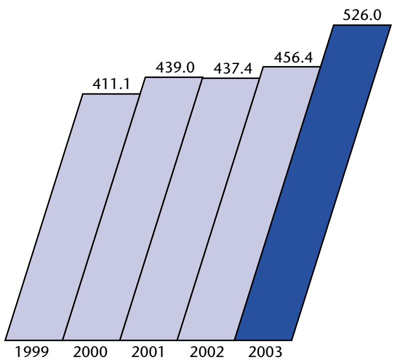
GUARDIAN MEDIA GROUP

Guardian Media Group plc Annual Report and Accounts 2003

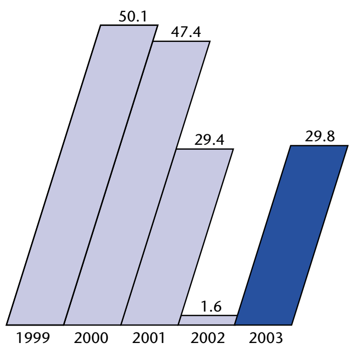
Guardian Media Group plc is a UK media business with interests in national newspapers, community newspapers, magazines, radio and internet businesses. The company is wholly-owned by the Scott Trust.

The Scott Trust was created in 1936 to secure the financial and editorial independence of the Guardian in perpetuity.

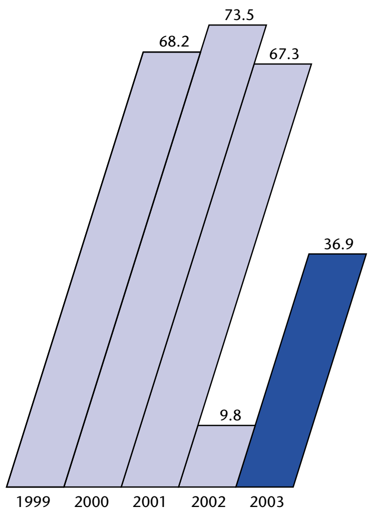
Financial highlights 2003



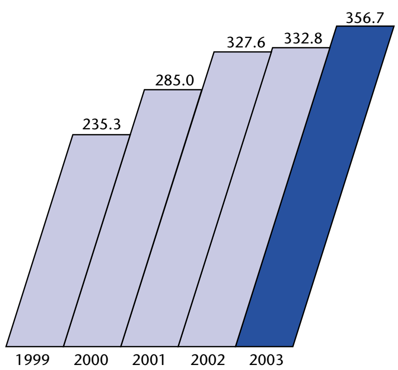
Turnover including share of joint ventures and associates. £m



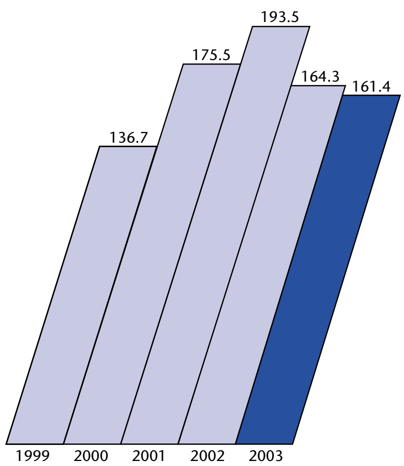
Total group operating profit including share of joint ventures and associates. £m



Profit before taxation. £m

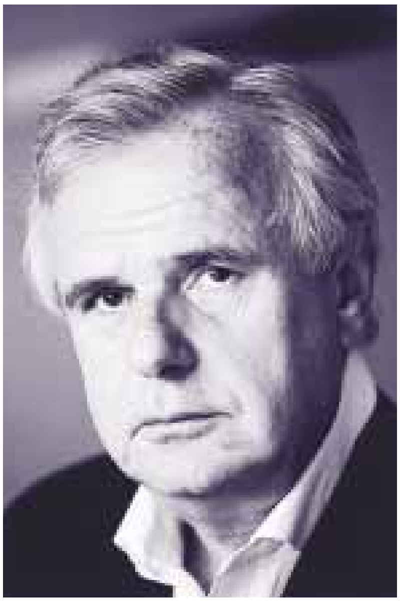


Group net assets. £m



Group net funds. £m

Chairman's statement



Paul Myners
Chairman

If there is a clear benefit from the difficult conditions which have prevailed at home and abroad during the last 18 months, it is the proof that best practice serves the best interests of consumers, shareholders and employees.

