

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

Peter Williams
Finance Director



Key figures

+2%

Underlying turnover
grew by 2%.

+5%

Operating profit*
grew by 5%.

+9%

Earnings per share*
grew by 9%.

Accounts

There have been no changes this year to the basis on which the Accounts have been prepared, which for the last time is under U.K. accounting standards. From the financial year to 1st October, 2006, the Group will be required to prepare its Accounts in accordance with International Financial Reporting Standards (IFRS).

IFRS

A project has been undertaken to restate our numbers for the year ended 2nd October, 2005 as comparative information for the IFRS-compliant 2006 Accounts. A reconciliation of the adjustments required to convert these 2005 figures from U.K. accounting standards is set out in an appendix on pages 87 to 90 of this Annual Report. These adjustments, which are still subject to audit, are mainly in respect of employment benefits (pensions), share-based payments, goodwill, dividends and deferred tax. DMGT will be taking advantage of all of the transitional arrangements available under IFRS 1, First-time adoption of IFRS, and, in particular, will not be adopting IAS 39, Financial instruments: recognition and measurement, early; this will be applied from 2005/06. Overall we expect the impact of IFRS will be to reduce our 2005 profit* before tax by £17 million (7%) to £236 million.

Net assets in DMGT's opening balance sheet at 4th October, 2004 are expected to be reduced by £223 million mainly due to the impact of IAS 19, Employee Benefits, principally pensions. There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change; nor should there be any impact on historic net debt.

We expect to publish audited summary IFRS primary statements for the year ended 2nd October, 2005 as part of our Interim Report in May 2006. Whilst IFRS will alter the format of those statements, we will continue to present adjusted numbers in addition to statutory figures because we believe the alternative measures give a more comparable indication of the Group's underlying business performance.

Turnover

The Group's turnover in the year of £2,138 million was 1% higher than the previous year. For our newspaper divisions, we report each year to the Sunday nearest 30th September; this means that we have included fifty two weeks trading in the current year's results, as against fifty three weeks in 2004. There was turnover growth from nearly all of our divisions, with the principal exception of broadcasting.

Taking out the effect of this extra week last year and excluding the impact of acquisitions and disposals, we estimate underlying turnover growth was 2%.

The analysis of turnover by activity, illustrated in graph 1, shows that there has been little overall change in the shape of the Group in terms of revenues. Graph 2 shows the geographic split of turnover.

Operating Profit

The Group's operating profit* amounted to £297 million, an increase of 5% on the equivalent figure for last year. This figure is stated before charging £14 million of exceptional operating costs as a consequence of reorganisation and redundancy programmes at Associated, Northcliffe and Teletext. The major costs arose at Northcliffe as a result of its cost reduction programme. The charge for amortisation of intangible assets fell by £6 million to £81 million and an impairment charge was made of £6 million. After deducting these charges, the Group's statutory operating profit rose by 14% to £207 million.

The analysis of operating profit* by activity is shown in graph 3. This shows excellent growth from our business-to-business information division and from Euromoney Institutional Investor, increases at our national and regional newspaper divisions and a fall in central costs. These increases totalling £33 million were offset partly by a fall of £18 million from the broadcasting division and a small reduction at exhibitions which experienced a low year in its cycle. Within broadcasting, Teletext's profits fell sharply as a consequence of structural changes in its market, whilst as expected DMG Radio in Australia made a small loss, following the sale of its regional business in September 2004 and the launch of new stations during the year.

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

Profit before Tax

The Group's share of net adjusted operating profits* of its joint ventures and associates fell by £1.8 million. The fall was due to the change in status of our U.K. radio investment in May. Whereas DMGT had a 29.9% stake in GWR Group plc and treated it as an associate, the merger with Capital Radio plc reduced our stake to 14.3%. Since then, we have taken in dividends received and not our share of their profits. Nearly all of the Group's other interests including GLM, the North American gift exhibition organiser in which the Group increased its stake from 25% to 40% in January, showed improved results.

Income from fixed asset investments fell by £0.8 million to £2.6 million due mainly to a lower distribution from the Press Association, offset by a first dividend from GCap Media plc. The fall in net interest payable and similar charges of £8.2 million was due mainly to swap premia on overseas financing arrangements and to lower average net debt.

At the profit before interest level, continued growth by the Group's newer businesses means that 44% of this year's profit* has been generated by its non-newspaper operations (including the digital operations of the newspaper divisions), up from 41% last year.

Profits on sale of fixed assets arose mainly from the sale of shares in Reuters Group plc. Profits on disposal of businesses arose mainly from the sale of the Group's stake in California Market Center, and of Hot 91, its radio station operating on the Sunshine

Coast of Australia. These profits were offset by losses on the sale of DMG Broadcasting's Performance Channel, Euromoney's Business Traveller and one of dmj world media's French antique shows. A review of the Group's unlisted investments led to a write-down of £2.5 million.

