

# 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

UNDERLYING REVENUE GREW BY 2%

+2%

OPERATING PROFIT\* GREW BY 6%

+6%

EARNINGS PER SHARE\* GREW BY 7%

+7%

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

All references to prior year numbers are to figures prepared under IFRS

## Accounts

As a listed company, we have been required for the first time to prepare the Group Accounts under International Financial Reporting Standards (IFRS). This has led to considerable changes in the format of our primary statements, to increased volatility of the numbers within the Income Statement and to a far longer and more complex set of Accounts. IFRS seems to favour the use of fair values over the traditional measure of historical cost and increasingly appears to be driven by academic theory, at the expense of commercial reality. Whilst many IFRS standards follow the UK principles-based approach, enabling the exercise of professional judgement, several of its newer US-influenced standards have introduced complex rules and this trend seems set to continue.

IFRS lacks the prescriptive profit headings of FRS 3: in particular there is no concept or definition of operating profit, nor of exceptional items. DMGT has chosen to present its Income Statement as closely as permitted to UK GAAP. We have also sought to align our published figures to the way we manage our businesses. In particular, under IAS 19, the total pension charge is made up of two components, the current service cost and a finance credit. This finance credit is the difference between the return on the assets and the interest charge, due to the increase in the year of the present value of the defined benefit obligations. We have included both elements within operating profits. The divisions operating defined benefit schemes (principally the newspaper divisions) are charged the cash funding rate, with the difference between this and the total IAS 19 charge included in unallocated central costs.

Whilst the Group's Accounts are likely to be more difficult for shareholders to understand, this Financial Review focuses on the adjusted numbers, in addition to

the statutory figures, because we believe the alternative measures give a more comparable indication of the Group's underlying business performance.

We have continued to prepare the Company accounts under UK law and UK accounting standards so as not to lose the exemptions available under the Companies Act and UK financial reporting standards.

## Revenue

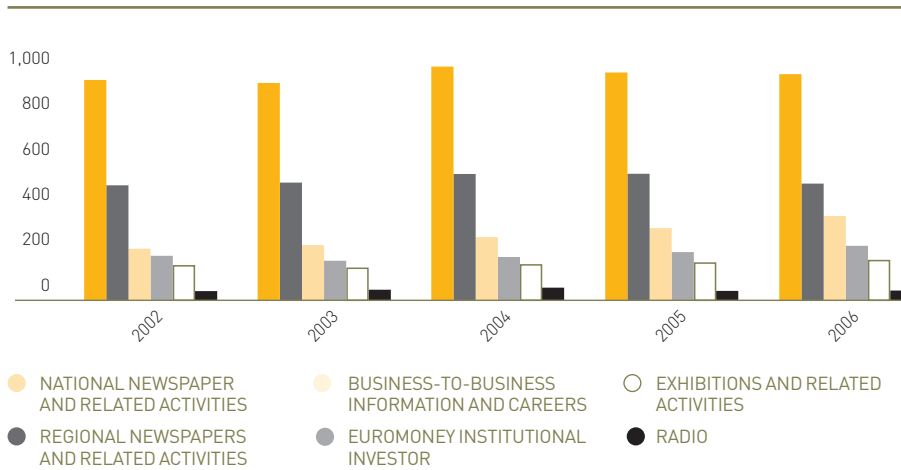
The Group's revenue in the year of £2,176 million was 2% higher than the previous year. There was revenue growth from all of our divisions, with the exception of our newspapers which experienced difficult trading conditions. Excluding the impact of acquisitions and disposals, we estimate underlying revenue growth was 2%.

The analysis of revenue by activity, illustrated in Graph 1, shows that there has been little overall change in the shape of the Group in terms of revenues. However, if their digital activities are excluded from our newspaper divisions, the percentage of revenue from newspapers has fallen to 60% from 67% in 2002. Graph 2 shows the geographic split of revenue. This shows that 75% of revenue by source was generated by UK businesses, compared with 80% in 2002, but we estimate that 40% of overall Group revenues is now invoiced in US dollars.

