236383

THE ECONOMIST GROUP
Annual Report 1996

The Economist

THE ECONOMIST GROUP

The Economist Group is an authoritative source of information and opinion on international business and politics. We advocate economic and political freedom and guard our independence to do so. We aim to be reliable in our reporting and original in our insight.

Our flagship is *The Economist*, a weekly journal of ideas and analysis. We also provide data and perspectives on the world's countries and industries through the publications and conferences of the Economist Intelligence Unit and produce magazines and newspapers, information services and conferences for special communities of interest in government, the professions, trade and commerce.

YEAR'S REVIEW

APRIL 1995 – MARCH 1996

THE ECONOMIST NEWSPAPER LIMITED AND SUBSIDIARY COMPANIES

A minute ago we were in the black.

SAMUEL GOLDWYN,
FILM PRODUCER

I WANT EVERYBODY TO TELL ME THE TRUTH, EVEN IF COSTS THEM THEIR JOBS.

CHAIRMAN'S STATEMENT

I am sure shareholders will be pleased and the staff of The Economist Group justifiably proud of the company's performance this year. All financial indicators are impressive, but most importantly earnings per share are up more than 30% for the second year in a row. The indicative share value has risen to £8.50 from last year's £6.25, an increase of more than 30% for the fourth consecutive year.

The 32% increase in earnings is made up partly of a 19% increase from the continuing businesses (including the first year of the Journal of Commerce, Inc. and some new magazine launches) and the rest from the disposal of a few non-strategic businesses. As a result, the board is recommending a full-year dividend increase from 20p to 26p, an improvement of 30%. Shareholders should not assume, however, that our future results, or their dividends, will benefit from further sales of businesses, as the group is now very tightly focused.

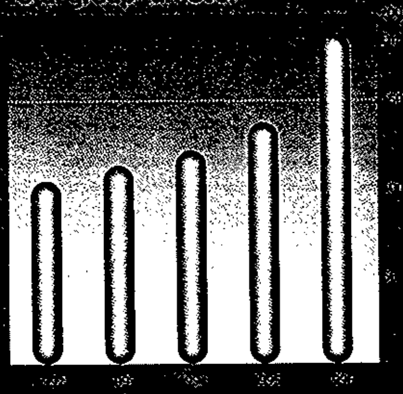
There were exciting developments and increased contributions from all our businesses, and these are described on subsequent pages. The major development of the year was the acquisition of the Journal of Commerce, Inc. This had a substantial impact on the balance sheet, increasing net debt to £28.5 million. However, the transaction and the integration of the company have been managed most successfully, and the Journal of Commerce made a positive contribution to earnings in its first year. At the same time, net debt was reduced by the end of the year to £17.4 million, and we expect to have liquidated the loans by the end of March, 1997.

Membership of the board changed with the appointments of Christopher Taylor as our new finance director and James Joll, until recently finance director of Pearson plc, as a new non-executive director. We have also formalised the terms of appointment of non-executive directors and raised their fees, which were last increased in 1989.

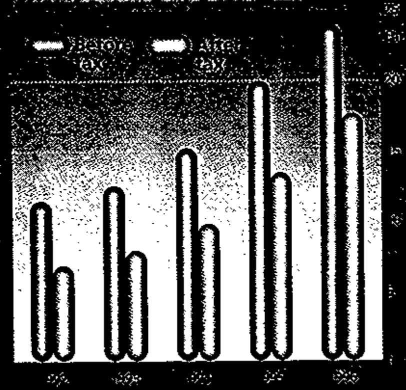
In a market in which other media companies have produced patchy results, and the change of information gathering and distribution channels both threatens and promises, our shareholders should be confident in the able people who work in this group and the clear strategy they are pursuing. They have proven they have the dedication and imagination to continue to move us forward, taking nothing as "given" and ready at any time to change to suit the circumstances that will make the company more prosperous and its products and services more useful. Our prospects for next year reflect this.

DOMINIC CADBURY

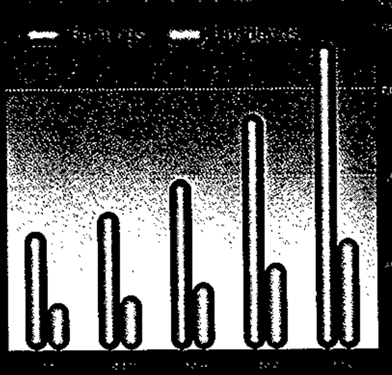
Total group turnover



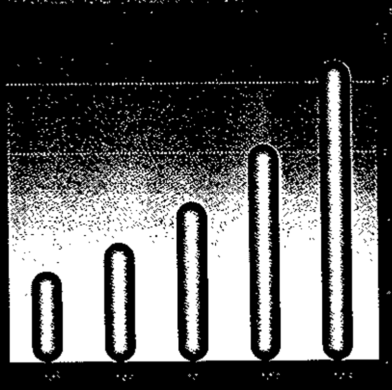
Profit before and after tax



Earnings/share and Dividends/share



Indicative share value



TITANIC DECKHAND, RESPONDING TO A PASSENGER'S QUESTION, "IS THIS SHIP REALLY UNSINKABLE?" SOUTHAMPTON, APRIL 10, 1912

GOD HIMSELF COULD NOT SINK THIS SHIP.

FINANCIAL HIGHLIGHTS

The world we do business in seemed to be moving faster than ever this year, but we kept ahead. Turnover rose 37%; operating profit rose 32%; profit before tax rose 21%; earnings rose 32%; and the indicative price of our shares rose 36% as we out-performed an energetic market. Sales of three small businesses helped, boosting profits almost £2 million.

The annexation of the Journal of Commerce company enriched revenue and earnings, but it required debt. Because our cash generation was strong, with cash flow from operations about equalling profits in spite of significant growth and investment, by the end of the year net debt had fallen 40% from its peak in the first month of the year.

Years to March 31st	1996 £m	1995 £m	% increase
Profit and loss			
Turnover	188.7	137.5	37.2
Operating profit	23.8	18.0	32.2
% of turnover	12.6%	13.1%	(3.8)
Profit before tax	24.0	19.8	21.2
Profit after tax	17.7	13.4	31.7
Earnings per share	70.2p	53.3p	31.7
Dividends per share	26.0p	20.0p	30.0
Cash flow			
Profit before tax	24.0	19.8	
Depreciation	4.4	2.8	
Capital expenditure	(5.1)	(2.7)	
Working capital	1.1	8.7	
Cash flow from operations	**24.4**	**28.6**	
Tax and dividends	(12.0)	(10.5)	
Acquisitions	(70.2)	–	
	(57.8)	**18.1**	
Foreign exchange differences	(1.5)	–	
Cash (outflow)/inflow	**(59.3)**	**18.1**	
Net (borrowings)/net cash	**(17.4)***	**41.9**	
Indicative share value	**£8.50**	**£6.25**	**36.0**

*Net borrowings peaked April 1995 at £28.5 million

You don't have to stand close to get the message.

CRITIC REVIEWING ROCK-AND-ROLL, 1955

MAYBE NEXT YEAR IT WILL BE HAWAIIAN MUSIC.

CHIEF EXECUTIVE'S REVIEW

The people working in The Economist Group are virtuosos. In spite of record performances for the last four years, they keep on working to perfect their technique. As a result, operating profit and earnings were up by a third again this year, and every one of our established businesses outplayed expectations.

Divertimenti

The showing was helped by some non-trading bonuses and investments. We added the Journal of Commerce company at the beginning of this year, and it contributed materially to both revenues and earnings. We sold the fifty-year-old newsletter *Foreign Report* and two of the EIU's industry divisions for a profit of almost £2 million and launched two completely new magazines, which cost us about £1.2 million.

Without the disposals, the earnings were 18.8% ahead of last year. The trading activities that continued with us from 1995 increased their pre-tax profits in 1996 by 28%. Cash flow was once again excellent; we generated about £1 of cash for every £1 of profit. That helped us reduce our debt by 40% during the year.

Sections

The newspaper was once again first chair. Its net profit increased 23%; its margin rose to its highest level in seven years; its revenue, led by strong advertising sales, was up 12%; and its reputation (as far as we can tell) is still upstanding.

The Economist Intelligence Unit, too, ended on a high note, notching a third year of rising profits and margins and (we are pretty sure) a continued rise in customers' esteem. It also proved to be more predictable. In times past, the EIU's fortunes often hinged on sales raked in during a nail-biting March. This year was calmer.

Specialist magazines continued to be solid members of the group as well. Deducting the cost of two launches reported within this division, the profit for the collection went up 34%. Each of the magazines also continued to grow in stature. CFO was named "financial magazine of the year" by a well-known media publication, and *Roll Call* managed to attract 43 Congressmen and Senators to play in its annual baseball game. *The World in 1996*, our ten-year-old annual look forward, picked up its profit rhythm, too, by 25%.

Acoustics

All this was achieved in a packed hall. Publishers everywhere are active, trying everything new. The favourite motif is digital, and most are rushing like flies to the World Wide Web. Few have yet worked out how to make a profit there, but no one wants to be left out.

That includes us. We have been publishing electronically in a modest way for some time, but we have now turned up the volume. Our long-established group Electronic Publishing

CHIEF EXECUTIVE'S REVIEW

Committee shares expertise, ideas and courage about on-line ventures. The EIU has been the leader, creating on-line information services to fill the special requests of business and government customers. Our experimental *d.Comm* magazine, which exists only in electronic form, has also helped us learn to live without paper.

Meanwhile, we have been skirmishing in our paper publishing markets around the world. In the UK some of the major daily newspapers have waged a war for readers using price as ammunition. In the Middle East, censorship and banning have been constants. In the US, our success has spawned more imitators, and our tank-like subscription operation has slowed while newsstand sales have been a pleasant surprise. Our highest growth rates have been in the less-established markets of Asia/Pacific and Latin America.

Themes

At the beginning of the year we expanded into the group's oldest niche – trade – when we acquired the Journal of Commerce, Inc. and its publishing and database businesses. We have a vision for this company, and we made a good start on it in the first year. Among other things, we refurbished the newspaper's publishing system, design and coverage; its main back-office facility; and its attitude towards strategy and financial goals. In all these initiatives the Journal of Commerce staff were willing partners, welcoming change to a new climate of investment and achievement.

Benefactions

We believe we have a responsibility to the community outside our business, and this past year, as usual, we contributed to charities in all our major markets. We concentrated mostly on small causes where our contributions could make a difference and tried to emphasise projects related to communication. As we have for years, we also continued to support the arts, particularly contemporary artists, and to use our premises in London for regular exhibitions and an annual student competition and show.

Players

We try to attract the best people, expect a great deal of them and reward them well. The results indicate that this policy is sound. This year, as last, robust incentive plans encouraged the staff to make outstanding progress, and thus enhanced the shareholders' profits. The people who work here are some of the best in the business, and they enjoy producing not only superior products and services, but also superior profits for the shareholders.

This is partly because many of us own stock, too. Of our 458 shareholders, more than half are current staff members and another quarter are former staff members. Together these groups own 6.5% of the shares. This helps us carry the tune.

MARJORIE SCARDINO

BUSINESS REVIEWS

We may not look fast...

PRESIDENT OF CAPITOL RECORDS, ON THE BEATLES' FIRST US TOUR, 1964

WE DON'T THINK THEY'LL DO ANYTHING IN THIS MARKET.

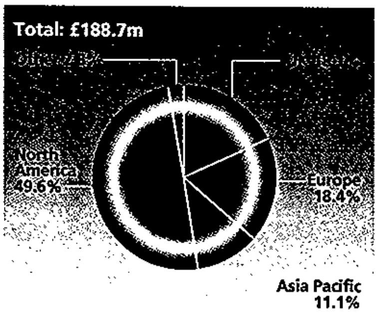
THE GROUP'S BUSINESSES

Being underestimated can be an advantage. In some of our businesses we guard our anonymity; in others we are small and go unnoticed anyway; in all we try to take the less travelled track.

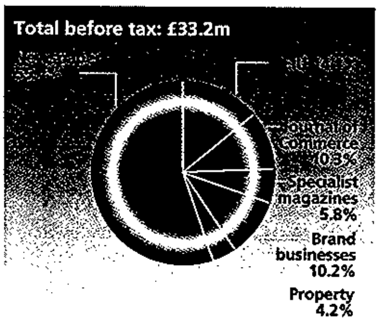
Our businesses are *The Economist* newspaper; the Economist Intelligence Unit; the newly-acquired Journal of Commerce company, which has newspapers, magazines and databases; CFO and *Treasury* magazines; *Roll Call*, the newspaper of Capitol Hill; telecommunications magazines *Public Network Europe*, *Communicate* and *d.Comm* (available only via the Internet); *Business Central Europe*, about the emerging mid-European market; and *European Voice*, a newspaper for the European Union.

The Economist earns 55% of the group's trading profits and the lion's share of our reputation. That profit proportion has shrunk in the last decade as more new businesses have been added. Over that period, the group's profits before and after tax have increased more than five-fold. Meanwhile the geographic spread has shifted. North America, for several years our largest region, has grown to 50%. In the last five years, the sources of our revenues have changed too. Advertising revenue has grown steadily, but its proportion of the total is falling while revenue from electronic publishing has shot up with the addition of the Journal of Commerce database businesses. All the while we have kept our eye on our purpose of illuminating commerce and politics for their practitioners and fans.

