The Economist Newspaper Limited and its subsidiary companies registered number 236383

Annual report

Report and accounts

From the chairman

LAST YEAR I promised that the single-minded focus of the Group would be on increasing profitability. I am delighted to report that this has been achieved. Once again the year has been a difficult one for media companies for whom business-to-business advertising is a major source of income.

The Economist Group has been affected by this downturn, with continuing revenues for the Group 8% lower than in the previous year. However, the Group has achieved a strong recovery. Profit before tax has increased to £20.9m from £14.8m last year and earnings per share have risen to 62.3p compared with 44.8p. Cash flow from operations is £17.7m higher and the Board is recommending a final dividend of 31.5p, making a total of 43.3p, which is an increase of 3.6%.

The strong improvement in operating profit has largely been achieved by relentless cost control. We have reduced costs in response to lower levels of activity and we continue to realise the benefits to efficiency of our investment in systems and skills. In parts of the business we are also experiencing the clear cost advantage of electronic distribution.

These measures have more than offset the weak advertising market and other external pressures on the business, notably the fall in the US dollar and the decline in the stockmarket, which has increased the funding deficit in the UK defined benefit pension plan. To address this the Group has increased its pension contribution rate from 19.7% to 26% from January 1st 2003 and taken an additional charge to the profit and loss account of £1.3m in the past year as part of a plan to reduce the potential shortfall.

The circulation of *The Economist* reached a new average weekly record of 882,832, an increase of 5.7%. The consistent sales growth of the newspaper is a remarkable success story. Economist.com has again increased its revenues. The Economist Intelligence Unit has effectively completed its transformation to an electronic business. Economist Enterprises has developed innovative new conference formats. The further international rollout of *CFO* has been successful, with *CFO China* continuing to grow its market presence. *Roll Call* has strengthened its position on Capitol Hill by adding a Wednesday issue. Across the Group we have completed a thorough risk assessment which has contributed to a strengthening of our business continuity plans.

The business climate has been and continues to be a difficult one for the Group. However, under Helen Alexander's leadership we have simplified our activities, reduced costs and improved financial controls. This year's results demonstrate that we are now much better placed to succeed in the new market conditions, while ensuring that the Group is well positioned to exploit future opportunities.

We remain committed to our strategy of owning and developing global media brands targeted at international business people and decision-makers. Our ability to produce outstanding editorial, our strong brands and our international presence and perspective provide us with a strong platform to exploit this strategy profitably.

I am delighted that Sir Robert Wilson has been appointed to become chairman after my retirement following the AGM. He brings great experience as the chairman and former CEO of Rio Tinto. I wish him, the Board and all Economist Group staff every success for the future.

Dominic Cadbury

Five-year summary

Profit and loss	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Turnover	192	227	272	234	213
Operating profit before exceptionals	23	15	21	28	32
Operating profit/(loss)	20	9	20	(54)	33
Non operating exceptional items	-	5	-	1	(1)
Profit/(loss) on ordinary activities before interest	20	14	20	(53)	32
Net interest	1	1	1	1	-
Profit/(loss) before taxation	21	15	21	(52)	32
Profit/(loss) after taxation	16	11	15	(63)	23

Balance sheet					
Fixed assets	28	30	39	37	38
Net cash balance	55	46	40	30	18
Net current assets/(liabilities)	3	(4)	(13)	(13)	(17)
Long-term creditors and provisions	(15)	(15)	(15)	(22)	(19)
Net assets	16	11	11	2	2

Ratios	2003	2002	2001	2000	1999
Operating profit (before exceptional items) to turnover	11.7%	6.6%	7.9%	12.2%	15.0%
Earnings per share (basic and diluted)	62.3p	44.8p	59.1p	(251.5)p	93.4p
Earnings per share before exceptional items and disposals	70.3p	40.5p	66.5p	78.5p	93.7p

Dividends and cash flow					
Dividend per share	43.3p	41.8p	41.8p	40.0p	37.5p
Times covered (excluding all exceptional items and disposals)	1.6	1.0	1.6	2.0	2.5
Net cash from operating activities (£m)	£29	£11	£31	£38	£28
Indicative share value	*£10.00	£16.00	£20.25	£19.00	£16.25

*As at March 31st 2003

From the chief executive

THE RECOVERY in profitability of The Economist Group in the face of a difficult advertising market has been strong. This is despite the fact that a weak economic environment has been compounded by corporate scandals, terrorism, the uncertainty around the war in Iraq and more recently by the onset of SARS in Asia.

Trading conditions have changed hugely over the past two years. From a period of tremendous growth we now see a more cautious attitude among many of our major customers. We have adapted our business accordingly.

First, the shape of the Group has changed. We are slimmer, but all our businesses continue to focus on delivering profits through our global media brands aimed at an audience of wealthy, influential and international decision-makers and business people. Secondly, everyone in the Group is conscious of the need to control costs, while looking to enhance earnings through collaboration and delivering new ideas.

At the end of March we had 967 people in the Group, compared with 1,031 the previous year. The response to the changes in the market has been excellent. I would like to thank everyone, including those who have left, for their tremendous efforts.

Our total costs were 21% lower than the previous year. Cost reductions were made throughout the business, but we have been particularly successful in reducing Group and shared service costs, which have declined by 18%, largely through improvements in efficiency.

We are unlocking considerable value through collaboration. We now have 240,000 customers who buy or use products from more than one business unit.

The investments that we have made over the past three years are now bearing fruit. The Group customer database is enabling cross-selling. Streamlined financial systems are reducing costs and improving efficiency. And Economist.com and CFO.com continue to improve their trading results.

The fundamentals of the Group remain strong. We remain committed to our values of independence, integrity and rigour, which underpin our success. Continued globalisation coupled with international uncertainty enhances the relative value of trusted brands.

We see evidence of this in the continued growth in circulation for *The Economist*, the appetite for country information and analysis from the Economist Intelligence Unit, and in the success of events such as Global Agenda from Economist Conferences. Our latest research into the CFO brand convinces us that there is scope to make it even more valuable for its audience of senior financial executives and increase further its relevance for advertisers. *Roll Call*'s advertising revenue has been less affected by the downturn and we have consolidated the title's position in its market by introducing a Wednesday issue to sit alongside those of Monday and Thursday.

The timing of the advertising recovery is not yet clear. However, the collective strength of our brands, our valuable content and the resilience and creativity of the people who work at The Economist Group were the foundation for the growth in profitability last year, and will be the drivers for further progress.

Finally, I would like to thank Dominic Cadbury, who is stepping down after 13 years on the Board. Dominic's judgment, wisdom and expertise have been invaluable for the directors and for the Group.

Helen Alexander

The Economist brand family

THE ECONOMIST is an important global brand. Our strategy is derived from our ability to exploit this asset in multiple markets. The Economist brand family consists of *The Economist* newspaper, the Economist Intelligence Unit, Economist Conferences, Economist Corporate Network, Economist.com and other Economist branded businesses.

The Economist brand family revenues represented £161m of the total Group turnover. This is a decline of 8% on last year, primarily due to lower advertising sales, although the weaker dollar also played its part. However, contribution to operating profit before exceptional items is 48% higher than last year, at £17m, as a result of cost reduction. Moreover, the increase in online subscribers and growth in circulation suggests that demand for our view on a troubled world is more highly regarded than ever.

The Economist

There have been two principal themes over the past year at *The Economist.* Advertising revenue was affected in a difficult market and overall our revenues were 8% lower, although much of the impact of this was offset by our tight management of overheads, marketing expenditure and direct costs. Meanwhile, the newspaper continued its excellent circulation performance in all our key markets across the world.

Globally our average circulation, as audited by the ABC between July and December 2002, was 881,259. This represents a rise of 5.2% over the equivalent period in the previous year, and our Christmas issue exceeded one million. Within this worldwide figure there are a number of highlights.

North American circulation stands at 408,290 copies for the same ABC period, an increase of 5.6%, and Capell's Circulation Report puts *The Economist* among the top 20 performers in newsstand sales in the last decade. At Barnes and Noble and Borders, two important retail outlets in the US, *The Economist* is now the fourth-best selling magazine. There have also been notable circulation gains in the UK and continental Europe, with sales averaging 335,164 copies. Promotional activities around the French, German and Dutch surveys coupled with coverage in local media helped drive volumes.

Circulation volumes in Asia have also performed well, at over 98,000, an improvement of 7% over the year. We have demonstrated that we can move sales by focusing on particularly valuable territories. Our Thailand

The Economist

focus led to significant gains in local sales.

An encouraging feature of our circulation activity has been an improvement in renewal rates in all our key regions. This growing loyalty to *The Economist* suggests how much our readers value the title in times of uncertainty. The strong, clear editorial positions that *The Economist* has taken over the US accounting scandals, and the wars in Afghanistan and Iraq provide our readers with a clear map as the world enters unfamiliar territory. In the uncertainty over the aftermath of the wars and tense relationship between the United States and Europe in particular, we believe that *The Economist* will continue to provide an authoritative and widely appreciated perspective.

Our marketing remains vigorous and builds on the strength of the brand. In the United States we successfully collaborated with CNN, translating our survey on America and selected articles from *The World In 2003* into television specials on the Lou Dobbs Moneyline programme. We won prizes for our advertising at the Campaign Press Awards, the Campaign Poster Awards, Creative Circle Awards and D&AD. We have always known that our advertising contributes considerably to our business, and this has now been recognised by the industry with our Silver award at the 2002 IPA Effectiveness Awards.

In common with many titles we have seen declines in advertising revenue, and clients' budgets remain tight in the near term. A series of events have played their part in adding to what was already a tough marketplace. These have included the well-publicised problems at Enron and WorldCom amongst others in the

The Economist

United States, war in the Middle East and the outbreak and spread of the SARS virus in China and other parts of East Asia.

