OUR STRATEGY OF INVESTING FOR THE LONG TERM TO GENERATE A PREMIUM RATING FOR SHAREHOLDERS HAS RESULTED IN ANOTHER RECORD YEAR.

Charles Sinclair
Chief Executive

Our strategy for future success focuses on three key areas:

1/Investing in our newspaper businesses.

2/Building other media businesses with strong leadership positions.

3/Continuing to reduce our dependence on U.K. newspaper advertising.

DMGT's philosophy

DMGT's practice over many years has been to take advantage of its shareholding structure to invest for the long term in order to generate value for its shareholders, irrespective of the short-term impact on the Profit and Loss Account. Control by a founding family is a model which has been demonstrated to serve the media industry well over time. We are prepared to have a long timeframe to investment maturity and realisation, provided the business in question is progressing well, meeting milestones and creating value. The successful application of this approach is reflected in consistently strong historic operating performance: as can be seen from the graphs on pages 6 and 35.

Short-term share performance has been disappointing. Whilst this is due in part to the fallout from the dot.com market boom of 1999/2000, the cyclical weakness of U.K. advertising markets and commentators' focus on the London publishing market which is a relatively small part of our business, we appear not to receive adequate valuation for our fast growing newer businesses. Share price performance is important to us, as a measure that our strategy and balance are understood, and we are endeavouring to improve this perception.

Nature of the business

DMGT is a multiple media business, as illustrated at the front of this Annual Report, operating in different markets, each within its particular competitive and regulatory environments. Operational responsibility is devolved to our six divisions on whose boards the executive Directors are represented and which they chair. We operate with a light touch from the centre, relieving line management of overhead activities that do not contribute at the operating level. A common factor between the consumer-facing and business-to-business divisions is their recognition of the importance of the English language.

Strategy

The Group's strategy is set by the executive Directors and approved by the Board. It is to be the owner of high quality sustainable media properties, reflected in premium commercial positions, thereby generating a premium rating for shareholders.

The strategy over recent years has been to invest in the Group's newspaper businesses, while at the same time building other media businesses to provide diversity away from the U.K., advertising, newspapers and regulated businesses.

Standard Lite, a free edition of the Evening Standard, was launched in December 2004.

Over the years, we have built a number of other businesses (exhibitions, information publishing, Australian radio and Euromoney). These businesses are now big enough to develop on their own, although further acquisitions will be a good use of the Group's capital. Many of our businesses are highly cash-generative and, should suitable opportunities not emerge, an alternative option would be to return cash to shareholders.

At the national newspapers, we have invested in talent, promotions and more recently in further colour capacity in order to maintain the market-leading positions of our titles within the mid-market. Metro, which we started in 1999, continues to perform strongly and this year we launched a further innovation in the form of the free Lite edition of the Evening Standard. We will also continue to develop a powerful portfolio of digital media properties to complement our established businesses.

At the regionals, we have invested substantially in new presses and improved technology in order to produce high quality regional newspapers with strong editorial content. We have followed a strategy of publishing market-leading local newspapers and websites which cater for the needs of our readers and advertisers. As the Chairman has said in his statement, the Board has been conducting a strategic review of Northcliffe. This review has identified the potential for further restructuring of the business, in addition to that being undertaken through the Aim Higher project, detailed on page 11. Given the strategic importance of Northcliffe within the U.K. regional newspaper industry, the Board has also decided to explore whether greater shareholder value can be achieved through a sale of the business. In the event of a sale, the Board intends to return a substantial portion of the net proceeds to shareholders, after allowing for continuing our current acquisition and investment programme and maintaining our current credit rating.

Development and performance of the business

On pages 8 to 16, we set out our review of the performance of each division over the last year.

Resources, principal risks and uncertainties

The Group's main resources are its brands and its people. The principal risks and uncertainties we face vary across the divisions and are the focus of the Risk Committee which I chair. Economic risks concern the health of the markets in which we operate. Major risks over which we have some control are to our reputation, to our capacity to compete and to retention of staff where our record is good. Clearly risks within particular businesses include the apparent re-positioning of the broadsheet or ex-broadsheet national newspapers within the mid-market and newsprint price volatility. On the other hand, the cover price wars of the last decade, by which the Daily Mail was only indirectly affected, now seem to be at an end.

Another major risk is the increased cost of defined benefit pension schemes which we operate for our newspaper divisions. As explained last year, we have kept these funds open, whilst informing those employees of the need to contribute more in order to retain the same benefits. The take up of this Pension+ option has been 75%. The Group has also increased its contributions into the schemes, but we have been able to hold the cost to an acceptable level, while being able to focus the investment on our long-term employees.

75%

The take up of Pension+.

Capital structure

The Company has not made a call on its shareholders for over 70 years. As a consequence, growth is financed by long-term debt and by retained earnings. DMGT's policy is to seek to increase the dividend each year by 5% to 7% in real terms, within reason regardless of the results, as long as we continue to have confidence in the strength of our businesses. As shown on page 6, the compound dividend growth over the last ten years is 10%. Details of treasury policies and liquidity are set out on pages 19 to 20.

Relationships with stakeholders, other than shareholders

Environmental, social and community issues are taken seriously by the Company and are set out in the Corporate Responsibility Report on pages 21 to 23. During 2005, we produced our first separate report which is being distributed to shareholders with this Report.

Trends and factors likely to affect the outlook

Looking ahead, DMGT's business-to-business divisions, particularly DMGI and Euromoney, continue to grow strongly as the Group continues its strategy of reducing its dependence on U.K. newspaper advertising. As set out on pages 9 and 11, the advertising markets experienced by the Group's U.K. newspaper businesses show no sign of recovery yet. Our national newspapers have continued to increase their market shares, despite fierce competitive circulation activity within the national market.

The Group has implemented cost saving programmes in its newspaper divisions and at Teletext, giving significant protection to the profitability of these businesses, despite falling revenues at present. They are all well placed to take full advantage of any recovery in consumer advertising markets, although the trend in newsprint prices is a concern.

Even in the absence of any recovery, the Group's long-standing strategy of reducing its dependence on traditional U.K. advertising markets leads us to look forward to another year of progress.

Charles Sinclair
Chief Executive

+225%

Outperformance since 1988.

Performance of DMGT 'A' price since 30 September 1988 and of FT All-Share Index relative to its value at that date

+10%

Compound dividend growth over the last 10 years.

DMGT dividend history for the period 1988 – 2005
(pence)