Despite what have been challenging trading conditions, we have, nevertheless, continued our policy of investing in quality and innovation throughout the organisation.

Turnover within the Group increased by 15 per cent to £526 million (including share of joint ventures and associates) and pre-tax profits rose from £9.8 million last year to £36.9 million.

Both the Guardian and the Observer enjoyed considerable editorial and financial success in a financial year marked by economic uncertainty and the continuation of a particularly bad UK advertising downturn. Our Regional Newspapers continued to be resilient, despite the prevailing slow economy. This overall performance was achieved against a backdrop of continuing global repercussions from the 2001 terrorist attacks in the US as well as the approach of the invasion of Iraq.

Our on-line businesses across the group have sustained their positions as pace setters, most notably Guardian Unlimited, the most popular newspaper site in the UK, with a reputation now appreciated internationally. Guardian Unlimited was the website of choice for millions of Americans during the Iraq conflict. Manchesteronline and our 12 newspaper websites saw a doubling of users during the year, with page impressions of over a million a week. Fish4, in which GMG has a 25 per cent interest, has also established itself as the UK's leading website for jobs.

We have continued to support the expansion of our Radio Division. During the year, we acquired the remaining issued share capital of jazz fm plc. Our Real Radio stations performed ahead of expectations.

Record growth at Trader Media Group, jointly owned with its management and venture capitalists, produced revenues in excess of £250 million, a ten per cent increase on the previous year.

Best practice – serving everyone's best interests

Last September marked the retirement of John Harris as a director of GMG. John was appointed Chairman and Chief Executive of Autotrader in 1987, having joined the company four years earlier. He joined the GMG Board in March of 1989 prior to the merger of Autotrader and Hurst Publishing in May 2000. The Board is grateful for John's distinguished service as an Independent Director of the Group. His help and advice in the three years since I became Chairman have been invaluable. The Board will miss him greatly although his continuing role within Trader Media Group means we have happily not lost his input entirely.

Climate change is not just a phenomenon which relates to the state of the world's weather. It is now a condition which is visible across global business and industry, affecting boardrooms, back – and front – offices, and workplaces of every type and size. It reveals flaws in suspect strategies, ruthlessly exposes management shortcomings, and puts a premium on honest clear-sightedness rather than expensive corporate claptrap.

Earlier this year, I said that there was a new distrust in the air in the world of business, fed by the antics of Wall Street analysts and investment bankers worldwide. The focus in Britain has moved to the corporate boardrooms, where executives who presided over job losses and share price falls have been accused of prospering while investors have lost money. The cause is not difficult to detect: insufficient corporate governance.

Highest standards – whatever the climate

Within this year's GMG annual report is a detailed statement confirming the Board's commitment to high standards. It sets out how the principles of good corporate governance are applied within the Group. It also explains how the Scott Trust chooses to ensure that only a minority of its members are executives within the Group, and describes the role of GMG's five independent directors, both within the Board as well as within the audit, remuneration and nominations committees. The statement confirms the Board's responsibilities in respect of the Group's system of internal control.

In addition to the positive business aspects of the Group's performance, there are other encouraging developments which are reported on in more detail by the Chief Executive. Following GMG's successful involvement in the 2002 Manchester Commonwealth Games, for which the Group received the Hollis Award for the most effective use of corporate sponsorship earlier this year, the Newsroom archive and visitor centre opened in Farringdon Road. This represents a major expansion of our wider role within the community, which is the subject of a dedicated section within this year's report.

One of the new internal initiatives started this year has been the launch of a social, environmental and ethical audit of all of the operations within Guardian Newspapers Limited. The purpose of the study is to ensure that the division is continuing to uphold the principles of the Scott Trust. Staff, suppliers and readers have been surveyed enabling an audit of the division's environmental performance to be carried out, alongside a review of personnel, health and safety policies. The Board will review this process to see if it should be extended to other divisions within the Group.

This is part of our overall approach, embracing the pursuit of the highest standards in everything we do and involving all our stakeholders. It is a clear policy underpinned by the principles of the Scott Trust. The Trust's determination to take the long view in an environment often beset by short-term distractions requires us to observe and maintain the highest professional standards, however, the prevailing climate may change. It is a requirement we accept without reservation.