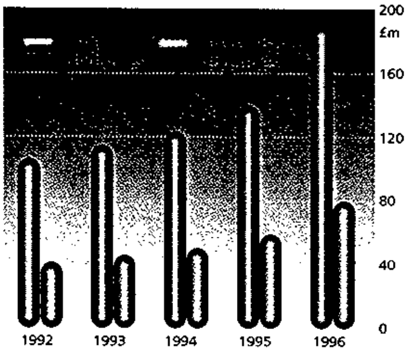
Revenue by region



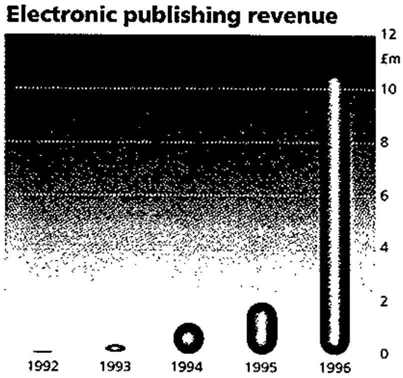
Profit by trading business



Ad revenues v total revenues



Electronic publishing revenue



Weekly instructions for walking on water

ARCHBISHOP OF ARMAGH, C1600

THE WORLD WAS CREATED ON 22ND OCTOBER 4004 B.C. AT 6 O'CLOCK IN THE EVENING.

THE ECONOMIST

In *The Economist* newspaper we question miracles, unless they're our own. It is rare that we can post two consecutive exceptional business years. But this year's profits grew by 23% to £18.4 million following last year's 27% rise. To make them, we had to manage some cost pressures and outperform the previous year's high revenues, and try a few singular solutions to new problems. When we had finished, we had also moved up the margin to the highest point in seven years.

Over the last five years, advertising and circulation have been moving closer to parity as revenue sources. Circulation at the end of the year was nudging 612,000. Every region grew, though North America and Europe moved with less agility than planned and revenue grew faster than volume. For the second year in a row advertising vaulted up in double digits. The headliners were Asia, north and central Europe and North America, which bounced back after the previous year's injuries. As usual, most of our sales were of display advertising, with banking leading the ranks of customers and survey subjects that were both editorially worthy and commercial helping to pull in pages. Classified advertising continued its strong growth, too.

We re-dressed the newspaper this year, going back to a style of covers we had abandoned in 1985, and adjusting the internal design and content of the paper as well. We also introduced an expanded, monthly books and multimedia section and created "Moreover", a slot for eclectic features.

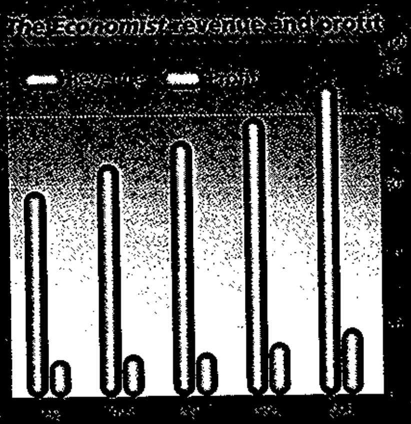
United Kingdom

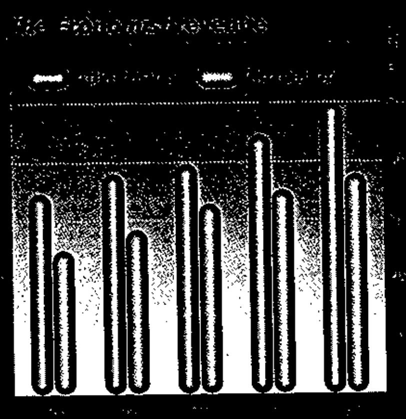
For the first time in three years, we achieved real circulation growth and made a tidy profit in this, our most mature market, and our largest source of advertising. We were able to hold our prices and increase our circulation to 105,600, with revenue rising over 6%. Advertising's task was to try to improve on last year's excellent growth, and they did. The UK edition moved ahead of the market, and the UK staff sold more than their share into the international editions.

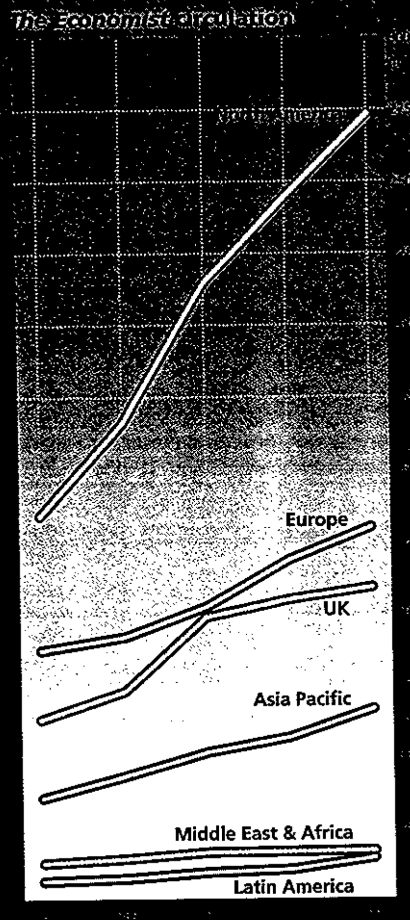
This progress came in the environment of a shift in newsstand purchasing habits – from the "high street" to new locations such as supermarkets; consolidation in the news distribution industry; new entrants to the weekend reading market; and intense cover price competition amongst quality daily newspapers. Much of the competition struggled to hold their circulation levels and lost in both advertising and circulation revenue in the bargain.

Europe

For an English-language publisher, Europe is still a multi-cultural competition. Our volume there grew by 5% to 134,206 and revenue grew by 15% as we pushed our way into the relatively untapped markets of Eastern Europe and Scandinavia. We are finally developing a brand


The Economist revenue and profit




The Economist circulation
Europe
UK
Asia Pacific
Middle East & Africa
Latin America

J.W. VON GOETHE

EVERYTHING HAS BEEN THOUGHT OF BEFORE, BUT THE PROBLEM IS TO THINK OF IT AGAIN.

THE ECONOMIST

position across the region, helped by bringing our advertising promotional campaign under one agency. Improved delivery also gave us a leg up.

On the area's major published research, the Pan-European Survey, *The Economist* staged its best performance to date. This research is essential to advertising sales and contributed to our above-market ad growth in Europe. There it was up 10% thanks to more business from banks, large corporate image campaigns and luxury goods.

Asia/Pacific

Asia is a rough-and-ready market where competition is fierce, price sensitive and prolific. This year we ended up on top, making it our fastest-growing major circulation market in the world, up 8.5% and ending the year at 67,500. This is a higher circulation than any other regional business weekly in the region. The usually good markets of Hong Kong, Thailand and Korea continued to sign up, and for the first time India was a big contributor.

Advertising took advantage of this circulation vitality and good demographics. The local edition outstripped the market and grew by 65%, and sales from the region into other editions were equally aggressive.

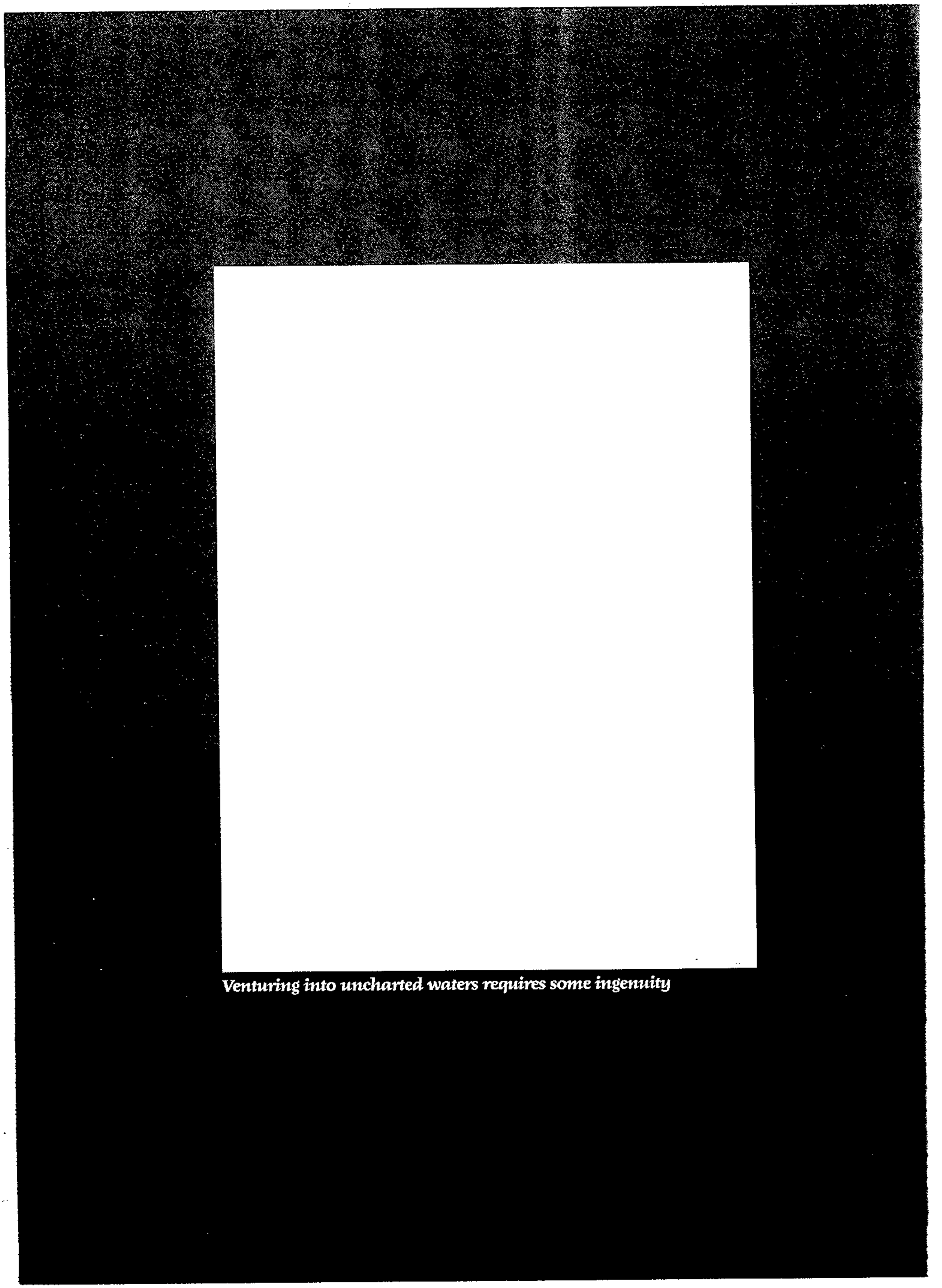
North America

North American average weekly circulation was 275,000. This was 3% more than last year's average - growing, but growing more slowly than we have come to expect from our largest and yet most lithe region. Although this outstripped our main competitors, we were disappointed when we judged this performance against the high standards we've set.

The market's judgement was otherwise. For the fifth year running *The Economist* was voted one of the industry's ten "hottest" magazines. Advertising sales bounced back from a lacklustre showing the previous year and grew by 21%. The US edition grew by that same amount, placing us in the top ten of all magazines for published advertising pages for the fourth year running. In our two leading categories, banks and airlines, *The Economist* carried more ad pages than any other magazine in the US.

Latin America

The first full year of printing and selling into the region from North America boosted circulation 26% to 13,600. Brazil, Argentina, Chile and Mexico were our major markets there. Advertising sales also responded, growing 28%, aided by several editorial surveys on the region and our new Latin America advertising edition.



Venturing into uncharted waters requires some ingenuity

US SENATOR DANIEL WEBSTER,
ARGUING AGAINST
ESTABLISHING A MAIL ROUTE
TO THE WEST COAST, 1829

WHAT DO WE WANT WITH THIS VAST USELESS AREA?

ECONOMIST INTELLIGENCE UNIT

The Economist Intelligence Unit makes its living equipping businessmen with information charts of unfamiliar territories. And the living it makes keeps getting better. This year profits from the ongoing business grew 43% on the back of revenue growth of 8%. Adding the proceeds from two small disposals during the year pumped the total profit up to £4.7 million, a 66% gain.

These results are another in a string of displays of growth and profitability for the EIU. The company's operating margin is now 11%. Only a few years ago that seemed unachievable. Now it is only a staging post.

Destinations

One of our main goals for the year was to clarify the EIU's image in the marketplace. The proposition is that the EIU can lend confidence to companies expanding outside their home territories by arming them with intelligence about unfamiliar markets. Over the past year we have worked hard to communicate this to our target customers.

Another goal was to know more about those customers and to use that knowledge to sell them more. This was our second full year of operating with a rich customer database that has helped us focus both our products and our sales efforts. We now know, for instance, that more than a quarter of our customers come from the manufacturing sector; but the customers who buy the most from us are from the education sector. Using such information we have slimmed down the numbers of our customers and achieved a 17% rise in the amount each customer spends with us.

