling at the average rate for the year. Exchange differences arising from the retranslation of the opening net investments and results for the year to closing rates are recorded as movements on reserves.

Goodwill Prior to April 1st 1998, purchased goodwill and goodwill arising on consolidation was written-off to reserves in the year in which it arose. From April 1st 1998, the provisions of FRS 10 "Goodwill and Intangible Assets" have been adopted and such goodwill for new acquisitions is now required to be shown as an asset on the balance sheet and amortised over its useful economic life. In the two years since the introduction of the standard there has been no impact on group results as no new goodwill has been acquired.

Where there has been an indication of impairment of goodwill, it is the group's policy to review its carrying value. Impairments are calculated in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". In the case of goodwill previously written off directly against reserves, the impaired amounts are written back from reserves and then written off against the profit and loss.

Stocks and work-in-progress Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost includes all direct expenditure. Work in progress comprises third-party and editorial costs.

Operating leases Costs in respect of operating leases are charged on a straight-line basis over the lease term. Rental income is recognised on a straight-line basis over the lease term.

Investments Investments held as fixed assets are included at cost, less provisions for diminution in value. Investments held as current assets are shown at the lower of cost and market value.

Deferred taxation Deferred taxation is provided under the liability method in respect of all timing differences where, in the opinion of the directors, it is probable that a liability or asset will crystallise.

Retirement benefits The regular pension cost of the group's defined benefit pension schemes is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the schemes. Variations arising from periodic reviews of the schemes are apportioned over the expected service lives of current employees in the schemes. The estimated cost of providing post-retirement medical benefits is charged against profits on a systematic basis over these employees' working lives within the group.

New accounting standards Financial Reporting Standards 15 (Tangible Fixed Assets) and 16 (Current Tax) became effective during the year ended March 31st 2000. Neither has had any material impact on these financial statements.

Financial instruments policy The group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate derivatives are accrued with net interest payable over the period of the contract. The group enters into forward currency and option contracts to hedge currency exposures. Losses or realised gains arising from the closing of contracts and by matching open contracts to monetary assets and liabilities are included within the trading results of the period. Other gains or losses on open contracts are deferred.

Depreciation The principal depreciation methods are as follows.

Asset type	Depreciation method	Depreciation rate per year
Freehold land	Not depreciated	Nil
Freehold buildings	Straight line basis	2%
Long leasehold property	Sinking fund basis	Interest rate of 4%
Short leasehold property	Straight line basis	Duration of lease
Plant and machinery	Straight line basis	10% to 33%
Equipment	Straight line basis	14%
Motor vehicles	Straight line basis	25%
Major software systems	Straight line basis from date of first use	20%

Notes to the financial statements

NOTE 1 **Analysis of results by class of business**

Turnover by business	2000 Total sales £000	2000 Inter-business sales £000	2000 Sales to third parties £000	1999 Total sales £000	1999 Inter-business sales £000	1999 Sales to third parties £000
The Economist newspaper	118,059	–	118,059	102,153	–	102,153
The Economist Intelligence Unit	45,004	–	45,004	44,376	–	44,376
Brand businesses	12,159	(1,569)	10,590	11,953	(1,699)	10,254
Specialist magazines	30,972	–	30,972	25,006	–	25,006
The Journal of Commerce	26,877	–	26,877	28,612	–	28,612
Property	5,651	(3,478)	2,173	5,213	(3,055)	2,158
	238,722	(5,047)	233,675	217,313	(4,754)	212,559

Operating profit before exceptionals	2000 £000	1999 £000
The Economist newspaper	26,036	22,631
The Economist Intelligence Unit	480	3,594
Brand businesses	1,496	2,416
Specialist magazines	5,242	3,391
The Journal of Commerce	(876)	1,544
Property	1,937	1,851
Profit contribution from businesses	**34,315**	**35,427**
Development and other expenditure	(5,879)	(2,854)
	28,436	32,573

Development and other expenditure comprises the costs of the Economist Group Information System (EGIS) and supporting technical staff, and our group strategy and development activities. The increase in costs in the current year is due primarily to a full year of costs for EGIS for the first time and increased expenditure on group strategy.

The reconciliation of operating profit before exceptionals to (loss)/profit before taxation is on the face of the profit and loss account. The detail of exceptionals is set out in note 3.

The comparatives have been reclassified for comparability with the current year.