The global nature of our readership and the presence of our sales teams in all regions mitigate the effect of poorer-performing advertising markets. In the UK we experienced remarkable resilience until the imminence of the Iraq war led to a slow start to the final quarter, but display advertising still finished ahead of the previous year. Similarly, advertising generated by the Paris office remained strong until Christmas. The strongest performance in advertising sales was from South-East Asia, however, which actually beat the previous year by 72% and was only 4% short of the dotcom fuelled record of 2001.

The Economist remains strong even in tough conditions. For advertisers, we continue to be a crucial means of communicating with our influential audience and we have been named one of the top ten media by B to B Magazine's Media Power award. For readers, our rigour, clarity and intelligent analysis have rarely been more valuable. We continue to invest in and develop our market position. We believe that we will emerge from this advertising recession in a stronger competitive position than when we went in.

Economist.com

Economist.com is becoming increasingly important to the Group, partly as a digital distribution channel and partly as a means of extending the Group's reach and relevance in our core markets. The site has continued to develop commercially and we continue to be recognised as a leading source of global analysis for the senior, internationally-minded business audience.

Despite the slow-down in global advertising markets, overall revenues for Economist.com grew by 4% over the prior year. This increase came from strong advertising sales in North America (up 12% on the previous year) and from our continued emphasis on online subscription and content sales. With 162,532 subscribers, Economist.com is a Top 5 media subscription site according to The Intermarket Group, a US business information publisher. Looking forward, revenue unrelated to advertising will play an important part in the commercial development of the business. Our focus on costs has resulted in a significant expense reduction.

The number of registered users of the site has grown by 16% compared with last year and by expanding our understanding of our customers' location, demographic profile, lifestyle and interests we have been better able to provide them with what they want. These insights have also allowed us to develop innovative ways for advertisers to reach our audience.

Our daily analysis service, Global Agenda, continues to thrive and build a loyal readership. We have added cities to our acclaimed Cities Guide section, this year produced the London one, in print, introduced two bi-monthly features on executive education and MBAs, and launched Executive Dialogue, a quarterly multi-media interview series for senior executives.

This year has been difficult, but we have beaten our plan while continuing to pursue our objectives. In the coming year we expect Economist.com to continue to improve its trading results and build upon its role as a new channel for reaching the Group's target audience.

The Economist Intelligence Unit

T*HE ECONOMIST INTELLIGENCE UNIT* *has consolidated its position as a* leading provider of country analysis and data. Efficiencies gained from the transformation to an electronic business have delivered improved trading results. The proportion of gross revenue that came from electronic sources rose again, to 77%. As more of our analysis is delivered digitally, we are able to reduce costs.

Although the Economist Intelligence Unit is less exposed than some other parts of the Group to weakness in the advertising market, it is affected by tightening corporate information budgets and fluctuations in the value of the US dollar, since much of its revenue is earned in dollars. However, excluding the exchange rate impact, our electronic revenue again grew strongly by 16%.

We have built an impressive set of assets in our transformation to an electronic business: an advanced content management system; an international sales force selling to customers in over 100 countries; and a respected team of analysts. We are now focused on using these assets to deliver a portfolio of timely country, industry and management analysis that helps organisations make successful cross-border decisions.

During the year we launched Executive Briefing, a website providing strategic analysis for executives with international responsibilities. In addition to specially prepared material, this service draws on our rich warehouse of content, and carries those perspectives of greatest relevance to a corporate audience.

We also successfully launched the Global Corporate Achievement Awards, a research programme designed to identify companies that had shone in troubled times. Using our network of business analysts and a panel of academics and company leaders, we assessed the past performance of 175 businesses worldwide. Awards ceremonies for the winners were held in London, New York and Hong Kong.

Market research conducted this year showed there is appetite for Economist Intelligence Unit analysis on the impact for specific industries of our macro-economic view. Analysts are now producing industry forecasts and analysis for eight key industries across 60 markets. This is distributed in various ways for different audiences: as a premium channel on the ViewsWire service; as part of the Executive Briefing service; and in the form of electronic reports known as Industry Forecasts.

Besides building our published services through editorial and sales development, we are also developing our capability to take on customised projects. This allows us to meet the specific requirements of a client more precisely. With our global sales force talking to clients every day, we can respond to issues in a way that was impossible when sales were predominantly through direct mail.

As businesses continue to globalise and understanding political and economic risk becomes a commercial imperative, we aim to ensure that the Economist Intelligence Unit will take full advantage of these growing opportunities.

Economist Enterprises

Economist Enterprises comprises a series of Economist-branded products and services, including conferences, corporate networks, book publishing, syndication and second rights, retail and our franchised diary business. Advertising and sponsorship are important revenue lines and so are fees from delegates for events.

The business has therefore been affected by both the advertising downturn and by reluctance to travel, most recently as a result of the SARS outbreak in Asia. However, contribution to the bottom line has grown strongly as a result of a combination of cost control and the introduction of innovative product offerings. This ability to create new products has limited revenue decline to 12%, excluding the effects of our decision to franchise the diaries business.

The government roundtable business performed strongly and we expanded its geographic reach, holding an inaugural event in Egypt that attracted considerable publicity. At the same time, we continued to roll out our Global Agenda series of meetings aimed at the world's most senior executives. And we launched a set of Innovation Awards in conjunction with *The Economist* that recognise individuals who have turned compelling ideas into profitable products across a range of scientific and technological fields.

Industry-focused events grew in popularity with delegates and sponsors, and are now a significant part of our portfolio in every region. Those targeted at the pharmaceutical and automotive sectors were especially successful. We also expanded our portfolio of conferences for functional heads, including highly profitable events for CFOs in Europe and Asia developed in conjunction with the CFO brand family.

Our corporate network business in Europe and Asia took advantage of the increased interest in European Union expansion and China's economic potential to attract new members and develop new offerings. The operating environment for the meetings industry is unlikely to improve in the short term, but as a business we are now better structured to meet the challenges ahead.

Many of our media clients internationally have reduced their budgets, but in spite of lower revenues compared with the previous year, the syndication and second rights team held profitability steady, thanks in part to outstanding sales of one-shots. We also transferred several large print clients from one-year to three-year deals, bucking the industry trend towards shorter contracts. *The World In 2003* annual advertising revenue held up well and increased by 8% on last year. Circulation revenue increased 16% and the high editorial standards of previous years were maintained with articles by our own journalists sitting alongside pieces written by Kofi Annan, Bill Gates and Francis Fukuyama, among others.

We have done a considerable amount of work understanding the Economist brand and believe it has substantial potential in many different arenas. Although the current climate is not conducive to launches, we are developing new ideas so that we are ready and poised to exploit our markets when they return to growth.

CFO brand family

WE ARE developing *CFO* as a primary source of information and analysis of financial issues relating to business. The range of products operating under the CFO brand already has considerable value for senior financial executives around the world. We plan to build on this strength and increase awareness of the quality of *CFO* to advertisers who wish to reach our influential readership.

CFO is a controlled-circulation publication, so all the editions of *CFO* magazine are dependent on advertising revenue. Across the brand family revenue fell by 16%, but the benefit of early and aggressive measures to control costs led to an improvement in profitability.

In the United States, *CFO* continued to seek new ways of gaining market share. This included the launch of *CFO IT*, a quarterly magazine, to increase the brand's income from technology advertising. Our high editorial standards were recognised with two national awards from the American Society of Business Press Editors. CFO.com's commercial growth was held back by softness in online advertising revenue, but page views continued to grow strongly, up 46% to 1.1m a month.

CFO Europe remains an important source of global advertising for the brand family. Successful collaboration with other Group businesses enabled the launch of *CFO Global Outlook*, whose distribution list was derived from the Group customer database, and the CFO European Summit (run in conjunction with Economist Conferences) secured substantial delegate and sponsorship revenue.

In Asia the CFO brand continues to extend its presence, despite a difficult environment. *CFO Asia* increased its circulation to 30,000 and *CFO China* (a separate local-language edition written for Chinese financial managers) increased its circulation to 15,000. For the second year running, we won the Society of Publishers in Asia award for technology coverage. *CFO Asia* and Economist Conferences jointly produced a highly successful CFO Roundtable in China and *CFO China* ran its first Chinese-language event in Shanghai, opened by Feng Shuping, deputy minister of finance.

The audience for the CFO brand and our consequent high-quality subscriber list means that we remain a valuable vehicle for advertisers and sponsors. We will retain our share of a tightly contested market and continue to look for opportunities to exploit the brand across the world.

Although recovery in our core advertising markets will be a driver of growth in the mid-term, we believe that there are further revenue opportunities in the short term. We are committed to continuing to develop innovative products around the brand, such as our research-based white papers, so that our revenue increases even in these tough conditions.

Roll Call and European Voice

Roll Call

ROLL CALL's position as the pre-eminent publication on Capitol Hill was underlined in the latest Opinion Leader study, which once again showed that among titles aimed at the US Congress *Roll Call* is the best-read.

We are committed to investing behind this strength. In January we successfully launched a Wednesday issue, extending *Roll Call's* frequency to three times a week in order to increase our share of advertising pages. In the fourth quarter, the Wednesday issue carried nearly as many advertising pages as the more established Monday and Thursday issues. As a result, *Roll Call* commanded 45% of the market, with our nearest competitor taking 25%.

We have further enhanced our editorial to accompany the expanded publication schedule. We have increased our coverage of lobbying activity and key legislative issues and have continued to be a premier source for breaking news, such as our reporting of how Democrats and Republicans are seeking to avoid new campaign-finance laws.

In financial terms *Roll Call's* performance has also been strong. Although the attention of Capitol Hill was largely devoted to international issues during our fourth quarter and so revenues consequently were sluggish, we increased profits this year.

In the coming year we will continue to invest in *Roll Call*, whose readers represent an important segment of the Group's target high-end decision-making audience.

"When I get to Washington, I want three things: my phone messages, my schedule and Roll Call. Then I know what's going on."

