

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



OUR STRATEGY FOR FUTURE SUCCESS FOCUSES ON THREE KEY AREAS:

1. INVESTING IN OUR NEWSPAPER AND PURE PLAY DIGITAL BUSINESSES
2. CONTINUING TO GROW OUR OTHER MEDIA BUSINESSES WITH STRONG LEADERSHIP POSITIONS
3. RUNNING OUR BUSINESSES FASTER

Introduction

This Business Review is addressed to the members of the Company. It is framed, having in mind the principles and guidelines for Operating and Financial Reviews published by the UK Accounting Standards Board in January 2006. It describes the main operational and financial factors underpinning the development, performance and position of the Group as well as those likely to affect performance over the coming year.

This Chief Executive's Review sets out the nature, objectives and strategy of the Group, together with the principal risks and uncertainties we face. It is followed on pages 16 to 27 by a business review of the development and performance of each of our operating divisions. A Financial and Treasury Review is given on pages 28 to 31.

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. 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.

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, whose boards the executive Directors chair. We operate with a light touch from the centre, relieving line management of overhead activities that do not contribute at the operating level. DMGT's objectives are embedded into the thinking of each of our divisional management teams.

Strategy

The Group's objective is to be the owner of high quality sustainable media properties, reflected in premium commercial positions, thereby generating a premium return for shareholders. Over the past decade the strategy has been to extend the Group's media activities so as to reduce its dependence on UK newspapers, which are heavily dependent on advertising and, due to their strong market positions, much regulated.

The Group's newspapers remain highly profitable and we have continued to invest in



THE RECENT ACQUISITION OF METAL BULLETIN BY EUROMONEY WILL STEP UP ITS PERFORMANCE.

them in order to maintain their market-leading positions. The stability of these businesses has underpinned the manner in which we have built a re-balanced Group: by deployment of capital most successfully in DMG Information, recently in Euromoney Institutional Investor through its acquisition of Metal Bulletin and in dmg world media and DMG Radio. As a consequence, an increased percentage of the Group's revenues is generated from streams other than advertising, principally subscriptions and events. A significant part of the asset base is now outside the UK; the Group's exposure to regulation has been greatly reduced; and it is close to passing a significant milestone of a half of operating profits* being derived other than from newspapers.

Over the last few years, it has become clear that the Group needs to be run faster as the pace of change in business has grown, particularly the threat to traditional media forms from new technologies. This has been evidenced by the loss of classified advertising at the Evening Standard and by the decline of profits at Teletext due to structural changes in its market.

Last year we undertook a review of Northcliffe Newspapers which identified the potential for further restructuring of its UK business in addition to that already being undertaken as part of its Aim Higher programme. The powerful market position occupied by Northcliffe's businesses in their regional locations meant that they were unlikely to grow faster than their local economies. Since we saw the prospect of limited long-term revenue growth, a choice lay between retaining and running Northcliffe harder for profit and selling it. Hence the strategic review was announced in November 2005 when we invited third party offers for the business, while continuing to develop our own plans for it, in order to establish whether greater shareholder value could be achieved from a sale than from a transformation of the business within DMGT.

Our view of the future for Northcliffe improved during the review, while a number of factors, not least trading at the time, conspired against obtaining a full sale price. In February the Board committed itself to retaining the business since we believe that Northcliffe has an excellent future as an integrated provider of local media services. It is positioned to provide its local and national customers with the information and advertising they seek through a range of media channels and brands. In particular, the combination of print and online will provide a differentiated product

range that will be unequalled in its local markets. Northcliffe has been restructured into six regional divisions, each headed by a regional managing director, with local managing directors focused on raising revenues in local markets. The size of the central support functions has been reduced. A joint digital division, Associated Northcliffe Digital (AND), has been established to drive digital revenue.

Management of the printing operations of Associated and Northcliffe has been integrated and other shared services including accounting, procurement, marketing, fleet and human resources are being investigated. We do not intend to combine the editorial, sales or circulation functions.