Profit/(loss) on sale/closure of businesses	2000 £000	1999 £000
Sale of *Treasury & Risk Management*	1,609	
Sale of *OWR* within EIU	150	
Closure of Financial Services within EIU	(85)	
Closure of Healthcare within EIU	(161)	
Closure of Automotive within EIU	(200)	
Sale of Transax within the Journal of Commerce	–	(33)
Closure of Infrastructure Development Group within EIU	–	(384)
Closure of *Information Strategy* within specialist magazines	–	(224)
	1,313	(641)

The sale of *Treasury & Risk Management* in 2000 includes goodwill of £425,000. The closure cost of Infrastructure Development Group in 1999 includes goodwill of £680,000 partially offset by £401,000 of deferred consideration no longer payable.

Net assets/(liabilities)	2000 £000	1999 £000
The Economist newspaper	3,275	(7,594)
The Economist Intelligence Unit	(4,587)	(5,290)
Brand businesses	1,568	232
Specialist magazines	12,704	5,059
The Journal of Commerce	11,392	12,518
Property	21,658	22,305
Bank loans	(12,048)	(17,248)
Development and other expenditure	(32,019)	(7,731)
	1,943	2,251

Profits are paid as dividends by the trading subsidiaries to the parent company, which is included in the development and other expenditure category. The Economist Intelligence Unit has net liabilities mainly because the value of unexpired subscriptions exceeds the other net assets retained in this business.

NOTE ❷ Analysis of results by geographical region

Turnover by customer location	2000 £000	1999 £000
United Kingdom	49,598	45,989
Continental Europe	42,665	38,659
North America	114,908	103,222
Asia-Pacific	22,021	20,101
Other	4,483	4,588
	233,675	212,559

	2000			1999		
Turnover by origin of legal entity	Total sales £000	Inter-region sales £000	Sales to third parties £000	Total sales £000	Inter-region sales £000	Sales to third parties £000
United Kingdom	129,636	(17,046)	112,590	119,027	(16,166)	102,861
North America	113,230	–	113,230	102,733	(177)	102,556
Asia-Pacific	9,950	(2,095)	7,855	8,885	(1,743)	7,142
	252,816	(19,141)	233,675	230,645	(18,086)	212,559

The comparatives have been reclassified for comparability with the current year.

(Loss)/profit before taxation by origin of legal entity	2000 £000	1999 £000
United Kingdom	8,149	16,640
North America – excluding goodwill	8,477	16,406
North America – goodwill	(72,018)	–
Asia-Pacific	(665)	(787)
Other	3,939	(114)
	(52,118)	32,145

Net assets/(liabilities) by origin of legal entity	2000 £000	1999 £000
United Kingdom	(30,864)	(24,523)
North America	32,167	23,197
Asia-Pacific	(1,430)	1,809
Other	2,070	1,768
	1,943	2,251

NOTE 3 Exceptional items

£72.1m of the £82.7m exceptional item represents the charging against profit of impairment adjustments related to goodwill previously written-off against reserves. The charge was triggered by the group strategy review and a subsequent impairment review in accordance with FRS11 and has no net effect on cash or reserves. Of the balance, £3.6m represents provisions for reorganisation costs in The Journal of Commerce, and £7.0m relates to the tightening of accounting bases associated with the introduction of new systems.

After taking into account the above exceptional items, "Marketing, development and other administrative costs" for the year are £188.4m (1999: £85.2m).

NOTE 4 Interest receivable and other income

	2000 £000	1999 £000
On current asset investments and cash deposits	2,138	1,627

NOTE 5 Interest payable and other charges

	2000 £000	1999 £000
On bank overdrafts and loans repayable within five years	1,277	1,414

NOTE 6 **(Loss)/profit on ordinary activities before taxation**

(Loss)/profit is stated after charging/(crediting) the following:	2000 £000	1999 £000
Directors' emoluments: Fees to non-executive directors	134	147
Executive directors: Base salaries	706	635
Senior executive bonus schemes	38	176
Amounts payable and paid under the shadow share scheme	369	1,460
Other benefits	63	64
Total directors' emoluments	1,310	2,482
Auditors' remuneration:		
Audit (company £61,900 : 1999 £61,900)	195	195
Non-audit services provided by the auditors in the United Kingdom	297	326
Operating lease rentals:		
Plant and equipment	753	632
Land and buildings	7,028	6,568
Depreciation		
Tangible fixed assets	6,762	4,234
(Profit)/loss on disposal of tangible assets	(70)	13

NOTE 7 **Directors' emoluments**

The details of directors' emoluments are on page 35 within the directors' report on remuneration.