Finally, but most importantly, our goal is continually to improve the quality of our data and analysis and to make our publications and services more relevant. Last year, we launched a new line called Business Reports, which contain more practical applications of the macro-economic information we gather. This year we have extended that series to more countries and begun to consider other products to suit business needs better.

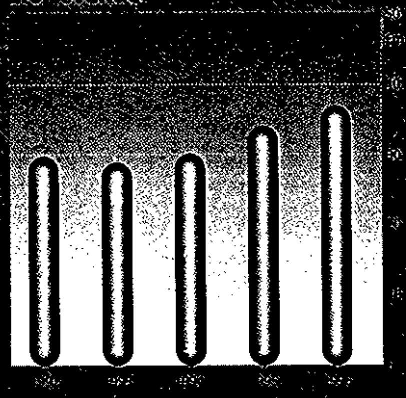
Signs

The lion's share of the EIU's revenue and profit comes from its publications. Last year their contribution grew by 11%. Conferences grew 22% in sales, but a late decision not to go ahead with a big project hurt year-end results, which were slightly below last year's, but still healthy.

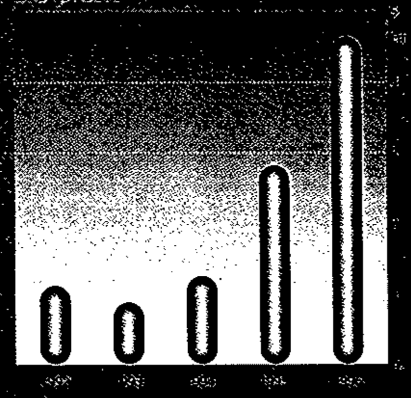
The EIU aims to have its dedication to quality and relevance reflected in its profit. Focusing on core areas in which we have credibility, breadth and a network of experts, we have headed our portfolio more directly at the needs of our customers, which we are smarter in locating.

This past year we disposed of two small industry divisions, Travel & Tourism and Consumer & Retail. Although these are excellent sectors, and these publications were familiar family members, we did not have the critical mass to be competitive with them.

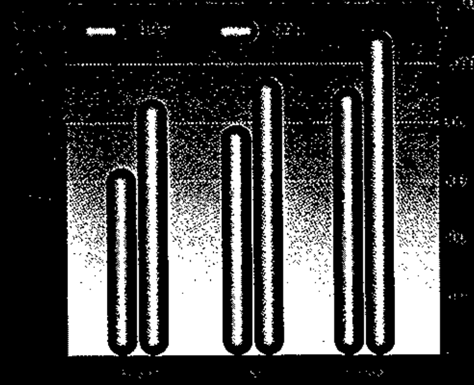
EIU revenue



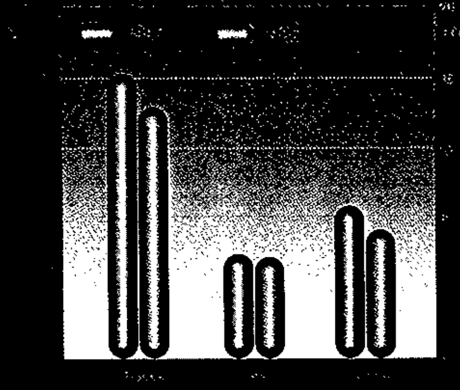
EIU profit



EIU average revenue per customer



EIU total customers



WINSTON CHURCHILL

MAN WILL OCCASSIONALLY STUMBLE OVER THE TRUTH, BUT MOST TIMES HE WILL PICK HIMSELF UP AND CARRY ON.

ECONOMIST INTELLIGENCE UNIT

Fellow travellers

We face competition all the time. It comes from everywhere. Traditional commercial rivals are no longer the only ones, though they are active: a new company drives into a newly-discovered information by-way each day. The conference business, too, has more vehicles as economies rebound.

Our competitors now include subsidised organisations such as the World Bank, the United Nations and national intelligence agencies. All are looking for ways to make money out of the information they already gather in order to supplement sagging government support.

The untraditional opponents are even more challenging. Electronic on-line services are starting to provide content as well as distribution channels. Service businesses have decided the best way to promote themselves is to parade their knowledge, and they regularly issue a convoy of reports and pamphlets free. Banks, accounting firms and lawyers have all become editors, publishers, and conference convenors.

High wires

The fast march of computers and telecommunications is transforming the ways our customers receive and use information. The EIU has taken the lead in the group in responding to these changing tastes and this year made a number of important strategic steps to nudge us into a space in the cyber-market.

We have created a range of new products geared to the needs of electronic users, including the EIU ViewsWire, a daily on-line briefing service on developments around the world. We have developed new ways to deliver our information electronically to customers, including via direct LAN feeds and the Internet. We have also expanded our alliances with key players in the electronic world, including Reuters, Reed-Elsevier, Knight-Ridder Information, FT Profile and M.A.I.D./Profound.

Finally, we have upgraded our internal electronic publishing systems and expertise. We now have a dedicated team of electronic publishing mechanics, including electronic editors, designers, sales people and systems operators.

As our customers demand more specialised and focused information to improve the quality of their business trips, we have to be prepared to provide it to a very high standard and in whatever form they choose. We are.

Soon to be a mountain bike

RICHARD NIXON,
RECALLING HIS
NAVY DAYS, 1977

THE BOW IS THE REAR END, ISN'T IT?

THE JOURNAL OF COMMERCE

It was the first year together for the 169-year-old Journal of Commerce company and the 153-year-old Economist Group, and we were both expecting ancient equipment. But as we began to learn our way around each other and rev the engines, they whirred like new and threw off some exciting sparks.

Performance on the first run was satisfactory. Profit before tax and allocations was $6.3 million, about the same as the previous year. The profit plus the tax advantage offered by the acquisition more than offset the cost of servicing the debt.

Captain's word

The company continued to lead the debate on the important issues in its field. A conference it sponsored – one of several during the year – aired differences among US legislators about deregulation of the shipping industry. The company had similarly provoked closer examination of railroad and truck deregulation last year, arguing that the newly competitive transportation industry did not need close day-to-day supervision. In this and other issues involving the exchange of goods around the world, they were consistently ahead of other media, mapping out the route.

The flagship

The Journal of Commerce newspaper installed a new editor; a new publishing system (to replace a manual one); a new design and a newly configured staff and coverage. They also added a new electronic delivery option to help improve timely availability and provide access for readers outside America, a growing audience.

The paper's important advertising section, "Shipcards", was also plugged in. Its listings will be available on-line through the company's acquisition of ShipData, Inc., which has software that neatly enables users to determine transportation routings between the United States and the rest of the world.

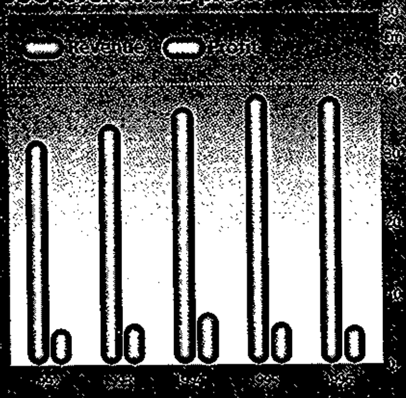
In the hold

PIERS, the database service that features import and export information, is the most profitable part of the Journal of Commerce company. This year they held on to that title, logging a record for both revenues and profits.

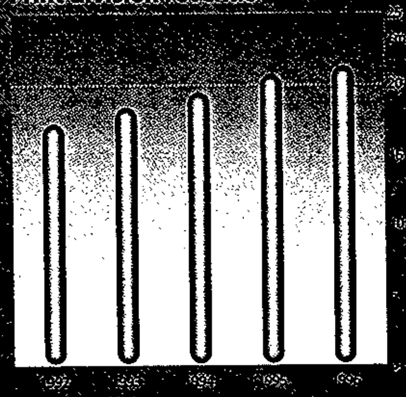
With NAFTA boosting trade with Mexico, the division established a subsidiary there and in Brazil to gather ship manifest data. During the year PIERS also undertook capacity and long-term forecast studies about the container shipping industry; set up projects related to air cargo data; and began to explore possibilities in Europe.

Transax, the database service focusing on the collection and dissemination of tariffs, was also

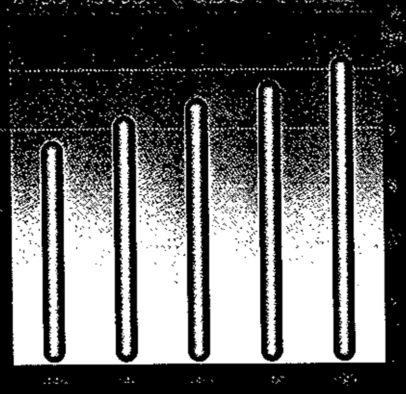
JOC revenue and profit



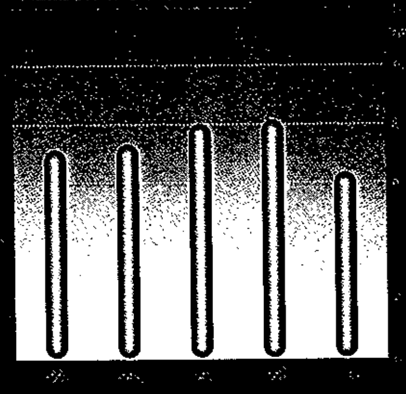
Print division revenue



Import/export division revenue



Transax division revenue



THE ECONOMIST, ON MODES OF TRANSPORTATION, 1911

THE MOTOR-CAR WILL NEVER USURP THE PLACE OF THE HORSE.

streamlined. We ended an unworkable partnership with a maritime software developer, restructured the company, and launched our new tariff retrieval system, Mercury. Initial responses to the software were good, and the fact that the division is in trim means that we should be able to turn sales into profits this year.

Other vessels

Traffic World, the respected magazine about logistics, had a bumpy revenue year, matching the fortunes of many of its transport customers. But by year-end it had been re-designed and re-ordered, giving more space to all aspects of transportation and to topics such as logistics and automated warehousing, which our customers say are increasingly important to them. As a sign of *Traffic World*'s excellence, it was awarded the important Salzberg Medallion from the management school at Syracuse University for "outstanding contributions in the field of transportation".

The Shipper Group, which produces *Florida Shipper* and *Gulf Shipper* magazines, also turned in record revenues and profits based on the continued strong growth of trade to Latin America. A third and fourth Shipper magazine are already in the yard being built.

The book division, which sells transportation and trade directories both on paper and in electronic and CD-ROM form, improved its speed with a new publishing system for the 13-volume *Transportation Ticklers*. It also launched *The Directory of US Traffic Managers*, which was an immediate success.

The horizon

When we bought the Journal of Commerce, it was a company that had been starved for capital and attention in a much larger fleet. Investments we have already made or committed have begun to reap both physical and psychological rewards. Our plans for the company are clear, and we have great confidence we will make it a lodestar for those interested in trade and transportation around the world.

Good fun as long as you don't go under

ANALYSIS OF HEROIN IN BOSTON MEDICAL AND SURGICAL JOURNAL, 1900

IT IS NOT HYPNOTIC AND THERE IS NO DANGER OF ACQUIRING THE HABIT.

SPECIALIST MAGAZINES

Although we report all these magazines together, each has a distinct identity and is at a different point in its development. Some are seasoned swimmers; some are still wet behind the ears. None of them mind getting their feet wet now and then.

Armed with that adventurous attitude, the established publications together increased their profits this year by 34%. The addition of two launches made a dent in that profitability, but both those fledglings were on track, and we expect to appreciate their pioneering soon.

CFO

CFO is circulated to 365,000 senior financial executives in America and has been a consistently bold performer. This year's revenues topped last year's by 14% and operating profit was up 12.5%, a net margin of 27% and part of a steadily rising profit and efficiency trend. Its editorial achievements were the key to its financial feats. It was named "Financial Magazine of the Year" by Folio, a leading industry publisher. It also launched a popular awards programme to recognise those financial executives who have re-engineered their companies for more efficient performance. These "REACH" awards will be an annual affair.

Treasury and Risk Management

This magazine about cash management was an early exploit of *CFO* and still shares some of its staff and management. Although it was expanded to six issues a year only last year, net revenue was up 39% this year, and it is now profitable. Augmenting its excellent editorial content, this year it successfully launched the Alexander Hamilton awards for excellence in treasury management. It also held a Global Treasury Summit which attracted a hundred treasurers to exchange ideas and tactics for managing their companies' cash assets.

Roll Call

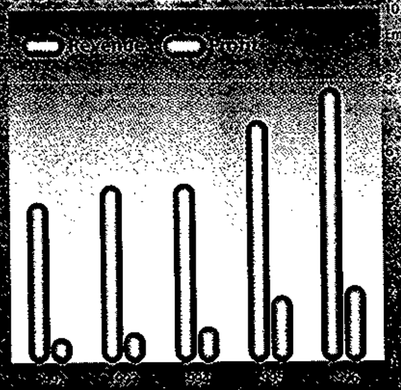
The local newspaper of Capitol Hill celebrated its fortieth birthday this year. It's not interested in settling down, though. It continues to beat its competition and to be indispensable to the members of the US Congress and their staffs and followers. In spite of an uninspiring legislative calendar (which sets much of the advertising agenda), revenues were up 8% over last year and profits up 7%. A healthy profit margin of 40% easily supports investment in the publication. This year, *Roll Call* launched a popular site on the World Wide Web and a new section in the newspaper, "Politics", particularly relevant as the US elections approach. We also began to explore a variety of other territories that will expand the paper's reach.