Senator Charles Schumer

"We use Roll Call for one simple reason: it works."

Jenn Greenquist
PN Hoffman

European Voice

EUROPEAN VOICE's revenue growth continued, increasing in total by 14%. Display advertising and event-related income were particularly strong, growing by 34% and 38% respectively.

The editorial quality of the title is increasingly acknowledged in the publishing community. In December 2002 *European Voice* was named International Newspaper of the Year at the ACE (Association of Circulation Executives) publishing awards in London.

European Union enlargement represents a substantial business opportunity for *European Voice*, both in terms of increasing circulation and in the number of advertisers we expect the publication to attract.

"Our business is to communicate effectively with decision makers in the European Union - European Voice is an excellent vehicle to achieve our objective."

John Russell, Weber Shandwick Public Affairs

"European Voice is an indispensable and powerful publication!"

David Earnshaw, Burson-Marsteller

Report and accounts

Trustees

Sir Campbell Fraser FRSE Trustee since 1978. President of the CBI (1982-84). Former chairman of Dunlop, Scottish Television, Tandem Computers, Riversoft, the International Advisory Board of Wells Fargo and the Business School of Strathclyde University. Founder of the Society of Business Economists.

Lord Alexander of Weedon QC Trustee since 1990. Life peer. Chancellor of Exeter University. Chairman of the Royal Shakespeare Company. Chairman of the Bar Council (1985-86), chairman of the Takeover Panel (1987-89), deputy chairman of the Securities and Investments Board (1994-96) and chairman of Natwest Group (1989-99). Practising barrister and arbitrator.

Lord Renwick of Clifton Trustee since 1995. British ambassador to South Africa (1987-91) and to Washington (1991-95). Vice-chairman, Investment Banking of J.P. Morgan Europe, a director of British Airways, BHP Billiton, Fluor Corporation, Richemont, SAB Miller and Harmony Gold; chairman of Fluor.

Clayton Brendish CBE Trustee since 1999. Non-executive chairman of Beacon Investment Fund and Trustee of the Foundation for Liver Research. Member of the Council of City University of London. Non-executive director of British Telecommunications, Elexon, the Defence Logistics Organisation (DLO), Herald Investment Trust and the Defence Communication Services Agency (DCSA) Owners Advisory Board. Formerly deputy chairman of CMG and executive chairman of Admiral, which he co-founded.

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, a director of EMI and Misys, and also chairman of Transense Technologies. Chairman of Cadbury Schweppes 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 Economist Intelligence Unit from 1993 until the end of 1996. A trustee of the Tate Gallery. A non-executive director of Centrica.

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, and "20:21 Vision", published in February 2003.

John Gardiner

Appointed as a non-executive director in April 1998. Chairman of Tesco.

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. Vice-President of the International Advertising Association and member of the board of The Advertising Standards Board of Finance. A non-executive director of Creston.

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. Previously chief executive of Ibstock. Non-executive director of U.S.Can.

Board and management committees

Lynn Forester de Rothschild
Appointed as a non-executive director in October 2002. Chief executive of ELR Holdings and a non-executive director of the Estee Lauder Companies. A director of the Outward Bound Trust and The Old Vic Theatre Trust.

Lord Stevenson of Coddenham
Appointed as a non-executive director in July 1998. Chairman of Pearson and HBOS.

Peter Wood CBE
Appointed as a non-executive director in July 1998. Founder and former chairman of Direct Line and a director of the Royal Bank of Scotland Group from June 1992 to June 1997. Vice-chairman of Response Insurance, Homesite Insurance and Plymouth Rock in the United States. Executive chairman of esure.

Sir Robert Wilson
Appointed as a non-executive director in May 2002. Chairman of Rio Tinto. A non-executive director of BG Group and Diageo.

Remuneration committee
Sir Dominic Cadbury, chairman
Lord Stevenson of Coddenham
Peter Wood (since November 26th 2002)

Audit committee
John Gardiner, chairman
Sir Dominic Cadbury
Sir Robert Wilson (since July 16th 2002)

Group management committee
Helen Alexander
Bill Emmott
David Hanger
Kiran Malik

Matthew Batstone
Appointed Group marketing and strategy director in May 2001. Joined the Group in January 2001 having worked at Carlton Communications and J Walter Thompson.

Martin Giles
Director, Economist Enterprises. Joined the editorial staff of *The Economist* in 1989, working in London and Paris before becoming finance editor in 1994. Former publisher of *CFO Europe*.

David Laird
Director of Specialist Magazines. Joined the Group in 1978 as an advertising sales executive for *The Economist*, and worked in Frankfurt and New York before becoming the publisher of *CFO* magazine.

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 Economist Intelligence Unit.

Andrew Rashbass
Managing director of Economist.com and Group chief information officer. Joined the Group in December 1997 from Associated Newspapers.

Directors' report

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 2003.

Principal activities The principal activities of the Group consist of publishing, the supply of business information, conferences and the letting of property. Future developments are referred to on pages 3 to 12.

Results and dividends The profit after tax for the financial year to March 31st 2003 was £15.6m (2002: £11.3m). A final dividend of 31.5p per share (2002: 30.0p) is proposed for the year to March 31st 2003. Together with the interim dividend already paid, this makes a total for the year of 43.3p (2002: 41.8p). The final dividend will be paid on July 18th 2003 to shareholders on the register at the close of business on June 6th 2003.

Property values The directors have been advised that the open market value of The Economist Complex at March 31st 2003 was £48.0m; the book value is £19.0m. 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 45.

Charitable and political donations During the financial year, the Group made contributions to charities amounting to £203,668 (2002: £159,238), including benefits granted in kind. No contributions were made for political purposes (2002: £nil).

Directors Lynn Forester de Rothschild was appointed to the Board on October 22nd 2002. Sir Robert Wilson was appointed to the Board on May 1st 2002. Profiles of the continuing directors are shown on pages 16-17. 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 should be appointed for an initial fixed period of three years, and the chairman's term of office should be for six years, in both cases renewable at the invitation of the Board. All executive directors have contracts of employment.

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 16), 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 84 "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, the company is not bound by the Listing Rules of the Financial Services Authority to report on compliance with the Principles of Good Governance and Code of Best Practice ("the Combined Code"). However, the company has always sought to run its corporate affairs in line with best practice as required of publicly listed concerns and therefore follows the Combined Code's recommendations as closely as is reasonably 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.
- Helen Alexander's contract had a 24-month notice period. In the light of current practice the Board has agreed that from April 2003 her contract will be subject to a year's notice.
- The 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 gives the "A" special and "B" special shareholders the right to appoint directors, the directors do not stand for re-election.

Board The Board currently comprises seven 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 2003. 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: these matters include the acquisition of businesses at a consideration over £2m and major capital expenditure. 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 approval of the trustees for some actions.

Board committees The audit committee is made up of three non-executive directors. It is chaired by John Gardiner and the other members are Sir Dominic Cadbury and Sir Robert Wilson. The committee assists the Board to ensure that the published financial statements give a true and fair view of the business and to ensure reliable internal financial information. The committee is also responsible for reviewing the suitability and effectiveness of the Group's internal financial controls, the work and findings of both internal and external auditors and key accounting policies and judgments. The remuneration committee is made up of three non-executive directors. It is chaired by Sir Dominic Cadbury and the other members are Lord Stevenson and Peter Wood. It is responsible for remuneration policy and for nominations for Board appointments.

Internal control The Board is responsible for the company's systems of internal control and considers that the company has put in place processes which follow closely the main recommendations of the Turnbull Committee and which focus on managing the Group's key business risks. The internal financial control system has been designed and developed over a number of years to provide the Board with reasonable but not absolute 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 budgeting system which includes an annual budget and forward projections approved by the Board. Monthly actual results are reported against the annual budget and revised forecasts are prepared at least three times a year. The company reports to shareholders at least twice a year.
- Financial policies and procedures exist and senior managers and finance staff are responsible for ensuring that all relevant staff are familiar with their application.
- Written treasury procedures cover banking arrangements, hedging instruments, investments of cash balances and borrowing procedures. These procedures include staff responsibilities, segregation of duties and levels of delegated authority for treasury matters.
- The company has an audit and risk management function. The manager reports to the finance director but also has direct access to the chairman of the audit committee. He 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 regularly provided with information on the Group's activities and on factors relating to the financial and economic performance of the Group. 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 age, colour, race, creed, religion, 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 noted in the directors' report on remuneration on page 22.

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.

Annual general meeting The notice convening the annual general meeting, to be held at 12.15 pm on Friday July 11th 2003 at the Institute of Directors, can be found on page 50.

Auditors Following the conversion of the company's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from January 1st 2003, PricewaterhouseCoopers resigned on January 28th 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to 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 Company law requires the directors 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group to enable them to ensure the financial statements comply with the Companies Act 1985, for taking reasonable steps to safeguard the assets of the company and the Group, and for preventing and detecting fraud and other irregularities. The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements. The directors also confirm that applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and that the financial statements have been prepared on the going concern basis.

By order of the Board

O K M Grut
Secretary
June 6th 2003

Directors' report on remuneration

The committee The remuneration committee of the Board is made up of three non-executive directors, Sir Dominic Cadbury, Lord Stevenson and Peter Wood, who was appointed to the committee on November 26th 2002. 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 Group bonus schemes and nominations 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.

