THE ECONOMIST GROUP ANNUAL REPORT 1999

THE ECONOMIST GROUP

ANNUAL

19

A27 *AMMD9HAV* 50
COMPANIES HOUSE 18/06/99

The Economist

THE ECONOMIST NEWSPAPER LIMITED
AND ITS SUBSIDIARY COMPANIES

REGISTERED NUMBER: 236383

ANNUAL REPORT 1999

REVIEW OF THE YEAR

FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE

The group has increased profit before tax by 28% from £25.1m to £32.1m. Earnings per share have grown by 25%. With shareholders' approval, we will declare a final dividend of 27p per share at the annual general meeting, giving a total dividend of 37.5p per share for the year, an increase of 10% on 1997/98.

These results were achieved against the background of economic crises in Asia, Russia and Brazil and the more general concern that the repercussions would affect our other markets. In troubled times it is clear that people turn to us to read and learn from a reliable source.

The Economist continues to go from strength to strength. The global nature of the paper is important to readers and advertisers alike, and its uncompromising and independent stance on major issues has made it even more valuable. Average worldwide circulation at the year-end was 695,160, up from 654,341 last year. Vitality in circulation is not only a sign of health and provider of revenue, it is also of great importance to advertisers.

The Economist Intelligence Unit faces some dramatic changes in its market. Most multinational companies now have an intranet for the dissemination of information. The EIU is able to supply country information very effectively into these systems, and is capitalising on this expanding market. It continues to transform the way it does business in every respect, from the resources required for electronic editorial and sales to the systems that will create a platform for the future.

The changes we made at the *Journal of Commerce* were implemented successfully, and the cost base was reduced. The newspaper faces tough markets, and has now implemented the second stage of its plans to improve its focus by going tabloid under a new editor. PIERS, the database business, continues to be extremely profitable and is expanding its market to customers outside the United States and outside the maritime industry.

The highlight in the specialist magazine business was the launch of *CFO Asia*, to complement CFO in the United States and *CFO Europe*, launched last April. Not only do we now have three magazines around the world for financial executives, but we also have a fourth product to sell to advertisers: a global package, which has no extra costs attached to it. The two new titles have beaten their launch plans and the teams have sold over £1m in advertising into the CFO magazines other than their own. These additions to the portfolio demonstrate the group's ability to build brands internationally. The portfolio of magazines is more tightly managed, and *Information Strategy* was closed during the year.

The capital investments we made last year are now starting to come to fruition. *The Economist*'s new editorial system, the finance and information system and the infrastructure to support them, are all demanding of our people and time but they are critical for the professionalisation of the business.

There is a sense of mission in the company, and it comes from the fact that everyone who works here recognises what the group can contribute—to shareholders, to readers and to advertisers. The staff in the group are dedicated and effective, and we want to acknowledge and to thank them.

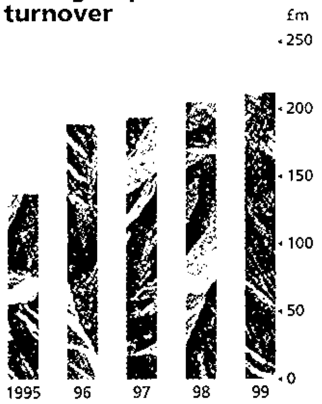
The trading outlook is reasonably good. We have businesses operating in most regions, and therefore we have some shelter from the risks of local economic downturns. Meanwhile we continue to invest in the heart of the company—in the business information and online markets and in the systems necessary to compete in them. The timing of these investments will affect profits in the first half of next year.

This year saw the retirement of two non-executive directors. Sir Frank Barlow, formerly managing director of Pearson plc, joined the board in 1984 and retired in February. Sir Peter Gibbings, chairman of the Radio Authority and formerly chairman of The Guardian Media Group and of Anglia Television Group, retires in June having joined the board in 1987. They have both made major contributions to the progress of the company and we are most grateful to them both for their enthusiastic interest and wise counsel over many years.

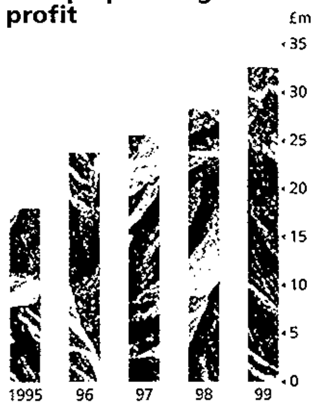
DOMINIC CADBURY | HELEN ALEXANDER

HIGHLIGHTS

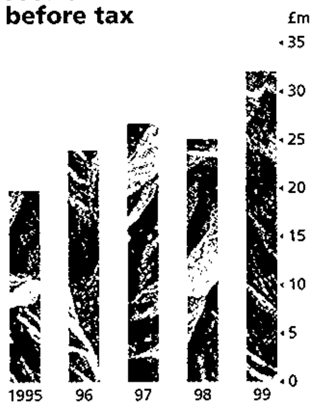
Total group turnover



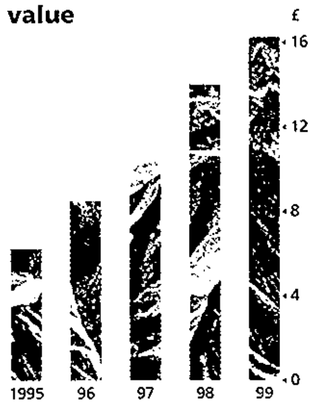
Group operating profit



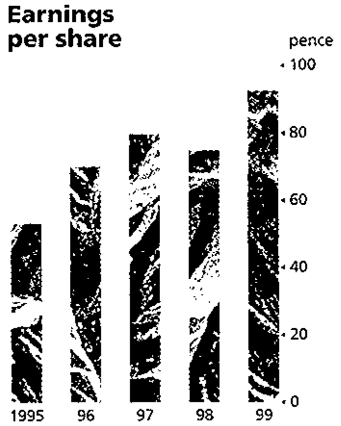
Profit before tax



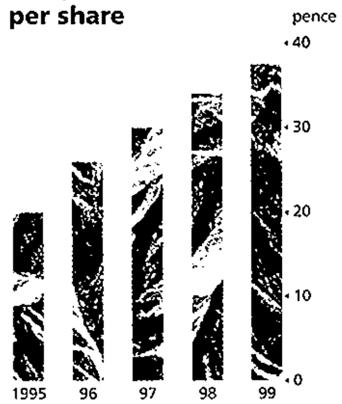
Indicative share value



Earnings per share



Dividends per share



FINANCIAL REVIEW

CASH FLOW AND GEARING Our net funds inflow of £5.6m for the year is lower than in the past because of higher capital expenditure (£2.9m), increased dividends (£1m), payments of the amounts provided last year for restructuring of the Journal of Commerce (£2.5m), and payments under the long-term incentive schemes (£3.5m). Despite the effect of these and other changes in working capital, our underlying cash flow from operating activities generated £28m.

We had net funds of £19.6m at the year end, and our group remains ungeared. Retained profit in the year has reversed the previous deficit on shareholders' funds. These now total £2.3m after the cumulative write off of £95.3m of goodwill.

ACCOUNTING POLICIES The accounting policies note on page 38 summarises the six new financial reporting standards that have become effective during the year. In this year the most substantial of these have been the new rules governing disclosures on financial instruments and derivatives. In future, however, we would expect the adoption of the new standard on goodwill to be very important. In the past we have written off to reserves £95.3m of goodwill relating to acquisitions, but adoption of this standard means that in future new goodwill will be amortised through the profit and loss account. When disposals are made involving goodwill previously written off to reserves this goodwill is written back through profit. This year's results include £279,000 of such goodwill relating to the closure of the Infrastructure Development Group. Last year £2.0m of goodwill was written off on the Transax disposal.

DIVIDEND POLICY The company has substantially increased its dividend payments over the last few years whilst retaining a level of dividend cover (earnings per share as a multiple of dividends per share) that still comfortably exceeds the norm for the sector. Dividends have more than doubled in the last five years and it is the aim of the company to preserve a growth rate over time well ahead of inflation.

Apart from our objective of producing high rewards for shareholders, when we review our dividend policy we have regard to the investment opportunities open to us and to our liquidity position. The board's recommendation for the final dividend is 27p, making a full-year dividend of 37.5p which is a 10% increase on last year. The dividend is covered 2.5 times by earnings and represents a yield of 2.3% on the share valuation of £16.25.

TAXATION Over recent years the effective rate of tax has been falling, particularly since the acquisition of the Journal of Commerce, which enabled the group to benefit from tax relief on the amortisation of the related goodwill. This year, however, the rate has risen from 25% to 27% as the pattern of profits has moved more towards higher tax areas, especially the United States.

EUROPEAN MONETARY UNION The group has been preparing for the introduction of the euro for the past couple of years, though our geographic pattern of sales means that the impact is small. The group's treasury operations have successfully dealt in euros since the start of the year.

An internal "euro committee" has monitored the impact of the euro on our business and on our competitive sector. There has as yet been no widespread adoption of trading in euros in the publishing industry, which may partly be explained by businesses focusing their systems efforts on year 2000 preparations. We expect the speed of adoption to pick up, particularly in business-to-business transactions, which are less reliant on the use of notes and coins. It is the group's aim to be ready for this increased use and for sterling's potential entry into the union.

INFRASTRUCTURE This year we have made significant progress in creating a secure accounting and infrastructure base which will provide a springboard for future growth. We have invested in new systems, recruited new skills into our finance team and added focus to the review of the balance sheet. Our old finance systems developed problems which hampered the timely payment of some suppliers during the year. The new systems will enable us to resume prompt payments within the next few months, which we are treating as a priority.

KIRAN MALIK

FIVE-YEAR SUMMARY

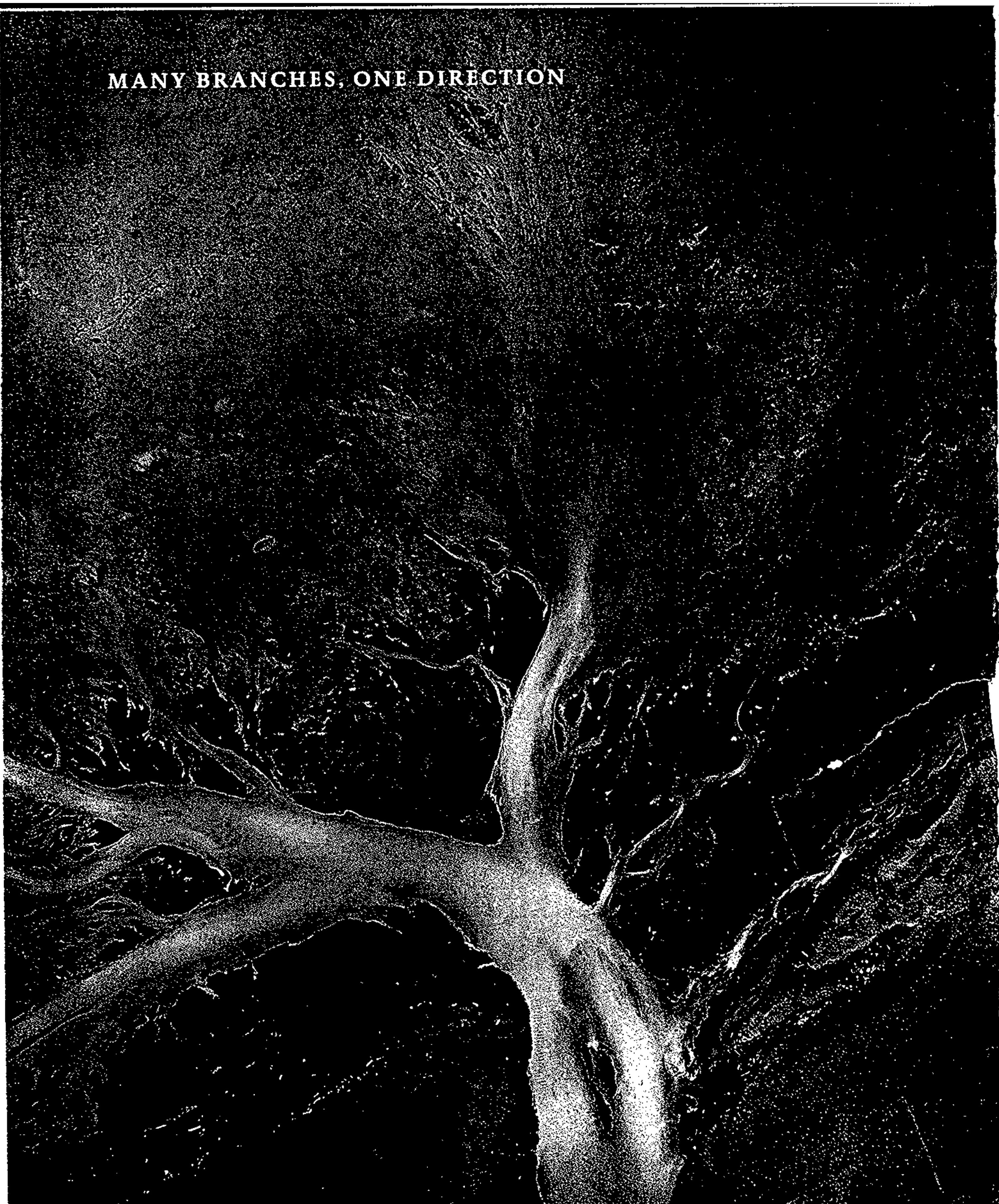
Profit and loss	1999 £000	1998 £000	1997 £000	1996 £000	1995 £000
Turnover	212,559	205,024	193,515	188,659	137,489
Operating profit	32,573	28,261	25,599	23,762	17,990
Profit on ordinary activities before interest	31,932	25,308	27,865	25,722	17,990
Net interest	213	(232)	(1,143)	(1,725)	1,775
Profit before taxation	32,145	25,076	26,722	23,997	19,765
Profit after taxation	23,448	18,884	20,077	17,682	13,420

Balance sheet					
Intangible assets	–	–	370	658	–
Fixed assets	35,811	33,575	35,342	36,398	32,518
Investments	–	–	–	133	122
Net current (liabilities)/assets	(14,569)	(17,051)	(12,769)	(13,872)	2,850
Long–term creditors and provisions	(18,991)	(29,131)	(47,764)	(56,629)	(9,024)
Net assets/(liabilities)	2,251	(12,607)	(24,821)	(33,312)	26,466

Ratios					
Operating profit to turnover	15.30%	13.80%	13.20%	12.60%	13.10%
Taxation	27.10%	24.70%	24.90%	26.30%	32.10%
Earnings per share	93.4p	74.9p	79.7p	70.2p	53.3p

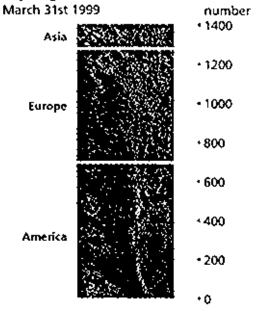
Dividends					
Dividend per share	37.5p	34p	30p	26p	20p
Times covered	2.5	2.2	2.7	2.7	2.7
Net cash from operating activities	£27,924	£37,263	£34,669	£30,129	£29,720
Indicative share value	£16.25	£14.00	£10.50	£8.50	£6.25

BUSINESS REPORTS


MANY BRANCHES, ONE DIRECTION

The development of the group into a distinct and competitive set of businesses, supported by professional services, continues to be our goal. We are aiming to take advantage of the synergies between our businesses, as well as to maximise the growth in the earnings, size and quality of each of them. No opportunity should be missed just because it does not fall neatly into one of the structures we have erected. Increasingly, winning in our markets will rely on co-operation between people in different parts of the group; this demands a different way of working.