Telecommunications magazines

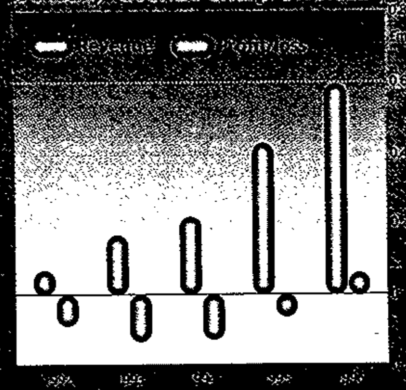
The titles we have in this field focus on different markets, but they have enough in common to share part of their operations.

Communicate is now the clear leader in coverage of the market interested in voice

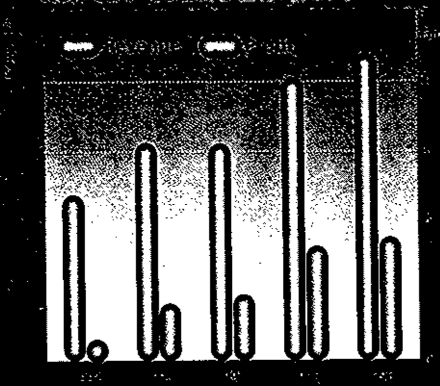
CFO revenue and profit



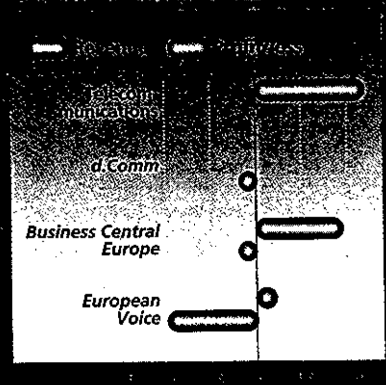
Treasury revenue and profit/loss



Roll Call revenue and profit



Developing publications revenue and profit/loss



SPECIALIST MAGAZINES

communications, and it is therefore the major advertising medium, averaging 15% more pages per issue than its nearest competitor. A recent UK survey by Dataquest Europe revealed that *Communicate* is by far the widest read publication in this field. As a result, this year *Communicate*'s sales and bottom line continued to improve.

Public Network Europe produced a solid profit for the first time since its launch in 1990. To do so, it added to revenue by 20% and revamped its operating costs. It also added to its product line: the first PNE conference was held in Paris, and last year's successful yearbook publication became an annual.

d.Comm, our Internet magazine for technology professionals, will be the first web site to have its circulation independently audited and certified. This verification of the loyalty of its audience, plus good reviews of the site and its inclusion in the Internet Business 500, a listing of the highest quality business sites worldwide, for its "overall quality and value to readers", gives it good momentum. But it is taking longer than expected for advertisers to convert from keen interest to full commitment.

Business Central Europe

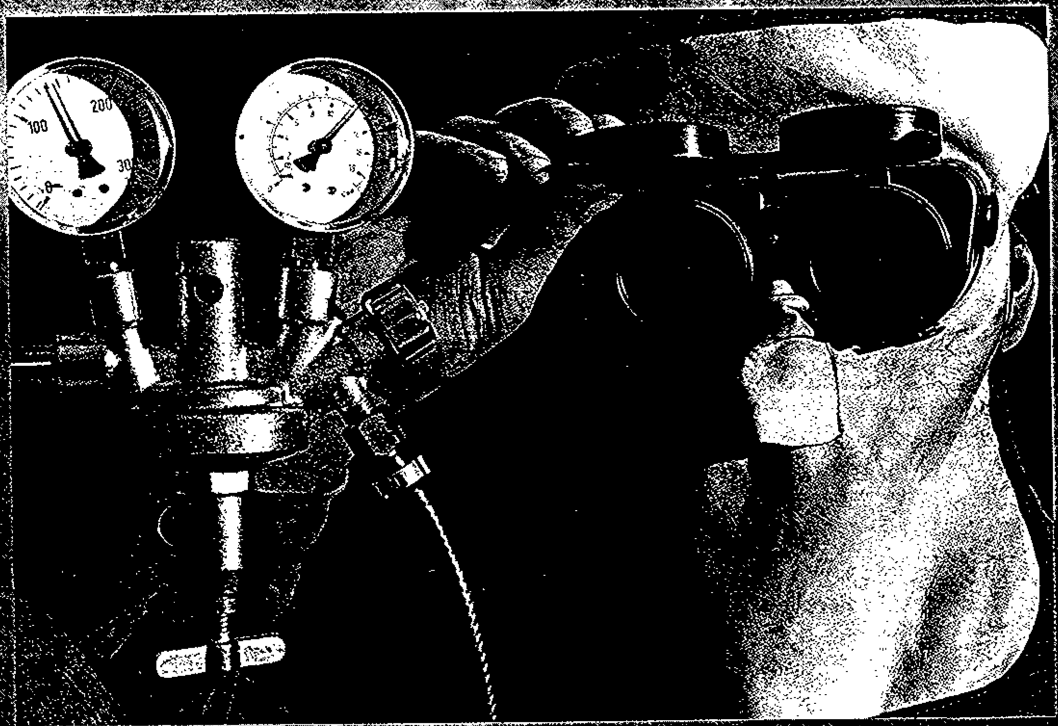
Business Central Europe, our pioneering monthly magazine for the emerging economies of Europe, had another year of good progress. In an often contrary market, sales grew by 36% over last year. This is a costly magazine to produce, however, so its revenue must be strong to survive.

Since its launch in 1993, BCE has become the clear market leader among central Europe's pan-regional media. It has won that stake by emphasising first-class editorial backed by strong and consistent investment in circulation development. We believe that as the markets become more consistent, BCE's profits will, too.

European Voice

Our new Brussels newspaper had only six months to run in this financial year. In that time it managed to capture a position as required reading in the complicated environment of the European Union. Research suggests it is increasingly perceived as the newspaper for EU insiders, with readers on both sides of the institutional divide praising its coverage of Union affairs.

The financial picture was a little less clear than the editorial one. Circulation ran away from our expectations, averaging twice as many as planned. Advertising, however, was slow to catch on, understandable in a completely new market. As major corporations are becoming more aware of the importance of the legislative and rulemaking bodies in Brussels, their communication strategy is being expanded to include *European Voice*.



Recycled hot air

RONALD REAGAN
ON NUCLEAR
POWER PLANTS,
1980

ALL THE WASTE IN A YEAR CAN BE STORED UNDER A DESK.

BRAND BUSINESSES

We like to use everything twice, including our brand, and those enterprises which borrow *The Economist* name (with the addition of one or two others) we call our "brand businesses".

These include The Economist diaries, second rights and syndication arrangements, our fulfilment business International Subscription Services and our printer Redhouse Press. Books bearing The Economist imprint and some subscriber services (eg binders for *The Economist*) also make a contribution. Until this year we also had the newsletter *Foreign Report*, but at the beginning of the year we sold it to Jane's Information Group, a more appropriate home.

Of this entire collection of businesses, turnover was up 11%, but profits without the sale of *Foreign Report* fell by almost the same percentage. With the sale, profits were up 45%.

Diaries

We have been making The Economist diaries since 1949. The competition is increasingly fierce, particularly in America, and particularly as electronic diaries and computer-based scheduling have become more popular. With a mature business, it is difficult to maintain profitability. Our total operating profit on diaries was down 12% on the previous year.

It was a devastating year for diaries in America. Sales and revenues were down by a quarter on the previous year, though part of that shortfall was due to the switch of a large order from America to Europe. In addition, our fulfilment vendor went bankrupt part-way through the year, taking our records - and our customers' confidence in our service - with him.

We are seeking to maximise efficiencies and have succeeded in having all of our diaries made in one place worldwide this year, which helped our cost base.

Syndications and second rights

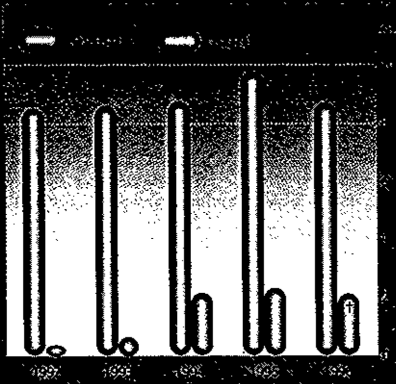
The heart of this part of the business is our syndication of previously published material from *The Economist* to other media organisations, particularly foreign language publishers. Articles from *The Economist* are now translated into 22 languages. This year we increased the number of syndication contracts and improved our on-line agreements, but results were depressed because of the termination of a large syndication arrangement in Japan. To compensate, we reduced our direct costs and began to look for other partners.

The syndication business was particularly good in America, where it generated more than $1 million for the first time. There, the biggest earners were reprint permission fees, on-line distribution and CD-ROM publication. Paper reprints, particularly of surveys, showed an amazing vitality in a time of fascination with things cyber.

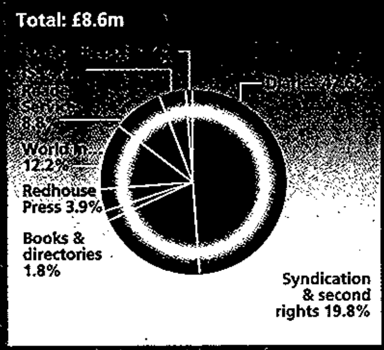
Reader services

Our book-shop in Regent Street, London has moved from a loss four years ago to its third year

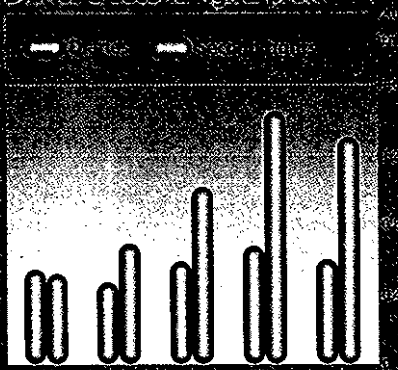
Brand businesses revenue and profit



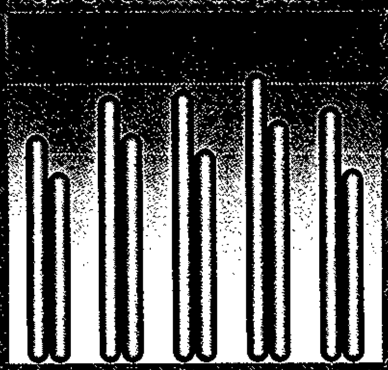
Brand businesses* revenue by sector



Diaries & second rights profit



Property revenue and profit*



THOMAS EDISON,
OF HIS
PHONOGRAPH,
1880

IT ISN'T OF ANY COMMERCIAL VALUE.

BRAND BUSINESSES

of growth in turnover, profit and margin. With a tightly focused product range, it is a highly visible promotion for the group in London.

We publish a range of books through arrangements with quality publishers, buttressed by editorial control. These books are usually A to Z guides to some aspect of business and have been fine sellers in the past. This past year, however, the list of offerings was not as good as planned, and the results disappointing.

The World in 1996

For ten years we have been publishing this annual look forward at the world, and this year was its most profitable ever. We now sell a total of about 175,000 copies worldwide. Added to its robust advertising revenue, it yields a substantial profit.

International Subscription Services

Our fulfilment business does 75% of its business within the group and takes in outside clients for the rest. It is profitable, although this year's results were depressed by the costs of consolidating all the company's operations in new quarters. ISS is one of the few international fulfilment operators in Europe, and its reputation for quality continues to bring in new business.

Redhouse Press

Our printing business, Redhouse Press, continued its independent development and the search for new clients. The majority of its work is still for the group, but last year it managed to attract significant new business from outside, and began to tune its cost base and pricing as a stand-alone business.

Property

In most of our locations around the world we lease space, but in London we own the head lease of our complex of buildings in St James's Street. To the extent that it bears our name, it too is a brand business.

Our property company, Ryder Street Properties, runs this valuable asset and collects rent from both our own group and outsiders. It added £1.4 million to the group's profits, down from £1.7 million in the previous year, with about 40% of the revenue coming from outside the group.

For the last two years, the strategy of the property company has been to contain its fall in profitability resulting from the drop in rental levels as its high-yielding leases of the 1980's expire. We made much progress on this effort and signed some high-quality, compatible tenants for the complex during the year.

THOMAS EDISON,
OF HIS
PHONOGRAPH,
1880

IT ISN'T OF ANY COMMERCIAL VALUE.

BRAND BUSINESSES

of growth in turnover, profit and margin. With a tightly focused product range, it is a highly visible promotion for the group in London.

We publish a range of books through arrangements with quality publishers, buttressed by editorial control. These books are usually A to Z guides to some aspect of business and have been fine sellers in the past. This past year, however, the list of offerings was not as good as planned, and the results disappointing.

The World in 1996

For ten years we have been publishing this annual look forward at the world, and this year was its most profitable ever. We now sell a total of about 175,000 copies worldwide. Added to its robust advertising revenue, it yields a substantial profit.