I record my sincere thanks and appreciation to all of our staff throughout Guardian Media Group for another year of dedication and high professionalism, and for continuing to make this a unique organisation.

We do what we do for a simple, straightforward reason: to enable the Guardian and the Observer to operate at a level of journalistic excellence so that they can fulfil their first duty of serving the public interest. It is a responsibility that they fulfil with increasing success. The Observer, which this year celebrates 10 years under GMG ownership, is the star performer in the competitive Sunday market, while the Guardian, over the last two years, has reversed an industry-wide trend of long-term Monday/Friday sales decline.

The Iraq war proved to be extraordinarily dangerous for journalists. The Guardian – which at the height of the war had nine correspondents and photographers inside Iraq – organised a public conference at the end of the war for editors to discuss issues to do with the coverage of future conflicts.

Unique organisation of dedication and professionalism

Back in Westminster there was conflict of a different kind as the Select Committee on Culture, Media and Sport held an inquiry into the effectiveness of newspaper self-regulation over privacy and intrusion issues. The Guardian was invited to give written and oral evidence. The Guardian's model of self-regulation – involving Ian Mayes, the Readers' Editor – came in for close and positive attention and Ian also gave evidence. Separately, the Observer's editor, Roger Alton, joined Paul Horrocks, editor of the Manchester Evening News, as a member of the Press Complaints Commission.

The Guardian's Newsroom was also the venue for a unique gathering of five editors who united to call a one-day conference on issues of protection of sources after an abortive attempt to force them to hand over documents in the Interbrew case.

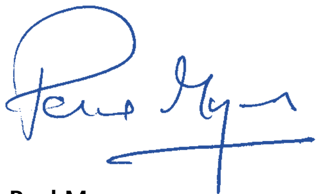
Abroad, the threat to journalists working in troubled parts of the world was underlined by the expulsion in May 2003 of Andrew Meldrum, the Guardian and Observer's correspondent in Zimbabwe. Andrew had successfully resisted attempts to suppress his reporting for well over a year, but he was finally deported in direct contravention of the courts.

In his introduction to the Guardian's remarkable 'quick response' book, "The War We Could Not Stop" – containing the work of every journalist who wrote about the Iraq conflict for the paper – the Editor, Alan Rusbridger, records Alastair Cooke's 1959 recollections of why he loved working for the Guardian:

> No staff members of a daily paper that I have heard of, on either side of the Atlantic, are so free from instructions, or the subtler menace of editorial 'guidance'

It worked then.

It works now.



Paul Myners
paul.myners@myners.com

Guardian Media Group plc Board of directors

From left to right:

John Bartle CBE +^
Independent
Aged 58. Joined the Board in 2002. He was previously co-founder and joint CEO of advertising agency BBH, co-founder of TBWA London and has worked for Cadbury Schweppes. He has a number of Non-Executive and advisory appointments in the communications and charity sectors.

Giles Coode-Adams OBE DL*^
Senior Independent Director
Aged 64. Joined the Board in 1999. He also chairs the Audit Committee of GMG. He was formerly a Managing Director and then senior advisor to Lehman Brothers and from 1991 to 1997 was Chief Executive of the Royal Botanic Garden, Kew, Foundation. He is a Non-Executive Director of Rathbone Brothers plc.

Elizabeth Forgan OBE+^
Independent
Aged 57. Joined the Board in 1998. She was formerly Director of Programmes at Channel 4 TV, Managing Director of BBC Network Radio, a Guardian journalist and a member of the Scott Trust. She is Chair of the Heritage Lottery Fund.

Alan Rusbridger
Editor, The Guardian
Aged 49. Joined the Board in 1999. Joined the Guardian as a reporter in 1979, became Deputy Editor in 1993, appointed to Guardian Newspapers Board in 1994 and became Editor in 1995. He is Executive Editor of the Observer.

Robert Phillis
Chief Executive,
Guardian Media Group plc
Aged 57. Joined the company in December 1997 from the BBC where he was Deputy Director-General. He was previously Chief Executive of ITN, Group Managing Director of Carlton Communications plc and Managing Director of Central Independent Television plc.

Philip Boardman
Company Secretary
Aged 46. Joined the company and appointed Secretary in 2001. Previously he was Group Financial Controller of Hickson International PLC and Fenner PLC.