The statutory profit before tax of £163 million was 31% higher than last year's figure. Excluding amortisation and impairment and exceptional items, the adjusted profit* before tax figure was £253 million, up 8% on last year.

Taxation

The tax charge of £53 million represents 32.5% of profit before tax and 21.2% of profit before amortisation and impairment. The underlying tax on adjusted profits* before significant non-recurring or prior year items, amounted to £57 million and the resulting rate is 24.1%, down from 26.6% last year due to a higher proportion of profits coming from the United States, where the Group pays little tax because it has carried forward losses. This is well below the U.K. corporate tax rate, where the Group currently makes most of its profit. The Group's effective tax rate in the U.K. is higher than this due to expenditure disallowed for tax purposes.

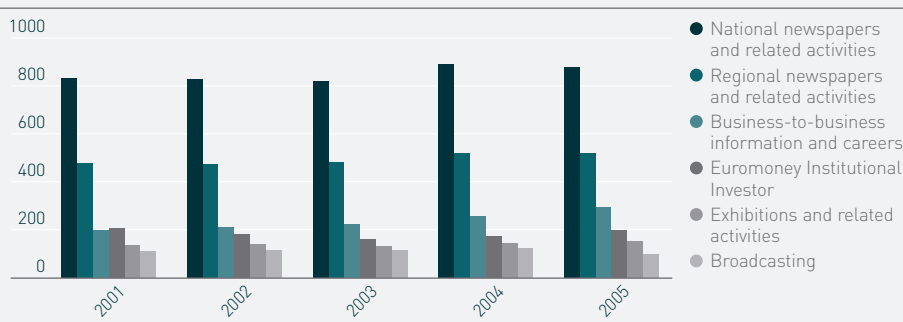
Cash Flow and Net Debt

Net debt at the end of the financial year was £766 million, a decrease of £13 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.

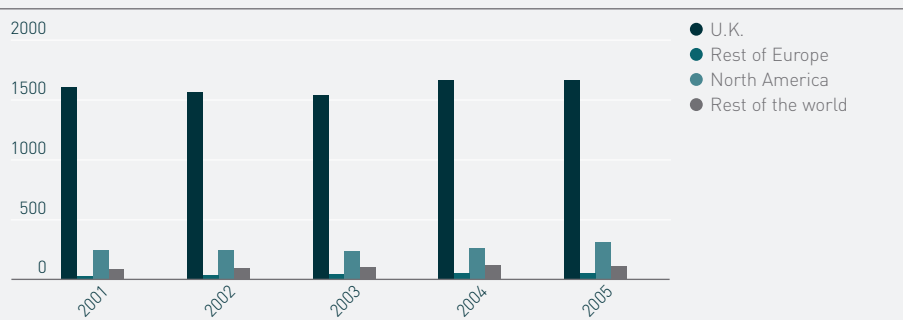
Graph 4 summarises the Group's sources and use of funds during the year. The net cash inflow from trading was £359 million, which represented 95% of operating profit before depreciation and amortisation and impairment. In general, the Group's profits are converted rapidly into cash.

Capital expenditure of £95 million was lower than last year's level, reflecting the completion of the 2001/04 press expansion programme in November 2004. Acquisitions and investments cost £138 million, the largest item being the purchase of Lewtan. Disposal proceeds amounted to £38 million.

Graph 1 Turnover by activity (£ million)



Graph 2 Turnover by geographic area (£ million)



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

The Group's interest cover, calculated as the ratio of adjusted profits before interest and depreciation (EBITDA) to net interest payable, was 7.4 times this year, an improvement on 2004 (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 2.0 times. The Group's Standard & Poor's credit rating remains at BBB.

At the year end, the Group had £657 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 and in September it repaid the outstanding £88 million on its 2005 Eurobond. Consequently, the Group has sufficient committed debt facilities to meet its foreseeable requirements. It had surplus committed facilities of £107 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 26 to the Accounts. 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.

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 three sterling Eurobonds. Maturities of debt are maximised and 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.