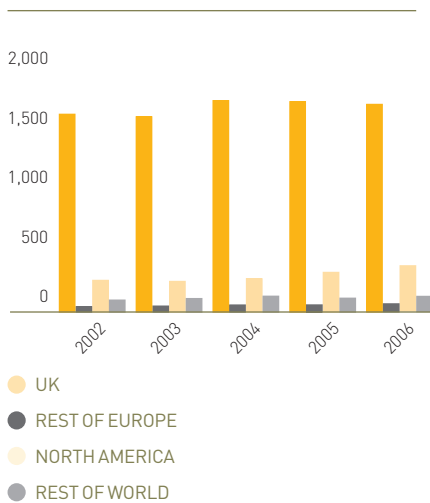
## Operating profit

The Group's operating profit\* amounted to £300 million, an increase of 6% on the equivalent figure for last year. This figure is stated before charging £41 million as exceptional operating costs. This charge comprised principally the costs of the second phase of Northcliffe's reorganisation programme, together with the professional costs of its strategic review, reorganisation costs within Associated and a restructuring charge within dmg world media. The charge for amortisation of intangible assets rose by £22 million to £51 million due to

**GRAPH 1**  
REVENUE BY ACTIVITY (£ MILLION)



**GRAPH 2**  
REVENUE BY GEOGRAPHIC AREA (£ MILLION)



acquisitions made during the current and prior year. The Group also made an impairment charge of £59 million, principally in respect of its Vega radio licences, Associated's Loot business and a number of consumer and gift shows. After deducting these charges, the Group's reported operating profit fell by 37% to £150 million.

The analysis of operating profit\* by activity is shown in Graph 3. This shows strong growth again from our business-to-business information division, smaller rises from our national newspaper division, Euromoney Institutional Investor, despite a £3 million increase in the charge for its capital appreciation plan, and dmg world media. These increases totalling £30 million were offset by falls of £9 million in our regional newspaper division, partly due to the sale of Aberdeen Journals, and by increased losses within radio of £4 million. Central costs were £5 million lower. Associated's performance was boosted by strong growth from its digital operations, both organically and from acquisitions, although the newspapers proved resilient in the face of a further decline in print advertising income.

Generally strong growth by the Group's business-facing divisions and the rapid expansion of the digital operations of our newspaper divisions means that 47% of this year's operating profit\* has been generated other than by the Group's print newspaper titles, up from 40% last year.

#### Joint ventures and associates

The Group's share of the results\*\* of its joint ventures and associates rose by £2.0 million to £7.1 million due mainly to lower losses from Northcliffe's digital associates and to a larger contribution from

Euromoney's associates. These were partly offset by the absence of a contribution from GWR Group plc (which merged into GCap Media plc in May 2005 with the Group's interest now accounted for as an investment). Also included are start-up losses from Metro Ireland and lower profits from GLM, the North American gift exhibition organiser.

#### Net financing costs

Investment revenue, excluding interest on deposits, rose by 23% to £3.2 million. This included a first full year's dividends from GCap Media, which outweighed a fall in dividends from Reuters Group plc, resulting from the Group selling its remaining interest. Net interest payable (excluding dividend income and deemed finance charges) fell by £4.4 million to £48.3 million.

#### Other income statement items

The Group recorded other exceptional gains and losses of £189 million. Of these, profits on disposal of businesses of £175 million arose from the sale of Aberdeen Journals and Study Group and profits of £17 million arose on the sale of investments, mainly from the sale of the remaining shares in Reuters. Profits of £9 million arose on the sale of properties and other fixed assets. These profits were offset partly by write downs resulting from a review of the carrying values of the Group's investments.

#### Profit before tax

The statutory profit before tax of £311 million was 59% higher than last year's figure. Excluding amortisation and impairment and exceptional items, the adjusted profit\* before tax figure was £260 million, up 9% on last year.

#### Taxation

The tax charge of £60 million represents 19.3% of profit before tax and 14.2% of profit before amortisation and impairment. The adjusted tax on adjusted profits\* amounted to £62 million and the resulting rate is 23.9%, up from 22.1% last year due to a higher proportion of profits coming from the United States, albeit partly offset by the accounting benefit of the last of the Group's unrecognised US tax losses. This is still 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. The Group is still benefiting in the amount of tax paid from carried forward losses in the US, but this will reduce over the next two years as US Federal tax becomes payable. Over the next few years the adjusted tax rate is expected to increase from 24% to around 30%.

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

\*\*Adjusted share of the results of joint ventures and associates (before amortisation and impairment of intangible assets).