NOTE 8 **Employees**

Average number of employees, including executive directors by business activity was as follows:	2000	1999
The Economist newspaper	250	243
The Economist Intelligence Unit	348	330
The Journal of Commerce	357	383
Other publishing activities	208	217
Property and other activities	216	169
	1,379	1,342

Employment costs including executive directors' emoluments:	£000	£000
Wages and salaries	50,363	43,986
Employees' incentive schemes	11,060	6,726
	61,423	50,712
Social security costs	4,567	3,818
Other pension costs	3,177	3,084
	69,167	57,614

The directors' and employees' profit share and incentive schemes are described in the directors' report on remuneration. The employees' incentive scheme costs and provisions for the long-term incentive plans are included within marketing, development and other administrative costs.

The £4.3m increase in employees' incentive scheme cost is due to a £3.4m increase in payouts from business unit incentive schemes (mainly *The Economist* newspaper with £2.5m), a £1.3m increase in accounting provisions for long-term incentive schemes (due to the 17% increase in share price, and a second year's provision for the three-year LTIP scheme), less reductions in senior executive and group profit-related bonus schemes (because of lower earnings).

NOTE 9 Taxation

The taxation charge based on the results for the year is made up as follows:	2000 £000	1999 £000
UK corporation tax at 30% (1999: 31%)	6,503	6,256
Deferred taxation	(693)	61
Overseas taxation	3,423	2,694
	9,233	9,011
Adjustments in respect of previous years: Corporation tax	1,329	309
Deferred taxation	(583)	(786)
Overseas taxation	961	163
	10,940	8,697

The overseas taxation charge has continued to benefit from the allowance for tax purposes in the US for the amortisation of goodwill.

NOTE 10 Dividends

	2000 £000	1999 £000
Interim dividend of 11.3p per share (1999 : 10.5p per share)	2,848	2,646
Proposed final dividend of 28.7p per share (1999 : 27p per share)	7,232	6,804
	10,080	9,450

All shareholders other than trust shareholders (see note 23) receive the above dividend per share.

NOTE 11 (Loss)/earnings per share

	2000			1999		
	Earnings £000	Weighted average number of shares £000	(Loss)/ earnings per share pence	Earnings £000s	Weighted average number of shares £000	(Loss)/ earnings per share pence
Earnings per share before exceptional items (pence)	19,674	25,070	78.5	24,000	25,105	95.6
Adjustment in respect of exceptional items – operating exceptional items	(82,728)	25,070	(330.0)	–	–	–
– profit/(loss) on sale/closure of businesses	1,313	25,070	5.2	(641)	25,105	(2.6)
–attributable taxation	(1,317)	25,070	(5.3)	89	25,105	0.4
Basic and diluted (loss)/earnings per share (pence)	(63,058)	25,070	(251.5)	23,448	25,105	93.4

Basic and diluted (loss)/earnings per share are based on a loss of £63,058,000 (1999 : earnings of £23,448,000) and the 25,200,000 ordinary and special shares in issue (1999: 25,200,000), less those held by the employee share ownership plan (ESOP) being101,408 shares (1999:142,634), resulting in a weighted average number of shares of 25,070,000 (1999: 25,105,000). (Loss)/earnings per share – old basis, is based on the number of ordinary and special shares in issue unadjusted for the ESOP holding. This is used in the calculation of certain incentive schemes. Earnings per share before exceptional items and disposals are based on a profit of £19,674,000 (1999 : £24,000,000) which excludes exceptional items and profit/loss on sale/closure of businesses. The directors have chosen this year to adopt an additional measure, "Earnings per share before exceptional items and disposals", as they believe this to be a more meaningful measure of performance.

NOTE ⓬ **Financial instruments**

As permitted under FRS13, short-term debtors and creditors which arise directly from the Group's operations have been excluded from all the following disclosures, other than currency risk disclosures.

Interest rate risk of financial assets

Interest rate and currency risk profile of financial assets as at March 31st 2000 is as follows:

	Cash at bank and in hand £000	Short-term deposits £000	Other financial assets £000	Total £000
US dollar	777	39,292	–	40,069
Sterling	(609)	1,012	1,468	1,871
Other currencies	230	1,681	–	1,911
	398	41,985	1,468	43,851
Floating rate	–	41,985	–	41,985
No interest paid	398	–	1,468	1,866
	398	41,985	1,468	43,851

Interest rate and currency risk profile of financial assets at March 31st 1999 is as follows:

	Cash at bank and in hand £000	Short-term deposits £000	Other financial assets £000	Total £000
US dollar	314	33,197	–	33,511
Sterling	(928)	1,109	1,997	2,178
Other currencies	698	462	–	1,160
	84	34,768	1,997	36,849
Floating rate	–	34,768	–	34,768
No interest paid	84	–	1,997	2,081
	84	34,768	1,997	36,849

Floating rate cash and deposits earn interest based on relevant national LIBID equivalents. Other financial assets comprise shares in the employee share ownership plan (ESOP) which earn no interest.The weighted average period of maturity of cash at bank and in hand and short-term deposits is 43 days (1999 : 61 days). There is no contractual maturity period for the shares in the ESOP.