International Subscription Services

Our fulfilment business does 75% of its business within the group and takes in outside clients for the rest. It is profitable, although this year's results were depressed by the costs of consolidating all the company's operations in new quarters. ISS is one of the few international fulfilment operators in Europe, and its reputation for quality continues to bring in new business.

Redhouse Press

Our printing business, Redhouse Press, continued its independent development and the search for new clients. The majority of its work is still for the group, but last year it managed to attract significant new business from outside, and began to tune its cost base and pricing as a stand-alone business.

Property

In most of our locations around the world we lease space, but in London we own the head lease of our complex of buildings in St James's Street. To the extent that it bears our name, it too is a brand business.

Our property company, Ryder Street Properties, runs this valuable asset and collects rent from both our own group and outsiders. It added £1.4 million to the group's profits, down from £1.7 million in the previous year, with about 40% of the revenue coming from outside the group.

For the last two years, the strategy of the property company has been to contain its fall in profitability resulting from the drop in rental levels as its high-yielding leases of the 1980's expire. We made much progress on this effort and signed some high-quality, compatible tenants for the complex during the year.

MANAGEMENT

TRUSTEES AND DIRECTORS

TRUSTEES

Sir Campbell Fraser
A trustee of the company since 1978. President of the CBI from 1982 to 1984. Chairman of the International Advisory Council of Wells Fargo from 1990 to 1995. Former chairman of Dunlop and Scottish Television and currently non-executive director of a number of companies.

Sir James Ball
Appointed a trustee in 1987. 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 director of Royal Bank of Canada, chairman of Royal Bank of Canada Holdings (U.K.) Ltd and a member of IBM United Kingdom Ltd Advisory Board.

Lord Alexander of Weedon QC
Chairman of National Westminster Bank, deputy chairman of the Securities and Investment Board, non-executive director of RTZ Corporation. Former chairman of the Bar Council and the Panel on Takeovers and Mergers. A trustee of the company since 1990.

Sir Robin Renwick KCMG
Appointed a trustee in 1995. British ambassador to South Africa from 1987 to 1991 and to Washington from 1991 to 1995. A director of Robert Fleming and British Airways. Chairman of Save & Prosper and of Fluor Daniel.

DIRECTORS

Dominic Cadbury 56
Appointed non-executive chairman of the company in 1994, having served as a non-executive director since 1990. Executive chairman of Cadbury Schweppes. Also deputy chairman of Guinness and chairman of the CBI's Education and Training Affairs Committee.

Professor George Bain 57
A Canadian who has pursued an academic career in Britain since 1963. Principal of London Business School since 1989. A non-executive director of Blackwell Publishers, Canada Life Assurance Company of Great Britain and The Canada Life Assurance Company.

DIRECTORS

Frank Barlow CBE 66
Managing director of Pearson since 1990 and chairman of the Financial Times. With Pearson since 1968 and a director of *The Economist* since 1984. Chairman of Logica plc and of Channel 5 Broadcasting Ltd.

Bill Emmott 39
Appointed editor of *The Economist* in 1993. Joined the company in 1980 and was formerly business affairs editor. Author of two books on Japan.

Sir Peter Gibbings 67
A director of the company since 1987. Chairman of the Radio Authority. Formerly chairman of Anglia Television Group and of the Guardian and Manchester Evening News.

James Joll 59
Appointed a director in 1995. An executive director of Pearson and a former journalist with the Financial Times. A director of N. M. Rothschild from 1970 to 1980. Chairman of the Museums and Galleries Commission.

Marjorie Scardino 49
Group chief executive. Joined the company in 1985 as president of *The Economist* in North America. Appointed chief executive in 1993. A lawyer by training, practised for ten years and published a weekly newspaper in the United States before joining the group. A non-executive director of W.H.Smith and ConAgra.

Christopher Taylor 54
Group finance director, appointed in 1995. Formerly finance director of Smiths Industries. A non-executive director of Hays and JBA Holdings.

MANAGEMENT COMMITTEES

PERSONNEL AND REMUNERATION COMMITTEE

Dominic Cadbury, CHAIRMAN
Frank Barlow
George Bain
Marjorie Scardino

AUDIT COMMITTEE

Dominic Cadbury, CHAIRMAN
Sir Peter Gibbings
James Joll

GROUP MANAGEMENT COMMITTEE

Marjorie Scardino
Bill Emmott
Christopher Taylor

Helen Alexander 39
Appointed managing director of the EIU in 1993, following six years as circulation and marketing director of *The Economist*. Joined the company in 1984. A non-executive director of Northern Foods.

David Hanger 51
Advertisement director of The Economist and director of group development and specialist magazines. Joined the company in 1968.

Tony Wales 40
Group company secretary since 1995. Previously a corporate and commercial lawyer in private practice.

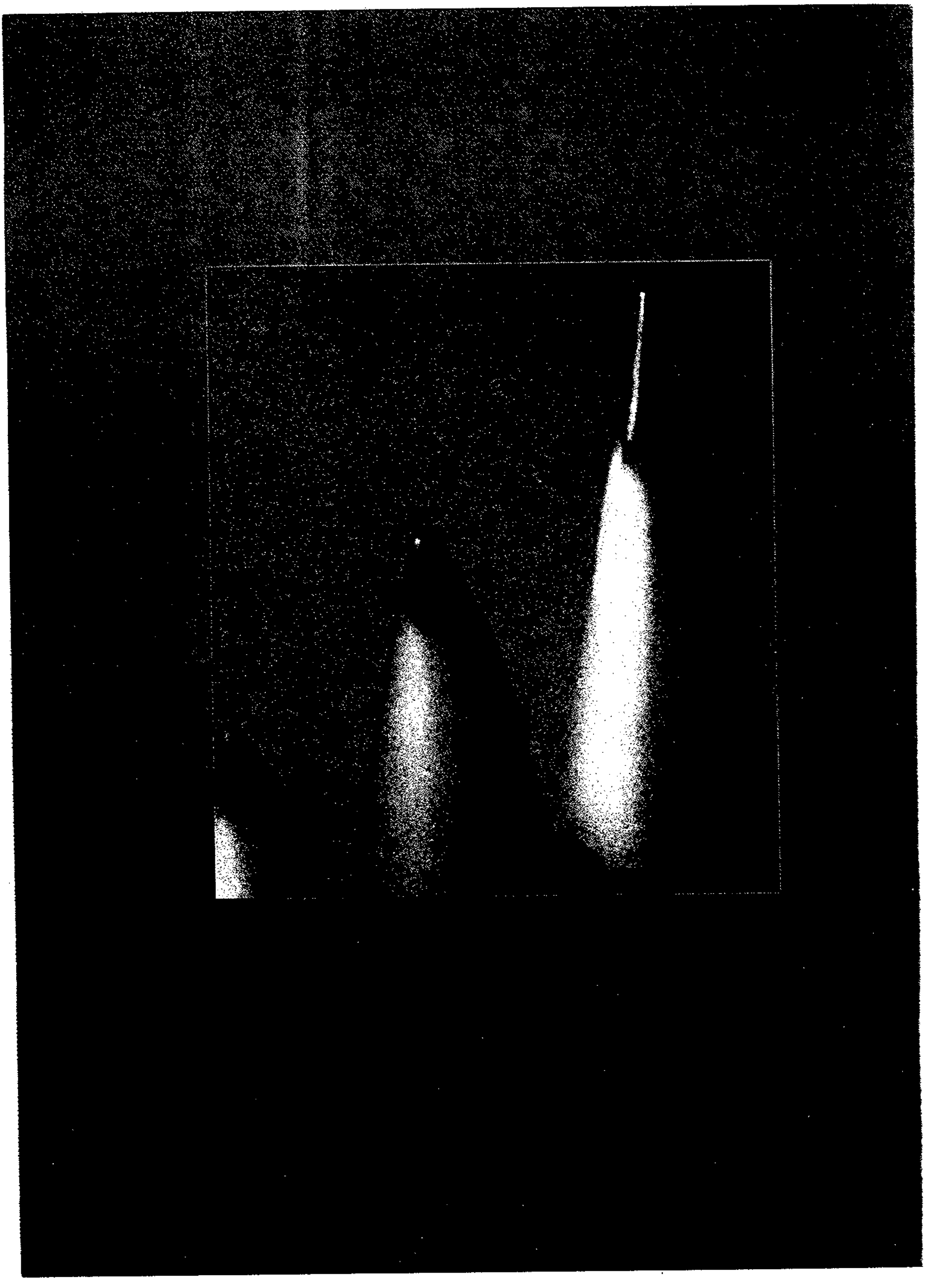
REGISTERED OFFICE

25 St James's Street
London SW1A 1HG

Registered in England and Wales
Number 236383

A. E. Wales
SECRETARY

Coopers & Lybrand
REGISTERED AUDITORS



REPORT AND ACCOUNTS

Directors' report

The directors present their report to shareholders, together with the audited financial statements for the year ended March 31st 1996 which were approved at a board meeting on May 28th 1996.

Principal activities
The principal activities of the group consist of publishing, the supply of business information and the letting of property.

Results and dividends
The profit after tax for the financial year to March 31st 1996 was £17.7 million (1995 £13.4 million). The profit retained for the year was £11.1 million (1995 £8.4 million) and has been transferred to reserves. A final dividend of 18.5p per share is proposed for the year to March 31st 1996. Together with the interim dividend already paid, this makes a total for the year of 26p (1995 20.0p). The final dividend will be paid on July 1st 1996 to shareholders on the register at the close of business on May 28th 1996.

Significant changes in group interests
On April 3rd 1995 the group acquired all the issued shares of Journal of Commerce, Inc. for US$113 million.

Property values
The directors consider that the aggregate market value of its properties exceeds their book value.

Charitable and political donations
A charities committee, which includes members of staff, and certain managers are responsible for making donations for the company. During the financial year, the group made contributions to charities amounting to £96,000 (1995: £83,000). No contributions were made for political purposes.

Creditor payment policy
The group pays creditors in accordance with its contractual and other obligations. Terms of payment are agreed when negotiating business transactions and included in contracts with major suppliers.

Directors
The following changes occurred during the year:

Jeremy Wagener retired as a director on June 30th 1995.
James Joll was appointed as a director on October 3rd 1995.
Christopher Taylor was appointed as a director on October 9th 1995.

Profiles of the continuing directors are shown on page 36.

During the year the board resolved that, subject to the overriding rule that directors should retire on reaching the age of 70, all new non-executive directors should be appointed for an initial period of 3 years, renewable at the invitation of the board for a further 3 years. All current non-executive directors also agreed to be bound by this policy and accordingly the position of each incumbent will be considered for renewal for a period of 3 years from the next anniversary of his appointment. In order to maintain continuity between the chairman and the company, it was decided that the chairman's term of office should be 6 years, renewable at the invitation of the board.

In January 1996 the board resolved to increase the fees of non-executive directors from £10,000 pa to £15,000 pa with effect from April 1st 1996. The fees had not previously been increased since 1989. The fees of the chairman will remain at £30,000 pa. In future years the fees of the non-executive directors will be reviewed annually at the same time as all group salaries.

All executive directors have contracts of employment. Marjorie Scardino's contract can be terminated on 2 years' notice; the contracts of the others have shorter notice periods.

Corporate information
The share capital of the company is divided into ordinary shares, "A" special shares, "B" special shares and trust shares. The trust shares are held by trustees (who are described on page 36). 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, 7 of which may be appointed by holders of the "A" special shares. There are currently 70 "A" special shareholders. The "B" special shares are all held by The Financial Times Limited, which may appoint 6 directors to the board. 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 all its shareholders' interests.

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.

Corporate governance
Although not bound by the Code of Best Practice published by the Committee on Financial Aspects of Corporate

Directors' report

Governance, the company has always sought to run its corporate affairs as if it were a publicly listed concern and will therefore follow the Committee's recommendations as closely as is practicable and useful to shareholders. The company subscribes to the recommendations of the Cadbury Committee on financial aspects of corporate governance and complies with the Code of Best Practice published on 1 December 1992. The auditors' report concerning this statement of compliance is on page 43.

The board comprises five non-executive directors and three 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 Dominic Cadbury and has met for regular business six times in the twelve months to March 31st 1996. 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 companies and major capital expenditure. The company's Articles of Association require the board to obtain the consent of the trustees for some actions.

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

The personnel and remuneration committee is made up of three non-executive directors and the chief executive. It is chaired by Dominic Cadbury and is responsible for remuneration policy. Its report is on pages 44 and 45.

Internal control

The board accepts its responsibility for maintaining a system of internal control, which includes not only internal financial control but also compliance with laws and regulations. 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 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 quarterly. 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 are in operation covering banking arrangements, hedging instruments, investments of cash balances and borrowing procedures. Individual staff responsibilities and levels of delegated authority in relation to treasury matters are defined.
- The company has an internal audit function, which reports to the finance director but also has direct access to the Chairman of the Audit Committee. The internal 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.
- Senior management continually reviews and assesses its key business risks and ensures that it is receiving appropriate information to monitor the management of those risks.

Employment policies

The group recognises it is essential to keep employees informed of the progress of its business. Employees are regularly consulted and provided with information on the group's activities. 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, sex, 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.

Auditors

A resolution to re-appoint Coopers & Lybrand as the company's auditors will be proposed at the annual general meeting.