## FINANCIAL AND TREASURY REVIEW CONTINUED

**Cash flow and net debt**

IAS 7 does not permit a reconciliation to net debt to be given adjoining the Cash Flow Statement; this is shown instead as note 13 to the Accounts. Net debt fell during the year from £767 million to £738 million, a reduction of £29 million. The fall in debt was due to the strong trading cash flows and proceeds of disposals which exceeded the high level of capital expenditure and acquisitions, together with the outflow from taxation, interest and dividends. Graph 4 summarises the Group's sources of free cash flows and use of those funds during the year. The net cash inflow from operations, joint ventures and investment was £382 million, which represented 98% of operating profit and income from joint ventures and investment after adjusting for non cash charges (depreciation, amortisation and impairment and similar). In general, the Group's profits are converted rapidly into cash.

Capital expenditure of £118 million was higher than last year's level, reflecting the construction of Associated's new plant in Didcot, Oxfordshire. Acquisitions and investments cost £343 million, the largest items being the purchase of Genscape for £73 million and £110 million spent on Associated's digital division. Disposal proceeds amounted to £241 million, principally from the sale of Aberdeen Journals and Study Group.

The Group's interest cover, calculated as the ratio of adjusted profits before interest and depreciation (EBITDA) to net interest payable, was 7.8 times this year, up from 7.2 in 2005 (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 1.9 times. The Group's Standard & Poor's credit rating remains at BBB, as does our rating from Fitch.

At the year end, the Group had £654 million of Bonds due for repayment in 2013, 2018 and 2021. It also had £260 million of committed banking available to it until March 2008 and £300 million until September 2009. It is intended to refinance the 2008 bank facilities with longer-term finance within the next year. The Group has sufficient committed debt facilities to meet its foreseeable requirements. It had surplus committed facilities of £377 million at the year end.

Since the year end, Euromoney has completed the acquisition of Metal Bulletin, including a cash and loan note component of £175 million.

**Treasury policies**

The following paragraphs are a summary of the Group's treasury policies. 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. The Group's priority is to address the economic impact of financial risks using the most efficient or appropriate approach. This may result in IFRS accounting volatility.

**Overview**

The Group has adequate committed debt finance to meet current trading requirements. Foreign exchange risk on transactions is not a large issue for the Group as the majority of its businesses are domestic. In principle, the underlying currency of net debt after taking account of derivatives is managed in proportion to the EBITDA in each currency. A growing proportion of the Group's profits are earned in foreign currencies. As the Group is only partially hedged by its foreign currency debt, economically it is exposed to declines in value of the US dollar in particular. The Group has a prudent level of fixed interest rate debt to reduce the impact of interest rate fluctuations.

**(a) Liquidity risk**

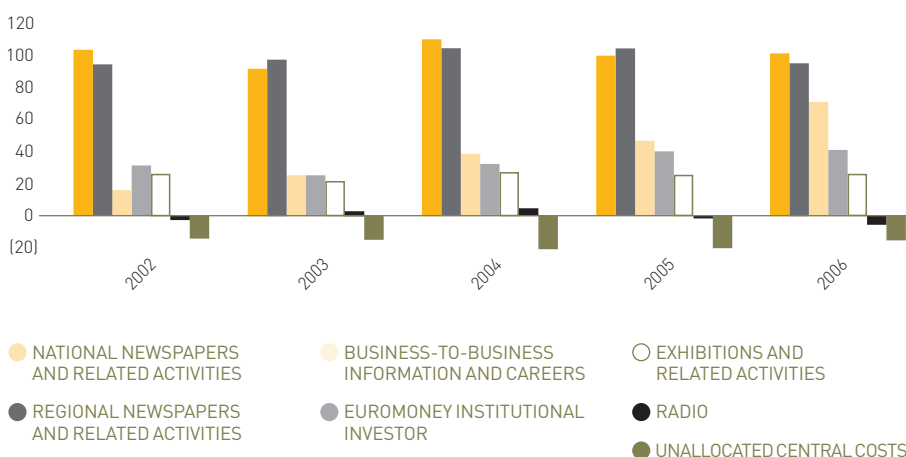
It is the Group's policy to have sufficient surplus borrowing headroom such that its development is not constrained. The Group is funded by a mixture of equity, debt and retained profits. Debt consists mainly of committed bank facilities and bonds. The bank facilities provide the Group with flexibility 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. If temporary surpluses 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. External finance is unsecured and is usually an obligation of the company or its immediate subsidiary, rather than of trading subsidiaries. This gives operating management maximum flexibility to run the business without the distraction of meeting short-term financing requirements.

