

FINANCIAL AND TREASURY REVIEW

THE PURPOSE OF THIS REVIEW IS TO OUTLINE KEY ASPECTS OF THE GROUP'S PERFORMANCE OVER THE LAST YEAR AND OF ITS FINANCIAL POSITION.



Key figures

- Underlying turnover grew by 12%
- Operating profit* grew by 26%
- Earnings per share* grew by 25%

Accounts

The Accounts reflect the introduction of two changes in financial reporting requirements published this year. First the Group has had to reclassify its investment in its own shares within shareholders' funds. Secondly its policy in respect of revenue recognition has been amended so that the earnings of exhibitions are recognised over the life of the event, where appropriate, and advertising revenues from DMG Information's websites are spread over the term of contract. These changes are mainly to the balance sheet only.

Otherwise the Accounts have been prepared in accordance with the accounting policies adopted last year. Once again they have been prepared under SSAP 24 'Accounting for Pension Costs' with additional information included in Note 39 as required by FRS 17, 'Retirement Benefits'.

Next year will be the last time that the Group Accounts will be prepared on the basis of UK accounting standards. From its year to 1st October 2006 DMGT, as a listed company, will be required to adopt international accounting standards in order to comply with a directive from the European Union. We have a transition project in place to enable the Accounts for that year to be reported on that basis, progress on which is well advanced.

Turnover

The Group's turnover in the year of £2,109 million was 9% higher than the previous year. For our newspaper divisions, we produce our accounts each year to the Sunday nearest 30th September; this year that meant 3rd October and thus the inclusion of an extra week, compared to 2003. There was turnover growth from each division.

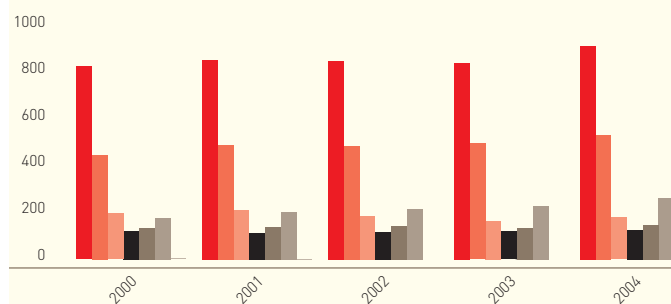
Taking out the effect of this extra week and excluding the impact of acquisitions and disposals, underlying turnover growth was 7%.

The analysis of turnover by activity, illustrated in graph 1, shows that there has been no change in the shape of the Group in terms of revenues. Graph 2 shows the geographic split of turnover.

* Adjusted (before exceptional items and amortisation and impairment of intangible assets)

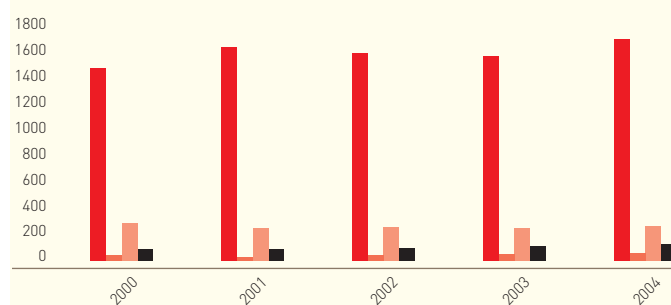
Graph 1
Turnover by activity (£ million)

- National newspapers and related activities
- Regional newspapers and related activities
- Euromoney Institutional Investor
- Broadcasting
- Exhibitions and related activities
- Business to business information and careers
- Other activities



Graph 2
Turnover by geographic area (£ million)

- UK
- Rest of Europe
- North America
- Rest of the world



Operating Profit

The Group's adjusted operating profit* (before amortisation and impairment of intangible assets and exceptional items) amounted to £234 million, an increase of 26% on the equivalent figure for last year. This figure is stated before charging £18 million of exceptional operating costs as a consequence of the decommissioning of press equipment at Harmsworth Quays. The charge for amortisation of intangible assets increased from £54 million to £71 million and an impairment charge was made of £12.9 million due to a more conservative approach being taken to asset lives and to the carrying value of goodwill. As a result, the Group's statutory operating profit rose by 4% to £182 million.