Directors' interests

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

Table 1	2003		2002	
Beneficial holdings	"A" Special	Ordinary	"A" Special	Ordinary
Sir Dominic Cadbury	-	2,030	-	2,030
Helen Alexander	25,785	-	25,785	-
Bill Emmott	25,780	5,000	25,780	5,000
John Gardiner	-	1,000	-	1,000
David Hanger	25,780	5,700	25,780	4,500
Kiran Malik	1,000	2,500	1,000	2,500
Philip Mengel	-	1,000	-	1,000
Lynn Forester de Rothschild (appointed October 22nd 2002)	240,440	1,106,000	-	-
Lord Stevenson	-	1,000	-	1,000
Sir Robert Wilson (appointed May 1st 2002)	-	2,500	-	-
Peter Wood	-	1,000	-	1,000
Holding as trustee				
Sir Dominic Cadbury	5,600	50,360	5,600	50,360
Lynn Forester de Rothschild	-	2,012,550	-	-

Sir Dominic Cadbury is also a director of a family company which held 134,000 ordinary shares, in which he had no beneficial interest. The spouse of Lynn Forester de Rothschild, Sir Evelyn de Rothschild, is a director and shareholder in family companies holding 974,500 ordinary shares in which he has no beneficial interest.

The executive directors of the company, together with all employees, are beneficiaries of the company's employee share ownership trust. As such the directors are treated as interested in the 244,240 (2002: 119,628) shares held by the trustee of the trust.

The Group operated a number of annual bonus and long-term incentive plans during the year, providing performance-based incentives for executive directors and employees.

Current plans

(a) Annual bonus plan Executive directors and employees participated in annual bonus plans in which rewards were linked to Group performance and to improvements in key areas of the business which they could influence directly.

(b) Group long-term plan Executive directors and some other senior employees were awarded performance units under the Group long-term plan, which are equivalent in value to the company's ordinary shares. After performance periods of three and four years, participants may receive an incentive reward equal to a proportion of the increase in share price depending on achievement of performance hurdles related to improved earnings.

The Group also has in place arrangements under which awards of ordinary shares may be made to a small number of key employees on terms the Group may decide.

Discontinued plans

(i) Long-term incentive plan This plan was discontinued following the 2000 awards and was replaced by the Group long-term plan. Executive directors and some other employees were awarded participation units in the long-term incentive plan, which were equivalent in value to the company's ordinary shares. At the end of a three-year performance period a participant might receive a cash incentive. The amount of this payment depends on the relative ranking of the company's total shareholder return compared with a selected group of comparator companies. No payment is made if the company's total shareholder return is below the average. The last payments under this scheme will be made after the end of the performance period ended March 31st 2003.

(ii) Shadow share scheme Some employees have uncashed participation units in the shadow share scheme. Shadow share scheme awards become fully exercisable after a period of five years, and are deemed fully exercised after six years. The scheme was discontinued and replaced by the long-term incentive plan outlined above. All units will be deemed encashed during the year ending March 31st 2004 at the latest.

Directors' remuneration

Directors' remuneration and benefits are shown in the following table. Non-executive directors do not participate in any bonus scheme or any long-term incentive schemes or any of the company's pension plans. This table shows salaries/fees, annual bonuses and benefits earned in and charged to the profit and loss account in the year unless otherwise noted. The long-term incentive and shadow share scheme awards are those paid in the year but which relate to earlier performance periods and which were charged to the profit and loss account in earlier years. Except for the annual bonus, the table does not include any uncashed or future entitlements under any of the bonus or incentive schemes.

Table 2

Remuneration for the years ended March 31st

	Salary/Fees		Annual bonus (see note 1)		Long-term incentive plan payments (see note 2)		Shadow shares (see note 3)		Benefits		Total	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Helen Alexander	283	280	106	54[1]	58	202	37	-	13	13	497	549
Bill Emmott	232	225	-	-	22	174	37	-	15	12	306	411
David Hanger	206	200	25	-	17	145	45	-	18	16	311	361
Kiran Malik	191	186	55	10	23	137	83	49	14	12	366	394
Sir Dominic Cadbury	60	60	-	-	-	-	-	-	-	-	60	60
Prof Sir George Bain*	-	19	-	-	-	-	-	-	-	-	-	19
John Gardiner	29	29	-	-	-	-	-	-	-	-	29	29
Philip Mengel	29	23	-	-	-	-	-	-	-	-	29	23
Lynn Forester de Rothschild	10	-	-	-	-	-	-	-	-	-	10	-
Lord Stevenson	26	26	-	-	-	-	-	-	-	-	26	26
Sir Robert Wilson	21	-	-	-	-	-	-	-	-	-	21	-
Peter Wood	24	29	-	-	-	-	-	-	-	-	24	29
Total	1,111	1,077	186	64	120	658	202	49	60	53	1,679	1,901

* Resigned December 18th 2001.

1. The annual bonus figures for 2002 include an additional amount of £40,000 relating to 2001 for Helen Alexander as only provisional estimates were available for inclusion in the financial statements for that prior year.
2. The long-term incentive plan payments made in 2003 relate to the three-year period ended March 31st 2002. Long-term incentive plan awards vest over a period of three years and are paid out following the end of the vesting period.
3. The shadow share encashments relate to awards granted in 1996 and which were automatically exercised for all of the above except for Kiran Malik whose awards were granted in 1997 (2002: awards granted in 1997).

Directors' accrued pensions

The pensions which would be paid annually on retirement at age 60 based on service with the company to March 31st 2003 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

Table 3

	Age at March 31st 2003	Accrued pension at March 31st 2003	Accrued pension at March 31st 2002	Increase
Helen Alexander	46	£92,271	£84,917	£7,354
Bill Emmott	46	£94,493	£87,991	£6,502
David Hanger	58	£127,729	£120,423	£7,306
Kiran Malik	52	£20,040	£16,192	£3,848

Financial review

Operating profit Operating profit at £20.4m is more than double that achieved last year. This has been achieved despite a £17.8m decline in continuing business revenues and the removal of revenues totalling £17.3m for businesses discontinued last year. Within the revenue decline for continuing businesses approximately £8m relates to the weakening dollar exchange rate.

Costs To counter the impact of the sales downturn, the Group took successful action to reduce costs. Marketing, development and administration costs were reduced by £22.5m or 22% for the continuing businesses, in addition to the £8.7m of costs that went with the discontinued businesses during last year. Employment costs in continuing businesses were reduced by £6.6m (10%) and significant savings made in all other areas. Long-term incentive provisions were substantially lower than in the previous year, reflecting the lower share price. Operating exceptional charges, primarily related to restructuring and onerous lease costs, of £2.1m were £3.8m less than last year. The gross profit margin for continuing businesses fell by 2%. Distribution costs rose slightly as subscriptions and circulation increased.

Profit before tax The Group has taken a net charge of £0.3m to write down the value of shares in the ESOP trust, to reflect a permanent diminution in value following a reduction in share prices during the year, offset by a profit on some disposals. Net interest income is £0.9m, up 7% despite a reduction in interest rates, reflecting the strong operating cash inflow in the year and effective treasury management of our cash balances. Profit before tax has increased by 42% to £20.9m.

Taxation The effective rate of tax of 26% (2002: 24%) reflects the utilisation of brought-forward US tax losses. Ignoring the impact of loss relief and exceptional items the underlying tax rate is 37% (2002: 35%). The increase in the underlying rate reflects the growing proportion of our US profits, which are subject to higher prevailing rates.

Earnings per share Earnings per share increased by 39% from 44.8p to 62.3p. Last year's result, however, included significant disposal profits, so that excluding non-operating exceptional items the increase in normalised earnings per share is 171%, to 64.7p. Excluding the impact of all exceptional items, the increase is 74%, to 70.3p.

Dividend As a consequence of higher earnings and considering its healthy cash position, the company has maintained the interim dividend at last year's level and has declared a 5% increase in the final dividend. The total dividend of 43.3p per share (11.8p interim, 31.5p final) is covered 1.4 times by current-year basic and diluted earnings per share.

Cash flow and gearing During the year to March 31st 2003, the Group delivered a positive cash flow of £11.7m compared with £5.3m last year. Excluding last year's disposal proceeds, however, there was an improvement of £13.2m, reflecting higher profits, tight control over capital expenditure and effective credit control. Our cash balance totalled £55.2m at the year end (2002: £45.5m). Our treasury activities are managed centrally from the UK. Most of our cash is held in sterling in an AAA-rated money market fund. This fund was yielding 3.6% at year-end. Deposits are also held in other currencies in the UK and at our various trading locations. The Group had no external debt during the year.

Foreign exchange The translation of the Group's overseas trading results was adversely affected by the weaker average US dollar exchange rate which existed during the year. After taking into account gains of £1.7m from our forward foreign exchange hedging programme, the adverse impact on profit before tax was limited to £1.8m.

Pensions The Group operates a number of pension schemes. The main UK defined benefit plan is the only defined benefit scheme. Although the next full actuarial valuation is not due until January 2004, the funding level is kept under review by the Group and the pension trustees. After an informal valuation during the year, and taking account of current stockmarket conditions, the Group decided to increase its cash contributions by £1.5m per year ahead of the next full valuation. In addition, the Group announced the closure of the UK defined benefit plan to new members, for whom a new defined contribution scheme was established.

Kiran Malik

Auditors' report

Independent auditors' report to the members of The Economist Newspaper Limited We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds and the related notes.

Respective responsibilities of directors and auditors The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. 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. The other information comprises the directors' report, the chairman's statement, the operating and financial reviews and the corporate governance statement.