Northcliffe has demonstrated its ability to reduce costs and is well placed to achieve an annual cost reduction target of £45 million by the end of September 2007. Over the next year, it will concentrate on revenue growth and defending its newspaper circulations.

The continuing underlying value of our regional newspapers was demonstrated in April with the sale of Aberdeen Journals at a multiple significantly higher than that implied by offers received for the whole of Northcliffe.

At Associated Newspapers, we have continued to invest in editorial quality and the graph on page 17 demonstrates the extent to which the Mail titles maintained their circulations and continued to increase their market share, aided by successful promotions. In Ireland, we are now focused on extending the circulation for both Mail titles.

A strategic challenge to be addressed is Associated's relatively low margins which have a material impact on the Group's overall margins. Costs are being reduced through the creation of shared services with Northcliffe and, over time, the cost base of our national newspapers is adjusting to a lower level of revenue growth due to the likely migration online of display and classified revenues at varying speeds. Our objective is to meet this challenge without losing the powerful advertising response from an engaged readership, given that the Mail titles have a most envied position in the UK market and that Associated are efficient producers of high quality publications, not low cost producers like some others. Online, companion websites to the newspapers have been built and are being re-integrated into the editorial process.



THE DAILY MAIL HAS CONTINUED TO INCREASE ITS MARKET SHARE.

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



ONE ELEMENT OF THE GROUP'S STRATEGY IS TO DEFEND AND EXTEND ITS ADVERTISING BASE THROUGH THE ONLINE MARKET.

£155m

THE AMOUNT INVESTED BY ASSOCIATED IN PURE PLAY DIGITAL BUSINESSES.

£68m

PROFIT MADE BY DMG INFORMATION THIS YEAR.

In London, the objective is to restore the Evening Standard to profitability in the medium term and we have launched a new free newspaper, London Lite, aimed at a different consumer market, as explained on page 16. Associated's track record of thinking freshly about its titles, and creating new titles, as with Metro some years ago, or adapting old ones in response to market developments, remains undiminished.

We intend to defend the Group's advertising base and to extend it, regardless of format. Accordingly our strategy at Associated Northcliffe Digital (AND) has involved making investments to increase its exposure to areas of the online advertising market pertinent to Associated Newspapers, being jobs, property, personal finance, motors and dating. Building a presence in the online travel advertising market is being addressed by Teletext. In total, Associated has invested £155 million in pure play digital businesses since 2004 with the objective of being the number one or two player in each chosen market. AND now has annualised revenues approaching £90 million and we look forward to strong profit growth from this new division. Its initial development is now largely complete and further acquisitions are likely to be of a smaller in-fill nature.

Our other divisions, built over the years, have also undergone an internal review. At DMG Information we have invested approximately £420 million since 1996 (net of disposals). This year the business made a record £68 million operating profit* and the growth in its profits from a standing start in 1998, illustrated on page 23, is a credit to its tried and tested management team in the US. They intend to grow the business further both by increasing revenue expenditure on product development over the coming year and by re-investment of its cash flow in acquisitions over the next few years.

Euromoney Institutional Investor's acquisition of Metal Bulletin in October 2006 will step up its performance which is already being driven by the motivating impact of its Capital Appreciation Plan on senior management. We expect above average growth over the immediate future, provided financial markets remain benign. The acquisition was funded partly by the issue of new shares by Euromoney such that DMGT's interest has been diluted from 69% to 61%. We regard Euromoney as a core business and do not intend our holding to be reduced further.

We have invested approximately £400 million in dmg world media since 1995.

It has suffered this year from a decline in revenues from its consumer shows in the UK, US and Australasia, which comprise just over a third of the business. As a consequence, our strategy is to grow the business through aggregating acquisitions and launches in the stronger business to business sectors and faster growing markets. Recent acquisitions have been concentrated on the higher growth oil and gas portfolio and technology sectors.