Geographical spread of employees
at March 31st 1999



PEOPLE The development of our people is critical to our future, so we are professionalising our approach to training and development. This year we have strengthened our focus on developing the leadership skills and capability that will be necessary for us in future. Some particular highlights have been a senior executive coaching programme, a publishing skills development programme and strategic project management training, as well as a number of other managerial and technical development initiatives worldwide. We aim to be world-class in the way we develop our people.

GETTING IN SHAPE We have been getting the infrastructure into shape in order to match the size of our business now and to provide the springboard for future growth. The financial information system for the group will be provided by PeopleSoft, and teams have been working hard on the first steps to implement changes in the finance system. The first elements went live as planned at the beginning of April 1999. The roll-out around the world and the application of all the parts of the system will continue throughout the 1999/2000 financial year and into the next. This is a major investment and a commitment to group-wide information that will give us more tools with which to manage an increasingly complex business. It will allow many existing tasks to be automated, releasing time for more useful things.

Like all businesses, we are planning for the turn of the century to ensure that we manage the risks of the date change—the so-called "millennium bug". Every business and department is checking, rechecking and testing the identified risks and making contingency plans where appropriate. The process is described in the directors' report.

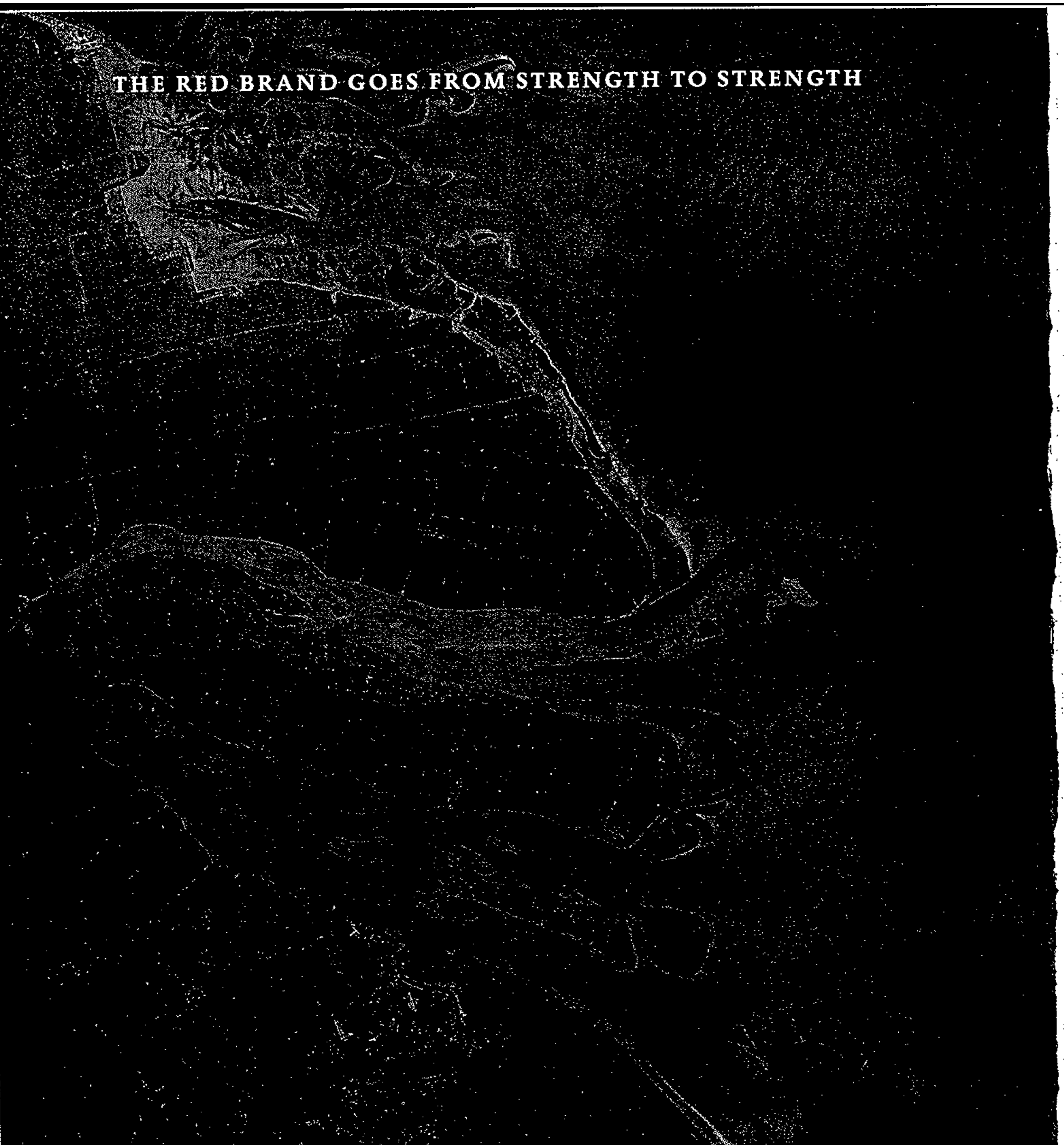
THE GROUP IN THE COMMUNITY We take our community responsibilities seriously, and continue to donate more than 0.5% of profit after tax to charity and to the arts. We have a programme of giving, worldwide, and also a scheme whereby we match donations to other charities by group employees.

ELECTRONIC PUBLISHING The pace of change with the Internet as a new publishing and sales medium is very, very fast. Each of our businesses is seizing the markets it identifies for e-commerce and electronic publishing but we also have mechanisms in place to capture group-wide opportunities. The EIU is leading the charge in corporate sales, *economist.com* to consumers and the Journal of Commerce in the maritime sector.

The group's web addresses are:

Air Cargo World www.aircargoworld.com
Business Central Europe www.bcemag.com
CFO and *Treasury & Risk Management* www.cfonet.com
CFO Asia www.cfoasia.com
CFO Europe www.cfoeurope.com
The Economist Conferences www.economistconferences.com
The Economist Group www.economistgroup.com
The Economist newspaper www.economist.com
EIU www.eiu.com
EIU Electronic www.eiuelectronic.com
EIU ViewsWire www.viewswire.com
EIU ViewsWire Eastern Europe www.ee.viewswire.com
European Voice www.european-voice.com
The Journal of Commerce www.joc.com
PIERS www.piers.com
PIERS Publishing group www.pierspub.com
Public Network Europe www.pnewire.com
Pyramid Research www.pyr.com
Roll Call www.rollcall.com
Traffic World www.trafficworld.com
The World in 1999 www.theworldin.com

THE RED BRAND GOES FROM STRENGTH TO STRENGTH



Profits at *The Economist* were higher this year than they were last: profit before tax increased by 11%. The flagship business continues to grow and develop, and our readers continue to turn to us for authoritative and provocative content. Worldwide circulation at the year-end was an annual weekly average of 695,160 copies, 6.2% above last year. A wide range of advertisers round the world continued to invest in *The Economist*, where their target audience could reliably be found. Outperforming the competition is our goal, and the strength of our brand and abilities of our team make this possible.

USA Circulation in North America was up 7% on last year, and flew past the 300,000 mark to 307,106. In a market where newsstand sales have declined over ten years, sales of *The Economist* bucked the trend and continued to increase. Our aim is to distribute copies by the weekend, and the advent in the coming year of a second print site on the west coast of the United States will help to achieve this consistently. Advertising revenue reached a record high, growing by over 12%. Restored circulation vitality saw an increase in US advertising, as did continued global brand-advertising by the IT, telecoms and banking sectors.

UK In the UK, copy sales reached 122,032, up 6% on last year, with growth from both subscriptions and from newsstands. Sales from supermarkets grew nearly twice as fast as sales from traditional retailers. Revenues were up accordingly too. The advertising campaign, which has run since 1988, continues to be effective and also to win numerous awards, including a Gold, Silver and Bronze at the prestigious Cannes International Advertising Festival. Advertising revenue achieved an excellent 13% growth. This was driven by a strong performance for the UK edition, several large new worldwide advertisers, and by increased Europe-wide spends from IT and telecoms advertisers.

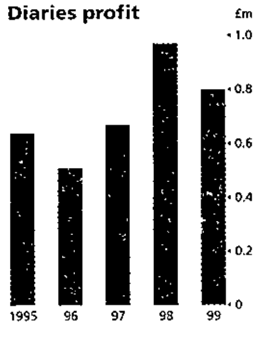
EUROPE Circulation on the continent of Europe grew to an average of 149,089 per week and has surpassed the 150,000 mark on a number of occasions. This represents a year-on-year increase of 5%, with subscriptions growing a little faster and trade sales a little slower. We are increasing promotional activity on a country-by-country basis, with more local sales activity. Advertising revenue increased by 12% with particularly strong results in Germany and France, as major continental corporations increased their international marketing activity.

ASIA Advertising from Asia proved tough, for several reasons. The reduction of both business and tourist travel led to significant cuts in hotel advertising. The currency crisis reduced purchasing power and some key customers collapsed. While this has affected overall advertising sales, the Asia edition is in a strong position and has consistently outperformed the market. *The Economist*'s position as an authoritative source of insight and analysis, now more than ever, has contributed to good circulation growth of 6% to an annual weekly average sale of 80,578 copies per issue. Continued circulation vitality indicates that we are delivering something that people want and need to read. In so doing, we provide an audience advertisers want to reach.

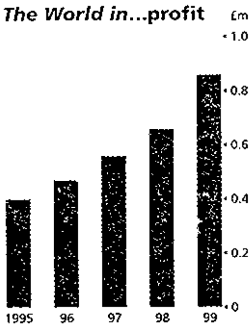
THE ECONOMIST BRAND BUSINESSES Performance in each of these areas of business which relate to *The Economist* differed somewhat.

The Economist diary business is sensitive to fluctuations in the economic environment, and its customers involved in emerging markets bought fewer diaries this year. However, the cost base was lower than last year, and some interesting product developments will shore up the business for future years.

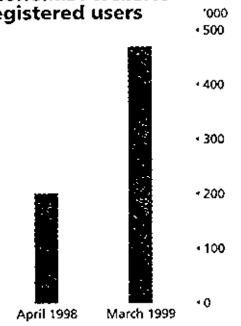
Diaries profit



***The World in*...profit**



***Economist* website registered users**



The World in 1999, the latest in our annual series, once again increased revenues and profits. Strong circulation growth and the success of the North American advertising edition further established our leading position with this product.

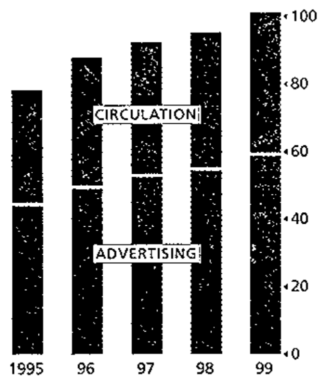
Revenues and profits from second rights and syndication continued to grow overall, as sales to electronic distributors made up for contracts lost as partners in emerging markets pulled in their horns.

The Economist web edition grew strongly and made some big changes in 1998/99. The number of users visiting the site increased, reaching 540,000 per month by April 1999, more than double the figure a year earlier. Over 900,000 of our editorial e-mail newsletters are sent weekly, and our registered users to the website surpassed 500,000 in April 1999. The growth has been followed by strong advertising demand, including from blue-chip advertisers across a broad range of categories. But perhaps one of the most encouraging signs was a firming up of renewal rates of US subscribers to the printed paper as a result of our offer of privileged web access to those readers. The rapid growth of the web audience has been accompanied by some of the strongest circulation growth of the decade for the print publication. Plans for the future will include an expansion of the information and service offerings at the website, while remaining clearly focused on enhancing the values and attributes of the brand. *Visit the website at www.economist.com.*

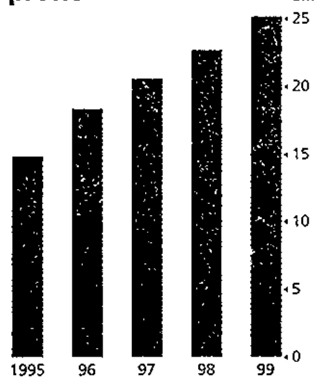
The printing business, Redhouse Press, is partly dependent on the Economist Intelligence Unit printing more copies for its customers. As EIU customers bought fewer printed copies (and more electronic information), so the revenues and profits at Redhouse were hit. To mitigate this effect we sought more external customers, successfully. The external client base grew fivefold and revenues by 20%.