The analysis of adjusted operating profit* by activity is shown in graph 3. This shows excellent growth from our national newspapers, exhibitions and business to business information divisions and from Euromoney Institutional Investor.

Continued growth by the Group's newer businesses means that 40% of this year's adjusted operating profit has been generated by its non-newspaper divisions, up from 37% last year.

Profit before Tax

The Group's share of net adjusted operating profits* of its joint ventures and associates increased by £3.4 million due mainly to an increased contribution from GWR Group plc, its 29.9% associate. There were also improved performances from nearly all of the Group's other interests including GLM, the North American gift exhibition organiser.

Profits on sale of fixed assets arose mainly from the sale of two million shares in Reuters Group plc. Profit on disposal of businesses was mainly due to the sale of DMG Regional Radio. Income from fixed asset investments fell by £1.6 million to £3.4 million due to a lower distribution from the Press Association.

The slight fall in net interest payable was due to a lower average level of debt, offset by a higher average interest rate, caused by the impact of a bond issue in the prior year.

The statutory profit before tax of £125 million was 15% higher than last year's figure. Excluding amortisation and impairment and exceptional items, the adjusted profit* before tax figure was £234 million, up 26% on last year.

Taxation

The tax charge of £57 million represents 45.9% of profit before tax and 25.1% of profit before amortisation and impairment. The underlying tax on profits before amortisation and impairment of intangible assets, exceptional items and significant non-recurring or prior year items, amounted to £62.2 million and the resulting rate is 26.6%, up from 25.3% last year due to a different mix of profits. This is well below the UK corporate tax rate, where the Group currently makes most of its profit. The Group's effective tax rate in the UK is higher than this due to expenditure disallowed for tax purposes. This is offset by a lower rate of tax on our US profits, largely due to the recognition of prior year US tax losses. This is likely to remain the case for a number of years.

Cash Flow and Net Debt

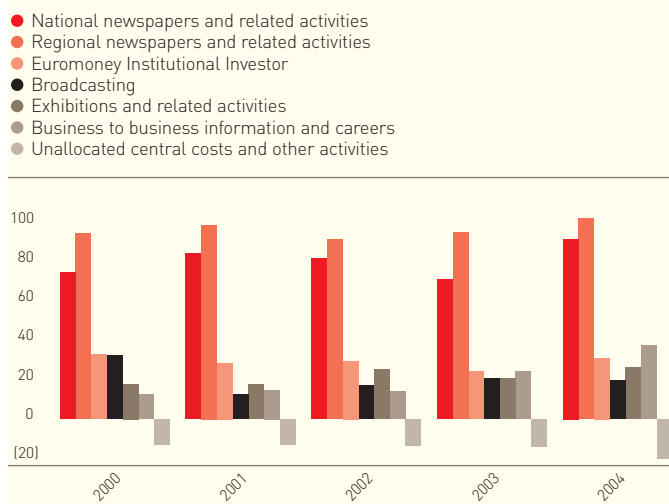
Net debt at the end of the financial year was £780 million, a decrease of £93 million over last year. The fall in debt was due to strong trading cash flows which, with the proceeds of disposals, exceeded the outflow from capital expenditure, acquisitions, taxation, interest and dividends.

Graph 4 summarises the Group's sources and use of funds during the year. The net cash inflow from trading was £382 million, which represented 108% of operating profit before depreciation and amortisation and impairment of intangible assets. In general, the Group's profits are converted rapidly into cash, but the positive cash flow was particularly high due to the timing of the year end.

Capital expenditure of £103 million was higher than last year's level reflecting the final year of the UK press expansion programme that was completed in November 2004. Acquisitions

* Adjusted operating profit (before amortisation and impairment of intangible assets and exceptional items).

Graph 3
Operating profit* by activity (£ million)



and investments cost £214 million (£64 million in 2003), the largest items being the purchase of Australian radio licences of £106 million, Jobsite (£36 million), Trepp (£23 million) and IMN (£16 million). Disposal proceeds amounted to £101 million, principally being the sale of DMG Regional Radio for £77 million.

