

NORTHCLIFFE NEWSPAPERS

LIKE THE REST OF THE REGIONAL NEWSPAPER INDUSTRY, NORTHCLIFFE EXPERIENCED TOUGH TRADING CONDITIONS IN 2006. THERE WAS A CONTINUED FOCUS ON IMPROVING OUR UK OPERATING EFFICIENCY.



FINANCIAL HIGHLIGHTS

REVENUE

£479m

(2005: £520m)

OPERATING PROFIT*

£91m

(2005: £100m)

OPERATING MARGIN*

19%

(2005: 19%)

* 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.

2006 has been characterised by four major events: DMGT's invitation of third party offers for Northcliffe; the disposal in March of Aberdeen Journals for £132 million; a significant downturn in advertising, the worst since the advertising recession of the early 1990s; and, lastly, better than expected progress on the cost reduction programme. The first two matters are covered in the Chief Executive's Review on page 11 of this report. This review will focus on operational matters.

Excluding the results of Aberdeen Journals, Northcliffe Newspapers achieved operating profits* of £87 million, which were £5 million or 6% below last year. On a similar basis, revenues were down 5% to £460 million and UK advertising income fell by almost 8% or £24 million. Those categories most affected were recruitment, motors and retail, recording decreases of 16%, 17% and 6% respectively. The only bright spot was property advertising, which continued its strong run with growth of just over 6%. Other regional newspapers groups have reported similar trends during 2006.

As well as a cyclical downturn in advertising, which has hit the wider media industry, there have been a number of structural factors which have contributed to the 2006 shortfall. These include reduced public sector expenditure on recruitment following the pre-2005 general election boom; high numbers of overseas workers joining the UK workforce, making it easier for employers to fill vacancies; structural changes in motor dealerships and the high street; and migration of mainly motors and recruitment advertising to online websites. The financial impact of cyclical versus structural cannot be quantified.

Despite like-for-like UK publishing revenues falling by £31 million, profits* on this basis were only down £7 million due to a substantial reduction in Northcliffe's cost base. Throughout 2006, there was continued focus on improving Northcliffe's

UK operating efficiency. This programme commenced in the summer of 2005 and, by September 2006, savings of £35 million had been realised, mainly from a reduction in headcount of over 1,000 people. Two printing plants were closed in Hull and Lincoln taking the total to four over a fifteen month period. Operationally, Northcliffe was regrouped into six regional divisions, each headed by a regional managing director. So far, the main benefit from this change has been further cost savings. In the coming financial year, we will focus on improved revenue generation through offering clients value added regional advertising packages.

The trend of fewer people buying our newspapers continued in 2006. However, based on extensive triennial research, Northcliffe's share in its markets has not diminished and the reach across a week from its portfolio of products has remained largely constant since 2003. This is of particular importance given the continuing media fragmentation.

Audited circulation of daily titles fell by 3.8% in the July to December 2005 ABC period and by 4.9% in the January to June 2006 ABC period. These figures, although disappointing, were ahead of the industry results. Further analysis shows that the decline is more pronounced on the larger metropolitan daily titles, a common feature across the industry. Northcliffe's portfolio of twenty four paid-for weekly titles underperformed against the rest of the regional press. Audited circulation fell by 3.1% and 4.5% respectively in the July to December 2005 and January to June 2006 ABC periods. Worst affected were our weeklies in Cornwall, despite continued investment in the presentation, content and promotion of the titles.



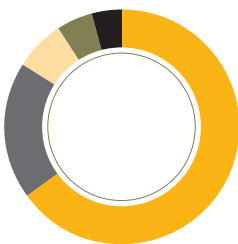
THE LEICESTER MERCURY BUILDING HAS RECENTLY BEEN RENOVATED.

NORTHCLIFFE NEWSPAPERS REVENUE ANALYSIS (£ MILLION)

	2006	2005
ADVERTISING	298	319
CIRCULATION	85	85
NORTHCLIFFE RETAIL	35	34
CONTRACT PRINTING	21	23
OTHER	21	21
	460	482
ABERDEEN	19	38
	479	520

2006 REVENUE ANALYSIS (%)

- ADVERTISING 65%
- CIRCULATION 19%
- NORTHCLIFFE RETAIL 7%
- OTHER 5%
- CONTRACT PRINTING 4%



FACT:
25,000 FACE-TO-FACE RESEARCH INTERVIEWS WITHIN LOCAL MARKETS.

In 2006, we completed one of the largest pieces of market research within the industry, involving more than 25,000 face-to-face interviews, giving a 360 degree view of each local market, including our products, customers and competition.