RYDER STREET PROPERTIES We own an important architectural site in The Economist complex. We have completed a refurbishment of one of the buildings, and the old banking hall has been converted into a restaurant. Our property subsidiary manages the complex, where 52% of rental revenues now come from outside the group.

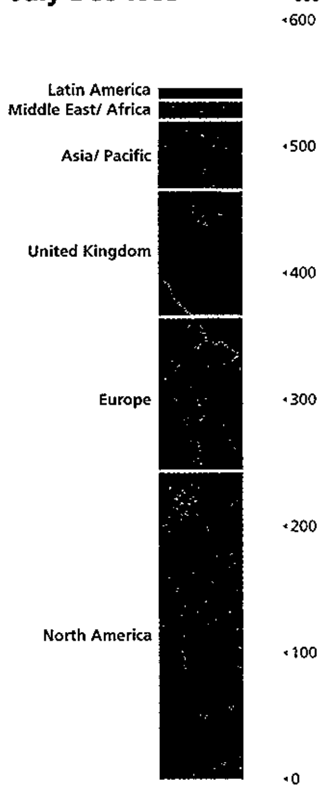
The Economist
revenue



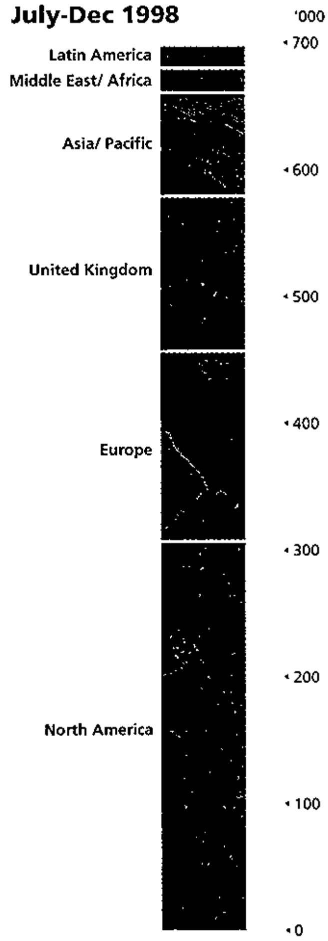
The Economist
profit

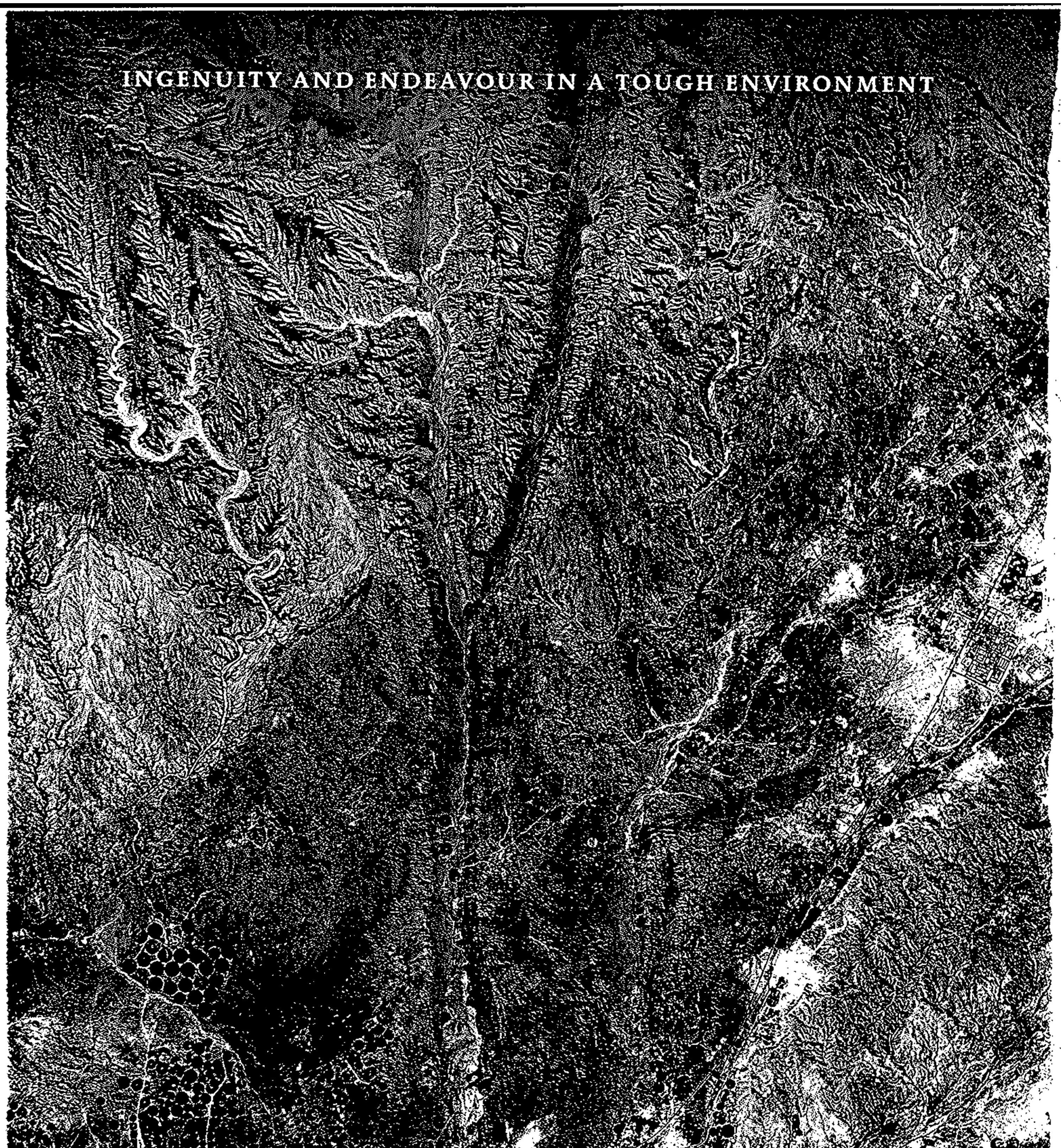


***The Economist* circulation**
July-Dec 1993



***The Economist* circulation**
July-Dec 1998




INGENUITY AND ENDEAVOUR IN A TOUGH ENVIRONMENT

THE ECONOMIST INTELLIGENCE UNIT

We are transforming the Economist Intelligence Unit into a leading provider of business intelligence for the digital age. This is in the midst of the Internet revolution, which is radically changing the market for business information.

The EIU has a particular strength in information on emerging markets, and has been affected by the troubles that spread from Asia to Russia and Brazil. Potential new customers have been put off by economic turmoil and existing ones have cut spending. The economic crisis in Asia destroyed the market for the Infrastructure Development Group's conferences. As a result, we decided to close the business, with trading losses and closure costs of £900,000. Interest in emerging markets is expected to return over time.

The second major impact on the EIU was from competition from electronic sources. Customers are turning away from print to electronic information. This shift, coupled with the effects of the emerging markets crisis, led to a reduction in profit before exceptionals of £700,000 to £5.5m.

NEW OPPORTUNITIES For the EIU, the Internet offers not only competition but also new opportunity. Our own electronic revenue grew by 50% in the year, led by dynamic sales into corporate networks of our full-text service, *eiu.com*. The EIU Views*Wire* has also proved extremely popular since its launch as a web service in 1998: a daily aggregation of analysis from the EIU and the wider group, it now has an audience of around 200,000 authorised users. We are increasing the editorial resources available to it as we launch regional versions of the service. EIU Country*Data*, an analytical database of macroeconomic statistics and forecasts, was launched during 1999, as was CountryNet, an online service for expatriates and business travellers. There is a growing market for the EIU in selling to companies which have established information networks: this is a key focus for the future.

At Pyramid Research, the EIU's telecoms division, there was much staff change during the year. This affected both editorial output and marketing efficiency. A new team is now focused on expanding Pyramid's excellent research, and our electronic know-how is enabling Pyramid to deliver its advisory services over the Internet.

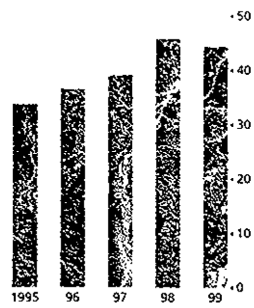
The new healthcare division stayed on track during the year. We now publish four subscription titles that analyse the business of healthcare around the world. Our expertise here has been vital in establishing successful conferences on the same topic.

In Conferences, the business peer groups in Asia, the mainstay of our operations there, held up well. Being close to the members of these groups allowed us to tailor content very quickly to changing and sometimes adverse economic conditions. In response to the growing China business, we have set up a new representative office in Shanghai. In Europe, Conferences focused with good effect on winning sponsorship for each event. Profit there doubled on the previous year.

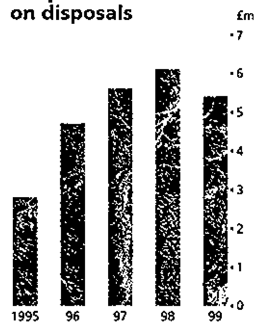
The coming year will see more investment in the EIU's electronic capabilities. This will be in sales, editorial and technical resources—the heart of the business. Electronic is also supporting print sales, which still account for the majority of publishing revenues, through regular promotions on our website.

As it delivers intelligence in person, in print and increasingly in electronic form, the EIU is helping to lead the group's advance into the new digital environment for business information. We are confident that it has the brand strength, breadth of coverage and fast-growing expertise to succeed.

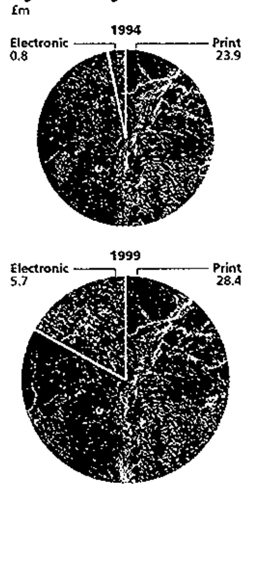
EIU revenue



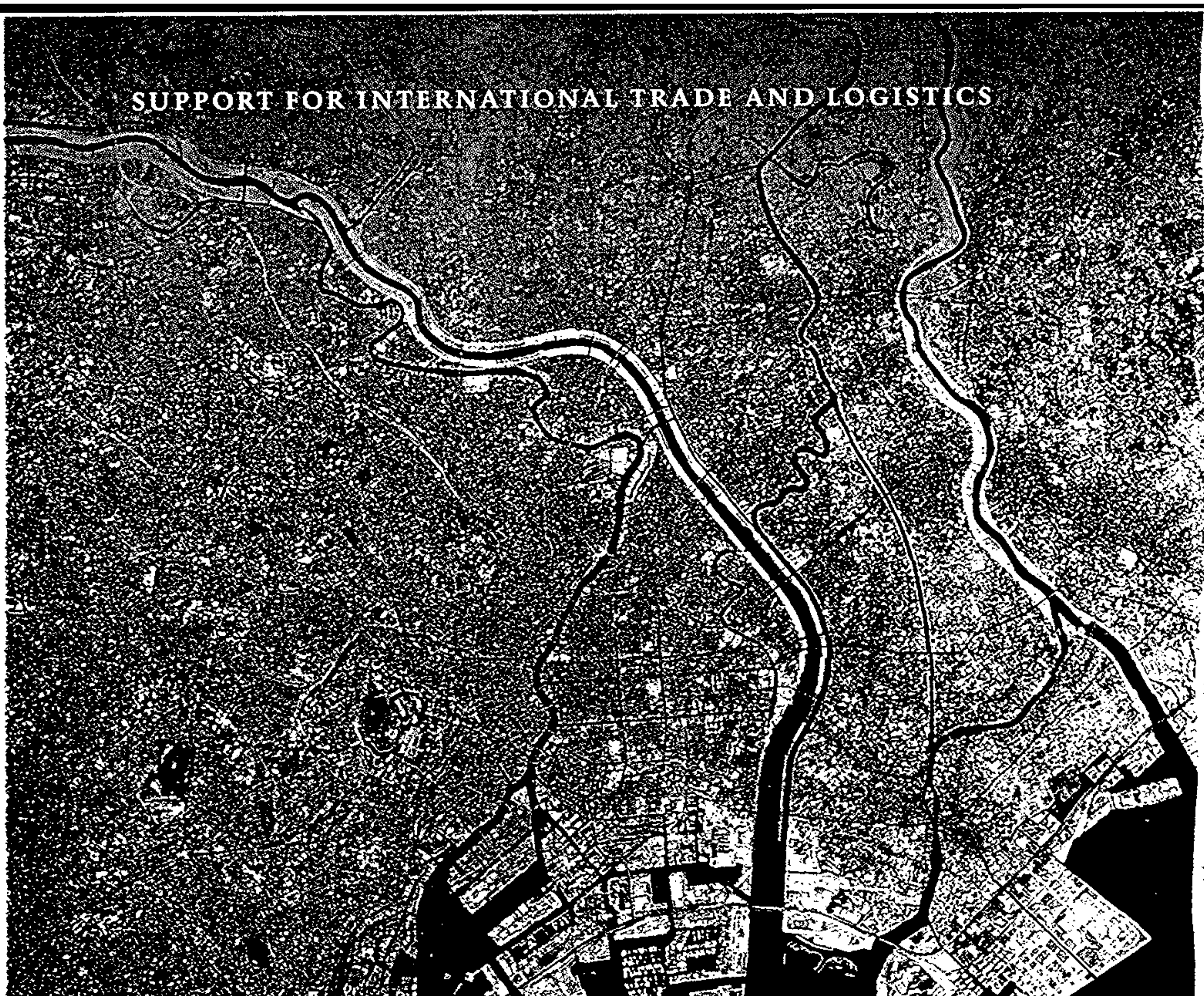
EIU profit before loss on disposals



EIU publishing revenue by delivery mechanism



SUPPORT FOR INTERNATIONAL TRADE AND LOGISTICS



The *Journal of Commerce* progressed steadily. The restructuring that took place before the beginning of 1998/99 was successful, and as a result we benefited from a full year of lower costs. Last year we warned that the market was likely still to be tough, and that overnight transformation of results was unlikely. The profit before exceptional items improved from £2.1m in 1997/98 to £2.4m this year, and the profit margin increased too. However, the markets are still extremely challenging and this level of performance is not as sparkling as we would like.