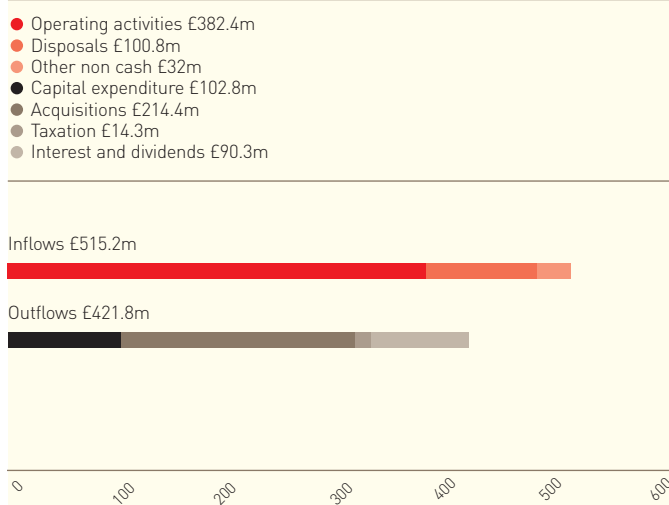
The Group's interest cover, calculated as the ratio of adjusted profits before interest and depreciation (EBITDA) to net interest payable, was 6.1 times this year, an improvement on 2003 (see Graph 5) and above the Group's current target of six times. The Group's ratio of year end net debt to EBITDA was 2.1 times. The Group's Standard & Poor's credit rating remains at BBB.

At the year end, the Group had £181 million of Bonds and bank facilities maturing in 2005 and £658 million of Bonds due for repayment in 2013, 2018 and 2021. In October 2004, it signed £300 million of new five-year committed banking facilities. These have replaced the existing bank facilities, thereby extending the maturity of the Group's debt. Consequently, the Group has sufficient committed debt facilities to meet its foreseeable requirements. It had surplus committed facilities of £198 million at the year end.

Treasury Policies

The following paragraphs are a summary of the Group's treasury policies. Detailed information is given in Note 27 to the balance sheets. DMGT aims to have sufficient liquidity to meet both operational and capital cash flows and to impose the minimum cash constraints on the management and operation of the Group. Financial instruments, including derivatives, are used by the Group in order to manage the principal financial risks that arise in the course of business. These risks are liquidity or funding risk, foreign exchange risk, interest rate risk and counterparty risk. The instruments are used within the parameters set by the Finance Committee of the Board, and are not traded for a profit.

Graph 4
Cash flows



Overview

The Group has adequate committed debt finance to meet current trading requirements. Foreign exchange risk is not a large issue for the Group as the majority of its businesses are domestic. In principle the underlying currency of net debt is in proportion to the EBITDA in each currency. The Group has a prudent level of fixed interest rate debt to reduce the impact of interest rate fluctuations.

(a) Liquidity Risk

It is the Group's policy to have sufficient surplus borrowing headroom such that its development is not constrained. The Group is funded by a mixture of equity, debt and retained profits. Debt consists mainly of committed bank facilities and bonds. The bank facilities provide the Group with flexibility for operational requirements and acquisitions. Uncommitted and overdraft facilities are also utilised. The bonds currently in issue consist of four sterling Eurobonds. Maturities of debt are spread in order to avoid the requirement for significant repayments at any point in time, as shown in Graph 6. Surplus funds are generally used to pay down debt; when they do arise, they are generally deposited in money market accounts with banks that provide bilateral credit lines.

Covenants on debt instruments are kept to a minimum, even if this results in marginally higher interest costs. Apart from lease finance, external finance is unsecured and is usually an obligation of the central holding companies rather than of trading subsidiaries. This gives management maximum flexibility to run the business without the distraction of meeting short term financing requirements.