Net investment in DMG Radio Australia since its creation in 1996 has totalled £200 million. The business was established with a plan to build a national metropolitan FM broadcasting network through the Australian government's licence auction process with the intention of delivering an above average return on investment. This last year has been difficult due to the simultaneous launch – and subsequent relaunch – of the new Vega stations and completion of the Nova network. Nevertheless, our Australian radio management remain highly concentrated on the task before them.

Having acquired Metal Bulletin the Group's net debt has risen since the year end to around £900 million. This will preclude major acquisitions in the short term until that acquisition has been successfully integrated, and our prudent debt ratios fully re-established.

Resources

The Group's main resources are its brands, its people, its reputation and the market-leading position of its major businesses.

Principal risks and uncertainties

The principal risks and uncertainties the Group faces vary across the different businesses and are the focus of the Risk Committee which I chair. These risks are identified in a Group Risk Register. The materiality of each risk is assessed against a framework to determine its significance and likelihood of occurrence. The Risk Register is used to determine the agenda and activity of the Risk Committee. The most material risks identified in the Risk Register, together with the steps taken to mitigate them, are described below. The operation of the Risk Committee is described on page 39.

The geographic spread and diverse portfolio of businesses within the Group helps to reduce the impact of many of the risks identified below. Certain of these risks are interdependent and should not be considered in isolation.

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



LIKE THE DAILY MAIL, THE MAIL ON SUNDAY HAS MAINTAINED ITS CIRCULATION THROUGH ITS HIGH QUALITY.

The impact of technological and market changes on our competitive advantage

Our businesses operate in highly competitive environments that can be subject to rapid change. Our products and services, and their means of delivery, are affected by technological innovations, changing legislation, competitor activity or changing customer behaviour. A structural change in the advertising market, resulting in significant advertising moving away from our traditional products to the internet, could significantly affect our results.

We have developed an internet strategy for each of our main segments of advertising revenue. We have a decentralised autonomous culture that encourages an entrepreneurial approach to the development of new opportunities in response to these threats and we must continue to invest and adapt to remain competitive. Our strategy of diversification and willingness to take a long-term view helps us to react to these challenges and opportunities.

Pension scheme shortfalls

We operate defined benefit schemes for our newspaper divisions and certain senior executives. Reported earnings may be adversely affected by changes in our pension costs and funding requirements due to lower than expected investment returns, changes in demographics and higher life expectancy. These risks are being worked on with the scheme trustees to agree an appropriate funding approach and an asset allocation strategy designed to reduce and diversify the risk inherent in the investment portfolios. These measures are in addition to the introduction last year of a two-tier benefit structure in the defined benefit schemes, providing greater employee choice with increased member contributions in the top tier. These actions, together with the operation of defined contribution pension plans in all other divisions and overseas, have helped to reduce pension liabilities and control the pension costs incurred by the Group.

Currency risk

Currency exchange rate fluctuations have an impact on the Group's reported earnings. Over 40% of the Group's operating profits are generated from revenues invoiced in US dollars. The impact of currency rate fluctuations is partly offset by the levels of US dollar debt incurred. The policies and procedures in place to manage these risks are discussed in the Financial and Treasury Review on page 30.

Impact of a major disaster or outbreak of disease

Any disaster, such as a geopolitical event or a pandemic, such as avian flu, which significantly affects the wider environment or infrastructure in a sector where the Group has material operations could adversely affect the Group. Although plans and procedures are in place to manage the impact of such risks, the event might affect our ability to produce and deliver our products, or reduce the demand for them. The importance of travel to many of our event businesses increases the sensitivity of our results to such incidents that may affect confidence in travel to specific destinations.

Acquisition risk

As well as launching and building new businesses, an integral part of our success has, and will continue to be, the acquisition of businesses that complement our existing products or expand the scope of our expertise into new markets. A number of risks are inherent within any strategy to acquire. The Group generally acquires businesses with a high potential for growth in related markets. This results in the majority of acquisitions considered being smaller add-on acquisitions, which reduces the size of the risk of each acquisition to the Group. The Metal Bulletin acquisition is the Group's first acquisition over £100 million since 1988.