THE NEWSPAPER In the newspaper, operating profit is up 37% on last year, and more plans are in place to ensure that the paper speeds up the delivery of a more focused publication for all those involved with the international movement of goods. A new editor took the helm on April 1st 1999 and announced plans to take the paper tabloid and to send some copies to shippers, those who use transportation services to ship their goods, in a controlled element of circulation.

The newspaper's conferences and brand business produced revenue growth of 62%, driven largely by an increase in the number of conferences held. The annual flagship conference on break-bulk cargo achieved a record number of delegates. *Traffic World* obtained a major new conference sponsorship partner in KPMG.

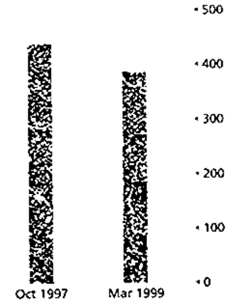
Contribution to profit by the magazines continues to grow. *Traffic World* turned into profit, the *Shipper* titles expanded their revenue by 10%, and the international edition of *Air Cargo World* turned in a profit even in its launch year.

The pace of development in new media quickened, with a larger team in a separate profit centre. We now have three websites: for the newspaper, *Traffic World* and *Air Cargo World*. *JoC Online*, the newspaper website, produced an increase of 40% in home page impressions in the second six months of the year.

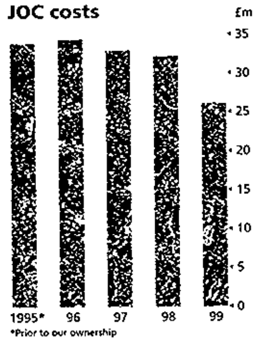
PIERS In PIERS, the electronic service providing information on imports and exports, revenues were hard to win but the contribution grew by 2% even in this difficult climate. CD-ROM sales grew by 14%, an encouraging sign of expansion outside the transportation market. The tough times experienced by the maritime sector meant that carriers not only reduced advertising spend in the newspaper, but also reduced spend on the harder information from PIERS; as mergers became necessary in the industry, we felt the impact as two subscriptions became one.

In addition, developments in PIERS include a web service for the database, and a new service for customers to be able to pay per view for the directories and their content. International expansion continues and the speed of change will hot up as more offices overseas start to sell PIERS data, as has already begun in Hong Kong, Malaysia, South Korea and Thailand.

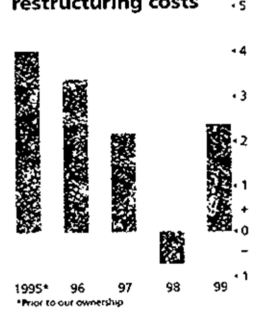
JOC headcount



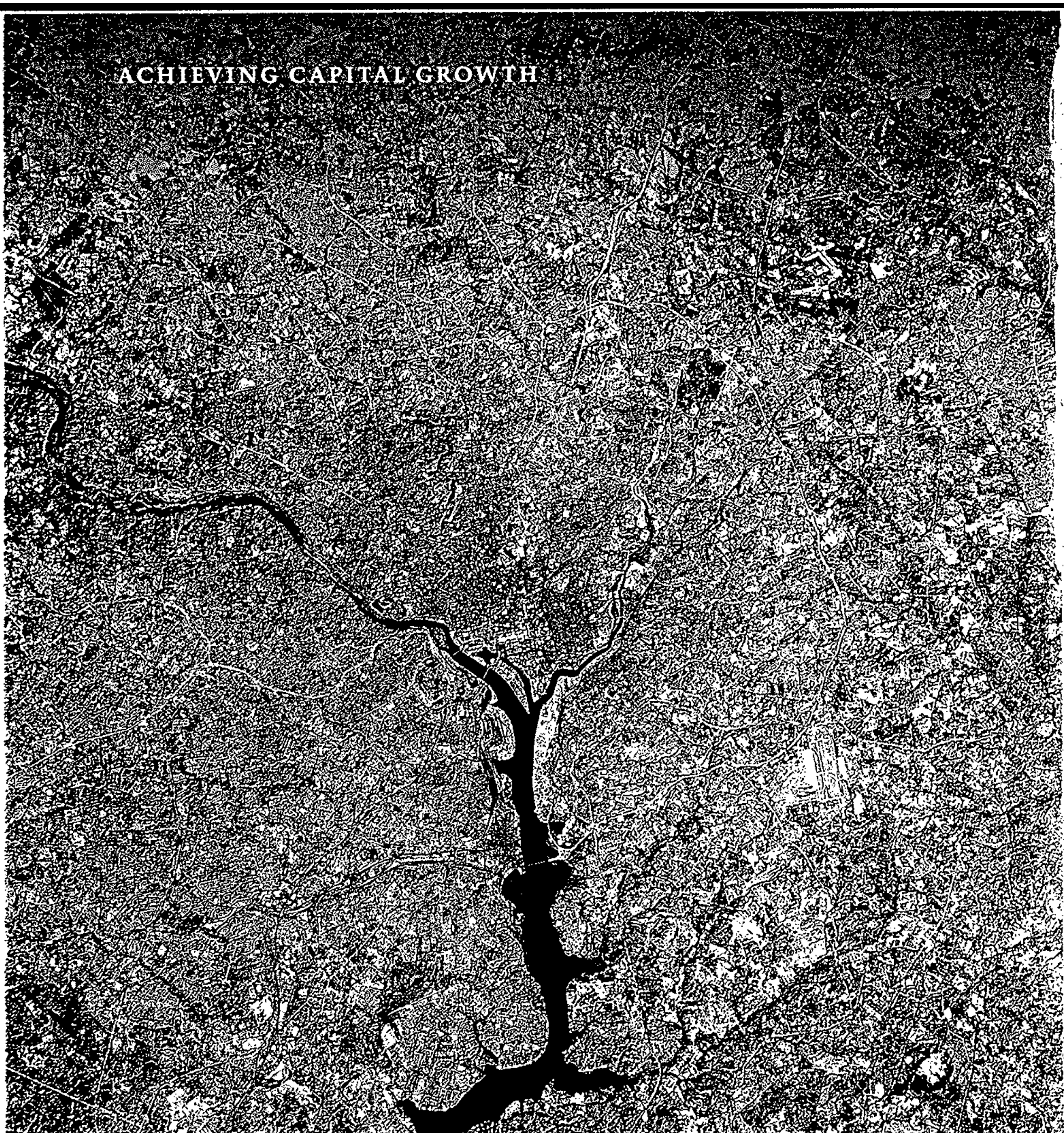
JOC costs



JOC profit/loss before disposals, after restructuring costs



ACHIEVING CAPITAL GROWTH



SPECIALIST MAGAZINES

Within this group the rides for some were smoother than for others. We closed *Information Strategy* during the year, after a poor first half performance and an evaluation of its future potential with us. *Business Central Europe* experienced soft advertising revenues after Russia's economic crisis, and launched products to offset this reduction. At *European Voice* some significant savings on costs were achieved towards the end of the year. Meanwhile the launch of the two new regional CFO titles, CFO *Europe* and CFO *Asia*, exceeded all our expectations.

THE CFO FAMILY The global nature of the CFO stable is now strong. Advertisers in each region not only have the option to advertise in their local CFO magazine, but they can also buy into one of the other regions' titles, or they can buy global coverage using all three titles. So far an extra £1m of revenue has been sold by CFO sales teams into editions outside their home base. This is encouraging for our plans to expand the brand further in each region, to penetrate deeper into each of the local markets and to tie customers in to the brand with more product offerings.

In Asia, advertising has exceeded expectations on all measures, and new schedule advertisers arrive with each issue. Blue-chip clients already include Citibank, Oracle and HSBC.

In Europe we have excellent pan-regional penetration in the face of fierce competition from existing titles and new launches. Germany is now the largest readership market for CFO *Europe*, an achievement for an English-language title, followed by the UK and France. We successfully took a first step into other products and services for customers with the CFO *European Summit* in Brussels, in co-operation with The Economist Conferences.

The parent, CFO in North America, recovered after a slow start and finished the year with record profits, largely due to advertising revenue and the continued success of CFO *Enterprises*. The magazine received some very prestigious design awards during the year, including both Gold and Silver Ozzie awards for a cover story, and a Merit award from the Society of Publication Designers against fierce competition.

ROLL CALL, CAPITAL STYLE AND EUROPEAN VOICE Revenues dropped back at *Roll Call* just below last year's record level, largely because the impeachment hearings and the events that led up to them distracted Congress from legislation, which is the lifeblood for the lobby advertising that *Roll Call* relies on. Despite that, and the subsequent war in Kosovo which also served to distract Congress from legislation, *Roll Call* was still hot with news: it broke the story on the web of Speaker-elect Livingston's political demise and departure.

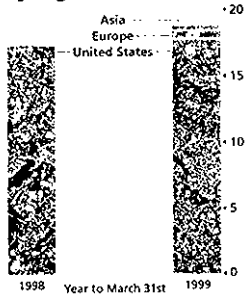
Capital Style more than doubled last year's revenue, and attracted new luxury advertisers such as Gucci and Jaguar. The magazine is clearly finding a place in Washington and the sales team, now at full strength, is chasing tougher targets.

At *European Voice* revenues were up 45% on the prior year. Lobby advertising improved, with more dramatic messages helping to persuade others to incorporate advertising into their advocacy campaigns. Classified also performed well, as the paper continues to be positioned as a trade paper for recruitment in political and regulatory affairs. Recognition also came with the award of the Achievement in European Information to the editor.

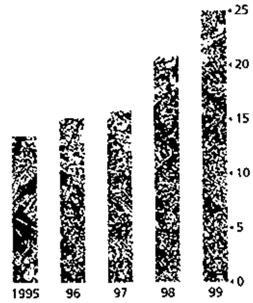
BUSINESS CENTRAL EUROPE AND PUBLIC NETWORK EUROPE In *Business Central Europe* the effect of the Russia crisis was felt. Nevertheless, revenue remained over £1m and there were significant increases in classified revenue, ancillary product revenue and in trade sales. The magazine was relaunched during the year, and the focus is now more singlemindedly on business, with the redesign giving a more self-confident character to the magazine.

Total revenue at *Public Network Europe* dropped back, but circulation revenue did increase and the number of registered readers is up 10% on last year. Revenues from other products, like the yearbook, were healthy and demonstrate increased sales each year.