Hugo Young+^
Chairman of the Scott Trust
Aged 64. Chairman of the Trust since 1989, he attends all meetings of the Guardian Media Group plc Board, ex officio, and is a member of the Remuneration and Nominations Committee. Joined the Guardian as a political columnist in 1984 from the Sunday Times where he had been Deputy Editor.

Andrew Karney*+^
Independent
Aged 61. Joined the Board in 1997. He is a Director of Baronsmead VCT 3 plc, Communicandum Limited and a number of technology companies. He was for many years an Executive Director of Logica plc and was a founder Director of Cable London plc.

Ian Ashcroft
Chief Executive,
Regional Newspaper Division.
Aged 57. Joined Manchester Evening News in 1972. Moved to Guardian Newspapers Limited where he became Deputy Managing Director. He was appointed to the Board in 1996. He is also Chairman of Fish4 Limited and a Director of IFRA.

Paul Myners*+^
Chairman
Aged 55. Joined the group in March 2000. He is Chairman of the Remuneration and Nominations Committees. He is also Chairman of Aspen Insurance plc and an independent director on the board of The Bank of New York Inc., Marks and Spencer Group plc and mmO2 plc. He is a member of the Financial Reporting Council and a Trustee of Tate and Glyndebourne.

Nicholas Castro
Group Finance Director
Aged 52. Joined the company and Board in 1998. He was previously Group Finance Director of Yorkshire Tyne Tees Television Holdings plc and a partner with KPMG in London.

Carolyn McCall
(not present in photograph)
Managing Director,
National Newspaper Division
Aged 41. Appointed to the Board in 2000. Appointed to Guardian Newspapers Board in 1995. She is a Non-Executive Director of New Look Group plc and a Trustee of Tools for Schools (a business/education initiative co-founded by the Guardian).

* Audit Committee
\+ Remuneration Committee
^ Nominations Committee

Guardian Media Group plc structure

GUARDIAN MEDIA GROUP

National Newspaper Division

- Publishers of The Guardian; The Observer; The Guardian Weekly; Guardian Europe and Money Observer.
- Electronic publishers of guardianunlimited.co.uk and learnpremium.co.uk (*55% owned) which provides learning resources for school students.

Regional Newspaper Division

- Publishers of the Manchester Evening News, Reading Evening Post and co-publishers with Associated Newspapers of Metro (Greater Manchester).
- Publishers of 41 weekly newspapers throughout Greater Manchester, Cheshire, Lancashire, Surrey, Berkshire and Hampshire.
- Electronic publishers of manchesteronline.co.uk and other sites relating to the weekly newspapers.
- Fish4 (25.1%) A company that provides electronic classified advertising services.

Radio Division

- Operates regional radio stations, under the Real Radio brand in South Wales; South and West Yorkshire and Central Scotland.
- Operates under the *JAZZFM* brand in London and the North West.
- Holds a 39.5% shareholding in 22 local radio stations via Radio Investments Limited.
- Holds a 24.3% shareholding in MXR, a holder of regional digital multiplex licences.
- Holds a 22% shareholding in Digital News Network, provider of news services.

Trader Media Group (48%)

- A magazine publishing and printing company.
- Titles include Auto Trader, Top Marques, Bike Trader, Truck Trader, Caravan Trader, Farmers Trader, Boats and Yachts, Buy a Boat, Auto Freeway, Ad Trader, TNT Magazine, SX Magazine and Classic American.
- Electronic publishers of autotrader.co.uk and adtrader.co.uk.
- Publishing subsidiaries in The Netherlands, Italy and South Africa.
- Printers include Apple Web Offset, Acorn Web Offset and Wiltshire.

Other Interests

- workthing.com (95.4%) A company that provides recruitment and advertising services by way of electronic media.
- PeopleBank (95.4%) A company that provides hosted and corporate recruitment sites and searchable CV databases.
- Trafford Park Printers (50%) Prints The Guardian, The Observer; Manchester Evening News, The Daily Telegraph and The Sunday Telegraph.
- Paper Purchase & Management (50%) Provider of newsprint and magazine paper to The Guardian, Manchester Evening News, Auto Trader, The Daily Telegraph and The Sunday Telegraph.
- Channel M (60%) A restricted service licence television station for Manchester.
- M&G Media (10%) Publisher of a leading South African newspaper, Mail & Guardian.