Exposure to changes in the economy and customer spending patterns

General economic conditions and the financial health of our customers affect the performance of all of our businesses to some degree. A significant proportion of our revenue is derived from advertising spending which has historically been cyclical, with companies spending less on advertising in times of economic slowdown. Our commitment to investment in our core brands and products helps us to reduce the effect of these fluctuations by maintaining the strength of our products in their markets.

Dependence on information technology and the integrity of data

All of our businesses are dependent on technology to some degree. Disruption to our information technology infrastructure or breaches in our data security systems could adversely affect our businesses and damage our reputation. This could arise from loss of service from third parties, operational failures, or sabotage (including virus and hacker attacks). The information security and business continuity risks and mitigating controls vary for our different businesses and so responsibility rests with

each of the divisional management teams. Both of these risks were a focus of the Risk Committee during the year. Assessments were completed to understand the effectiveness of the mitigating controls in each area and to highlight any areas for improvement.

Price volatility of newsprint

Newsprint represents a significant proportion of our costs within the Newspaper divisions. Newsprint prices are subject to volatility arising from variations in supply and demand. Whilst generally these variations are not large and therefore not significant to the Group, there have been periods historically where the impact to the Group was material and a repeat of such events cannot be ruled out.

Reliance on key management and staff

In order to pursue our strategy, we are reliant on key management and staff across all our businesses. We cannot predict with certainty that we will enjoy continued success in our recruitment and retention of high quality management and creative talent.

Share price performance

Over time our strong historic operating performance has been recognised by the market, as can be seen from the graphs on pages 15 and 48. The price of our widely traded 'A' Ordinary Non-Voting shares is now higher than five years ago, during which period it has experienced a turbulent time due largely to the weakness of UK advertising markets. We still appear to be valued mainly as a UK newspaper stock, despite only half of our profits coming from that source. Over the last year, the share price received a temporary hike on market expectations of the sale of Northcliffe at a premium price and it fell over the summer as the market fled from "traditional media". As a result DMGT came out of the FTSE 100 share index. In recent months it has risen on market perceptions of an improvement in UK advertising conditions. Share performance remains important to us as a measure that our strategy and balance are understood and recognised by the market.

Capital structure

The Company has not made a capital call on its shareholders for over seventy years. Capital growth is provided 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 15, the compound dividend growth

over the last ten years is 10% in nominal terms.

In March, we announced our intention, following the disposal of Aberdeen Journals, an expected reduction in capital expenditure and the significant cost reductions being achieved at Northcliffe, to start a share buy-back programme of 'A' shares under the general authority approved at the AGM in February 2006. In the first twelve months, the Board's intention is to return approximately £50 million to shareholders. So far we have acquired 3.5 million shares for a total of £21.5 million which are held as Treasury shares. DMGT is effectively giving a 4% yield to its shareholders by a combination of this buy-back and its annual dividend.

Relationships with stakeholders, other than shareholders

Environmental, employee, social and community issues are taken seriously by the Company, as set out in the Corporate Responsibility Report on pages 32 to 34. DMGT also has a dedicated Corporate Responsibility section on its website which is updated regularly. The Board has policies on the environment and on equal opportunities for employees, as well as on whistleblowing and health and safety. All of these policies are established and set out on the DMGT extranet.

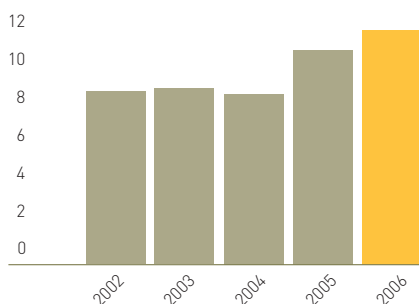
DMGT and the environment

We recognise that our businesses have an impact on the environment through our printing operations, offices, transport and other business activities. We are committed to ensuring that where practical any adverse impact on the environment from our activities will be minimised. The major environmental impacts arise in our printing operations where we focus on newsprint, energy, CO₂, water and ink efficiencies. We have gathered the data over each of the last five years in order to monitor each of these impacts, and graphs illustrating them are set out on our website. The overall trend is positive. For example, as shown in the graph (left), CO₂ efficiency improved again this year due in part to the closure of a number of less efficient print centres, but also to our continued efforts to reduce energy consumption through measures implemented at a number of sites.