Maturity profile and interest rate risk of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at March 31st 2000 was as follows:

	GROUP		COMPANY	
Borrowings	2000 £000	1999 £000	2000 £000	1999 £000
Bank loans and overdrafts due within one year	7,500	12,700	11,748	14,881
Bank loans due between one and two years	4,548	4,548	4,548	4,548
	12,048	17,248	16,296	19,429

All borrowings are in sterling, are under unsecured committed borrowing facilities and bear variable rates of interest linked to sterling LIBOR.

In addition to the above, the group's provision of £324,000 (1999 : £393,000) for onerous leases (note 22) meets the definition of a financial liability. This financial liability is considered to be a floating rate financial liability as in establishing the provision the cashflows have been discounted and the discount rate reappraised twice a year. The maturity of the provision for onerous leases is that £123,000 (1999 : £147,000) matures within one year, £124,000 (1999 : £147,000) matures between one and two years, £44,000 (1999 : £99,000) matures between two and five years, and £33,000 (1999 : nil) matures after more than five years.

Borrowing facilities

The group has the following undrawn committed borrowing facilities available at March 31st 2000 in respect of which all conditions precedent have been met at that date:

	GROUP		COMPANY	
	2000 £000	1999 £000	2000 £000	1999 £000
Expiring within one year	11,918	40,170	11,918	40,170
Expiring between one and two years	4,870	–	4,870	–
Expiring in more than two years	–	4,742	–	4,742
	16,788	44,912	16,788	44,912

Borrowing facility arrangements are reviewed annually. All of the above committed borrowing facilities incur commitment fees at market rates.

Fair values of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and liabilities at March 31st. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed parties.

	2000 £000 Book value	2000 £000 Fair value	1999 £000 Book value	1999 £000 Fair value
Cash at bank and in hand	398	398	84	84
Short term deposits	41,985	41,985	34,768	34,768
Other financial assets	1,468	1,724	1,997	1,997
Borrowings	(12,048)	(12,048)	(17,248)	(17,248)
Other financial liabilities	(324)	(324)	(393)	(393)
Derivative financial instuments held as hedges	-	(395)	-	72
	31,479	31,340	19,208	19,280

The ESOP shares have been revalued at the valuation applying at March 31st to produce a fair value. The fair value of other categories approximates to the carrying value due to the short maturity periods of these financial instruments. The fair value of forward foreign currency contracts and options is based on the market price of comparable instruments at the balance sheet date.

Currency exposure

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of their assets and liabilities are taken to the profit and loss account of the group companies and the group.

	2000 £000 Net foreign monetary assets/(liabilities)			1999 £000 Net foreign monetary assets/(liabilities)		
Functional currency of entity	US dollar	Other	Total	US dollar	Other	Total
Sterling	4,717	11,572	16,289	4,637	(3,037)	1,600
US dollar	–	259	259	–	–	–
Other currencies	(404)	(544)	(948)	–	–	–
	4,313	11,287	15,600	4,637	(3,037)	1,600

Currency hedges

The table below shows the extent to which the group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as currency hedges at the beginning and end of the year. It also shows the amount of such gains and losses which are expected to be included in next year's or later profit and loss accounts.

	Gains £000	Unrecognised losses £000	Net gain/(loss) £000
Gains and losses on hedges at April 1st 1999	92	(20)	72
Arising in previous years and included in 1999/2000 income	(92)	20	(72)
Gains and losses on hedges arising in 1999/2000 and excluded from income	129	(524)	(395)
Gains and losses on hedges at March 31st 2000	129	(524)	(395)
of which: Gains and losses expected to be included in 2000/2001 income	101	(485)	(384)

Treasury policy

The objective of treasury policy is to identify, monitor and manage financial risks. These risks are related principally to movements in foreign exchange and interest rates and to the management of cash balances and the risk of insolvency of counterparties. Treasury policies are agreed by the board and implemented on a day-to-day basis by the treasury department in London. A treasury committee, which includes two executive directors and which meets monthly, provides guidance and acts as a monitor of treasury activities. The treasury department acts as a cost centre and not as a profit centre.

Liquidity and refinancing risk

The Economist Group has net funds of £31.8m. Cash is mainly held in the US in dollars and borrowings are mainly in sterling in the UK. Borrowings are made under three bank facilities available to the group. Two of these three facilities are short-term and expire shortly before the end of the 2000/01 financial year.