*On 29th May 2003, GMG acquired the remaining share capital in Guardian Education Interactive Limited which owns learnpremium.co.uk

Chief Executive's review of operations

Bob Phillis
Chief Executive

For the second successive year, GMG proved that tough times can bring out the best in an organisation.

This year's increases in turnover and pre-tax profits are the headline images that reflect a year of recovery across the Group, enabling continued investment in our main titles as well as increased support for the innovatory businesses that are now an integral part of GMG. All of this has been achieved whilst maintaining a strong balance sheet without recourse to any external borrowings. But our greatest satisfaction comes from the high professionalism of our people, driving the businesses forward despite pressure on costs and revenue and putting quality and originality into so much of what we do.

That characteristic runs across all of the Group's companies and has been repeatedly recognised by a remarkable number of industry awards. It is visible too in the extensive community initiatives to which so many GMG staff give so freely of their own time in order to help others.

National Newspapers

Despite the difficult economic climate, the Guardian and the Observer both enjoyed impressive circulation successes, with market shares now above 18 per cent and 16 per cent respectively. The Guardian, with an audited average circulation for the year of 402,000, increased its cover price to 55p on Monday to Fridays and £1.10 on a Saturday. The Observer cover price was also raised to £1.30 during the year. The Guardian achieved a 66 per cent share of the recruitment advertising market, the highest in its history, and display advertising for both titles exceeded demanding targets.

After the remarkable sales figures achieved in 2001 following the World Trade Centre attack, the Guardian faced tough year-on-year circulation comparisons. Looking back over the last two years, which provides a more meaningful analysis, Monday to Friday sales actually reversed an industry trend of long-term decline. The key Saturday market remains an area of sustained growth. The Guardian continued to sell 85 per cent of all of its sales at the full cover price, by far the highest percentage in the market.

Effective cost management ensured continued investment in the Guardian. In June of last year, the Saturday package was further enhanced by the launch of Review, a 40-page tabloid book and arts section which met with widespread acclaim. This Spring, a range of editorial changes were introduced. These included a new daily media business page – the first time that content from a newspaper website has migrated to the print product – and further strengthened the Guardian's unrivalled leadership in media coverage.

As the financial year ended, the Guardian announced the launch of Life, a new science supplement in association with Nature, the world's leading science journal. This partnership – another media first – will offer advertisers an opportunity to reach key audiences and provides the Guardian with new access to an important sector. Another development this year was the launch of Guardian Films, a television production company which will build on the journalistic research and values of the Guardian and the Observer.

Quality and originality shines through in tough year

It has been another year in which Guardian reporting set the agenda. Editorial specials included Saving Grace, a powerful investigation into access to medicines in developing countries; Big Brother, a survey of surveillance in Britain; and Public Voices, the third annual supplement featuring interviews with 125 public service sector workers. The Guardian itself made the headlines when it faced punitive legal action by Belgian brewer Interbrew, along with four other media organisations, following the alleged leak of a document. At one stage it faced sequestration of its assets, a threat eventually rescinded in the face of significant national and international press and political outrage. The Guardian immediately convened an industry conference to highlight the increasing restrictions faced by financial reporters.

There were many awards to celebrate during the year. The Guardian's David Lacey won Sports Reporter of the Year and Steve Bell was named the Cartoonist of the Year at the 2003 British Press Awards. Kath Viner was voted Newspaper Magazine Editor of the Year for the second year running by the British Society of Magazine Editors; Jonathan Freedland won the What the Papers Say Columnist of the Year award, and Simon Hoggart was named Humourist of the Year at the Channel 4 Political Awards. The Foreign Press Association voted Suzanne Goldenberg joint Journalist of the Year 2002, Oliver Burkeman was Young Journalist of the Year in the same awards, and Luke Harding won the Foreign Affairs Story of the Year.

Outstanding year for Observer

This year marks the 10th anniversary of the Observer becoming part of GMG, five years of which have been under the editorship of Roger Alton. The paper has enjoyed an outstanding 12 months. Its audited average circulation of 462,000 was up 3,000 year-on-year and represented a rise of 25,000 on the previous two years. Like the Guardian, it sells the highest proportion of full price sales (86 per cent) in its market.

In April 2002, Life Magazine was transformed into the Observer Magazine (OM), with a new size, format, increased editorial features and more coverage of fashion, design and lifestyle. The Observer Sports Monthly (OSM) and Observer Food Monthly (OFM) magazines continued to be the envy of the industry, popular with advertisers and readers, and were supplemented in January 2003 by a seasonal Observer Travel Magazine (OTM). “Uncovered” editorial specials focusing on drugs and sex were also published.