By order of the board

A E Wales
SECRETARY
May 28th 1996

Directors' statement of responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. 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 1999. 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

A E Wales
SECRETARY

May 28th 1996

Auditors' reports

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 40 and 41 on the company's compliance with the paragraphs of the Code of Best Practice which are specified by the London Stock Exchange for review by auditors of publicly listed companies. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion
We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the group's system of internal financial control or its corporate governance procedures, nor the ability of the group or company to continue in operational existence.

Opinion
With respect to the directors' statements on internal financial control on page 41 and going concern on page 42, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 42 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

HH

Coopers & Lybrand
CHARTERED ACCOUNTANTS
London

May 28th 1996

Coopers & Lybrand

We have audited the financial statements on pages 46 to 66.

Respective responsibilities of directors and auditors
As described on page 42 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at March 31st 1996 and of the profit, total recognised gains and losses and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
London

May 28th 1996

Coopers & Lybrand

Personnel and remuneration committee's report

The committee

The personnel and 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 Dominic Cadbury. The quorum necessary for the transaction of business is two members, excluding the chief executive. The committee is responsible for remuneration policy for senior executives and all directors. In determining remuneration, the committee follows a policy designed to attract, retain and motivate high calibre senior executives, aligned with the interests of shareholders.

Non-executive directors do not participate in any bonus scheme or the shadow share scheme or any of the company's pension plans.

Profit-sharing and incentive plans

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

(i) The group profit-sharing and incentive plans covered permanent employees who do not participate in incentive plans or pay schemes that exclude them. There were two principal plans in the year. In the group profit-sharing plan, all eligible employees received a payment equivalent to a percentage of salary linked to the year-on-year increase in the group's profit before taxation. This scheme was registered under the Profit Related Pay regulations, enabling a portion to be paid tax-free to UK-based employees. In addition, eligible employees also received incentive payments from business unit plans in which rewards were linked to growth in profits or achievement of objectives which they could influence directly.

(ii) The earnings-growth incentive plan covered the executive directors and certain senior executives, who participated at the discretion of the personnel and remuneration committee. It provided for 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 average earnings per share over the three preceding years, subject to achieving a minimum threshold of 10% compound growth.

(iii) Shadow shares are also awarded to certain employees, including executive directors, who participate at the discretion of the personnel and remuneration committee. Employees are awarded participation units which can be partially encashed 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 annum compound during the period.

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, are shown in the following table:

	1996		1995	
Beneficial holdings	**"A" Special**	**Ordinary**	**"A" Special**	**Ordinary**
Dominic Cadbury	5,600	52,390	5,600	52,390
Bill Emmott	25,000	–	25,000	–
Sir Peter Gibbings	–	2,300	–	2,300
Marjorie Scardino	25,000	1,180	25,000	130
Christopher Taylor	–	550	–	–
Holding as trustee				
Dominic Cadbury	21,000	81,460	21,000	81,460

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

Personnel and remuneration committee's report

Directors' remuneration

The remuneration and benefits of all directors who served for all or part of the year ended March 31st 1996 is shown in the following table:

	Salary/Fees(6)		Bonus(1)		Benefits		Pension		Total	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
Marjorie Scardino	146	130	125	105	169(3)	204	54(4)	14	494	453
Bill Emmott	137	123	97	82	14	15	–(5)	–(5)	248	220
Christopher Taylor	62	–	44	–	7	–	–(5)	–	113	–
Jeremy Wagener	31	107	168(2)	71	2	9	–(5)	–(5)	201	187
Dominic Cadbury	30	24	–	–	–	–	–	–	30	24
Frank Barlow	10	10	–	–	–	–	–	–	10	10
Sir Peter Gibbings	10	10	–	–	–	–	–	–	10	10
George Bain	10	10	–	–	–	–	–	–	10	10
James Joll	5	–	–	–	–	–	–	–	5	–

(1) Bonuses are paid under the earnings-growth incentive plan. They do not include any amounts accruing under the shadow share scheme as the amounts do not vest in the participants until the end of the relevant period. On the final calculation of the 1995 bonuses, additional payments of £7,000 to Marjorie Scardino, £6,000 to Bill Emmott and £5,000 to Jeremy Wagener were paid in addition to the accruals stated in last year's financial statements. The 1995 figures have been restated accordingly.

(2) Includes £146,000 paid under the shadow share scheme on his retirement as a director.

(3) Contains £64,000 of non-recurring expenses.

(4) Marjorie Scardino is a member of the Economist Newspaper Group Inc Pension Plan which is a defined contribution 401(K) plan which US employees are eligible to join. Life insurance benefits are also payable under this Plan. In 1996 £45,000 was paid to fund underpayments for previous years due to a change in the law.

(5) Bill Emmott, Jeremy Wagener and Christopher Taylor 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 Economist Group UK Pension Plan which all permanent UK employees are eligible to join. Under the Plan, they are eligible for dependants' pensions and life insurance benefits. In accordance with actuarial advice, no contributions were made to the fund during the year.The charge to the profit and loss account amounted to 8.7% of basic salary, being the effective charge under SSAP 24 rules. These amounted to £11,000 for Bill Emmott, £5,000 for Christopher Taylor and £3,000 for Jeremy Wagener.

(6) In addition, in 1995 fees of £8,000 were paid to each of the former directors, Sir John Harvey Jones and John Hale.

Directors' interests in shadow shares

During the year Jeremy Wagener received £146,000 on encashment of all his entitlements of 40,000 units under the shadow share scheme. Marjorie Scardino and Bill Emmott each holds 80,000 shadow shares at base values of £2.60 or £3.40. No other director held any shadow shares during the year.

Consolidated profit and loss account years ended March 31st

	NOTE	1996 £000	1995 £000
Turnover			
Continuing operations		150,852	137,489
Acquisitions	31	37,807	–
	1,2	**188,659**	**137,489**
Cost of sales			
Continuing operations		(53,442)	(47,347)
Acquisitions		(12,660)	–
		(66,102)	**(47,347)**
Gross profit			
Continuing operations		97,410	90,142
Acquisitions		25,147	–
		122,557	**90,142**
Distribution costs	3	(19,948)	(13,130)
Marketing, development and other costs	3,8	(78,847)	(59,022)
Operating profit			
Continuing operations		20,549	17,990
Acquisitions		3,213	–
		23,762	**17,990**
Profit on sale of titles	1	1,960	–
Profit on ordinary activities before interest		**25,722**	**17,990**
Interest receivable and other income	4	1,846	2,118
Interest payable and other charges	5	(3,571)	(343)
Profit on ordinary activities before taxation	**1,2,6**	**23,997**	**19,765**
Taxation on profit on ordinary activities	9	(6,315)	(6,345)
Profit on ordinary activities after taxation		**17,682**	**13,420**
Dividends	10	(6,552)	(5,040)
Retained profit	**11,25**	**11,130**	**8,380**
Earnings per share (pence)	**12**	**70.2**	**53.3**

Balance sheets at March 31st

		GROUP		COMPANY	
		1996	1995	1996	1995
Fixed assets	NOTE	£000	£000	£000	£000
Intangible assets	13	658	–	–	–
Tangible assets	14	36,398	32,518	4,514	4,212
Investments	15	133	122	75,977	33,153
		37,189	**32,640**	**80,491**	**37,365**
Current assets					
Stocks and work-in-progress	16	1,854	2,274	1,105	1,169
Debtors: due after one year	17	1,165	850	19,919	23,728
Debtors: due within one year	17	34,541	28,068	21,815	15,055
Investments	18	9,364	9,179	–	–
Cash and deposits	19	22,706	37,619	9,848	3,307
		69,630	**77,990**	**52,687**	**43,259**
Creditors: due within one year	21	(39,984)	(36,367)	(33,061)	(31,458)
Unexpired subscriptions		(43,518)	(38,773)	(12,237)	(11,992)
Net current (liabilities)/assets		(13,872)	2,850	7,389	(191)
Total assets less current liabilities		**23,317**	**35,490**	**87,880**	**37,174**
Creditors: due after one year	22	(46,664)	–	(46,664)	–
Provisions for liabilities and charges	23	(9,965)	(9,024)	(6,705)	(5,929)
Net (liabilities)/assets	**1,2**	**(33,312)**	**26,466**	**34,511**	**31,245**
Capital and reserves					
Called up share capital	24	1,260	1,260	1,260	1,260
Goodwill reserve	25,31	(71,463)	–	–	–
Profit and loss account	25	36,891	25,206	33,251	29,985
Equity shareholders' funds	**26**	**(33,312)**	**26,466**	**34,511**	**31,245**

May 28th 1996
Dominic Cadbury
Christopher Taylor
Directors

Dominic Cadbury

Consolidated cash flow statement years ended March 31st

	1996 £000	1996 £000	1995 £000	1995 £000
Net cash inflow from continuing operating activities		30,129		29,720
Returns on investments and servicing of finance				
Interest received	1,704		2,270	
Interest paid	(3,569)		(495)	
Dividends paid	(5,292)		(4,082)	
Net cash outflow from returns on investments and servicing of finance		(7,157)		(2,307)
Taxation				
UK corporation tax paid	(5,715)		(4,972)	
Overseas tax paid	(974)		(1,413)	
Tax paid		(6,689)		(6,385)
Investing activities				
Purchase of intangible fixed assets	(292)		–	
Purchase of tangible fixed assets	(4,771)		(2,702)	
Purchase of subsidiary (net of cash acquired), (NOTE 31)	(70,234)		–	
Sale of tangible fixed assets	17		9	
Sale of titles	1,300		–	
Net cash outflow from investing activities		(73,980)		(2,693)
Net cash (outflow)/inflow before financing		(57,697)		18,335
Financing				
Dollar loans taken out during year	48,194		–	
Repayments of amounts borrowed	(5,108)		(3,216)	
Current asset investments and cash deposits	(1,185)		(6,356)	
Net cash inflow/(outflow) from financing		41,901		(9,572)
(Decrease)/increase in cash and cash equivalents (NOTE 19)		(15,796)		8,763

Reconciliation of operating profit to net cash inflow from operating activities	1996 £000	1995 £000
Operating profit	23,762	17,990
Amortisation of intangible fixed assets	197	–
Depreciation on tangible fixed assets	4,182	2,843
Loss on sale of tangible fixed assets	44	115
Goodwill reinstated on disposal in year	–	40
Decrease/(increase) in stocks	544	(486)
(Increase) in debtors	(784)	(1,583)
Increase in creditors excluding unexpired subscriptions	2,080	7,266
Increase in unexpired subscriptions	104	3,535
Net cash inflow from operating activities	30,129	29,720

In accordance with FRS 1, "Cash flow statements", included within "Financing-current asset investments and cash deposits" is the amount of £7,000,000 cash (1995: £6,000,000) placed on short-term deposit. The group would prefer to classify this amount as cash.

Statement of total recognised gains and losses years ended March 31st

	1996 £000	1995 £000
Profit for the financial year	17,682	13,420
Currency translation differences on foreign currency net investments	715	374
Currency translation differences on goodwill reserves	(4,478)	–
Total recognised gains and losses	**13,919**	**13,794**
Prior year adjustment (NOTE 28)	–	(1,300)
Total gains and (losses) recognised in the year	**13,919**	**12,494**

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. The policy on intangible assets has been added and the depreciation methods supplemented as a result of the acquisition in the year.

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. 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. 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.

Goodwill
Goodwill arising on consolidation other than on the acquisition of The Journal of Commerce, has been written off to reserves in the year in which it arises.
Goodwill arising on consolidation of the The Journal of Commerce has been disclosed as a goodwill reserve. The directors intend to review this policy in the light of the anticipated revised recommended accounting standard on goodwill.
Purchased goodwill is written off to reserves in the year in which it arises.

Intangible assets
The acquisition and development cost of computer software utilised for the electronic delivery of the group's information to its customers is disclosed as intangible assets. Intangible assets are amortised on a straight line basis over the anticipated period in which revenues will be received. All other computer software costs are expensed.

Stocks and work-in-progress
Stocks and work-in-progress are valued at the lower of cost and net realisable value.

Investments
Investments held as fixed assets are included at cost, less provisions for diminution in value. Investments held as current assets are shown at 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.

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 50%
Equipment	Straight line basis	10%
Motor vehicles	Reducing balance basis	25%

Notes to the financial statements

NOTE 1 Analysis of results by class of business

Turnover by business	1996 Total sales £000	1996 Inter-business sales £000	1996 Sales to third parties £000	1995 Total sales £000	1995 Inter-business sales £000	1995 Sales to third parties £000
The Economist newspaper	88,637	–	88,637	78,316	–	78,316
The Economist Intelligence Unit	36,664	–	36,664	33,832	–	33,832
Brand businesses	10,939	(2,313)	8,626	11,862	(2,150)	9,712
Specialist publications	15,071	–	15,071	13,537	–	13,537
The Journal of Commerce	37,807	–	37,807	–	–	–
Property	4,491	(2,637)	1,854	4,673	(2,581)	2,092
Other activities and central costs	13	(13)	–	18	(18)	–
	193,622	(4,963)	188,659	142,238	(4,749)	137,489

The Journal of Commerce was acquired during the year (NOTE 31).