The fact that the group has a net cash balance at present means that liquidity and refinancing risks are at a low point; however, the group is conscious of the need to ensure continuity of funding and that financing has to allow for future ambitions. Current facilities are nonetheless considered to be adequate for the group at the present time.

Currency risk

The main currency exposure of business transactions relates to US dollar income from sales in the US. The foreign exchange risk on this and other smaller currency exposures is managed by the treasury department mainly through the use of forward foreign exchange contracts and options including forward extra options. Forward extra options guarantee a certain rate and allow the group to benefit from limited improvements in that rate . Should these improvements pass a certain level, the benefit is 'knocked out' and the group receives the agreed guaranteed rate. Forward extra options are bought without payment of a premium, the benefit being priced into the rate at which the guarantee is set.

Foreign exchange risk is only actively managed on currencies where the net exposure exceeds £1 million, currency equivalent, per year. At present this includes dollars and euros. The group's net position in euros is a short position as major printing and editorial expense is incurred in that currency.

The disposition of net cash balances between dollars and sterling is kept under constant review.

The group does not hedge the translation of overseas profits or assets into sterling.

Counterparty risk

Counterparty limits approved by the treasury committee and notified to the Board are used to manage the risk of loss on deposits.

Interest rate risk

The treasury department monitors the group's exposure to changes in interest rates. At present borrowings and deposits are at relatively low levels and no active hedging is being undertaken.

NOTE 13 Tangible fixed assets

GROUP	Freehold land and buildings £000	Leasehold land and buildings Long £000	Leasehold land and buildings Short £000	Plant and machinery £000	Equipment and motor vehicles £000	Total £000
Cost						
At April 1st 1999	3,635	29,438	2,969	15,082	18,288	69,412
Additions	–	5	850	1,561	4,630	7,046
Disposals	–	–	(2)	(359)	(1,427)	(1,788)
Transfers	–	–	(152)	(9,647)	9,799	–
Exchange translation differences	49	–	44	3	122	218
At March 31st 2000	3,684	29,443	3,709	6,640	31,412	74,888
Depreciation						
At April 1st 1999	2,190	7,224	1,519	8,862	13,806	33,601
Provided during year	85	752	385	1,060	4,480	6,762
Disposals	–	–	(2)	(346)	(1,304)	(1,652)
Transfers			(152)	(5,280)	5,432	–
Exchange translation differences	31	–	20	(1)	89	139
At March 31st 2000	2,306	7,976	1,770	4,295	22,503	38,850
Net book value March 31st 2000	**1,378**	21,467	**1,939**	2,345	8,909	36,038
Net book value April 1st 1999	1,445	22,214	1,450	6,220	4,482	35,811

COMPANY	Plant and machinery £000	Equipment and motor vehicles £000	Total £000
Cost			
At April 1st 1999	11,894	7,482	19,376
Additions	538	2,533	3,071
Disposals	(293)	(125)	(418)
Transfers	(8,359)	8,391	32
At March 31st 2000	3,780	18,281	22,061
Depreciation			
At April 1st 1999	7,445	5,594	13,039
Provided during year	292	2,325	2,617
Disposals	(293)	(25)	(318)
Transfers	(4,857)	4,889	32
At March 31st 2000	2,587	12,783	15,370
Net book value March 31st 2000	**1,193**	**5,498**	**6,691**
Net book value April 1st 1999	4,449	1,888	6,337

Some assets have been transferred into different categories in the year to ensure classifications are consistent across the group.

NOTE 14 Investments (fixed assets)

Cost	Shares in group companies £000
At April 1st 1999 and at March 31st 2000	75,977

The principal wholly owned subsidiary undertakings of the company are:

The Economist Intelligence Unit NA, Inc. (USA)
CFO Publishing Corporation (USA)
* The Economist Intelligence Unit Limited
The Economist Group (Asia/Pacific) Limited (Hong Kong)
The Economist Group (Jersey) Limited (Jersey)
The Economist Newspaper NA, Inc. (USA)
The Economist Newspaper Group, Inc. (USA)
Journal of Commerce, Inc. (USA)
Roll Call Associates Inc. (USA)
* Ryder Street Properties Limited
* Ryder Street Properties (Management) Limited
* Redhouse Press Limited
The Economist Intelligence Unit GesmbH (Austria)
The Economist Group (Luxembourg) S.a.r.l. (Luxembourg)
* The Economist Group Trustee Company Limited

These companies are engaged in publishing and related services and in the provision of business information except for Ryder Street Properties Limited and Ryder Street Properties (Management) Limited, which rent and let property, The Economist Group (Jersey) Limited and The Economist Group (Luxembourg) S.a.r.l., which act as investment companies for the group, and the Economist Group Trustee Company Limited, which is the trustee of the Employee Share Ownership Plan. All the companies above are incorporated and registered in England and Wales with the exception of those indicated. Redhouse Press Limited acts as an agent of the company and provides printing services.