We also, at the request of the directors (because the company has chosen to apply certain elements of the Financial Services Authority listing rules), review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, 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 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 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 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
June 6th 2003

Consolidated profit and loss account

NOTE	Years ended March 31st	2003 £000	2002 £000
1, 2	**Turnover**		
	Continuing operations	192,011	209,829
	Discontinued operations	-	17,301
		192,011	**227,130**
1	Cost of sales	(67,496)	(78,171)
	Gross profit	**124,515**	**148,959**
1	Distribution costs	(19,941)	(20,714)
1	Marketing, development and other administrative costs	(82,069)	(113,333)
	Operating profit analysed between		
	Continuing operations	22,505	15,784
	Discontinued operations	-	(872)
1	**Operating profit before exceptional items**	**22,505**	**14,912**
3	Exceptional items	(2,105)	(5,942)
	Operating profit	**20,400**	**8,970**
4	Profit on sale and closure of discontinued operations	-	4,993
	Profit on ordinary activities before interest	**20,400**	**13,963**
5	Interest receivable and other income	1,095	1,615
	Amounts written off investments	(312)	-
6	Interest payable and other charges	(238)	(811)
2, 7	**Profit on ordinary activities before taxation**	**20,945**	**14,767**
10	Taxation on profit on ordinary activities	(5,348)	(3,514)
	Profit on ordinary activities after taxation	**15,597**	**11,253**
11	Dividends	(10,861)	(10,533)
21	**Retained profit**	**4,736**	**720**
12	**Basic and diluted earnings per share (pence)**	**62.3**	**44.8**
11	Dividends per share (pence)	43.3	41.8
	Dividend cover (times) before exceptional items and disposals	1.6	1.0

Reconciliation of movements in equity shareholders' funds		
Retained profit (from above)	4,736	720
Exchange translation differences arising on consolidation	(251)	(141)
Net addition to shareholders' funds	**4,485**	**579**
Opening shareholders' funds	11,284	10,705
Closing shareholders' funds	**15,769**	**11,284**

Consolidated balance sheet at March 31st

NOTE		2003 £000	2002 £000
	Fixed assets		
13	Tangible assets	25,612	28,147
14	Investments	2,598	2,177
		28,210	**30,324**
	Current assets		
15	Stocks and work-in-progress	1,390	1,431
16	Debtors: due within one year	29,959	37,277
17	Deferred taxation	8,130	8,017
22	Cash and deposits	55,154	45,529
		94,633	**92,254**
18	Creditors: due within one year	(39,986)	(44,515)
	Unexpired subscriptions and deferred revenue	(51,867)	(51,378)
	Net current assets/(liabilities)	**2,780**	**(3,639)**
	Total assets less current liabilities	**30,990**	**26,685**
19	Provisions for liabilities and charges	(15,221)	(15,401)
1,2	**Net assets**	**15,769**	**11,284**
	Capital and reserves		
20	Called up share capital	1,260	1,260
21	Profit and loss account	14,509	10,024
	Equity shareholders' funds	**15,769**	**11,284**

The company balance sheet is shown in note 28.

June 6th 2003
Dominic Cadbury
Kiran Malik
Directors

The notes on pages 30-45 form an integral part of these financial statements.

Consolidated cash flow statement

NOTE	Years ended March 31st	2003 £000	2002 £000
22	**Net cash inflow from operating activities**	29,055	11,389
	Returns on investments and servicing of finance		
	Interest received	1,017	1,603
	Interest paid	-	(811)
		1,017	792
	Taxation		
	UK corporation tax paid	(4,556)	(3,796)
	Overseas tax (paid)/received	(1,650)	1,939
	Taxation paid	(6,206)	(1,857)
	Capital expenditure and financial investment		
	Sale of tangible fixed assets	53	1,265
	Purchase of tangible fixed assets	(1,824)	(3,144)
	Net purchase of own shares	(1,401)	(882)
		(3,172)	(2,761)
	Acquisitions and disposals		
	Sale of businesses	1,490	8,260
	Equity dividends		
	Amounts paid	(10,483)	(10,533)
	Cash inflow before use of liquid resources and financing	**11,701**	**5,290**
22	**Management of liquid resources**		
	Cash placed on short-term deposits	(8,123)	(911)
	Financing		
	Repayments of amounts borrowed	-	(6,000)
22	**Increase/(decrease) in cash**	**3,578**	**(1,621)**

Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the year	**3,578**	**(1,621)**
Cash outflow from increase in liquid resources	8,123	911
Cash outflow from decrease in debt	-	6,000
Change in net funds resulting from cash flows	**11,701**	**5,290**
Exchange translation differences	(2,076)	(160)
Movement in net funds in the year	9,625	5,130
Net funds brought forward at April 1st	45,529	40,399
Net funds carried forward at March 31st	**55,154**	**45,529**

Statement of total recognised gains and losses

Years ended March 31st

	2003	2002
	£000	£000
Profit after taxation for the financial year	15,597	11,253
Exchange translation differences arising on foreign currency net investments	(251)	(141)
Total recognised gains	**15,346**	**11,112**

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.

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.

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. Where the Group or company owns a non-controlling interest, held for the long term, in the equity share capital of another company and is in a position to exercise significant influence over that company, the interest is equity accounted and the company treated as an associated undertaking. Otherwise, the interest is accounted for as either a fixed or current asset investment.

Turnover Turnover represents sales to third parties from circulation, subscriptions, advertising, sponsorship, delegate fees and rental income net of advertising agency commissions and trade discounts, and excluding value-added tax and other sales taxes.

Circulation and advertising revenue relating to a newspaper or other publication is recognised on the date it goes on sale, or is dispatched in the case of free publications. Subscription revenues are recognised in the profit and loss account over the period of the subscription. Sponsorship and delegate revenue arising in the year relating to future events is deferred until those events have taken place.

Foreign currencies Balance sheets have been translated into sterling at the rates of exchange ruling at the balance-sheet date. 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. Exchange differences arising on the retranslation of borrowings taken out to finance overseas investments are taken to reserves, together with any tax-related 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.

Goodwill Prior to April 1st 1998, purchased 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 five years since the introduction of the standard there has been no impact on Group results as no new goodwill has been acquired.

Goodwill arising on acquisitions before April 1st 1998 has been deducted from reserves and is charged to the profit and loss account on disposal or closure of the business to which it relates.

Where there has been an indication of impairment of goodwill, it is the Group's policy to review its carrying value. 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 for the year.

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.

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.

Provision is made for onerous lease rentals payable on empty properties and where lettings receipts are expected to be less than cost. Provision is made for the period that the directors consider that the property will remain unlet or unutilised, or to the extent that there is a shortfall in net rental income. The time value of money in respect of onerous lease provisions has been recognised by discounting the future payments to net present values.

Investments Investments held as fixed assets are included at cost, less provisions for diminution in value. Shares held by the employee share ownership plan (ESOP) are recorded in the balance sheet within fixed asset investments at cost including expenses less amounts written off.

Deferred taxation Deferred taxation is fully provided, using the liability method, at the expected applicable rates, on all timing differences between accounting and taxation treatments which are expected to reverse in the foreseeable future.

No provision is made for any additional taxation which would arise on the remittance of profits retained, where there is no intention to remit such profits. A deferred tax asset is only recognised to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the timing differences can be deducted.

Unexpired subscriptions and deferred revenue Unexpired subscriptions represent the amount of subscription monies received in advance of supplying the publication or service, and which therefore remain a liability to the subscriber. Deferred revenue represents all other payments received in advance of services being provided, primarily conference fees and rental income.

Retirement benefits The Group has adopted the transitional disclosures of FRS 17 "Retirement benefits". The regular pension cost of the Group's defined benefit pension scheme is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. Variations arising from periodic reviews of the scheme are apportioned over the expected service lives of current employees in the scheme. The cost of providing pensions under defined contribution schemes is charged against profits as they become payable. The estimated cost of providing post-retirement medical benefits is charged against profits on a systematic basis over the expected remaining lives of employees within the scheme.

Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off cost over its useful economic life as follows:

Asset type	Depreciation method	Depreciation rate per year
Long and short leasehold property	Straight-line basis	Duration of lease
Fixtures and fittings	Straight-line basis	14%
Plant and machinery	Straight-line basis	10-33%
Equipment	Straight-line basis	25-50%
Motor vehicles	Straight-line basis	25%
Major software systems	Straight-line basis	20-33%

Notes to the financial statements

NOTE 1 Analysis of results by class of business

	2003			2002		
Turnover by business	Total sales £000	Inter-business sales £000	Sales to third parties £000	Total sales £000	Inter-business sales £000	Sales to third parties £000
The Economist brand family	160,886	-	160,886	175,654	(4)	175,650
CFO brand family	18,623	-	18,623	22,160	-	22,160
Other businesses	12,570	(68)	12,502	12,147	(128)	12,019
Continuing operations	192,079	(68)	192,011	209,961	(132)	209,829
Discontinued operations	-	-	-	17,301	-	17,301
	192,079	(68)	192,011	227,262	(132)	227,130

Other businesses include *Roll Call*, *European Voice* and Ryder Street Properties (which owns and manages The Economist Complex in London).

Operating profit /(loss) before exceptional items by business	2003 £000	2002 £000
The Economist brand family	17,064	11,568
CFO brand family	279	(1,359)
Other businesses	5,162	5,575
Continuing operations	22,505	15,784
Discontinued operations	-	(872)
	22,505	14,912

Operating profit from continuing operations is stated after charging cost of sales of £67,496,000 (2002: £70,197,000), distribution costs of £19,941,000 (2002: £19,230,000), and marketing, development and other administrative costs of £82,069,000 (2002: £104,618,000). Operating profit from discontinued operations is stated after charging cost of sales of £nil (2002: £7,974,000), distribution costs of £nil (2002: £1,484,000), and marketing, development and other administrative costs of £nil (2002: £8,715,000).

The reconciliation of operating profit before exceptional items to profit before taxation is on the face of the profit and loss account. The detail of exceptional items is set out in note 3.

Net assets/(liabilities) by business	2003 £000	2002 £000
The Economist brand family	156,313	124,347
CFO brand family	(13,813)	(14,090)
Other businesses	6,306	1,595
Shared activities	(133,037)	(100,568)
	15,769	11,284

Dividends are charged to shared activities. The prior year net assets of the discontinued operations of £14,988,000 have been allocated to shared activities.