Profit before taxation	1996 £000	1995 £000
The Economist newspaper	18,411	14,915
The Economist Intelligence Unit	4,679	2,818
Brand businesses	3,394	2,340
Specialist publications	1,918	2,312
The Journal of Commerce	3,425	–
Property	1,400	1,757
Net interest	(1,725)	1,775
Other activities and central costs	(7,505)	(6,152)
	23,997	19,765

The Economist Intelligence Unit and Brand Businesses include profit on disposal of titles of £647,000 and £1,313,000, respectively. There is taxation payable of £218,000 on these profits. The results from these disposals are not considered sufficiently material to be disclosed separately as discontinued activities. Net interest includes £3,408,000 (1995: £nil) in respect of interest paid on the loans utilised for the aquisition of The Journal of Commerce.

Net (liabilities)/assets	1996 £000	1995 £000
The Economist newspaper	(12,513)	(15,105)
The Economist Intelligence Unit	(4,288)	(3,230)
Brand businesses	2,025	979
Specialist publications	2,227	2,004
The Journal of Commerce	4,807	–
Property	25,243	24,381
Bank loans	(49,448)	(4,912)
Other activities and central costs	(1,365)	22,349
	(33,312)	26,466

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.

Notes to the financial statements

NOTE 2 Analysis of results by geographical region

Turnover by customer location	1996 £000	1995 £000
United Kingdom	34,155	31,202
Continental Europe	34,630	29,183
North America	93,660	51,921
Asia Pacific	20,981	19,205
Other	5,233	5,978
	188,659	137,489

The acquisition of The Journal of Commerce had the effect of increasing turnover by customer location in 1996 by £479,000 in the United Kingdom, by £994,000 in Continental Europe, by £35,528,000 in North America, by £575,000 in Asia Pacific and elsewhere by £231,000.

	1996			1995		
Turnover by origin	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	103,497	(13,961)	89,536	98,562	(15,323)	83,239
North America	92,208	(61)	92,147	48,197	(63)	48,134
Asia Pacific	9,146	(2,170)	6,976	8,055	(1,939)	6,116
Other	13	(13)	–	18	(18)	–
	204,864	(16,205)	188,659	154,832	(17,343)	137,489

The acquisition of The Journal of Commerce had the effect of increasing turnover by origin in North America by £37,807,000. Turnover by origin is based on the geographical region from which the publishing activity takes place. Inter-region sales are sales made between group companies based in different geographical regions

Profit before taxation	1996 £000	1995 £000
United Kingdom	16,940	13,194
North America	6,352	6,087
Asia Pacific	753	536
Other	(48)	(52)
	23,997	19,765

The acquisition of The Journal of Commerce had the effect of increasing the profit after interest and before taxation in North America by £17,000.

Net (liabilities)/assets	1996 £000	1995 £000
United Kingdom	16,018	13,149
North America	(55,216)	10,957
Asia Pacific	2,835	2,033
Other	3,051	327
	(33,312)	26,466

The acquisition of The Journal of Commerce had the effect of increasing the net assets in North America by £4,807,000, before taking into account the cash outflow for the purchase consideration and related expenses.

Notes to the financial statements

NOTE 3 Distribution, marketing, development and other costs

	1996			1995		
	Continuing operations £000	**Acquisitions £000**	**Total £000**	**Continuing operations £000**	**Acquisitions £000**	**Total £000**
Distribution costs	14,748	5,200	19,948	13,130	–	13,130
Marketing, development and other costs	62,113	16,734	78,847	59,022	–	59,022

NOTE 4 Interest receivable and other income

	1996 £000	1995 £000
Interest receivable on current asset investments and cash deposits	1,846	2,118

NOTE 5 Interest payable and other charges

	1996 £000	1995 £000
On bank overdrafts and loans repayable within five years	3,571	343

NOTE 6 Profit on ordinary activities before taxation

Profit is stated after charging the following :	**1996 £000**	**1995 £000**
Directors' emoluments :		
Fees to non-executive directors	65	70
Executive directors :		
Base salaries	376	360
Earnings-growth incentive plan	307	240
Amounts paid under the shadow share scheme	146	–
Pension scheme contributions	73	51
Other benefits	192	229
Total directors' emoluments	1,159	950

The current year charge for the earnings-growth incentive plan includes £18,000 in respect of the prior year (1995: £nil)

Auditors' remuneration:		
Audit (company £45,800; 1995 £43,250)	170	152
Non-audit services provided by the auditors in the United Kingdom	186	60

The current year charge for auditors' remuneration includes £Nil in respect of the prior year (1995: £32,000).

Operating lease rentals:		
Plant and equipment	574	517
Land and buildings	5,414	4,427

Depreciation		
Intangible fixed assets	201	–
Tangible fixed assets	4,226	2,843

Loss on disposal of tangible assets	44	115

Notes to the financial statements

NOTE 7 Directors' emoluments

The details of directors' emoluments are given in the Personnel and Remuneration Committee's report on pages 44 and 45.

NOTE 8 Employees

Average number of employees, including executive directors, by business activity was as follows :	**1996 Number**	**1995 Number**
The Economist newspaper	243	239
The Economist Intelligence Unit	252	235
The Journal of Commerce	486	–
Other publishing activities	202	163
Property and other activities	147	137
	1,330	774

Employment costs including executive directors' emoluments:	**£000**	**£000**
Wages and salaries	38,201	22,852
Employees' incentive schemes	6,951	7,252
	45,152	30,104
Social security costs	3,416	2,414
Other pension costs	2,624	2,252
	51,192	34,770

The directors' and employees' profit share and incentive schemes are described in the directors' report. The employees' incentive scheme costs, including provisions for the shadow share schemes, are included within marketing, development and other costs.

Notes to the financial statements

NOTE 9 Taxation

The taxation charge based on the results for the year is made up as follows:	1996 £000	1995 £000
UK Corporation tax at 33%	5,778	4,846
Deferred taxation	(269)	(423)
Overseas taxation	689	2,277
	6,198	6,700
Adjustments in respect of previous years - corporation tax	100	(340)
- deferred taxation	17	(15)
	6,315	6,345

The overseas taxation charge has decreased due to the allowance for tax purposes in the U.S. of the amortisation of goodwill.

NOTE 10 Dividends

	1996 £000	1995 £000
Interim dividend of 7.5p per share (1995 : 6.5p per share)	1,890	1,638
Proposed final dividend of 18.5p per share (1995 : 13.5p per share)	4,662	3,402
	6,552	5,040

NOTE 11 Retained profit for the year

The retained profit for the year attributable to the parent company is £3,266,000 (1995: £1,149,000)

NOTE 12 Earnings per share

Earnings per share is based on earnings of £17,682,000 (1995 : £13,420,000) and the 25,200,000 ordinary and special shares in issue (1995: 25,200,000).

NOTE 13 Intangible fixed assets

Intangible fixed assets comprise the capitalised acquisition and development cost of computer software utilised for the electronic delivery of information.

Cost	Group 1996 £000	Company 1996 £000
Balance brought forward April 1st	–	–
Acquisition of subsidiary	738	–
Cost incurred in the year	321	–
Exchange differences	32	–
Balance carried forward March 31st	1,091	–
Amortisation		
Balance brought forward April 1st	–	–
c Aquisition of subsidiary	217	–
Provided during the year	201	–
Exchange differences	15	–
Balance carried forward March 31st	433	–
Net book value March 31st 1996	658	–
Net book value April 1st 1995	–	–

X

Notes to the financial statements

NOTE 14 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 £000	Motor vehicles £000	Total £000
Cost							
At April 1st 1995	–	29,438	1,191	8,231	8,105	–	46,965
Acquisition of subsidiary	2,307	–	378	–	13,425	263	16,373
Additions	725	–	347	1,620	1,950	252	4,894
Disposals	–	–	–	(34)	(289)	(63)	(386)
Exchange translation differences	155	–	107	22	1,201	19	1,504
At March 31st 1996	3,187	29,438	2,023	9,839	24,392	471	69,350
Depreciation							
At April 1st 1995	–	4,205	321	5,751	4,170	–	14,447
Acquisition of subsidiary	1,734	–	101	–	11,607	143	13,585
Provided during year	112	752	233	1,284	1,826	19	4,226
Disposals	–	–	–	(17)	(239)	(62)	(318)
Exchange translation differences	116	–	55	17	815	9	1,012
At March 31st 1996	1,962	4,957	710	7,035	18,179	109	32,952
Net book value March 31st 1996	1,225	24,481	1,313	2,804	6,213	362	36,398
Net book value April 1st 1995	–	25,233	870	2,480	3,935	–	32,518

Company	Plant and machinery £000	Equipment £000	Total £000
Cost			
At April 1st 1995	6,273	6,168	12,441
Additions	1,273	681	1,954
Disposals	(20)	(6)	(26)
At March 31st 1996	7,526	6,843	14,369
Depreciation			
At April 1st 1995	4,663	3,566	8,229
Provided during year	871	759	1,630
Disposals	(2)	(2)	(4)
At March 31st 1996	5,532	4,323	9,855
Net book value March 31st 1996	1,994	2,520	4,514
Net book value April 1st 1995	1,610	2,602	4,212

Notes to the financial statements

NOTE 15 Investments (fixed assets)

Group Cost	**Shares in group companies £000**	**Loans and unquoted investments £000**	**Total £000**
At April 1st 1995		122	122
Exchange translation differences		11	11
At March 31st 1996		133	133

Company Cost or valuation			
At April 1st 1995	33,153	–	33,153
Investment made in year	68,263	–	68,263
Disposals made in year	(25,439)	–	(25,439)
At March 31st 1996	75,977	–	75,977

The disposal made in the year was the redemption of the non-voting redeemable preference shares in The Economist Newspaper Group Inc. The investment made in the year was the investment in ordinary share capital of The Economist Group Limited.

The principal wholly owned subsidiary undertakings of the company are :

The Economist Intelligence Unit NA Inc. (USA)
CFO Publishing Corporation (USA)
The Economist Intelligence Unit Limited *
The Economist Group (Asia/Pacific) Limited (Hong Kong)
The Economist Group (Jersey) Limited (Jersey)
The Economist Newspaper NA Inc. (USA)
The Economist Newspaper Group Inc. (USA)
Journal of Commerce Inc. (USA)
Roll Call Associates (USA)
Ryder Street Properties Limited *
Ryder Street Properties (Management) Limited *
International Subscriptions Services 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. International Subscription Services Limited and Redhouse Press Limited act as agents of the company. The former provides subscription and fulfilment services, whilst the latter 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 financial years ending March 31st.

Notes to the financial statements

NOTE 16 Stocks and work-in-progress

	GROUP		COMPANY	
	1996 £000	1995 £000	1996 £000	1995 £000
Raw materials	1,340	1,727	874	1,001
Work-in-progress	321	431	94	89
Finished goods	193	116	137	79
	1,854	2,274	1,105	1,169

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

NOTE 17 Debtors

	GROUP		COMPANY	
Debtors: due after one year	1996 £000	1995 £000	1996 £000	1995 £000
Amounts owed by group companies	–	–	18,754	22,878
Advance corporation tax recoverable	1,165	850	1,165	850
	1,165	850	19,919	23,728
Debtors: due within one year				
Trade debtors	23,792	17,841	10,951	10,431
Amounts owed by group companies	–	–	5,187	259
Other debtors	3,341	3,598	2,639	2,163
Prepayments and accrued income	6,110	5,929	3,038	2,202
Tax paid in advance	1,298	700	–	–
	34,541	28,068	21,815	15,055

NOTE 18 Investments (current assets)

	GROUP		COMPANY	
	1996 £000	1995 £000	1996 £000	1995 £000
Floating rate notes	500	629	–	–
Certificates of deposit	1,002	5,993	–	–
UK Government gilts	6,336	2,554	–	–
Euro Sterling Bond	1,516	–	–	–
Own shares	10	3	–	–
	9,364	9,179	–	–

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 on a bi-annual basis at the latest indicative share valuation and all shareholders can sell their shares to the ESOP at any time during the year.
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 1996 the ESOP held 1,191 shares wth an indicative share valuation of £8.50 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 19 Analysis of changes in cash and cash equivalents during the year

	1996 £000	1995 £000
Cash and cash equivalents at April 1st	31,619	24,262
Net cash (outflow)/inflow before adjustments for exchange differences	(15,796)	8,763
Exchange differences	(117)	(1,406)
Cash and cash equivalents at March 31st	15,706	31,619
Cash placed on short-term deposit not qualifying as cash and cash equivalents	7,000	6,000
Net cash at March 31st	22,706	37,619

NOTE 20 Analysis of changes in financing during the year

	Share capital £000	Loans £000
Balance at April 1st 1995	1,260	4,912
Repayment of loan during the year	–	(5,108)
Loan facilities drawn down in year	–	48,194
Exchange loss	–	1,450
Balance at March 31st 1996	1,260	49,448

Notes to the financial statements

NOTE 21 Creditors: due within one year

	GROUP		COMPANY	
	1996 £000	**1995 £000**	**1996 £000**	**1995 £000**
Bank loan	2,784	4,912	–	–
Trade creditors	4,672	5,548	1,147	2,765
Amounts owed to group companies	–	–	13,974	13,398
Other creditors including taxation and social security	11,310	9,430	4,623	5,574
Accruals	16,556	13,075	8,655	6,319
Proposed dividend	4,662	3,402	4,662	3,402
	39,984	36,367	33,061	31,458

Other creditors including taxation and social security comprise:

Corporation tax	6,835	6,296	3,764	3,732
Other taxes	536	217	203	217
Social security	830	565	482	445
Other creditors	3,109	2,352	174	1,180
	11,310	9,430	4,623	5,574

NOTE 22 Creditors : due after one year

	GROUP		COMPANY	
	1996 £000	**1995 £000**	**1996 £000**	**1995 £000**
Bank loans	46,664	–	46,664	–

The bank loans are with four banks under facilities ending in February and March 2000. The company entered into an interest rate swap arrangement under which the interest on $35,000,000 of the borrowings is fixed at a rate of 6.91% up to March 1998. This has the effect of fixing the interest on this proportion of the debt, after adding the bank's margins, at 7.25% to 7.31%. The bank loans are unsecured, but are subject to intra-group guarantees.