This research has shown that, overall, daily newspaper readership (including national titles) in Northcliffe's circulation areas has fallen; over the last three years the proportion of all adults reading on an average day has dropped from 68% to 59%. However, although Average Issue Readership has declined for all national and local titles, the Northcliffe share of the daily newspaper market has increased. The research also highlighted that weekly reach of the paid-for titles declined more slowly than average daily readership. Readers continue to be more selective, primarily because of the interest in days containing recruitment, motors and property advertising. Importantly, the combined weekly reach of all products both in print and online has been consistent over the past three years in most regions, which

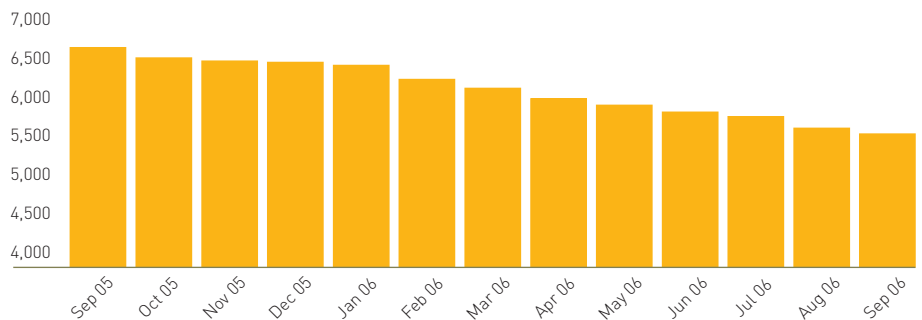
confirms that some readers are switching to other products in the portfolio, mainly the digital sites.

The research has given all our publishing businesses a dynamic overview of their local marketplaces. Work is now in progress to act upon the research findings locally and to guide local publishing plans.

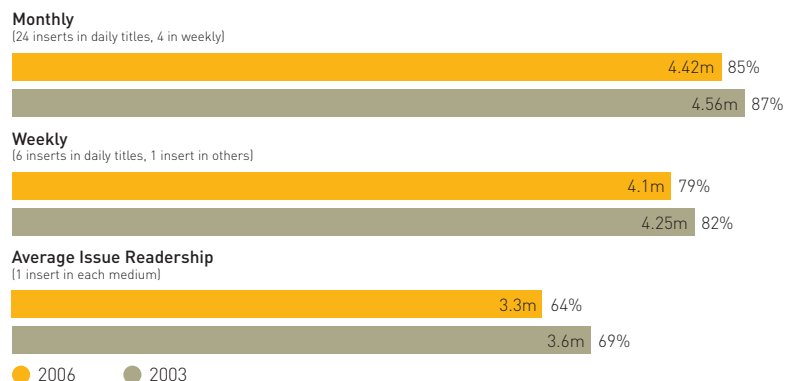
2006 heralded an even greater focus on digital publishing through the creation of AND. Northcliffe's portfolio of *Thisis* websites now have access to the resources of DMGT's pure play digital businesses which will improve Northcliffe's digital services to its readers and advertisers. Already, its local jobs and motors digital platforms are being provided by Jobsite and Carsource.

A culture change and empowerment programme is underway in all editorial departments, enabling journalists to take full responsibility for website content. Editors will be able to make their digital decisions to a digital agenda, redefining the

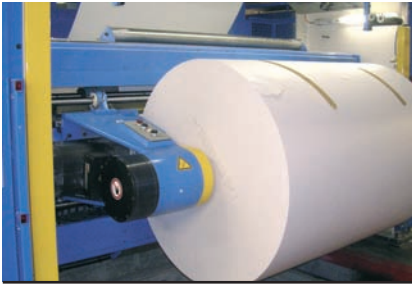
NORTHCLIFFE NEWSPAPERS UK HEADCOUNT (EXCLUDING ABERDEEN)



TOTAL NORTHCLIFFE DAILY CENTRE PORTFOLIO REACH 2006 (%)



Source: TNS Media 2006
Base: Adults 15+ in NNG Daily titles' 10% Areas [8% area in Bath] [14,369]



THE NORTHCLIFFE PRESS MERGED WITH HARMSWORTH QUAYS TO CREATE HARMSWORTH PRINTING.

+19%

PROFITS IN THE INTERNATIONAL DIVISION WERE UP BY 19%.



FACT:
NORTHCLIFFE NOW OPERATES IN SEVEN EUROPEAN COUNTRIES.

publishing cycle entirely and breaking stories online before in-print.

Fully integrated multi-media newsrooms for all Northcliffe's titles will be in operation by the spring of 2007, many incorporating industry-leading video journalism.

Over the past twelve months, Northcliffe's digital activities have grown substantially with the number of unique users of its sites climbing 32% to just over two million per month. Page views are also up by 39% to 32 million. Digital revenues in 2006 exceeded £7.7 million and we are confident of further significant progress in 2007.

The international division continues to make encouraging progress. Operating profits* were up 19% to £5.1 million helped by a full year's contribution from acquisitions in Slovakia. The market leading Slovakian jobs board, profesia.sk, acquired in November 2005, performed much better than expected and has now expanded into Hungary through a newly created website, workania.hu. In July, our Szeged based publisher relocated to new office facilities. The project will continue into 2007 with the planned installation of a new press. This will help position the business to take advantage of regional economic development. During the latter part of the 2006 financial year, further acquisitions were made including Pravda, Slovakia's leading quality national newspaper, and 50% of Hungary's leading motors website, hasznaltauto.hu.

Outlook

Northcliffe remains cautious about the outlook for advertising. Whilst recent recruitment advertising trends since the year end have been more encouraging, with year on year declines down to below 5%, as yet the trend for all other major print categories, except property, shows little sign of improvement. Digital revenues continue to expand encouragingly. Achieved annualised cost savings have now risen to £40 million which are currently offsetting revenue declines in full. It is still too early to predict when the downturn in the advertising cycle will bottom out.

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