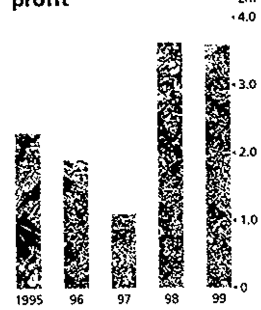
CFO family total sales by region

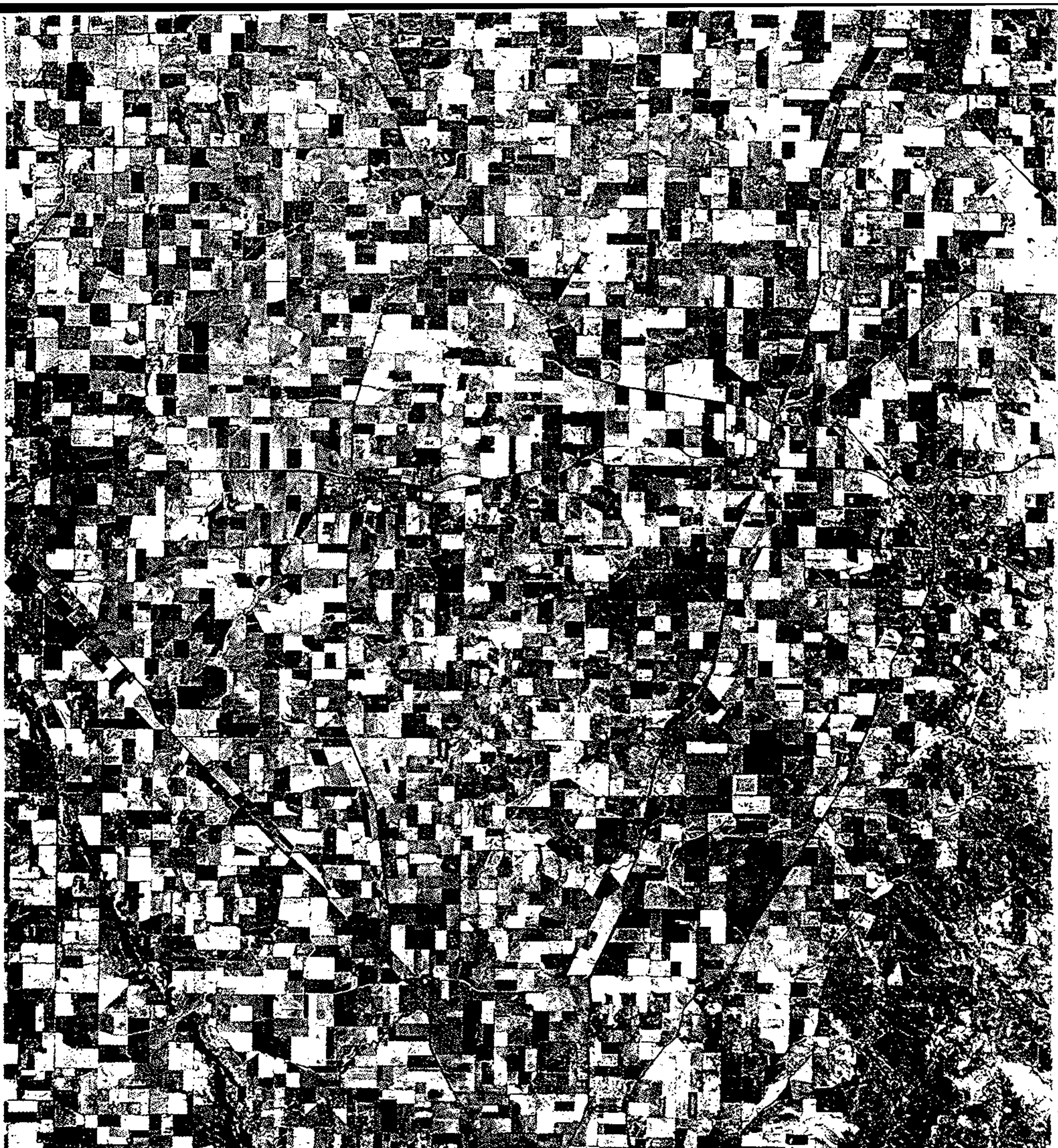


Specialist magazines revenue



Specialist magazines profit





MANAGEMENT

TRUSTEES

SIR CAMPBELL FRASER A trustee since 1978. President of the CBI from 1982 to 1984. Former chairman of Dunlop, Scottish Television, Tandem Computers and of the International Advisory Board of Wells Fargo. Currently chairman of Riversoft.

LORD ALEXANDER OF WEEDON A trustee since 1990. Director of Total. Chairman of the Bar Council from 1985 to 1986; chairman of the Takeover Panel from 1987 to 1989; deputy chairman of the Securities and Investments Board from 1994 to 1996; chairman of Natwest Group from 1989 to 1999.

SIR JAMES BALL Appointed a trustee in 1987 and resigned in June 1999. Former chairman of Legal and General Group, former principal of London Business School and a professor of economics at London Business School since 1965. A member of the IBM United Kingdom Advisory Board.

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

CLAYTON BRENDISH Appointed a trustee in June 1999. Co-founder and executive chairman of Admiral. Non-executive chairman of Beacon Investment Trust, an advisor to the Chancellor of the Duchy of Lancaster and the Parliamentary Secretary, Office of Public Service, in respect of the Next Steps executive agencies.

DIRECTORS

SIR DOMINIC CADBURY Appointed non-executive chairman of the company in 1994, having served as a non-executive director since 1990. Executive chairman of Cadbury Schweppes, deputy chairman of the Qualifications and Curriculum Authority, a director of EMI, president of the Food and Drink Federation and a member of the CBI President's Committee.

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

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

SIR FRANK BARLOW A non-executive director of the company since 1984; retired on February 16th 1999.

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

JOHN GARDINER Appointed as a non-executive director in April 1998. Chairman of Tesco and The Laird Group.

SIR PETER GIBBINGS A non-executive director of the company since 1987; retired on June 8th 1999.

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. Chairman of the European Advertising Tripartite and senior vice-president of the International Advertising Association.

JAMES JOLL Appointed a non-executive director in 1995. Chairman of the Museums & Galleries Commission and of AIB Asset Management Holdings and a senior adviser to Donaldson, Lufkin & Jenrette.

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.

SIR DENNIS STEVENSON Appointed as a non-executive director in July 1998. Chairman of Pearson, Halifax and AerFi Group. He is a non-executive director of various companies including Manpower, BSkyB Broadcasting Group and St James's Place Capital.

PETER WOOD Appointed as a non-executive director in July 1998. Founder and former chairman of Direct Line and a member of the board of The Royal Bank of Scotland Group until June 1997. A director of Linea Direct Aseguradora and also an advisory director of Bankinter in Spain and a non-executive director of Centrica. Vice-chairman of Direct Response and Homeowners Direct, auto and homeowners insurance companies in the US.

BOARD COMMITTEES

REMUNERATION COMMITTEE

Sir Dominic Cadbury, CHAIRMAN

Sir Frank Barlow (retired February 16th 1999)

George Bain

Sir Dennis Stevenson (appointed March 23rd 1999)

Helen Alexander

AUDIT COMMITTEE

James Joll, CHAIRMAN

Sir Dominic Cadbury

John Gardiner

Sir Peter Gibbings (retired June 4th 1998)

Peter Wood (appointed June 3rd 1999)

GROUP MANAGEMENT COMMITTEE

Helen Alexander

Bill Emmott

David Hanger

Kiran Malik

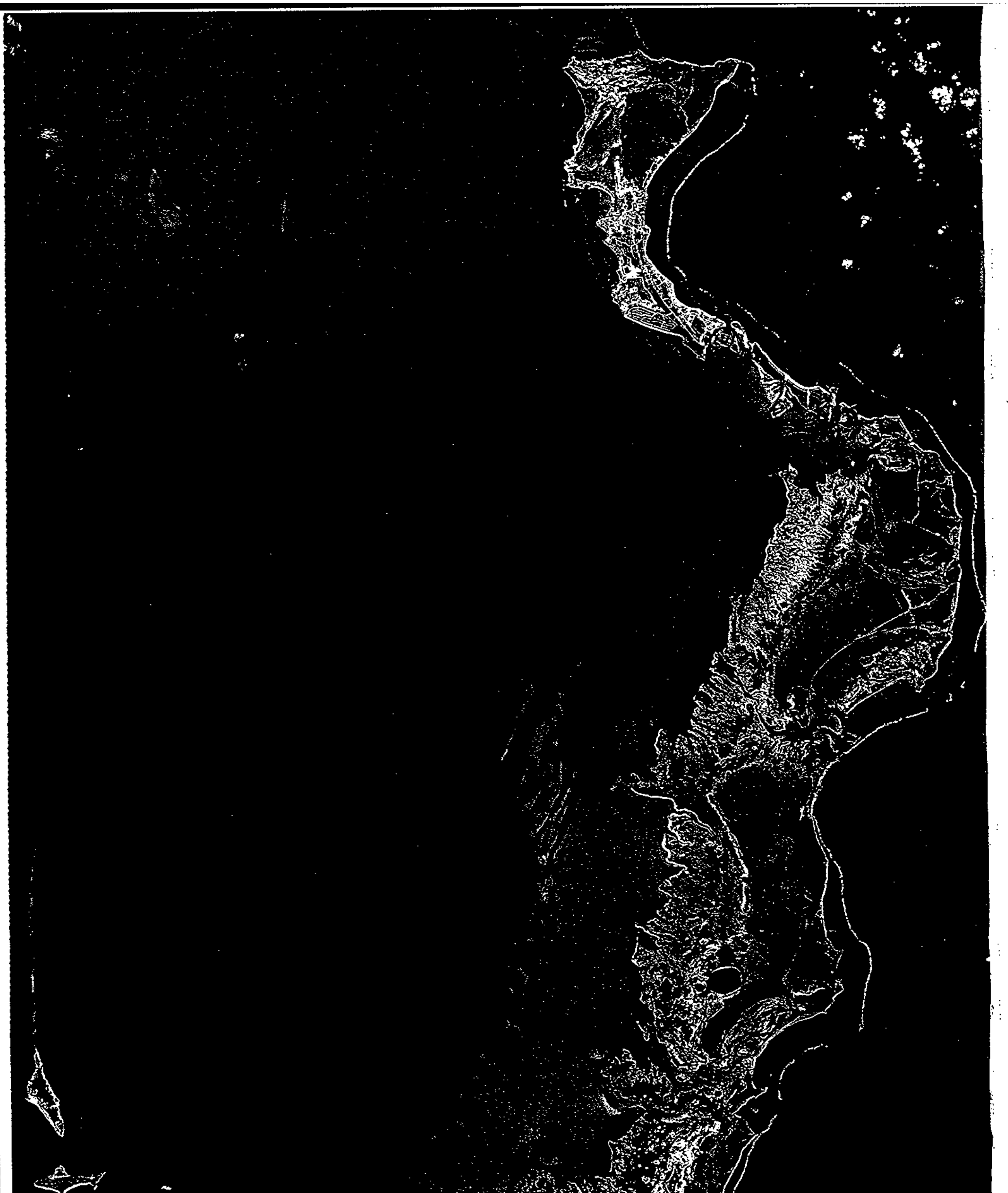
David Laird—Director of the group's specialist magazines. Joined the group in 1978 as an advertising sales executive for *The Economist*, worked in Frankfurt and New York before becoming the publisher of CFO magazine.

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

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

Andrew Rashbass—Chief Information Officer. Joined the group in December 1997 from Associated Newspapers.

Tony Wales—Group general counsel and company secretary since 1995. Since the end of 1997 has been responsible for the group's business development activities. Previously a corporate and commercial lawyer in private practice.



REPORT AND ACCOUNTS

DIRECTORS' REPORT

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 1999.

PRINCIPAL ACTIVITIES The principal activities of the group consist of publishing, the supply of business information, conferences and the letting of property. A review of the business and future developments is included in the business reports on pages 11 to 21.

RESULTS AND DIVIDENDS The profit after tax for the financial year to March 31st 1999 was £23.4m (1998 £18.9m). A final dividend of 27p per share is proposed for the year to March 31st 1999. Together with the interim dividend already paid, this makes a total for the year of 37.5p (1998 34p). The final dividend will be paid on July 14th 1999 to shareholders on the register at the close of business on June 8th 1999.

SIGNIFICANT CHANGES IN COMPANY INTERESTS In December 1998 The Economist Group (Asia/Pacific) Limited closed down the business of the Infrastructure Development Group, a conference business based in Singapore focusing on infrastructure development initiatives in Asia. In February 1999 The Economist Newspaper Limited closed down *Information Strategy*, a monthly European publication covering the business challenges presented by information technology, and transferred selected assets of the business to Computerwire plc for a nominal consideration.

PROPERTY VALUES The directors have been advised that the market value of The Economist complex at March 31st 1999 was £45.76m; the book value is £22.76m. Based on this information, the directors consider that the aggregate market value of all the company's properties exceeds their book value.

TRANSACTIONS WITH RELATED PARTIES Details of transactions with related parties, which are to be reported under Financial Reporting Standard 8, are set out in note 30 to the financial statements.

CHARITABLE AND POLITICAL DONATIONS During the financial year, the group made contributions to charities amounting to £139,600 (1998: £130,000). No contributions were made for political purposes (1998: nil).

DIRECTORS The following changes occurred during the year and since the end of the year: John Gardiner was appointed as a director on April 17th 1998. Peter Wood was appointed as a director on July 1st 1998. Sir Dennis Stevenson was appointed as a director on July 9th 1998. Sir Frank Barlow retired as a director on February 16th 1999. Sir Peter Gibbings retired as a director on June 8th 1999.

Profiles of the directors are shown on page 24.

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 3 years, renewable at the invitation of the board. All current non-executive directors have agreed to be bound by this policy. In order to maintain continuity between the chairman and the company, it has been decided that the chairman's term of office should be 6 years, renewable at the invitation of the board.

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

CORPORATE INFORMATION The share capital of the company is divided into ordinary shares, "A" special shares, "B" special shares and trust shares. The trust shares are held by trustees (who are described on page 24) whose consent is needed for certain corporate activities. The rights attaching to the trust shares provide for the continued independence of the ownership of the company and the editorial independence of *The Economist*. Apart from these rights, they do not include the right to vote, receive dividends or have any other economic interest in the company. The appointments of the editor of *The Economist* and of the chairman of the company are subject to the approval of the trustees.

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

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

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

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

BOARD The board currently comprises six non-executive directors and four executive directors. The non-executive directors are all independent of the group and have a breadth of successful commercial and professional experience. The board has been chaired since July 1994 by Sir Dominic Cadbury and has met for regular business six times in the 12 months to March 31st 1999. 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 £500,000 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 consent of the trustees for some actions.

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

The remuneration committee is made up of three non-executive directors and the chief executive. It is chaired by Sir Dominic Cadbury and is responsible for remuneration policy (including policies on profit-sharing, incentive and pension schemes) and for nominations for the appointment of new directors.

INTERNAL CONTROL The board accepts its responsibility for maintaining a system of internal control. Formal guidance on the review of non-financial internal control, as required by the Combined Code, has yet to be published. Consequently, the board considers it is unable to report that it has undertaken a formal review of the effectiveness of the company's non-financial internal control. The internal financial control system has been designed and developed over a number of years to provide the board with reasonable assurance that it can rely on the accuracy and reliability of the financial records, and its effectiveness has been reviewed by the board. The internal financial control system includes the following key features:

- A comprehensive budgeting system which includes an annual budget approved by the board. Monthly actual results are reported against budget, and revised forecasts for the year are prepared at least three times a year. The company reports to shareholders at least twice a year.
- Financial policies and procedures are set out in a formal manual which is held by all senior managers and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with the manual's content and application.
- Formal written treasury procedures, set out in the above manual, are in operation covering banking arrangements, hedging instruments, investments of cash balances and borrowing procedures. These procedures include staff responsibilities, segregation of duties and levels of delegated authority in relation to treasury matters.
- The company has an operational audit function, which reports to the finance director but also has direct access to the chairman of the audit committee. The operational auditor attends all audit committee meetings and makes formal reports to the committee.
- The company has clearly defined guidelines for the review and approval of capital and development expenditure projects, which include annual budgets and designated levels of authority.