The companies marked * are directly owned by The Economist Newspaper Limited; all other companies are owned through wholly-owned subsidiaries.

All subsidiaries, other than The Economist Group (Luxembourg) S.a.r.l., have a financial year ending March 31st. The Economist Group (Luxembourg) S.a.r.l. has a financial year end of the end of February.

NOTE 15 Stocks and work-in-progress

	GROUP		COMPANY	
	2000 £000	1999 £000	2000 £000	1999 £000
Raw materials	2,492	1,542	913	731
Work-in-progress	532	713	11	147
Finished goods	116	183	116	167
	3,140	2,438	1,040	1,045

Work-in-progress comprises third party and editorial costs.

NOTE 16 Debtors

	GROUP		COMPANY	
Debtors: due after one year	2000 £000	1999 £000	2000 £000	1999 £000
Amounts owed by group companies	–	–	11,700	11,700
Debtors: due within one year				
Trade debtors	36,829	33,144	15,191	13,870
Amounts owed by group companies	–	–	11,847	6,544
Other debtors	2,600	3,688	1,152	786
Prepayments and accrued income	11,745	9,561	5,967	5,279
Tax recoverable	1,521	74	1	–
	52,695	46,467	34,158	26,479

NOTE 17 Investments (current assets)

	GROUP		COMPANY	
	2000 £000	1999 £000	2000 £000	1999 £000
Own shares	1,468	1,997	–	–

Shares in The Economist Newspaper Limited (own shares) are held by the Employee Share Ownership Plan (ESOP).The ESOP acts as a market maker in shares of The Economist Newspaper Limited. Employees of the group can buy shares from the ESOP twice a year at the latest indicative share valuation and all shareholders can sell their shares to the ESOP. A subsidiary company, The Economist Group Trustee Company Limited ("trustee company"), controls the ESOP and handles all share transactions, but does not own the shares directly. All costs of both the trustee company and the ESOP are recorded within "Marketing, development and other administrative costs" in the profit and loss account. On March 31st 2000 the ESOP held 101,408 shares (1999: 142,634) with an indicative share valuation of £17 (1999:£14) each. The ESOP has not waived its entitlement to dividends on these shares and none of the shares is under option to employees or has been conditionally gifted to them.

NOTE 18 Notes to consolidated cash flow statement

(a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities	2000 £000	1999 £000
Operating (loss)/profit	(54,292)	32,573
Goodwill written off	72,088	–
Depreciation of tangible fixed assets	6,762	4,234
Profit/(loss) on sale of tangible fixed assets	(70)	13
Increase in stocks	(693)	(24)
Increase in debtors	(3,634)	(2,164)
Increase/(decrease) in creditors excluding unexpired subscriptions	11,535	(7,453)
Increase/(decrease) in unexpired subscriptions	3,132	(1,115)
Increase in provisions	3,278	1,860
Net cash inflow from operating activities	38,106	27,924

(b) Analysis of net funds	At April 1st 1999 £000	Cash flow £000	Exchange movement £000	At March 31st 2000 £000
Cash in hand	84	325	(11)	398
Cash placed on short-term deposits	34,768	6,769	448	41,985
	34,852	7,094	437	42,383
Debt due after one year	(4,548)	–	–	(4,548)
Debt due within one year	(12,700)	5,200	–	(7,500)
	(17,248)	5,200	–	(12,048)
Current asset investments	1,997	(529)	–	1,468
Net change in funds	19,601	11,765	437	31,803

NOTE 19 Creditors: Due within one year

	GROUP		COMPANY	
	2000 £000	1999 £000	2000 £000	1999 £000
Bank overdraft	–	–	4,248	2,181
Bank loans (see note 21)	7,500	12,700	7,500	12,700
Trade creditors	5,440	4,314	1,856	1,582
Amounts owed to group companies	–	–	24,130	14,183
Other creditors including taxation and social security	13,714	8,928	7,533	3,366
Accruals	26,800	20,183	15,773	10,673
Proposed dividend	7,232	6,804	7,300	6,804
	60,686	52,929	68,340	51,489

Other creditors including taxation and social security comprise:

Corporation tax	6,706	5,999	3,547	1,983
Other tax and social security payable	4,079	599	3,905	587
Other creditors	2,929	2,330	81	796
	13,714	8,928	7,533	3,366

Trade creditors as at March 31st 2000 for the group represented an average 15 days of purchases (1999 : 13 days).