NOTE 2 Analysis of results by geographical region

Turnover by customer location	2003 £000	2002 Restated £000
United Kingdom	40,319	44,394
North America	88,005	96,423
Europe	36,016	39,857
Asia-Pacific	20,861	22,005
Other	6,810	7,150
Continuing operations	192,011	209,829
Discontinued operations	-	17,301
	192,011	227,130

	2003			2002		
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	139,542	(18,410)	121,132	158,394	(17,775)	140,619
North America	61,303	-	61,303	60,021	-	60,021
Europe	1,950	-	1,950	1,805	-	1,805
Asia-Pacific	9,702	(2,076)	7,626	9,357	(1,973)	7,384
Continuing operations	212,497	(20,486)	192,011	229,577	(19,748)	209,829
Discontinued operations	-	-	-	17,301	-	17,301
	212,497	(20,486)	192,011	246,878	(19,748)	227,130

Profit/(loss) before taxation by origin of legal entity	2003 £000	2002 £000
United Kingdom	13,252	9,573
North America	6,995	(658)
Europe	1,328	3,802
Asia-Pacific	(630)	(2,151)
Continuing operations	20,945	10,566
Discontinued operations	-	4,201
	20,945	14,767

Net assets/(liabilities) by origin of legal entity	2003 £000	2002 £000
United Kingdom	8,013	9,992
North America	(47,296)	(56,707)
Europe	54,976	59,899
Asia-Pacific	76	(1,900)
	15,769	11,284

The prior year net assets of the discontinued operations of £14,988,000 have been allocated to the United Kingdom and North America.

NOTE 3 Exceptional items

	2003	2002
	£000	£000
Reorganisation costs	(1,539)	(2,914)
Accelerated depreciation	-	(1,603)
Onerous property contracts	(566)	(1,425)
	(2,105)	(5,942)

The above exceptional items are included within operating profit. After taking into account the above exceptional items, "marketing, development and other administrative costs" for the year are £84,174,000 (2002: £119,275,000).

NOTE 4 Disposals and business closures

	2003	2002
	£000	£000
Profit on sale and closure of discontinued operations	-	4,993
Taxation	-	253
	-	5,246

There were no disposals or closures in the year. In 2002 the Group sold the *Journal of Commerce*, Pyramid Research, Redhouse Press and *Public Network Europe* and closed *Business Central Europe*, Economist TV and the EIU's Thought Leadership Services.

NOTE 5 Interest receivable

	2003	2002
	£000	£000
On cash deposits	1,095	1,615

NOTE 6 Interest payable and other charges

	2003	2002
	£000	£000
On bank overdrafts and loans repayable within five years	-	811
Other including finance charges	238	-
	238	811

The finance charges relate to the unwinding of discounts on onerous contract provisions.

NOTE 7 Profit on ordinary activities before taxation

Profit is stated after charging the following:	2003 £000	2002 £000
Auditors' remuneration		
Audit (company £68,400, 2002: £63,300)	168	161
Non-audit services provided by the auditors in the United Kingdom	89	189
Operating lease rentals		
Plant and equipment	730	713
Land and buildings	6,105	8,836
Depreciation		
Tangible fixed assets	3,954	6,518
Accelerated depreciation	-	1,603
Loss on disposal of tangible assets	52	232

Non-audit services provided by PricewaterhouseCoopers LLP relate to pension, corporate finance and taxation advice during the year.

NOTE 8 Directors' emoluments

The details of directors' emoluments are on Table 2 page 23 within the directors' report on remuneration.

NOTE 9 Employees

Average ar-d year-end number of employees, including executive directors, by business activity were as follows:

	2003		2002	
	Average	Year-end	Average	Year-end
The Economist brand family	779	754	877	814
CFO brand family	132	129	154	142
Other businesses	78	84	79	75
Continuing operations	989	967	1,110	1,031
Discontinued operations	-	-	232	-
	989	967	1,342	1,031

Employment costs including executive directors' emoluments	2003 £000	2002 £000
Wages and salaries	51,122	64,469
Social security costs	4,242	5,779
Pension costs	6,109	5,721
	61,473	75,969

Employment costs in 2002 include £7,865,000 relating to the discontinued operations.

NOTE 10 Taxation

The taxation charge based on the results for the year is made up as follows:	2003 £000	2002 £000
UK corporation tax at 30% (2002: 30%)	4,870	4,274
Overseas taxation	222	978
UK deferred taxation	77	(601)
Overseas deferred taxation	(246)	619
	4,923	5,270
Adjustments in respect of previous years		
UK corporation tax	546	(299)
Overseas taxation	53	(171)
UK deferred taxation	(95)	(743)
Overseas deferred taxation	(79)	(543)
	5,348	3,514

The tax rate is lowered as a result of significant tax losses which the Group has available in the United States.

Current tax rate reconciliation	2003 %	2002 %
UK tax rate	30.0	30.0
Effect of expenses not deductible for tax purposes	2.9	1.3
Effect of depreciation in excess of capital allowances	0.9	4.6
Effect of utilisation of general provisions	(3.0)	(7.2)
Effect of overseas tax rates	(0.5)	0.6
Effect of overseas tax losses (utilised)/not utilised	(0.7)	2.2
Effect of timing of US goodwill amortisation	(0.3)	4.1
Effect of timing of US interest deduction	(4.9)	-
Adjustments to tax charge in respect of previous periods	2.9	(3.2)
Current tax rate reflected in earnings	27.3	32.4

NOTE 11 Dividends

	2003 £000	2002 £000
Interim dividend of 11.8p per share (2002: 11.8p per share)	2,974	2,974
Proposed final dividend of 31.5p per share (2002: 30.0p per share)	7,887	7,559
	10,861	10,533

All shareholders other than trust shareholders (see note 20) receive the above dividend per share. The proposed final dividend is shown net of dividends on shares held by the ESOP.

NOTE 12 Earnings per share

Basic and diluted earnings per share are based on earnings of £15,597,000 (2002: £11,253,000) and the 25,200,000 ordinary and special shares in issue (2002: 25,200,000) less those held by the ESOP being on average 155,134 shares (2002: 106,702), resulting in a weighted average number of shares of 25,044,866 (2002: 25,093,298). Earnings per share before all exceptional items are based on a profit of £17,597,000 (2002: £10,166,000) which excludes operating exceptional items, the profit/loss on sale and closure of operations, and amounts written off investments.

	2003			2002		
	Earnings £000	Weighted average number of shares	Earnings per share pence	Earnings £000	Weighted average number of shares	Earnings per share pence
Basic and diluted earnings per share (pence)	15,597	25,045	62.3	11,253	25,093	44.8
Adjustment in respect of non-operating exceptional items						
- profit on sale/closure of operations	-	25,045	-	(4,993)	25,093	(19.9)
- amounts written off investments	312	25,045	1.2	-	25,093	-
- attributable taxation	300	25,045	1.2	(253)	25,093	(1.0)
Adjustment in respect of exceptional items						
- operating exceptional items	2,105	25,045	8.4	5,942	25,093	23.7
- attributable taxation	(717)	25,045	(2.8)	(1,783)	25,093	(7.1)
Earnings per share before all exceptional items (pence)	17,597	25,045	70.3	10,166	25,093	40.5

Earnings per share before non-operating exceptional items are 64.7p (2002: 23.9p) based on profit of £16,209,000 (2002: £6,007,000).

NOTE 13 Tangible fixed assets

Group	Leasehold land and buildings Long £000	Leasehold land and buildings Short £000	Plant and machinery £000	Equipment £000	Total £000
Cost					
At April 1st 2002	29,438	4,531	4,556	28,489	67,014
Additions	-	61	57	1,811	1,929
Disposals	-	-	(320)	(3,378)	(3,698)
Exchange translation differences	-	(447)	(60)	(447)	(954)
At March 31st 2003	29,438	4,145	4,233	26,475	64,291
Depreciation					
At April 1st 2002	9,982	1,917	3,887	23,081	38,867
Provided during year	635	492	299	2,528	3,954
Disposals	-	-	(320)	(3,273)	(3,593)
Exchange translation differences	-	(199)	(43)	(307)	(549)
At March 31st 2003	10,617	2,210	3,823	22,029	38,679
Net book value March 31st 2003	18,821	1,935	410	4,446	25,612
Net book value March 31st 2002	19,456	2,614	669	5,408	28,147

The directors have been advised that the market value of The Economist Complex at March 31st 2003 was £48,000,000 (2002: £53,500,000); the book value is £19,000,000 (2002: £19,900,000). Included within the depreciation charge for the year is £nil (2002: £1,603,000) with respect to accelerated depreciation.

NOTE 14 Fixed asset investments

Cost	Interest in own shares £000
At April 1st 2002	2,177
Additions	1,683
Sales	(404)
At March 31st 2003	3,456

Provisions for impairment	
At April 1st 2002	-
Written off	980
Released on sales	(122)
At March 31st 2003	858

Book value March 31st 2003	2,598
Book value March 31st 2002	2,177

The profit and loss charge for amounts written off investments includes accumulated ESOP trading profits released during the year. There was no profit/loss on trading during the year.

The ESOP provides a limited market for shares of The Economist Newspaper Limited to be bought and sold. Employees of the Group can apply to buy shares from the ESOP twice a year at the latest indicative share valuation and all shareholders can offer to sell their shares to the ESOP. At the year-end 244,240 shares (2002: 119,628) in The Economist Newspaper Limited (own shares) were held by the ESOP. A subsidiary company, The Economist Group Trustee Company Limited ("trustee company"), acts as trustee of the ESOP and handles all share transactions, but does not own the shares directly. The ESOP has not waived its entitlement to dividends on these shares. 11,466 (2002: 7,516) of the shares are under option to employees and have been conditionally granted to them.

As part of the sale arrangements of the *Journal of Commerce*, the Group acquired a 23.7% convertible preference shareholding in Commonwealth Business Media Inc., a US corporation which publishes directories and other trade publications. The shareholding reduced to 21.3% during the year following an issue of shares to the majority shareholder. No value has been given to the shareholding. This has been accounted for as a fixed asset investment on the grounds that there is no significant influence.