EMPLOYMENT POLICIES The group recognises it is essential to keep employees informed of the progress of its business. Employees are provided with information on the group's activities and on factors relating to the financial and economic performance of the company. The group is committed to equality of opportunity in all employment practices and policies. No employee or potential employee will receive unfavourable treatment on the grounds of colour, race, creed, ethnic or national origin, disability, gender, marital status or sexual orientation. The group is also committed to the continuous improvement of employees' performance and careers by developing their skills and expertise through training and development; to encourage performance it operates a number of incentive schemes, as described in the directors' report on remuneration on page 31.

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

YEAR 2000 The company has taken very seriously the potential problems for information technology systems arising from the year 2000, having set up a groupwide year 2000 compliance project in 1997. A project steering group is now in place whose objective is to ensure that all the group's systems, and those of its suppliers and business partners, are year 2000 compliant. The internal systems inventory has been completed and we have been working closely with all the group's major suppliers and business partners to ensure that we understand fully their progress in achieving compliance. In the cases where any non-compliance has been identified, plans are under way to have these replaced or to mitigate the group's reliance on them, and a progress report on the implementation of these plans is received by the board every month. This also covers contingency plans to deal with unforeseen problems which inevitably will arise. The group has incurred external costs of £204,000 which relate directly to the achievement of year 2000 compliance (see note 1 to the financial statements). We currently estimate a further expenditure of £500,000. Where systems are or have been planned for replacement or upgrade, it has been largely for operational reasons rather than year 2000 compliance and therefore the costs have not been included as year 2000 costs.

EMU The group has continued to monitor the creation of economic and monetary union in Europe and the implications for its businesses. During the year it retained external consultants to report on the group's preparations for the introduction of the euro. Total expenditure of £35,000 was incurred in the year relating directly to this issue.

DIRECTORS' REPORT

ANNUAL GENERAL MEETING The notice convening the annual general meeting to be held at 12.15 pm on Tuesday, July 6th 1999, can be found on page 55.

AUDITORS Shortly after the company had reappointed Coopers & Lybrand as its auditors at last year's annual general meeting, the firm announced its merger with Price Waterhouse. In accordance with established procedure, Coopers & Lybrand resigned as auditors in November 1998 (confirming there were no circumstances connected with their resignation which should be brought to the attention of the company's members or creditors) and at their meeting on November 24th 1998 the directors appointed PricewaterhouseCoopers as auditors to fill the casual vacancy until the next annual general meeting. A resolution to reappoint PricewaterhouseCoopers, and a further resolution to authorise the directors to fix their remuneration, will be proposed at the annual general meeting.

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

The directors have reviewed the group's budget for the coming year and the medium-term plans to March 2002. After taking into account the cash flow implications of the plans, and after comparing these with the group's committed borrowing facilities and projected gearing ratios, the directors are satisfied that it is appropriate to produce the accounts on a going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and the group, and for preventing and detecting fraud and other irregularities.

By order of the board

AE Wales.

A E Wales
SECRETARY

DIRECTORS' REPORT ON REMUNERATION

THE COMMITTEE The remuneration committee of the board is made up of three non-executive directors and the chief executive and has been chaired throughout the year by Sir Dominic Cadbury. The quorum necessary for the transaction of business is two members, excluding the chief executive. The committee is responsible for the remuneration policy for senior executives of the group, the policy and structure of incentive schemes, guidelines for pension programmes and for 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.

PROFIT-SHARING AND INCENTIVE PLANS The group operated five separate profit-sharing and bonus plans during the year, providing performance-based incentives for executive directors and employees.

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

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

iii) Performance units equivalent to ordinary shares were also awarded under the long-term incentive plan to certain group employees, including executive directors, who participate at the discretion of the remuneration committee. After three years, participants will receive a payment reflecting the total shareholder return on the company's ordinary shares over the period. However, no payments will be made unless earnings per share have increased by at least inflation plus 6% during the period and the group's performance at least equals the average performance of London listed media companies. The amount of the release will depend on the extent to which performance exceeds this average.

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

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

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

	1999		1998	
Beneficial holdings	"A" Special	Ordinary	"A" Special	Ordinary
Sir Dominic Cadbury	–	2,030	–	2,030
Sir Peter Gibbings	–	2,300	–	2,300
Helen Alexander	25,785	–	1,245	3,900
Bill Emmott	25,780	–	25,000	–
David Hanger	25,780	3,000	25,000	5,000
Kiran Malik	1,000	500	–	500
George Bain	–	1,000	–	–
John Gardiner	–	1,000	–	–
Peter Wood	–	1,000	–	–
Holding as trustee				
Sir Dominic Cadbury	5,600	50,360	5,600	50,360

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

DIRECTORS' ACCRUED PENSIONS The pensions which would be paid annually on retirement at age 60 based on service with the company to March 31st 1999 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

	Age	Accrued pension at March 31st 1999	Accrued pension at March 31st 1998	Increase
Helen Alexander	42	£48,755	£41,785	£6,970
Bill Emmott	42	£56,751	£49,910	£6,841
David Hanger	54	£76,766	£69,013	£7,753
Kiran Malik	48	£3,929	£1,428	£2,501

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

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION The remuneration and benefits of all directors who served for all or part of the year ended March 31st 1999 (and paid for the period during which he or she was a director) is shown in the table below. Non-executive directors do not participate in any bonus scheme or the long-term incentive plan or any of the company's pension plans. The shadow shares encashed were awarded in 1992/93 and 1993/94. The table does not include any uncashed or future entitlements under either the shadow share scheme, the long-term incentive plan or the senior executive bonus scheme which we show in other tables.

	Salary/Fees		Bonus		Shadow shares encashment		Benefits		Total	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
Helen Alexander	195	170	46	18	456	–	20	17	717	205
Bill Emmott	168	156	50	17	548	–	17	19	783	192
David Hanger	140	130	40	14	456	–	15	18	651	162
Kiran Malik	132	84	40	9	–	–	12	8	184	101
Sir Dominic Cadbury	35	33	–	–	–	–	–	–	35	33
Sir Frank Barlow	16	17	–	–	–	–	–	–	16	17
Sir Peter Gibbings	18	17	–	–	–	–	–	–	18	17
George Bain	18	17	–	–	–	–	–	–	18	17
James Joll	18	17	–	–	–	–	–	–	18	17
John Gardiner	17	–	–	–	–	–	–	–	17	–
Peter Wood	13	–	–	–	–	–	–	–	13	–
Sir Dennis Stevenson	12	–	–	–	–	–	–	–	12	–

DIRECTORS' INTERESTS IN SHADOW SHARES The executive directors hold the following uncashed shadow shares, which were granted in the following years. This plan was discontinued in 1997/98.

	1994	1995	1996	1997	1998	Total
Helen Alexander	–	–	5,000	5,000	30,000	40,000
Bill Emmott	28,750	–	–	5,000	–	33,750
David Hanger	–	–	5,000	5,000	10,000	20,000
Kiran Malik	–	–	–	–	25,000	25,000
Base value	£3.40	£4.60	£5.00	£8.50	£10.50	–

DIRECTORS' INTERESTS UNDER THE LONG-TERM INCENTIVE PLAN The executive directors hold the following performance units under the long-term incentive plan at March 31st 1999. Each unit represents an investment in an ordinary share at its current valuation at the end of the year.

	1999 Performance Units	Value
Helen Alexander	8,691.33	£121,679
Bill Emmott	7,487.92	£104,831
David Hanger	6,239.93	£87,359
Kiran Malik	5,883.36	£82,367

DIRECTORS' INTERESTS IN NOTIONAL SHARES UNDER THE SENIOR EXECUTIVE BONUS SCHEME The executive directors have been awarded the following notional shares (and the corresponding performance units under the long-term incentive plan) under the senior executive bonus scheme.

	Notional shares	Performance Units
Helen Alexander	1,201.68	400.56
Bill Emmott	–	–
David Hanger	345.10	115.03
Kiran Malik	216.92	72.31

AUDITORS' REPORT

Report of the auditors to the members of The Economist Newspaper Limited

We have audited the financial statements on pages 34 to 54, which have been prepared under the historic cost convention and the accounting policies set out on page 38.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS The directors are responsible for preparing the annual report, including as described on page 30, the financial statements. Our responsibilities, as independent auditors, are established primarily by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

We also, at the request of the directors (because the company applies the Stock Exchange Listing Rules as if it is a listed company), review whether the statement on pages 28 to 30 reflect the company's compliance with those provisions of the Combined Code specified by the Stock Exchange for review by auditors of listed companies, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

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

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

OPINION In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at March 31st 1999 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

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
London
June 8th 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

NOTE	years ended March 31st	1999 £000	1998 £000
❶❷	Turnover	212,559	205,024
	Cost of sales	(75,018)	(70,507)
	Gross operating profit	137,541	134,517
	Distribution costs	(19,799)	(21,596)
	Marketing, development and other administrative costs	(85,169)	(84,660)
	Operating profit	32,573	28,261
❶	Loss on sale of businesses	(641)	(2,953)
	Profit on ordinary activities before interest	31,932	25,308
❸	Interest receivable and other income	1,627	1,871
❹	Interest payable and other charges	(1,414)	(2,103)
❶❷❺	Profit on ordinary activities before taxation	32,145	25,076
❽	Taxation on profit on ordinary activities	(8,697)	(6,192)
	Profit on ordinary activities after taxation	23,448	18,884
❾	Dividends	(9,450)	(8,568)
㉔	Retained profit	13,998	10,316
❿	Basic and diluted earnings per share (pence)	93.4	74.9
❿	Earnings per share (pence) – old basis	93.0	74.9

The results detailed above relate solely to continuing operations.

BALANCE SHEETS AT MARCH 31ST

		GROUP		COMPANY	
NOTE	Fixed assets	1999 £000	1998 £000	1999 £000	1998 £000
12	Tangible assets	35,811	33,575	6,337	3,281
13	Investments	–	–	75,977	75,977
		35,811	33,575	82,314	79,258
	Current assets				
15	Stocks and work-in-progress	2,438	2,378	1,045	955
16	Debtors: due after one year	–	1,544	11,700	15,748
16	Debtors: due within one year	46,467	42,722	26,479	17,087
17	Investments	1,997	12	–	–
	Cash and deposits	34,852	30,544	913	3,920
		85,754	77,200	40,137	37,710
19	Creditors: due within one year	(52,929)	(46,604)	(51,489)	(35,226)
20	Unexpired subscriptions	(47,394)	(47,647)	(12,626)	(13,074)
	Net current liabilities	(14,569)	(17,051)	(23,978)	(10,590)
	Total assets less current liabilities	21,242	16,524	58,336	68,668
21	Creditors: due after one year	(4,548)	(16,548)	(4,548)	(16,548)
22	Provisions for liabilities and charges	(14,443)	(12,583)	(10,440)	(8,900)
1 2	Net assets/(liabilities)	2,251	(12,607)	43,348	43,220
	Capital and reserves				
23	Called up share capital	1,260	1,260	1,260	1,260
24	Profit and loss account	991	(13,867)	42,088	41,960
25	Equity shareholders' funds	2,251	(12,607)	43,348	43,220

DOMINIC CADBURY
KIRAN MALIK
DIRECTORS
JUNE 8TH 1999

CONSOLIDATED CASH FLOW STATEMENT

years ended March 31st

NOTE		1999 £000	1998 £000
18	Net cash inflow from operating activities	27,924	37,263
	Returns on investments and servicing of finance		
	Interest received	1,946	1,746
	Interest paid	(1,685)	(2,080)
		261	(334)
	Taxation		
	UK corporation tax paid	(7,180)	(7,318)
	Overseas tax (paid)/received	(1,060)	1,185
		(8,240)	(6,133)
	Capital expenditure and financial investment		
	Sale of tangible fixed assets	63	71
	Purchase of tangible fixed assets	(6,363)	(3,463)
		(6,300)	(3,392)
	Acquisitions and disposals		
14	Purchase of businesses	–	(1,225)
	Closure of businesses	(362)	–
		(362)	(1,225)
	Equity dividends paid	(8,820)	(7,812)
	Cash inflow before use of liquid resources and financing	4,463	18,367
18	**Management of liquid resources**		
	(Purchase)/sale of current asset investments	(1,985)	6,393
	Cash placed on short term deposits	(8,875)	(12,843)
		(10,860)	(6,450)
	Financing		
	Loans taken out during year	19,200	20,848
	Repayments of amounts borrowed	(18,500)	(40,508)
		700	(19,660)
18	Decrease in cash	(5,697)	(7,743)
	Reconciliation of net cash flow to movement in net funds/(debt)		
	Decrease in cash in the year	(5,697)	(7,743)
	Cash outflow from increase in liquid resources	10,860	6,450
	Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(700)	19,660
	Change in net funds resulting from cashflows	4,463	18,367
	Exchange translation differences	1,130	(206)
	Movement in net funds in the year	5,593	18,161
	Net funds/(debt) at beginning of year	14,008	(4,153)
	Net funds at March 31st	19,601	14,008

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

years ended March 31st

	1999 £000	1998 £000
Profit after taxation for the financial year	23,448	18,884
Exchange translation differences arising on foreign currency net investments	180	1,285
Exchange translation differences arising on dollar loans	–	335
Tax on gain arising on dollar loans	–	(104)
Total recognised gains and losses	23,628	20,400

Note of historical cost profits and losses

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

PRINCIPAL ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING The financial statements are based on the historical cost convention and in accordance with applicable accounting standards.