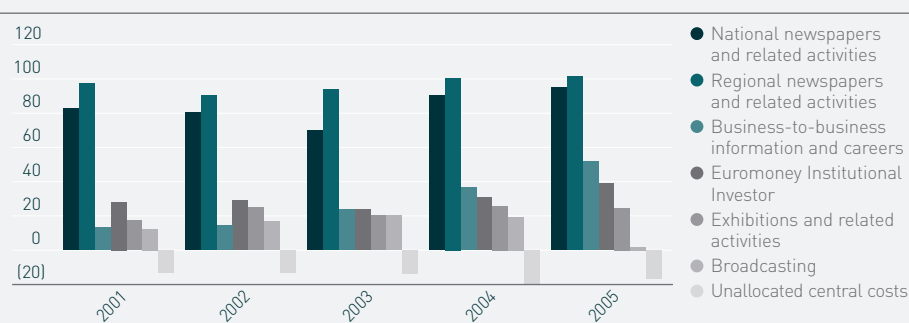
Covenants on debt instruments are kept to a minimum, even if this results in marginally higher interest costs. Apart from lease finance, external finance is unsecured and is usually an obligation of the central holding companies rather than of trading subsidiaries. This gives management maximum flexibility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

(b) Foreign Exchange Risk

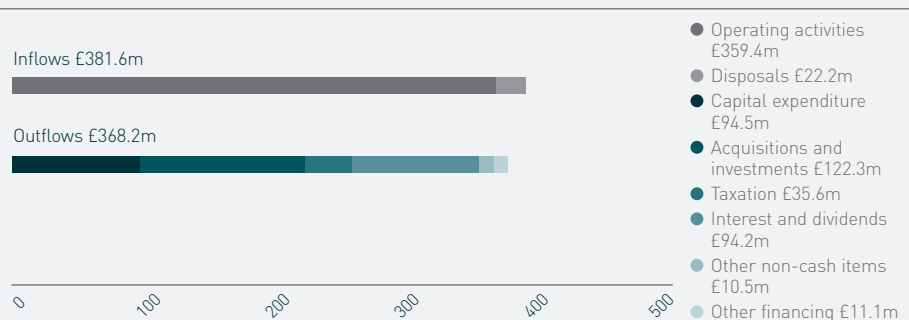
(i) Transaction Risk

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

Graph 3 Operating profit* by activity (£ million)



Graph 4 Cash flows* by activity (£ million)



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

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 currently aims to have a 6:1 ratio of EBITDA to net interest costs and seeks to ensure that the ratio of net debt to EBITDA does not normally exceed 2.5:1. It is believed that this achieves close to the optimum level of gearing for the Group, but leaves it with sufficient headroom should it desire to increase its debt levels without reducing the Group's quoted debt below investment grade. As such the ratio will not be met consistently, but will define the 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

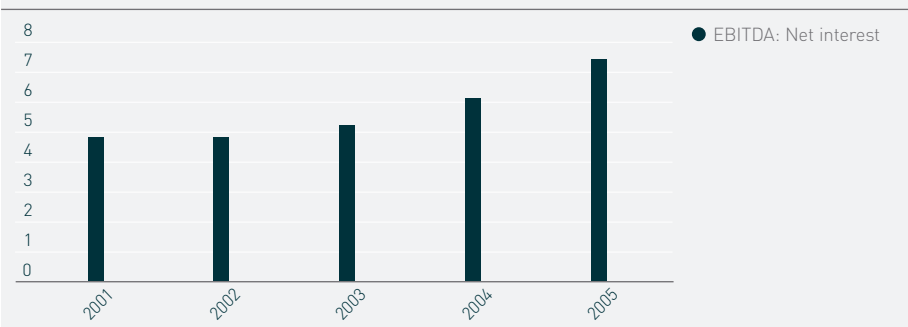
The Group has a deposit limit for banks with long-term credit ratings of 'AA' or better, and a lower limit for single 'A' rated banks. Institutions below this rating are not usually used for deposits. The Group is also exposed to credit related losses on financial instruments used for hedging purposes. 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

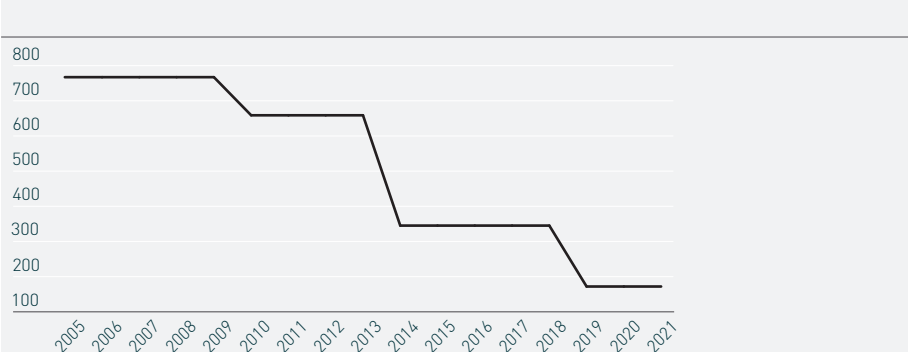
The Directors have continued to adopt the going concern basis for the preparation of the accounts. This has been done since, after considering relevant information, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable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

Peter Williams
Finance Director

Graph 5 Ratio of earnings* before interest, tax and depreciation and amortisation to net payable interest.



Graph 6 Maturity profile of Group Net Debt (£ million)



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