Notes to the financial statements

NOTE 23 Provisions for liabilities and charges

GROUP	Deferred Taxation £000	Provision for onerous leases £000	Provision for retirement benefits £000	Provision for pensions-defined benefit schemes £000	Total £000
At April 1st 1995	–	746	1,940	6,338	9,024
Included in prepayments and accrued income	(1,317)	–	–	–	(1,317)
	(1,317)	746	1,940	6,338	7,707
Adjustment in respect of previous years	17	–	–	–	17
(Release)/charge to profit and loss account in current year	(269)	(26)	(58)	1,025	672
	(1,569)	720	1,882	7,363	8,396
Included in prepayments and accrued income	1,569	–	–	–	1,569
At March 31st 1996	–	720	1,882	7,363	9,965

COMPANY	Deferred Taxation £000	Provision for retirement benefits £000	Provision for pensions-defined benefit schemes £000	Total £000
At April 1st 1995	–	1,240	4,689	5,929
Included in prepayments and accrued income	(734)	–	–	(734)
	(734)	1,240	4,689	5,195
Adjustment in respect of previous years	(179)	–	–	(179)
(Release)/charge to profit and loss account in current year	(322)	(37)	813	454
	(1,235)	1,203	5,502	5,470
Included in prepayments and accrued income	1,235	–	–	1,235
At March 31st 1996	–	1,203	5,502	6,705

The amounts provided/(assets recognised) for deferred taxation under the liability method are :

	GROUP		COMPANY	
	1996 £000	1995 £000	1996 £000	1995 £000
Accelerated capital allowances	1,227	1,336	35	106
Pensions and post-retirement benefits	(3,037)	(2,752)	(2,212)	(1,956)
Other timing differences	241	99	942	1,116
	(1,569)	(1,317)	(1,235)	(734)

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

Notes to the financial statements

NOTE 24 Equity share capital

	Authorised		Issued and fully paid	
At March 31st 1996 and 1995	**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 40. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

NOTE 25 Reserves

Profit and loss account	**GROUP 1996 £000**	**COMPANY 1996 £000**
At April 1st 1995	25,206	29,985
Retained profit for the year	11,130	3,266
Goodwill written-off on acquisition in year	(160)	–
Exchange differences arising on consolidation	715	–
At March 31st 1996	36,891	33,251

The cumulative goodwill written-off to profit and loss reserves by the group is £23,377,000 (1995 : £23,217,000) and mainly arises from the purchases of Business International in 1986, CFO Publishing Corporation in 1988 and Roll Call Associates in 1992 and 1993.

Goodwill reserve	**GROUP 1996 £000**	**COMPANY 1996 £000**
At April 1st 1995	–	–
Arising in the year	66,985	–
Exchange differences	4,478	–
At March 31st 1996	71,463	–

The goodwill reserve arising in the year relates to the acquisition of The Journal of Commerce (NOTE 31).

NOTE 26 Reconciliation of movements in shareholders' funds

	GROUP 1996 £000	**GROUP 1995 £000**
Profit for the financial year	17,682	13,420
Dividends	(6,552)	(5,040)
	11,130	8,380
Goodwill reserve arising in the year	(71,463)	–
Goodwill written-off on acquisition in year	(160)	–
Exchange differences arising on consolidation	715	374
Goodwill reinstated	–	40
Net (reduction in)/addition to shareholders' funds	(59,778)	8,794
Opening shareholders' funds	26,466	17,672
Closing shareholders' funds	(33,312)	26,466

Notes to the financial statements

NOTE 27 Pensions

	GROUP 1996 £000	GROUP 1995 £000
Increase in provision for defined benefit schemes	1,025	1,624
Funding of other pension schemes	1,599	628
Cost for the year	2,624	2,252

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 1995 and established that the schemes were fully funded. The funding level of the principal UK scheme was 124% at that date. The surpluses identified on valuation of the UK schemes in 1995 have been added to the unamortised balance of those surpluses previously identified in 1992 and the net surplus is being written-off over thirteen years as from April 1st 1995, being the average remaining service life of members. The company's contributions to defined benefit schemes are suspended until June 1998. The aggregate market value of the UK scheme's assets at March 31st 1996 amounted to £52,900,000. The principal actuarial assumptions used in the valuation of the UK scheme, which is the major scheme in the group, assume 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 £163,000 remain outstanding at March 31st 1996 in respect of these schemes.

NOTE 28 Retirement benefits

The group provides post retirement medical benefits to certain current and former employees. At March 31st 1996, 15 current employees and 82 retired employees were eligible to receive benefits.

As at March 31st 1995 the group estimated the present value of its accumulated post retirement benefit obligation to be £1,940,000. With the cost of these liabilities expecting to attract tax relief when paid, the obligation net of deferred taxation was estimated to be £1,300,000. The principal assumptions used in estimating this obligation are health care premium costs escalation of 10% per annum and a discount rate to represent the time value of money of 8%. Actual premiums paid are being set against this provision, which is periodically being assessed for adequacy (NOTE 23). This was a change in accounting policy in the prior year and disclosed within the 1995 accounts as a prior year adjustment.

NOTE 29 Financial commitments

	GROUP		COMPANY	
Operating leases	**1996 £000**	**1995 £000**	**1996 £000**	**1995 £000**
Land and buildings - leases expiring:				
Within one year	191	131	167	107
Between two and five years	2,237	1,798	206	376
After five years	2,974	2,322	–	–
	5,402	4,251	373	483
Plant and equipment - leases expiring :				
Within one year	85	102	72	75
Between two and five years	352	383	275	237
After five years	3	–	–	–
	440	485	347	312

Notes to the financial statements

NOTE 30 Capital commitments and contingent liabilities

	GROUP		COMPANY	
	1996 £000	1995 £000	1996 £000	1995 £000
Capital expenditure contracted for but not provided in the accounts	998	508	826	508
Capital expenditure authorised but not contracted for or provided in the accounts	4,318	1,400	1,625	1,400

The company has guaranteed certain bank overdrafts and property leases of its subsidiaries and the bank overdraft of the group's share ownership plan trustee company, although there were no overdrafts as at March 31st 1996. The annual cost of property leases guaranteed by the company is currently £5.4m per annum.

NOTE 31 Acquisitions

On April 3rd 1995, the company acquired from Knight-Ridder, Inc. all of the issued share capital of the Journal of Commerce, Inc., a Delaware corporation, for a cash consideration of $112,902,063. The acquisition was funded in part by the drawing down of bank loan facilities totalling $75,000,000, and the remainder from the group's own cash resources. The acquisition expenses amounted to £1,111,000. The group has used acquisition accounting to account for the purchase.

The unaudited summarised profit and loss accounts for the periods immediately prior to acquisition, as prepared under its then accounting policies, were as follows:

	Year ended December 31st 1994 $000	Period from January 1st to April 2nd 1995 $000
Turnover	60,017	15,341
Operating profit	5,688	1,668
Profit on ordinary activities before taxation	3,691	1,519

The Journal of Commerce was part of a group tax arrangement and information relating to its own tax charge is not available. It is therefore not possible to disclose the statement of total recognised gains and losses for the periods.

Notes to the financial statements

NOTE 31 Acquisitions (continued)

The assets and liabilities of the Journal of Commerce, Inc. acquired are set out below:

Fixed assets	**Book value £000**	**Fair value adjustments £000**	**Accounting policy alignment £000**	**Fair value £000**
Intangible assets	5,580	(1,141) A	(3,918) E	521
Tangible assets	3,522	(734) B	–	2,788
	9,102	(1,875)	(3,918)	3,309
Current assets				
Stocks and work-in-progress	69	–	–	69
Debtors due within one year	8,066	(500) C	(14) F	7,552
Cash and deposits	353	–	–	353
	8,488	(500)	(14)	7,974
Creditors: due within one year	(2,644)	(1,016) D	(366) G	(4,026)
Unexpired subscriptions	(3,815)	–	–	(3,815)
	(6,459)	(1,016)	(366)	(7,841)
Net current assets/(liabilities)	2,029	(1,516)	(380)	133
Total assets less current liabilities	**11,131**	**(3,391)**	**(4,298)**	**3,442**
Minority interest receivable	510	–	(510) H	–
Net assets	**11,641**	**(3,391)**	**(4,808)**	**3,442**
Goodwill				66,985
Cost of acquisition				70,427
Satisfied by:				
Cash ($112,902,063)				69,316
Acquisition expenses				1,111
				70,427

Notes to the financial statements

NOTE 31 Acquisitions (continued)

Fair value adjustments

A To reduce the value of capitalised software information delivery systems to their estimated recoverable amount in view of their revenue projections and anticipated useful lives.

B To reduce the value of computer equipment to its current fair value by reference to current market prices.

C To fair value debtors and prepayments in view of their likely recoverable amount.

D To provide for known liabilities as at acquisition date, including for pension scheme liabilities existing as at acquisition date and as advised by the company's actuaries.

Accounting policy alignment

E To eliminate purchased goodwill, which is eliminated against reserves on acquisition under the group's accounting policies.

F To eliminate capitalised start-up costs, which are expensed in the profit and loss account as incurred under the group's accounting policies.

G To provide for post retirement benefits and lease obligations under the group's accounting policies.

H To eliminate the minority interest receivable as it is the group's policy not to recognise such an income until received.

Since its acquisition on April 3rd 1995, the Journal of Commerce Inc. has contributed £4,983,000 to the group's net operating cash flows, paid £2,454,000 in respect of net returns on investments and servicing of finance, paid £13,000 in respect of taxation and £2,260,000 for investing activities.

The effect of the acquisition on cash and cash equivalents was as follows:

Cash consideration including acquisition expenses	70,427	
Cash at hand and in bank acquired	(353)	
Bank overdrafts acquired	–	
Net outflow of cash and cash equivalents in respect of the acquisition	70,074	C

The goodwill arising on consolidation of the Journal of Commerce Inc. of £71,463,000 as at March 31st 1996 has been disclosed as a goodwill reserve in the balance sheet. In addition, Shipdata Inc., a provider of shipping data in electronic form, was aquired for a purchase consideration of $245,000 cash. Goodwill of £160,000 was written off to profit and loss reserves during the year. Total net cash expenditure on aquisitions during the year was £70,234,000. C

X

X

Five year review

Profit and loss	1996 £000	1995 £000	1994 £000	1993 £000	1992 £000
Turnover	188,659	137,489	121,287	112,296	103,990
Operating profit	23,762	17,990	13,782	12,017	10,928
Net interest	(1,725)	1,775	1,220	656	658
Profit before taxation	23,997	19,765	15,002	12,315	11,388
Profit after taxation	17,681	13,420	9,721	7,772	6,775

Balance sheet					
Intangible assets	658	–	–	–	–
Fixed assets	36,398	32,518	33,546	32,223	32,223
Investments	133	122	135	482	287
Net current (liabilities)/ assets	(13,872)	2,850	(1,737)	(9,496)	(6,204)
Long term creditors and provisions	(56,629)	(9,024)	(14,272)	(6,235)	(12,042)
Funds employed	**(33,312)**	**26,466**	**17,672**	**16,974**	**14,264**
Goodwill reserve	71,463	–	–	–	–
Shareholder investment	**38,151**	**26,466**	**17,672**	**16,974**	**14,264**

Ratios					
Operating profit to turnover	12.6%	13.1%	11.4%	10.7%	10.5%
Taxation	26.3%	32.1%	35.2%	36.9%	40.5%
Earnings per share	70.2p	53.3p	38.6p	30.8p	26.9p

Dividends					
Dividends per share	26p	20p	15p	12p	10p
Times covered	2.7	2.7	2.6	2.6	2.7
Net cash inflow from operating activities	30,129	29,720	25,513	18,842	12,978
Number of employees	**1,330**	**774**	**714**	**728**	**756**

Notice of 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 25th day of June 1996 at 12.15 pm for the following purposes:

1. To receive the report of the directors and the audited accounts for the year ended March 31st 1996.

2. To declare the final dividend.

3. To re-appoint Coopers & Lybrand as the company's auditors.

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

By order of the board

A E Wales
SECRETARY

25 St James's Street
London SW1A 1HG

May 28th 1996

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. The form of proxy may be in the usual common form. It must be signed by the appointor and delivered to the registered office of the company at least 48 hours before the meeting.

Financial calendar

June 25th 1996 .... annual general meeting
July 1st 1996............ final dividend payable
November 29th 1996.... interim results published
December 2nd 1996..... interim dividend payable