NOTE 20 Unexpired subscriptions

	GROUP 2000 £000	GROUP 1999 £000	COMPANY 2000 £000	COMPANY 1999 £000
Unexpired subscriptions	50,825	47,394	12,833	12,626

Unexpired subscriptions represent the amount of subscription monies received in advance of supplying the publication or service, and therefore which remain a liability to the subscriber.

NOTE 21 Creditors: Due after one year

	GROUP 2000 £000	GROUP 1999 £000	COMPANY 2000 £000	COMPANY 1999 £000
Bank loans	4,548	4,548	4,548	4,548

The bank loans are with three banks. Two of these facilities end in February 2001 and March 2001 respectively, and so both have been included in creditors due within one year. The third ends in January 2002. The bank loans are unsecured, but are subject to intra-group guarantees.

NOTE 22 Provisions for liabilities and charges

GROUP	Provision for onerous leases £000	Provision for reorganisation costs £000	Provision for retirement benefits £000	Provisions for pensions defined benefit schemes £000	Total £000
At April 1st 1999	393	–	2,109	11,941	14,443
Charge to the profit and loss account	–	3,617	459	1,907	5,983
Reclassified from other creditors	68	–	178	–	246
Utilised in year	–	(1,019)	(70)	(1,663)	(2,752)
Released in year	(138)	–	(63)	–	(201)
Exchange differences	1	–	2	–	3
At March 31st 2000	324	2,598	2,615	12,185	17,722

COMPANY	Provision for retirement benefits £000	Provisions for pensions-defined benefit schemes £000	Total £000
At April 1st 1999	1,422	9,018	10,440
Charge to the profit and loss account	325	1,361	1,686
Utilised in year	(70)	(1,233)	(1,303)
Released in year	(15)	–	(15)
At March 31st 2000	1,662	9,146	10,808

	GROUP		COMPANY	
The amounts provided/(assets recognised) for deferred taxation under the liability method are:	2000 £000	1999 £000	2000 £000	1999 £000
Accelerated capital allowances	673	1,067	(153)	81
Pensions and post-retirement benefits	(4,269)	(4,255)	(3,139)	(3,035)
Other timing differences	(1,358)	(490)	(41)	(18)
	(4,954)	(3,678)	(3,333)	(2,972)

All potential liabilities/(assets) have been provided/(recognised) except for taxation which would arise on the remittance of profits retained overseas. Note 9 discloses the profit and loss account movement in the group's deferred taxation asset of £1,276,000. The year-end balances are included in prepayments and accrued income within note 16.

NOTE 23 Equity share capital

	Authorised		Issued and fully paid	
At March 31st 2000 and 1999	Number	£000	Number	£000
'A' special shares of 5p each	1,575,000	79	1,260,000	63
'B' special shares of 5p each	1,575,000	79	1,260,000	63
Ordinary shares of 5p each	36,850,000	1,842	22,680,000	1,134
Trust shares of 5p each	100	–	100	–
		2,000		1,260

FRS 4, "Capital Instruments" requires the group to provide a summary of the rights of each class of shares. This summary can be found in the directors' report on page 30. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

NOTE 24 **Reserves**

Profit and loss account	GROUP 2000 £000	GROUP 1999 £000	COMPANY 2000 £000	COMPANY 1999 £000
At April 1st	991	(13,867)	42,088	41,960
Retained (loss)/profit for the year	(73,138)	13,998	(9,216)	128
Goodwill written off	72,088	–	–	–
Goodwill charged to profit and loss account on disposal in year	425	680	–	–
Exchange translation differences arising on consolidation	317	180	–	–
At March 31st	683	991	32,872	42,088

The cumulative goodwill written off to profit and loss reserves by the group is £22.8m (1999: £95.3m) and mainly arises from the purchases of Business International in 1986, CFO Publishing Corporation in 1988, and Roll Call Inc in 1992 and 1993. Following the impairment review described in note 3, the group has written back from reserves and charged current profit with £72.1m for goodwill impairment principally relating to The Journal of Commerce.