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

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

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

GOODWILL Prior to April 1st 1998, purchased goodwill and goodwill arising on consolidation was written off to reserves in the year in which it arose. From April 1st 1998, the provisions of FRS 10 "Goodwill and Intangible Assets" have been adopted and such goodwill is now required to be shown as an asset on the balance sheet and amortised over its useful economic life. During the year to March 31st 1999 this change has not affected the group as no new goodwill has been acquired.

STOCKS AND WORK-IN-PROGRESS Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost includes all direct expenditure. Work in progress comprises third-party and editorial costs and an appropriate level of overheads.

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

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

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

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

NEW ACCOUNTING STANDARDS Financial Reporting Standards 9-14 all became effective during the year ended March 31st 1999. The impact of FRS 10 is mentioned above under "Goodwill". FRS 9 "Associates and Joint Ventures" and FRS 11 "Impairment of Fixed Assets and Goodwill" have not had any effect on these financial statements.

FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" seeks to ensure that a provision is recognised only when it is a contractual or constructive obligation at the balance sheet date. Provisions held in the group and company balance sheets at March 31st 1998 and 1999 meet the criteria imposed by this new standard.

The disclosures required by FRS 13 "Derivatives and other Financial Instruments" are included in these financial statements, principally in note 11. The disclosure of earnings per share information at the foot of the consolidated profit and loss account is in line with the requirements of FRS 14 "Earnings per Share".

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

DEPRECIATION The principal depreciation methods are as follows:

Asset type	Depreciation method	Depreciation rate per annum
Freehold land	not depreciated	Nil
Freehold buildings	Straight line basis	2%
Long leasehold property	Sinking fund basis	Interest rate of 4%
Short leasehold property	Straight line basis	Duration of lease
Plant and machinery	Straight line basis	4% to 5%
Equipment	Straight line basis	10%
Motor vehicles	Straight line basis	25%
Major software systems	Straight line basis from date of first use	20%

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 ANALYSIS OF RESULTS BY CLASS OF BUSINESS

Turnover by business	1999 Total sales £000	1999 Inter-business sales £000	1999 Sales to third parties £000	1998 Total sales £000	1998 Inter-business sales £000	1998 Sales to third parties £000
The Economist newspaper	102,153	–	102,153	95,210	–	95,210
The Economist Intelligence Unit	44,376	–	44,376	45,836	–	45,836
Brand businesses	11,953	(1,699)	10,254	11,662	(2,033)	9,629
Specialist magazines	25,006	–	25,006	20,807	–	20,807
The Journal of Commerce	28,612	–	28,612	31,478	–	31,478
Property	5,213	(3,055)	2,158	4,687	(2,623)	2,064
	217,313	(4,754)	212,559	209,680	(4,656)	205,024

Profit before taxation	1999 £000	1998 £000
The Economist newspaper	25,215	22,709
The Economist Intelligence Unit	5,067	6,158
Brand businesses	2,322	2,800
Specialist magazines	3,583	3,629
The Journal of Commerce	2,080	(3,631)
Property	1,876	1,894
Net interest	213	(232)
Development expenditure	(1,769)	(2,450)
Group profit sharing schemes	(4,615)	(3,606)
Other activities and central costs	(1,827)	(2,195)
	32,145	25,076

The profits shown above include the following losses on disposal or closure of businesses:

	1999 £000	1998 £000
Sale of Transax within the Journal of Commerce	33	2,953
Closure of Infrastructure Development Group within EIU	384	-
Closure of *Information Strategy* within Specialist Magazines	224	-
	641	2,953

The loss on disposal of Transax in 1998 included goodwill of £2,008,000. There was no taxation payable on the disposal. The results of that disposal and this year's closures are not considered sufficiently material to disclose as discontinued. The closure cost of Infrastructure Development Group includes a goodwill write-off of £680,000 partially offset by £401,000 of deferred consideration no longer payable.

NOTES TO THE FINANCIAL STATEMENTS

The profits shown on the previous page also include the following non-recurring operating income/(costs):

	1999 £000	1998 £000
Year 2000 compliance costs	(204)	-
Journal of Commerce reorganisation costs	-	(3,211)
Journal of Commerce reversal of accruals	657	424
Other activities and central costs, reversal of accruals	200	509
	653	(2,278)

The release in 1998 in the Journal of Commerce was in respect of an onerous lease that had ended and therefore was no longer required and in other activities and central costs was in relation to agency commissions believed payable in previous years and no longer required. The 1999 accrual reversals relate primarily to penalty clauses in the agreements which have lapsed or for which rental market conditions no longer suggest the need for an accrual.

Net assets/(liabilities)	1999 £000	1998 £000
The Economist newspaper	(7,594)	(18,653)
The Economist Intelligence Unit	(5,290)	(8,053)
Brand businesses	232	1,538
Specialist magazines	5,059	5,499
The Journal of Commerce	12,518	8,265
Property	22,305	21,967
Bank loans	(17,248)	(16,548)
Other activities and central costs	(7,731)	(6,622)
	2,251	(12,607)

Profits are paid as dividends by the trading subsidiaries to the parent company, which is included in the other activities and central costs category. The Economist newspaper and the Economist Intelligence Unit activities show net liabilities mainly because the value of unexpired subscriptions exceeds the other net assets retained in these divisions.

The comparatives for net assets/(liabilities) have been reclassified to improve ongoing comparability.

NOTE 2 ANALYSIS OF RESULTS BY GEOGRAPHICAL REGION

Turnover by customer location	1999 £000	1998 £000
United Kingdom	45,989	41,097
Continental Europe	38,659	37,428
North America	103,222	98,373
Asia Pacific	20,101	22,747
Other	4,588	5,379
	212,559	205,024

	1999			1998		
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	123,550	(20,689)	102,861	113,931	(13,248)	100,683
North America	102,733	(177)	102,556	96,110	(45)	96,065
Asia Pacific	8,885	(1,743)	7,142	10,330	(2,054)	8,276
	235,168	(22,609)	212,559	220,371	(15,347)	205,024

Profit /(loss) before taxation by origin of legal entity	1999 £000	1998 £000
United Kingdom	16,640	17,562
North America	16,406	6,923
Asia Pacific	(787)	529
Other	(114)	62
	32,145	25,076

Net assets/(liabilities) by origin of legal entity	1999 £000	1998 £000
United Kingdom	(24,523)	(25,232)
North America	23,197	9,590
Asia Pacific	1,809	2,255
Other	1,768	780
	2,251	(12,607)

The comparatives for net assets/(liabilities) have been reclassified to improve ongoing comparability.

NOTE 3 INTEREST RECEIVABLE AND OTHER INCOME

	1999 £000	1998 £000
On current asset investments and cash deposits	1,627	1,871

NOTE 4 INTEREST PAYABLE AND OTHER CHARGES

	1999 £000	1998 £000
On bank overdrafts and loans repayable within five years	1,414	2,103

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging the following:	1999 £000	1998 £000
Directors' emoluments: Fees to non-executive directors	147	99
Executive directors: Base salaries	635	540
Senior executive bonus schemes	176	57
Amounts payable and paid under the shadow share scheme	1,460	–
Other benefits	64	65
Total directors' emoluments	2,482	761
Auditors' remuneration:		
Audit (company £61,900; 1998 £61,900)	195	195
Non-audit services provided by the auditors in the United Kingdom	326	44
Operating lease rentals:		
Plant and equipment	632	516
Land and buildings	6,568	5,285
Depreciation		
Intangible fixed assets	–	96
Tangible fixed assets	4,234	4,450
Loss on disposal of tangible assets	13	502

Intangible fixed assets were fully disposed of during the year ended March 31st 1998

NOTE 6 DIRECTORS' EMOLUMENTS

The details of directors' emoluments are given in the directors' report on remuneration on pages 31 and 32.

NOTE 7 EMPLOYEES

Average number of employees, including executive directors by business activity was as follows:	1999	1998
The Economist newspaper	243	244
The Economist Intelligence Unit	330	298
The Journal of Commerce	383	408
Other publishing activities	217	187
Property and other activities	169	152
	1,342	1,289

Employment costs including executive directors' emoluments:	£000	£000
Wages and salaries	43,986	41,105
Employees' incentive schemes	6,726	6,686
	50,712	47,791
Social security costs	3,818	4,060
Other pension costs	3,084	2,882
	57,614	54,733

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

NOTE 8 TAXATION

The taxation charge based on the results for the year is made up as follows:	1999 £000	1998 £000
UK corporation taxation at 31%	6,256	6,664
Deferred taxation	61	(758)
Overseas taxation	2,694	21
	9,011	5,927
Adjustments in respect of previous years:		
Corporation taxation	309	199
Deferred taxation	(786)	66
Overseas taxation	163	–
	8,697	6,192

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

NOTE 9 DIVIDENDS

	1999 £000	1998 £000
Interim dividend of 10.5p per share (1998 : 9.5p per share)	2,646	2,394
Proposed final dividend of 27p per share (1998 : 24.5p per share)	6,804	6,174
	9,450	8,568

NOTE 10 EARNINGS PER SHARE

Basic and diluted earnings per share are based on earnings of £23,448,000 (1998 : £18,884,000) and the 25,200,000 ordinary and special shares in issue (1998: 25,200,000), less those held by the employee share ownership plan (ESOP) being142,634 shares (1998:1,029), resulting in a weighted average number of shares of 25,105,000 (1998: 25,199,000). Earnings per share–old basis are based on the same earnings, but use the full number of ordinary and special shares in issue unadjusted for the ESOP holding. This is used in the calculation of certain incentive schemes.

NOTE 11 FINANCIAL INSTRUMENTS

Short term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Interest rate risk of financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Maturity profile and interest rate risk of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than short term creditors such as trade creditors and accruals, at March 31st 1999 was as follows:

	GROUP		COMPANY	
Borrowings	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans due within one year	12,700	–	12,700	–
Bank loans due between one and two years	4,548	16,548	4,548	16,548
	17,248	16,548	17,248	16,548

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

In addition to the above, the group's provision of £393,000 for onerous leases (note 22) meets the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities as, in establishing the provision, the cashflows have been discounted and the discount rate reappraised twice a year. The maturity of the provision of onerous leases is that £147,000 matures within one year, £147,000 matures between one and two years, and £99,000 matures between two and five years.

Borrowing facilities

The group has the following undrawn committed borrowing facilities available at March 31st 1999 in respect of which all conditions precedent have been met at that date:

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Expiring within one year	40,170	–	40,170	–
Expiring between one and two years	–	42,910	–	42,910
Expiring in more than two years	4,742	4,422	4,742	4,422
	44,912	47,332	44,912	47,332

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

Fair values of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and liabilities at March 31st 1999. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed parties.

	1999 £000 Book value	1999 £000 Fair value
Cash at bank and in hand	84	84
Short term deposits	34,768	34,768
Other financial assets	1,997	2,069
Borrowings	(17,248)	(17,248)
Other financial liabilities	(393)	(393)
	19,208	19,280

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

Currency exposure

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

	1999 £000 Net foreign monetary assets/(liabilities)		
Functional currency of entity	US dollar	Other	Total
Sterling	4,637	(3,037)	1,600

Hedges

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

	Gains £000	Unrecognised Losses £000	Net gain £000
Gains and losses on hedges at April 1st 1998	277	(118)	159
Arising in previous years and included in 1998/99 income	(277)	118	(159)
Gains and losses on hedges arising in 1998/99 and excluded from 1998/99 income	92	(20)	72
Gains and losses on hedges at March 31st 1999	92	(20)	72
of which:			
Gains and losses expected to be included in 1999/2000 income	92	(20)	72

NOTES TO THE FINANCIAL STATEMENTS

Treasury Policy

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

Liquidity and Refinancing Risk

At March 31st 1999, The Economist group held net funds of £19.6m. Cash is mainly held in the United States in dollars and borrowings are mainly in sterling in the UK. Borrowings are made under five bank facilities available to the group. Four of these five facilities expire shortly before the end of the 1999/2000 financial year. The future funding of the group is being considered alongside the strategic review that is under way and the nature and duration of any new facilities will have regard to the group's intended strategic direction. The fact that the group has a net cash balance at present means that liquidity and refinancing risks are at a low point. However, the group is conscious of the need to ensure continuity of funding and that financing has to allow for future ambitions.

Currency Risk

In the periods preceding March 1998 the principal currency of funding for the group was the US dollar. This funding matched the dollar denominated acquisition costs of the Journal of Commerce. When the group's accounting policy for goodwill changed at March 31st 1998 and the goodwill reserve was written-off against the profit and loss reserve, the currency of borrowing was switched from dollars to sterling.

Whilst borrowings are now made in sterling, cash is held mostly in the United States and in dollars. In the early years following acquisition of the Journal of Commerce, US taxable profits have been relatively low, particularly as a result of goodwill amortisation, and remittance of cash to the UK was likely to increase the tax charge. This, combined with the fact that recent major acquisition expenditures have been in the US, has contributed to the logic of holding cash in this manner.

The holding of dollar cash and sterling borrowings has meant that interest rate differentials have worked against the group during the year though the differential is now relatively small. The disposition and use of net cash balances is kept under constant review.

The main currency exposure of business transactions relates to net cash generation in US dollars. The foreign exchange risk on this and other smaller currency exposures is managed by the treasury department mainly through the use of forward foreign exchange contracts and options including forward extra options. Forward extra options guarantee a certain rate and allow the group to benefit from limited improvements in that rate. Forward extra options are bought without payment of a premium, the benefit being priced into the rate at which the guarantee is set.

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

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

Counterparty Risk

Counterparty limits approved by the treasury committee and notified to the Board are used to manage the risk of loss on deposits. During the year the monitoring system was extended to cover potential counterparty loss from derivative contracts.