DMGT and our employees

Our record on retention of staff remains good, aided by our autonomous culture and by our provision of the appropriate form of pension provision to all our employees. In this regard, DMGT has kept open its final salary pension schemes in the UK

CO₂ EFFICIENCY
 NEWSPRINT OUTPUT (TONNES)/CO₂
 EMISSIONS FROM ENERGY



CO₂ EFFICIENCY HAS IMPROVED AGAIN, REFLECTING FURTHER PROGRESS FROM THE CLOSURE OF A NUMBER OF LESS EFFICIENT PRINT CENTRES AND CONTINUED EFFORTS TO REDUCE ENERGY CONSUMPTION.

-12%

THE NUMBER OF EMPLOYEES FELL BY 12% DUE TO DISPOSALS AND NORTHCLIFFE'S REORGANISATION.

newspaper divisions where people tend to stay with us for a long time and where the average age is higher. In the other divisions, which are more international and where employees are generally younger, we believe defined contribution pension plans are more appropriate.

The number of employees has fallen from 18,214 at the beginning of the year to 16,033 at the end, a reduction of 12%. Of this reduction, 2,050 was due to the sale of Study Group and of Aberdeen Journals. The number of employees within Northcliffe fell by a further 900 (14%) as a consequence of its reorganisation programme.

Trends and factors likely to affect the outlook

The new financial year has started well with signs of a gentle recovery in some sectors of the national advertising market, with our national titles producing strong circulation results in an ever competitive market. Whilst Northcliffe is not yet

seeing much improvement in advertising conditions, continued falls in revenues are being offset by cost reductions. We expect DMG Information to maintain its strong underlying revenue growth, albeit with profit growth possibly tempered a little this year by investment in new products, and for AND to have another growth year. Pre-tax profits should also benefit from Euromoney's continuing organic growth and from its acquisition of Metal Bulletin.

Overall the Board is cautiously optimistic of achieving another year of progress.

CHARLES SINCLAIR
CHIEF EXECUTIVE

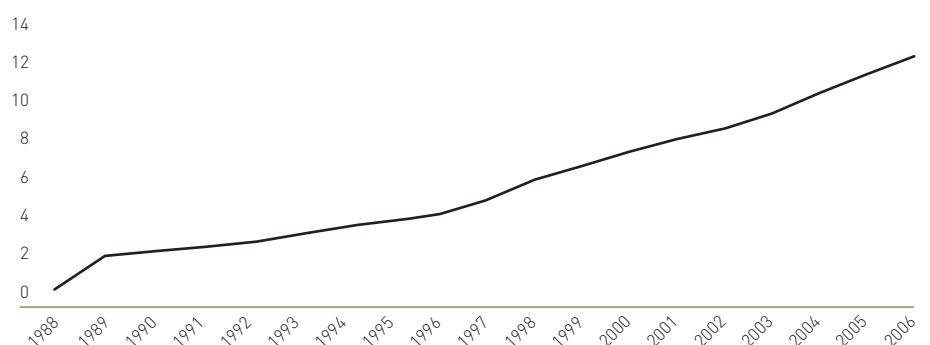
+169%

OUR RELATIVE SHARE PRICE PERFORMANCE SINCE 1988.

PERFORMANCE OF DMGT 'A' PRICE SINCE 30TH SEPTEMBER, 1988 AND OF FT ALL-SHARE INDEX RELATIVE TO ITS VALUE AT THAT DATE



DMGT DIVIDEND HISTORY FOR THE PERIOD 1988 - 2006 (PENCE)



+10%

COMPOUND DIVIDEND GROWTH OVER THE LAST TEN YEARS.