NOTE 25 **Pensions**

	GROUP 2000 £000	GROUP 1999 £000
Increase in provision for defined benefit schemes	244	1,680
Funding of defined benefit schemes	1,663	–
Funding of other pension schemes	1,239	1,217
Cost for the year	3,146	2,897

The group operates pension plans for most of its employees throughout the world. The scheme for UK staff provides for the better of defined benefits or defined contributions. Both defined benefit and defined contribution schemes are operated for overseas staff. The assets of each scheme are held in separate trustee-administered funds with independent qualified actuaries or other professionals acting as advisers. Actuarial valuations are undertaken at regular intervals. The most recent actuarial valuations were at April 1st 1998 and established that the schemes were fully funded. Under the Minimum Funding Requirement, the level of funding for the principal UK scheme was 113% at that date. The surplus identified on valuation of the UK scheme in 1998 has been added to the unamortised balance of the surpluses previously identified in 1992 and 1995 and the net surplus is being written off over thirteen years as from April 1st 1998, being the average remaining service life of members. The company's contributions to the principal UK scheme recommenced in July 1999 at 14% of pensionable salaries. The market value of the scheme's assets at April 1st 1998 was £69m.

The actuarial valuation of pension liabilities was £61m and the other principal actuarial assumptions assume that, over the long term, the annual rate of investment return will exceed the long term rate of pensionable salary increases by 1.5%. The actuarial method used for the valuation is the projected unit credit method. The main overseas schemes are based on defined contributions; payments of £100,000 remain outstanding in respect of these schemes.

NOTE 26 **Retirement benefits**

The group provides post-retirement medical benefits to certain current and former employees. At March 31st 2000, four current employees and 81 retired employees were eligible to receive benefits.

As at March 31st 2000 the group estimated the present value of its accumulated post retirement benefit obligation to be £2.6m.

The principal assumptions used in estimating this obligation are a health care premium cost escalation of 10% per year and a discount rate to represent the time value of money of 6%. Actual premiums paid are being set against this provision, which is periodically being assessed for adequacy.

NOTE 27 **Financial commitments**

	GROUP		COMPANY	
Operating leases Land and buildings – leases expiring:	2000 £000	1999 £000	2000 £000	1999 £000
Within one year	1,191	196	30	110
Between two and five years	254	1,769	2,042	1,868
After five years	4,762	4,834	1,819	1,819
	6,207	6,799	3,891	3,797
Plant and equipment – leases expiring:				
Within one year	5	24	1	24
Between two and five years	303	344	273	235
	308	368	274	259

The comparatives have been reclassified for comparability with the current year.

NOTE 28 **Capital commitments and contingent liabilities**

	GROUP		COMPANY	
	2000 £000	1999 £000	2000 £000	1999 £000
Capital expenditure contracted for but not provided in the accounts	–	280	–	–

The company has guaranteed certain bank overdrafts and property leases of its subsidiaries and the bank overdraft of the group's Employee Share Ownership Plan trustee company, although there were no overdrafts as at March 31st 2000. The annual cost of property leases guaranteed by the company is currently £2.7m per year.

NOTE 29 **Related party transactions**

Significant shareholdings

The Financial Times Limited holds 50% of the issued share capital in the company and is entitled to appoint six out of the 13 places for directors on the company's board. The Financial Times Limited is a wholly owned subsidiary of Pearson plc. Parties associated with the Rothschild family own 22% of the issued share capital of the company.

Related party transactions

The group sold goods and services to Pearson plc and subsidiary companies to a total value of £392,865 in the normal course of trade during the year, and acquired goods and services to a total value of £137,155. The aggregate balances outstanding with these companies as at March 31st 2000 were £5,050 due to the group and £33 due from the group. The company had a loan from N.M. Rothschild & Sons Limited, for which it paid interest of £406,804 and commitment fees of £5,734 during the year. The outstanding balance of the loan was £nil as at March 31st 2000. In addition, the group places funds on deposit with N.M. Rothschild & Sons Limited. Interest received on these deposits was £148,280 during the year. The outstanding deposit was £3,011,239 as at March 31st 2000.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at 25 St James's Street, London SW1A 1HG on Tuesday the 4th day of July 2000 at 12.15 pm for the following purposes:

1 To receive the report of the directors for the year ended March 31st 2000.
2 To receive the audited accounts for the year ended March 31st 2000.
3 To declare the final dividend.
4 To reappoint PricewaterhouseCoopers as the company's auditors.
5 To authorise the directors to fix the remuneration of the auditors.

By order of the board

A E Wales
SECRETARY

REGISTERED OFFICE:
25 St James's Street
London SW1A 1HG

June 6th 2000

A member who is entitled to attend and vote may appoint a proxy, who need not be a member of the company, to attend and vote instead of him. A form of proxy is enclosed. It must be signed by the appointor and delivered to the registered office of the company at least 48 hours before the meeting.