Interest Rate Risk

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

NOTE 12 TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £000	Leasehold land and buildings Long £000	Leasehold land and buildings Short £000	Plant and machinery £000	Equipment and motor vehicles £000	Total £000
Cost						
At April 1st 1998	3,504	29,438	2,369	10,622	17,328	63,261
Additions	–	–	519	4,578	1,177	6,274
Disposals	–	–	(15)	(212)	(611)	(838)
Transfers	6	–	–	–	(6)	–
Exchange translation differences	125	–	96	94	400	715
At March 31st 1999	3,635	29,438	2,969	15,082	18,288	69,412
Depreciation						
At April 1st 1998	2,012	6,473	1,136	7,958	12,107	29,686
Provided during year	104	751	350	1,029	2,000	4,234
Disposals	–	–	(15)	(206)	(585)	(806)
Exchange translation differences	74	–	48	81	284	487
At March 31st 1999	2,190	7,224	1,519	8,862	13,806	33,601
Net book value March 31st 1999	1,445	22,214	1,450	6,220	4,482	35,811
Net book value March 31st 1998	1,492	22,965	1,233	2,664	5,221	33,575

COMPANY	Plant and machinery £000	Equipment and motor vehicles £000	Total £000
Cost			
At April 1st 1998	8,072	6,929	15,001
Additions	3,827	553	4,380
Disposals	(5)	–	(5)
At March 31st 1999	11,894	7,482	19,376
Depreciation			
At April 1st 1998	6,676	5,044	11,720
Provided during year	774	550	1,324
Disposals	(5)	–	(5)
At March 31st 1999	7,445	5,594	13,039
Net book value March 31st 1999	4,449	1,888	6,337
Net book value April 1st 1998	1,396	1,885	3,281

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 INVESTMENTS (FIXED ASSETS)

Cost	Shares in group companies £000
At April 1st 1998 and at March 31st 1999	75,977

The principal wholly owned subsidiary undertakings of the company are:

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

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

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

All subsidiaries have a financial year ending March 31st.

NOTE 14 ACQUISITIONS

Consideration	Group 1998 £000
Shipping Digest (acquired August 1997)	946
Infrastructure Development Group (acquired June 1997)	680
Net assets acquired	1,626
Goodwill	-
	1,626
Satisfied by:	
Cash	1,201
Acquisition expenses paid	24
	1,225
Deferred cash consideration	401
	1,626

No fair value adjustments were required. The deferred consideration related to Infrastructure Development Group and was based on future business performance . During the year ended March 31st 1999 the Infrastructure Development Group was closed, deferred consideration paid was £nil and as a result the full consideration paid amounted to £279,000.

There were no acquisitions in the year ended March 31st 1999.

The classification above between cash and deferred cash consideration has been amended and also reflected in the consolidated cash flow statement comparatives.

NOTE 15 STOCKS AND WORK-IN-PROGRESS

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Raw materials	1,542	1,600	731	703
Work-in-progress	713	594	147	85
Finished goods	183	184	167	167
	2,438	2,378	1,045	955

Work-in-progress comprises third party and editorial costs and an appropriate level of overheads.

NOTE 16 DEBTORS

	GROUP		COMPANY	
Debtors: due after one year	1999 £000	1998 £000	1999 £000	1998 £000
Amounts owed by group companies	–	–	11,700	14,209
Advance corporation tax recoverable	–	1,544	–	1,539
	–	1,544	11,700	15,748
Debtors: due within one year				
Trade debtors	33,144	32,535	13,870	11,156
Amounts owed by group companies	–	–	6,544	710
Other debtors	3,688	2,393	786	1,510
Prepayments and accrued income	9,561	7,232	5,279	3,711
Tax paid in advance	74	562	–	–
	46,467	42,722	26,479	17,087

NOTE 17 INVESTMENTS (CURRENT ASSETS)

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Own shares	1,997	12	–	–

Shares in The Economist Newspaper Limited (own shares) are held by the Employee Share Ownership Plan (ESOP). The ESOP acts as a market maker in shares of The Economist Newspaper Limited. Employees of the group can buy shares from the ESOP twice a year at the latest indicative share valuation and all shareholders can sell their shares to the ESOP. A subsidiary company, The Economist Group Trustee Company Limited ("trustee company"), controls the ESOP and handles all share transactions, but does not own the shares directly. All costs of both the trustee company and the ESOP are recorded within "marketing, development and other costs" in the profit and loss account. On March 31st 1999 the ESOP held 142,634 shares (1998: 1,029) with an indicative share valuation of £14 (1998: £11.50) each. The ESOP has not waived its entitlement to dividends on these shares and none of the shares is under option to employees or has been conditionally gifted to them.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1999 £000	1998 £000
Operating profit	32,573	28,261
Amortisation of intangible fixed assets	–	96
Depreciation of tangible fixed assets	4,234	4,450
Loss on sale of tangible fixed assets	13	502
Increase in stocks	(24)	(564)
Increase in debtors	(2,164)	(4,008)
(Decrease)/increase in creditors excluding unexpired subscriptions	(7,453)	4,597
(Decrease)/increase in unexpired subscriptions	(1,115)	2,554
Increase in provisions	1,860	1,375
Net cash inflow from operating activities	27,924	37,263

(b) Analysis of net funds

	At April 1st 1998 £000	Cash flow £000	Exchange movement £000	At March 31st 1999 £000
Cash in hand	5,585	(5,697)	196	84
Cash placed on short-term deposits	24,959	8,875	934	34,768
	30,544	3,178	1,130	34,852
Debt due after one year	(16,548)	12,000	–	(4,548)
Debt due within one year	–	(12,700)	–	(12,700)
Current asset investments	12	1,985	–	1,997
Net change in funds	14,008	4,463	1,130	19,601

NOTE 19 CREDITORS: DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank overdraft	–	–	2,181	–
Trade creditors	4,314	6,176	1,582	1,582
Amounts owed to group companies	–	–	14,183	10,802
Bank loans (see note 21)	12,700	–	12,700	–
Other creditors including taxation and social security	8,928	12,503	3,366	7,735
Accruals	20,183	21,751	10,673	8,933
Proposed dividend	6,804	6,174	6,804	6,174
	52,929	46,604	51,489	35,226

Other creditors including taxation and social security comprise:

Corporation tax	4,409	6,937	1,983	6,389
Overseas taxes	1,590	–	–	307
Social security	599	509	587	489
Other creditors	2,330	5,057	796	550
	8,928	12,503	3,366	7,735

Trade creditors as at March 31st 1999 for the group represented an average 13 days of purchases (1998: 19 days). The comparatives above have been reclassified to improve ongoing comparability.

NOTE 20 UNEXPIRED SUBSCRIPTIONS

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Unexpired subscriptions	47,394	47,647	12,626	13,074

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

NOTE 21 CREDITORS: DUE AFTER ONE YEAR

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans	4,548	16,548	4,548	16,548

The bank loans are with five banks. Four of these facilities end in March 2000 and so have been included in creditors due within one year. The fifth ends in January 2002. Until March 1998 interest on $35,000,000 of borrowings was fixed at 6.9% under the terms of an interest rate swap. The bank loans are unsecured, but are subject to intra-group guarantees.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 PROVISIONS FOR LIABILITIES AND CHARGES

GROUP	Provision for onerous leases £000	Provision for retirement benefits (Note 27) £000	Provisions for pensions defined benefit schemes (Note 26) £000	Total £000
At April 1st 1998	540	1,782	10,261	12,583
Charge to the profit and loss account	-	379	1,680	2,059
Utilised in year	(147)	(52)	-	(199)
At March 31st 1999	393	2,109	11,941	14,443

COMPANY	Provision for retirement benefits £000	Provisions for pensions-defined benefit schemes £000	Total £000
At April 1st 1998	1,150	7,750	8,900
Charge to the profit and loss account	324	1,268	1,592
Utilised in year	(52)	-	(52)
At March 31st 1999	1,422	9,018	10,440

	GROUP		COMPANY	
The amounts provided/(assets recognised) for deferred taxation under the liability method are:	1999 £000	1998 £000	1999 £000	1998 £000
Accelerated capital allowances	1,067	958	81	–
Pensions and post-retirement benefits	(4,255)	(3,852)	(3,035)	(2,756)
Other timing differences	(490)	(59)	(18)	966
	(3,678)	(2,953)	(2,972)	(1,790)

All potential liabilities/(assets) have been provided/(recognised) except for taxation which would arise on the remittance of profits retained overseas. Note 8 discloses the movement in the group's deferred taxation asset of £725,000. The year end balances are included in prepayments and accrued income within note 16.

NOTE 23 EQUITY SHARE CAPITAL

	Authorised		Issued and fully paid	
At March 31st 1999 and 1998	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

Financial Reporting Standard 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 28. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

NOTE 24 RESERVES

Profit and loss account	GROUP 1999 £000	COMPANY 1999 £000
At April 1st 1998	(13,867)	41,960
Retained profit for the year	13,998	128
Goodwill charged to profit and loss account on disposal in year	680	–
Exchange translation differences arising on consolidation	180	–
At March 31st 1999	991	42,088

The cumulative goodwill written-off to profit and loss reserves by the group is £95,330,000 (1998: £96,010,000) and mainly arises from the purchases of Business International in 1986, CFO Publishing Corporation in 1988, Roll Call Inc in 1992 and 1993, the Journal of Commerce Inc. in 1995 and Pyramid Research Inc., in 1997.

Retained profit for the company for the year ended March 31st 1998 was £4,263,000.

NOTE 25 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	GROUP 1999 £000	GROUP 1998 £000
Profit for the financial year	23,448	18,884
Dividends	(9,450)	(8,568)
	13,998	10,316
Goodwill written-off on acquisition in year	–	(1,626)
Goodwill charged to profit and loss account on disposal in year	680	2,008
Exchange translation differences arising on consolidation	180	1,516
Net addition to shareholders' funds	14,858	12,214
Opening shareholders' funds	(12,607)	(24,821)
Closing shareholders' funds	2,251	(12,607)

NOTE 26 PENSIONS

	GROUP 1999 £000	GROUP 1998 £000
Increase in provision for defined benefit schemes	1,680	1,611
Funding of other pension schemes	1,217	1,376
Cost for the year	2,897	2,987

The group operates pension plans for most of its employees throughout the world. The scheme for UK staff provides for the better of defined benefits or defined contributions. Both defined benefit and defined contribution schemes are operated for overseas staff. The assets of each scheme are held in separate trustee-administered funds with independent qualified actuaries or other professionals acting as advisers. Actuarial valuations are undertaken at regular intervals. The most recent actuarial valuations were at April 1st 1998 and established that the schemes were fully funded. Under the Minimum Funding Requirement, the level of funding for the principal UK scheme was 113% at that date. The surplus identified on valuation of the UK scheme in 1998 has been added to the unamortised balance of the surpluses previously identified in 1992 and 1995 and the net surplus is being written off over thirteen years as from April 1st 1998, being the average remaining service life of members. The company's contributions to the principal UK scheme will recommence in July 1999 at 14% of pensionable salaries. The market value of the scheme's assets at April 1st 1998 was £69m. The actuarial valuation of pension liabilities was £61m and the other principal actuarial assumptions are that, over the long term, the annual rate of investment return will exceed the long-term rate of pensionable salary increase by 1.5%. The actuarial method used for the valuation is the projected unit credit method. The main overseas schemes are based on defined contributions; payments of £nil remain outstanding in respect of these schemes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27 RETIREMENT BENEFITS

The group provides post retirement medical benefits to certain current and former employees. At March 31st 1999, 4 current employees and 85 retired employees were eligible to receive benefits.

As at March 31st 1999 the group estimated the present value of its accumulated post retirement benefit obligation to be £2,109,000.

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

NOTE 28 FINANCIAL COMMITMENTS

	GROUP		COMPANY	
Operating leases Land and buildings–leases expiring:	1999 £000	1998 £000	1999 £000	1998 £000
Within one year	196	126	103	28
Between two and five years	1,769	2,959	239	260
After five years	4,834	3,267	–	–
	6,799	6,352	342	288
Plant and equipment–leases expiring:				
Within one year	24	51	24	45
Between two and five years	344	357	235	225
	368	408	259	270

NOTE 29 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

	GROUP		COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Capital expenditure contracted for but not provided in the accounts	280	2,026	–	2,026

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 1999. The annual cost of property leases guaranteed by the company is currently £4.2m per annum.

NOTE 30 RELATED PARTY TRANSACTIONS

Significant shareholdings
The Financial Times Limited holds 50% of the issued ordinary share capital and all the "B" special shares in the company and is entitled to appoint 6 out of the 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 £378,985 in the normal course of trade during the year, and acquired goods and services to a total value of £48,961. The aggregate balances outstanding with these companies as at March 31st 1999 were £83,907 due to the group and £nil due from the group. The company has a loan from N.M. Rothschild & Sons Limited, for which it paid interest of £71,735 and commitment fees of £24,123 during the year. The outstanding balance of the loan was £8.4m as at March 31st 1999. In addition, the group places funds on deposit with N.M. Rothschild & Sons Limited. Interest received on these deposits was £106,240 during the year. The outstanding deposit was £2,537,473 as at March 31st 1999.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at 25 St James's Street, London SW1A 1HG on Tuesday the 6th day of July 1999 at 12.15 pm for the following purposes:

1 To receive the report of the directors for the year ended March 31st 1999.
2 To receive the audited accounts for the year ended March 31st 1999.
3 To declare the final dividend.
4 To re-appoint PricewaterhouseCoopers as the company's auditors.
5 To authorise the directors to fix the remuneration of the auditors.

By order of the board

A E Wales
SECRETARY

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

June 8th 1999

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