NOTE 15 Stocks and work-in-progress

	2003 £000	2002 £000
Raw materials	1,069	1,053
Work-in-progress	240	277
Finished goods	81	101
	1,390	1,431

NOTE 16 Debtors

Debtors: due within one year	2003 £000	2002 £000
Trade debtors	21,812	25,445
Other debtors	1,620	3,780
Prepayments and accrued income	6,504	7,390
Tax recoverable	23	662
	29,959	37,277

NOTE 17 Deferred taxation

Summary of movements in deferred tax asset	£000
At April 1st 2002	8,017
Credit to the profit and loss account	343
Exchange difference	(230)
At March 31st 2003	8,130

The assets recognised for deferred taxation under the liability method are:

	2003 £000	2002 £000
Accelerated capital allowances	1,096	706
Pensions and post-retirement benefits	4,362	4,263
Other timing differences	2,672	3,048
	8,130	8,017

All potential assets have been recognised except for taxation which would arise on the remittance of profits retained overseas and tax losses as noted below.

No asset has been recognised on tax losses of £14,400,000 (2002: £15,000,000) arising on the sale of discontinued operations as the directors consider that it is unreasonable at this time to forecast that there will be sufficient future profits in the relevant region against which the tax asset can be recovered.

NOTE 18 Creditors: due within one year

	2003 £000	2002 £000
Trade creditors	3,930	3,434
Other creditors including taxation and social security	11,692	14,070
Accruals	16,427	19,452
Proposed dividend	7,937	7,559
	39,986	44,515
Other creditors including taxation and social security comprise:		
Corporation tax	8,076	9,458
Other tax and social security payable	3,026	3,564
Other creditors	590	1,048
	11,692	14,070

The Group had no bank loans as at March 31st 2003. The Group has undrawn facilities which are subject to review by the end of October 2003.

NOTE 19 Provisions for liabilities and charges

	Onerous property leases £000	Defined post retirement benefits (note 24) £000	Defined benefit pension schemes (note 23) £000	Total £000
At April 1st 2002	1,517	2,512	11,372	15,401
Charge to the profit and loss account	654	44	5,071	5,769
Utilised in year	(704)	(108)	(4,858)	(5,670)
Released in year	(88)	(50)	-	(138)
Exchange difference	(141)	-	-	(141)
At March 31st 2003	1,238	2,398	11,585	15,221

The provision for onerous leases is expected to unwind over the next nine years.

NOTE 20 Equity share capital

	Authorised		Issued and fully paid	
At March 31st 2003 and 2002	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 18. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

NOTE 21 Reserves

Consolidated profit and loss account	2003 £000	2002 £000
At April 1st	10,024	9,445
Retained profit for the year	4,736	720
Exchange translation differences arising on consolidation	(251)	(141)
At March 31st	14,509	10,024

The cumulative goodwill written off to profit and loss reserves by the Group is £22,800,000 (2002: £22,800,000) and mainly arises from the purchase of *Business International* in 1986, CFO Publishing Corporation in 1988 and *Roll Call* in 1992 and 1993.

Of the profit for the financial year, a profit after tax of £4,072,000 (2002: £2,265,000) is dealt with in the accounts of The Economist Newspaper Limited. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the company alone.

NOTE 22 Notes to consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities	2003 £000	2002 £000
Operating profit	20,400	8,970
Depreciation of tangible fixed assets	3,954	8,121
Loss on sale of tangible fixed assets	52	232
(Increase)/decrease in stocks	(32)	1,070
Decrease in debtors	3,002	7,400
Decrease in creditors excluding unexpired subscriptions and deferred revenue	(1,750)	(14,647)
Increase in unexpired subscriptions and deferred revenue	3,483	166
(Decrease)/increase in provisions	(54)	77
Net cash inflow from operating activities	29,055	11,389

In the prior year, the Journal of Commerce contributed a £16,000 outflow to the net operating cash flows, received £232,000 in respect of the net returns on investments and servicing of finance and £8,000 in respect of taxation. Other disposals contributed a £1,280,000 outflow to the net operating cash flows, and paid £nil in respect of the net returns on investments and servicing of finance and £nil in respect of taxation.

Analysis of net funds	At April 1st 2002 £000	Cash flow £000	Exchange movement £000	At March 31st 2003 £000
Cash in hand	380	3,578	6	3,964
Cash placed on short-term deposits	*45,149*	*8,123*	*(2,082)*	*51,190*
Net funds	45,529	11,701	(2,076)	55,154

Operating cash flows include an outflow of £1,225,000 which relates to the exceptional items of £2,105,000.

NOTE 23 Pensions

Cost for the year, SSAP 24 basis	2003 £000	2002 £000
Increase/(decrease) in provision for defined benefit schemes	213	(259)
Funding of defined benefit schemes	4,858	4,284
Funding of other pension schemes	1,038	1,696
	6,109	5,721

The Group operates pension plans for most of its employees throughout the world funded by the Group. The main scheme for UK staff who joined before 2003 provides for defined benefits. Those employees who joined before 2002 also have defined contribution benefits. Defined contribution schemes are operated for non-UK 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 full actuarial valuation of the UK plan was at January 1st 2001. This showed the market value of the assets of the main UK plan to be £83,400,000. The actuarial valuation of pension liabilities was £91,300,000, leaving a deficit of £7,900,000. The actuarial method used for the valuation was the projected unit credit method. On a Minimum Funding Requirement basis, the level of funding was 101%.

Following a review of this scheme by the pension trustees and by the Board of the company, some of the benefits payable under the plan were reduced and the employee and employer contribution rates increased. These changes took effect from January 1st 2002 with the intention of eliminating the deficit over a ten-year period. The scheme has been closed to new members since January 1st 2003; a defined contribution plan is now available to new joiners. As a result, under the projected unit credit method, the current service cost is expected to increase as the members approach retirement. At March 31st 2003 there was an accumulated pension provision of £11,585,000. This provision arose during years in which the scheme was in surplus and the company did not pay cash contributions, following actuarial advice. During this time, further to the requirements of SSAP 24, there was a continuing charge in the profit and loss account for the cost of pensions, but as no cash was being paid to the fund, a provision was created on the balance sheet. As contributions restarted in July 1999 the provision is being released over the estimated average service life of members. This release is being made over a ten-year period starting from January 1st 2003, ten years being the estimated average remaining service life of members. This accounting treatment is likely to change if FRS 17 supercedes SSAP 24 in future (see page 43). The company contribution rate to the UK Group Scheme during the year was 19.7% until January 1st 2003 when following a further valuation (see below), it increased to 26.0% (2002: average of 17.9%). This rate increase is equivalent to £1,500,000 per year of additional cash contributions. The main overseas schemes are based on defined contributions; payments of £257,000 (2002: £411,000) were accrued in respect of these schemes at year-end.

The company's normal policy is to calculate the SSAP 24 charge using the triennial valuation for the scheme. The next full triennial valuation is due at January 1st 2004. However, in light of the recent exceptional market movements, an interim valuation was requested. This valuation was done as at January 1st 2003. The 2003 valuation showed a deficit of £27,100,000, fund liabilities being £92,400,000 and assets £65,300,000. The valuation used the attained age funding method which is considered more stable where the membership profile is expected to age gradually, as in a closed scheme. The major assumptions used to determine the SSAP 24 charge are as follows:

	UK Group Plan %
Inflation	2.4
Increase in pensionable salaries	4.5
Rate of increase for pensions in payment and deferred pensions	2.3
Return on investment, pre-retirement	7.3
Return on investment, post-retirement	5.3
Level of funding, actuarial basis	70.7

NOTE 23 Pensions (continued)

FRS 17 basis Since last year there have been transitional arrangements for disclosure of pension liabilities in accordance with a new accounting standard FRS 17. SSAP 24 aims to achieve a relatively stable charge in the profit and loss account, surpluses and deficits being smoothed over the service lives of employees. FRS 17 is quite different in requiring that a surplus or deficit be shown in the balance sheet and the performance statements should reflect the change in the values of assets and liabilities year on year.

The scheme deficit under FRS 17 rules at March 31st 2003 exceeds the actuarial deficit as at January 1st 2001 as a result of different timing and a different valuation basis. The level of the surplus or deficit may change each year. For the purpose of the FRS 17 transitional disclosures below the valuation of the UK Group scheme has been updated by independent actuaries to March 31st 2003. The major assumptions used to determine this valuation are as follows:

	2003 %	2002 %
Inflation	2.5	3.0
Increase in pensionable salaries	4.5	4.5
Increase in pensions in payment and deferred pensions	2.4	3.0
Discount rate for scheme liabilities	5.4	6.0

The assets of the UK Group plan and the expected rate of return on these assets shown as a weighted average, are as follows:

	UK Group Scheme: long-term rate of return expected at March 31st 2003 %	Value at March 31st 2003 £000	UK Group Scheme: long-term rate of return expected at March 31st 2002 %	Value at March 31st 2002 £000
Equities	8.0	36,577	8.0	60,665
Government and corporate bonds	5.0	24,020	5.5	11,082
Property	8.0	3,435	8.0	2,083
Other	3.8	521	4.0	3,598
Total market value of assets		64,553		77,428
Present value of scheme liabilities		(113,166)		(104,502)
Deficit in the scheme		(48,613)		(27,074)
Related deferred tax asset		14,584		8,122
Net pension liability		(34,029)		(18,952)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at March 31st would have been as follows:

	2003 £000	2002 £000
Net assets excluding SSAP 24 pension liability (see note below)	23,878	19,245
FRS 17 pension liability	(34,029)	(18,952)
Net (liabilities)/assets including FRS 17 pension liability	(10,151)	293
Profit and loss reserve excluding SSAP 24 pension liability	22,618	17,985
FRS 17 pension liability	(34,029)	(18,952)
Profit and loss deficit including FRS 17 pension liability	(11,411)	(967)

The net liabilities of £10,151,000 (2002: assets of £293,000) and profit and loss deficit of £11,411,000 (2002: £967,000) exclude the pension provision of £11,585,000 (2002: £11,372,000) included within provisions and the related deferred tax asset of £3,476,000 (2002: £3,411,900). It should be noted that the Group net assets do not include the full market value of its brands or property assets.