(b) Foreign Exchange Risk

(i) Transaction Risk

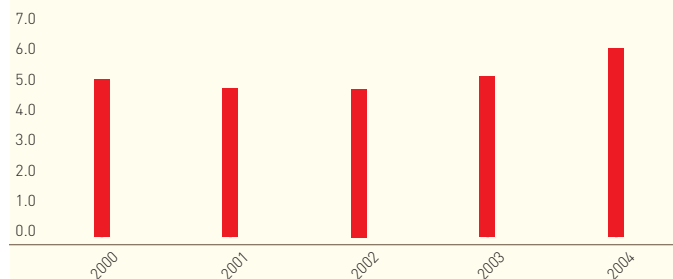
Most of the Group's businesses do not transact cross-border; hence multi-currency transaction risk is not substantial. The main exception is Euromoney which has net receipts in US dollars and net payments in sterling. Euromoney has a series of US dollar forward sale contracts in place up to 18 months

* Adjusted operating profit (before amortisation and impairment of intangible assets and exceptional items)

Graph 5

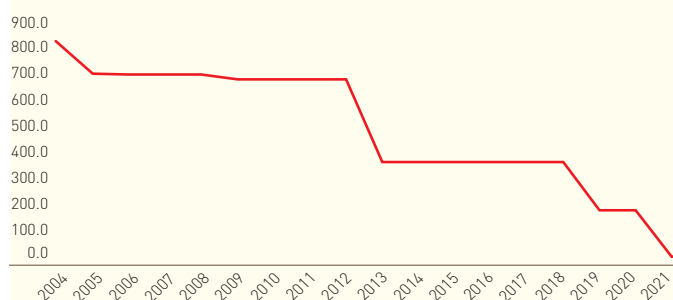
Ratio of earnings* before interest, tax and depreciation and amortisation to net payable interest.

● EBITDA: Net interest



Graph 6

Maturity profile of Group Net Debt (£ million)



forward to meet its sterling outgoings. Other than Euromoney there were no significant foreign currency contracts in existence that hedge revenues or costs.

The sterling value of capital expenditure in foreign currency is fixed using forward currency purchases. Tax on non-trading exchange rate movements is hedged.

(ii) Translation Exposure

Borrowings are principally incurred in sterling, with lesser amounts in US dollars and Australian dollars. Generally, the proportion of foreign currency debt (after allowing for any hedging instrument) to total net debt is kept approximately equal to the proportion of foreign EBITDA, compared to total Group EBITDA. This is expected to continue. A large proportion of US dollar and Australian dollar liabilities are created through the use of foreign exchange derivatives.

(iii) Netting

The Group may offset currency risks on trading, capital expenditure, tax and borrowings and only hedge the net exposure.

(c) Debt Levels

The Group has previously aimed to have a 5:1 ratio of EBITDA to net interest costs. However, in view of the position of the advertising cycle this target has been tightened to 6:1. In addition, the ratio of net debt to EBITDA should not normally exceed 2.5:1. It is believed that this achieves the optimum level of gearing for the Group and keeps the Group's quoted debt as investment grade. This ratio will not be met consistently but generates a medium term target level of net debt.

(d) Interest Rate Risk

The Group aims to have approximately 70% of forecast net debt to 80% of target net debt as fixed interest rate liabilities. It aims to achieve this ratio over the medium term and it is applied to each of the Group's main currencies. The predictability of interest costs is deemed to be more important than the possible opportunity cost foregone of achieving lower interest rates. Borrowings are made in either fixed or floating rates. Interest rate swaps, cross currency swaps, caps and collars are used to help attain the Group's target level of fixed interest rate debt. The maturity dates are spread in order to avoid interest rate basis risk and also to negate short term changes in interest rates. At the year end, fixed interest rate debt represented approximately 90% of total net debt.

(e) Counterparty Risk

The Group has a deposit limit for banks with long term credit ratings of 'AA' or better, and a lower limit for single 'A' rated banks. Institutions below this rating are not usually used for deposits. The Group is also exposed to credit related losses on financial instruments used for hedging purposes. The Group does not expect any counterparties to be unable to meet their obligations. Counterparties and their credit ratings are regularly reviewed by Group Treasury.

Going Concern

The Directors have continued to adopt the going concern basis for the preparation of the accounts. This has been done since, after considering relevant information, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Peter Williams

Finance Director

* Adjusted profit (before exceptional items and impairment of intangible assets)