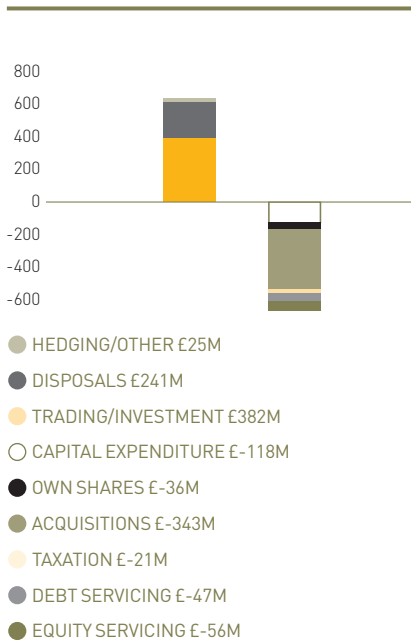
**(b) Foreign exchange risk****(i) Transaction risk**

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

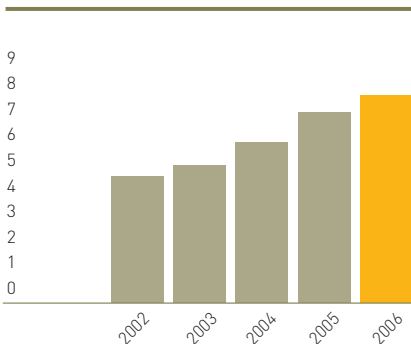
**GRAPH 3**  
OPERATING PROFIT\* BY ACTIVITY (£ MILLION)



**GRAPH 4**  
CASH FLOWS\* BY ACTIVITY (£ MILLION)

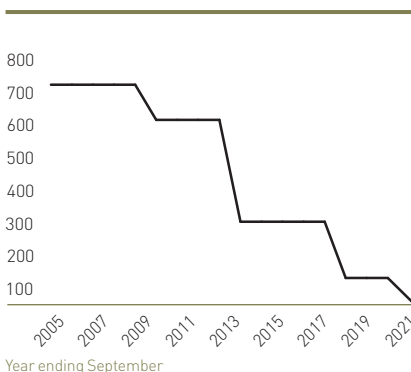


**GRAPH 5**  
RATIO OF EARNINGS\* BEFORE INTEREST, TAX AND DEPRECIATION AND AMORTISATION TO NET PAYABLE INTEREST.



\* EBITDA: Net interest

**GRAPH 6**  
MATURITY PROFILE OF GROUP NET DEBT (£ MILLION)



Daily Mail and General Trust plc

capital expenditure in foreign currency is fixed using forward currency purchases.

Tax on non-trading exchange rate movements is hedged, using cross currency swaps and forward currency contracts. The Group's acquisition financing structures may give rise to foreign exchange gain or losses in the UK which are either taxable or tax deductible. The Group enters into market derivatives to hedge this exposure in economic terms. However, IAS 39 prohibits such items from being shown net in the tax line and as a result increased volatility is introduced in the income statement. This year's profit before taxation has been increased by £17 million (2005 £Nil) in relation to the structure and tax payable has been increased by a similar amount. Both have been removed in arriving at adjusted profits.

**(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 managed to be approximately equal to the proportion of foreign EBITDA, compared to total Group EBITDA. This is expected to continue. A substantial proportion of US dollar and Australian dollar debt liabilities are created through the use of foreign exchange derivatives and treated as net investment hedges. The consequence of this policy is that the Group's significant foreign earnings are not hedged back to sterling.

**(iii) Economic exposure**

A substantial proportion of the Group's value relates to foreign subsidiaries, in the US in particular. The foreign currency debt described above is only a partial hedge of this economic exposure.

**(iv) Netting**

The Group may offset currency risks on trading, capital expenditure, tax and borrowings and only hedge the net exposure. This may result in not obtaining IFRS hedge accounting.

**(c) 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,

and options 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. Options are not treated as effective hedges under IFRS.

**(d) Counterparty risk**

Counterparties and their credit ratings are regularly reviewed by Group Treasury. The Group has counterparty limits for banks with long-term credit ratings of 'AA' or better, and a lower limit for single 'A' rated banks. Typically this is banks that extend credit facilities to the Group. The Group does not expect any counterparties to be unable to meet their obligations.

**(e) 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.

**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  
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