NOTE 23 Pensions (continued)

The following amounts would have been recognised in the financial statements for the year ended March 31st 2003 under the requirements of FRS 17:

	2003
Operating profit	£000
Current service cost	(3,852)

Other finance income	
Expected return on pension scheme assets	5,889
Interest on pension scheme liabilities	(6,471)
Net cost	(582)

	2003
Statement of total recognised gains and losses	£000
Actual return less expected return on the pension scheme assets	(21,983)
Experience gains arising on the pension scheme liabilities	1,890
Changes in assumptions underlying the present value of the scheme liabilities	(1,949)
Actuarial loss recognised in the statement of total recognised gains and losses	(22,042)

	2003
Movement in deficit during the year	£000
Deficit in scheme at April 1st 2002	(27,074)
Movement in year	
Current service cost	(3,852)
Total contributions	4,937
Other finance costs	(582)
Actuarial loss	(22,042)
Deficit in scheme at March 31st 2003	(48,613)

Details of experience gains and losses for the year to March 31st 2003

Difference between the expected and actual return on scheme assets	
Amount (£000)	(21,983)
Percentage of scheme assets	(34%)

Experience gains on scheme liabilities	
Amount (£000)	1,890
Percentage of the present value of the scheme liabilities	2%

Total actuarial loss recognised in the statement of total recognised gains and losses	
Amount (£000)	(22,042)
Percentage of the present value of the scheme liabilities	(19%)

NOTE 24 Retirement benefits

The Group provides post-retirement medical benefits to certain former employees. At March 31st 2003 no current employees (2002: one) and 74 (2002: 80) retired employees were eligible to receive benefits. As at March 31st 2003 the Group estimated the present value of its accumulated post-retirement medical benefits obligation to be £2,398,000 (2002: £2,512,000). These liabilities were confirmed by a qualified independent actuary.

The principal assumptions used in estimating this obligation are health care premium cost escalation of 14% per year and a discount rate to represent the time value of money of 5.4%. Actual premiums paid are being set against this provision, which is periodically being assessed for adequacy.

There is no difference between the assumptions used for the calculation of this post-retirement medical benefits provision and the value of the provision calculated when compared with a provision calculated in accordance with the FRS 17 requirements, since the scheme is no longer available to current employees.

NOTE 25 Financial commitments

Operating leases	2003	2002
Land and buildings, leases expiring	£000	£000
Within one year	779	199
Between two and five years	753	1,817
After five years	4,596	5,020
	6,128	7,036

Plant and equipment, leases expiring		
Within one year	67	210
Between two and five years	177	302
	244	512

NOTE 26 Capital commitments and contingent liabilities

	2003	2002
	£000	£000
Capital expenditure contracted for but not provided in the financial statements	-	121

There are contingent Group liabilities in respect of legal claims, indemnities, warranties and guarantees in relation to former businesses. None of these claims is expected to result in a material loss to the Group.

NOTE 27 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 a total of 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 £240,900 (2002: £323,234) in the normal course of trade during the year, and acquired goods and services to a total value of £77,244 (2002: £57,831). The aggregate balances outstanding with these companies as at March 31st 2003 were £90,958 (2002: £43,615) due to the Group and £2,763 (2002: £2,303) due from the Group. The company has a loan facility from N.M. Rothschild & Sons Limited, the bank, which was not utilised during the year. In the prior year it paid interest of £232,712 on this facility and also placed funds on deposit with N.M. Rothschild & Sons Limited and received interest on these deposits of £144,481.

NOTE 28 Company balance sheet at March 31st

NOTE		2003 £000	2002 £000
	Fixed assets		
29	Tangible assets	2,475	3,699
29	Investments	78,575	78,154
		81,050	**81,853**
	Current assets		
29	Stocks and work-in-progress	453	549
29	Debtors: due after one year	14,613	11,700
29	Debtors: due within one year	21,169	24,151
29	Deferred taxation	5,494	5,422
	Cash and deposits	17,010	3,172
		58,739	**44,994**
29	Creditors: due within one year	(88,277)	(70,064)
	Unexpired subscriptions and deferred revenue	(15,455)	(14,366)
	Net current liabilities	**(44,993)**	**(39,436)**
	Total assets less current liabilities	**36,057**	**42,417**
29	Provisions for liabilities and charges	(10,605)	(10,176)
	Net assets	**25,452**	**32,241**
	Capital and reserves		
20	Called-up share capital	1,260	1,260
29	Profit and loss account	24,192	30,981
	Equity shareholders' funds	**25,452**	**32,241**

June 6th 2003
Dominic Cadbury
Kiran Malik
Directors

The notes on pages 47-49 form an integral part of these financial statements.

NOTE 29 Notes to company balance sheet

Tangible fixed assets	Plant and machinery	Equipment	Total
Cost	£000	£000	£000
At April 1st 2002	2,037	22,108	24,145
Additions	-	464	464
Disposals	(320)	(3,279)	(3,599)
Transfers to other Group companies	-	176	176
At March 31st 2003	1,717	19,469	21,186
Depreciation			
At April 1st 2002	1,924	18,522	20,446
Provided during year	40	1,641	1,681
Disposals	(320)	(3,217)	(3,537)
Transfers to other Group companies	-	121	121
At March 31st 2003	1,644	17,067	18,711
Net book value March 31st 2003	73	2,402	2,475
Net book value April 1st 2002	113	3,586	3,699

Investments (fixed assets)	Interest in own shares	Shares in Group companies	Total
Cost	£000	£000	£000
At April 1st 2002	2,177	75,977	78,154
Additions	1,683	-	1,683
Sales	(404)	-	(404)
At March 31st 2003	3,456	75,977	79,433
Provisions for impairment			
At April 1st 2002	-	-	-
Written off	980	-	980
Released on sales	(122)	-	(122)
At March 31st 2003	858	-	858
Book value March 31st 2003	2,598	75,977	78,575
Book value March 31st 2002	2,177	75,977	78,154

The principal wholly owned subsidiary undertakings of the company are:

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

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, The Economist Group (Luxembourg) S.a.r.l. and The Economist Group (Investments) Limited act as investment companies for the Group. The Economist Group Trustee Company Limited 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. 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. Interests in own shares comprises the investment in the ESOP (see note 14).

NOTE 29 Notes to company balance sheet (continued)

Stocks and work-in-progress	2003 £000	2002 £000
Raw materials	317	446
Work-in-progress	55	-
Finished goods	81	103
	453	549

Debtors

Debtors: due after one year	2003 £000	2002 £000
Amounts owed by Group companies	14,613	11,700

Debtors: due within one year		
Trade debtors	12,034	15,967
Amounts owed by Group companies	6,516	4,378
Other debtors	340	563
Prepayments and accrued income	2,273	3,228
Tax recoverable	6	15
	21,169	24,151

Summary of movements in deferred tax asset	£000
At April 1st 2002	5,422
Credit to the profit and loss account	72
At March 31st 2003	5,494

Assets recognised for deferred taxation under the liability method are	2003 £000	2002 £000
Accelerated capital allowances	1,079	1,070
Pensions and post-retirement benefits	3,252	3,107
Other timing differences	1,163	1,245
	5,494	5,422

All potential assets have been recognised except for taxation which would arise on the remittance of profits retained overseas.

Creditors: due within one year	2003 £000	2002 £000
Bank overdraft	-	30,425
Trade creditors	1,910	1,873
Amounts owed to Group companies	63,407	14,229
Other creditors including taxation and social security	6,162	7,308
Accruals	8,861	8,670
Proposed dividend	7,937	7,559
	88,277	70,064

Other creditors including taxation and social security comprise		
Corporation tax	2,926	3,195
Other tax and social security payable	2,818	3,367
Other creditors	418	746
	6,162	7,308

Trade creditors as at March 31st 2003 for the company represented an average 12 days of purchases (2002: ten days).

NOTE 29 Notes to company balance sheet (continued)

Provisions for liabilities and charges	Onerous property leases £000	Provisions for retirement benefits £000	Provision for pensions-defined benefit schemes £000	Total £000
At April 1st 2002	-	1,551	8,625	10,176
Charge to the profit and loss account	101	43	4,046	4,190
Utilised in year	-	(70)	(3,816)	(3,886)
Released in year	-	(50)	-	(50)
Transfer to other Group companies	-	-	175	175
At March 31st 2003	101	1,474	9,030	10,605

Reserves	2003 £000	2002 £000
At April 1st	30,981	39,249
Retained loss for the year	(6,789)	(8,268)
At March 31st	24,192	30,981

Financial commitments Operating leases	2003 £000	2002 £000
Land and buildings, leases expiring		
Within one year	105	54
Between two and five years	319	438
After five years	3,438	3,416
	3,862	3,908
Plant and equipment, leases expiring		
Within one year	40	187
Between two and five years	122	223
	162	410

Capital commitments and contingent liabilities	2003 £000	2002 £000
Capital expenditure contracted for but not provided in the financial statements	-	28

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 2003. The annual cost of property leases guaranteed by the company is currently £1,950,659 (2002: £1,938,270) per year.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Friday July 11th 2003 at 12.15pm, for the following purposes:

1. To receive the report of the directors for the year ended March 31st 2003

2. To receive the audited accounts for the year ended March 31st 2003

3. To declare the final dividend

4. To reappoint PricewaterhouseCoopers LLP as the company's auditors

5. To authorise the directors to fix the remuneration of the auditors

By order of the Board

O K M Grut
Secretary

Registered Office
25 St James's Street
London SW1A 1HG

June 6th 2003

A member entitled to attend and vote may appoint a proxy, who need not be a member of the company, to attend and vote instead. A form of proxy is enclosed. It must first be signed by the appointer and delivered to the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol, BS99 3FA at least 48 hours before the meeting.