Once again, the Observer won recognition in leading industry awards. At the 2003 British Press Awards, Sean O’Hagan was named the Interviewer of the Year; Andrew Rawnsley was voted Journalist of the Year at the Channel 4 Political Awards, and OSM won Best Newspaper Sports Supplement at the 2002 Sports Industry Awards.

The year also saw the opening in Farringdon Road of the purpose-built Newsroom archive and visitor centre, housing an archive in which the histories of the Guardian and the Observer are made available to the public. A cutting-edge education facility for schools and a venue for exhibitions, lectures and debates are also part of the centre.

Following the purchase last year of the freehold of its main office at 119 Farringdon Road, the Guardian consolidated its presence in the area, by leasing additional office space in nearby Herbal Hill.

New Media

This has been the most successful year to date for Guardian Unlimited (GU). A commitment to excellence in content, robust technology and commercial innovation helped ensure a dramatic increase in traffic and users over the period, as well as a 37 per cent rise in revenues. In February 2003, GU served 83.5 million page impressions, a year-on-year rise of 63 per cent, to more than seven million unique users – an increase of one million. The war in Iraq drove more users to GU’s door and in March over five million page impressions were served in a single day, more than double the traffic for the September 11 attack. Thanks to this growth, GU remains the most popular newspaper site in the UK. According to Neilsen NetRatings, its UK reach is nearly twice that of its nearest competitor. In the United States, GU is also the most popular British newspaper site on the net. Something C P Scott could never have imagined!

GU – most popular UK newspaper site on the net

The substantial growth in GU’s revenues embraces a number of distinct success stories. Over the last two years, in a tough recruitment market, it has managed to grow its online recruitment revenues by more than 40 per cent. Display advertising revenues, up 40 per cent year on year, were 28 per cent higher than two years ago, when the greatest benefits from the dotcom boom were available. Independent monitoring showed that GU carried more online ad campaigns than any other newspaper site. This success has partly been driven by a significant investment in commercial innovation, which remains an important part of the Group’s overall policy.

Learnthings Limited has matured significantly as a business, pursuing two clear revenue streams. The first is the sale of learnpremium licences to schools and local education authorities. With the launch of the Government’s e-learning credits, more than 1,000 schools have signed up and prospects for the coming year are strong. A version of learnpremium for Cambridge International Examinations (learnCIE) is under trial in around 700 schools worldwide and is expected to produce significant revenues for the business in the coming year. The other revenue stream is content build and consultancy for public and private sector clients. Among a number of substantial contracts, learnthings now produces all learning material for the National Grid for Learning Cymru, and is developing a complete version of its content for Learning Channel in South Africa.

2002/03 was a year of growth for Workthing, which provides web-enabled solutions that manage the resourcing process from establishing an employer brand online to attracting the right candidates, managing them through the hiring process and beyond. Workthing’s solutions help clients reduce time and costs while improving the quality of hirings. The growth came through a focus on medium-to-large corporates and a significant increase in site visitors and applications to vacancies, though not at the expense of Workthing's quality candidate profile. The Professional Recruiters 2003 Award for E-recruitment Excellence was one of a number of industry awards. Progress was also made on the technology side, where the PeopleBank team extended their corporate career site services at existing clients such as Tesco and won a number of new major clients including Compass, Sodexho, Peugeot and Signet.

Manchesteronline and our 12 newspaper websites doubled users and achieved weekly page impressions of more than one million. Fish4, in which we have a 25 per cent stake, is now the UK's leading jobs website.

Regional Newspapers

While recovery in the economy, the stock market and media fell short of the advertising industry's expectations, regional newspapers continued to be resilient. Manchester Evening News (MEN) was awarded "best" sales increase for an "evening" newspaper with a circulation over 80,000 before evening, in March 2003 at the Newspaper Society's Newspaper Sales and Promotion Awards. The growth in actively purchased circulation is a reflection not only of an excellent sales drive, but also of the editorial quality of the paper.

MEN was a beneficiary of GMG's role as a major sponsor of the Manchester Commonwealth Games as well as from its own role as sponsor of the Games marathon. MEN published the official Games daily newspaper and the Group's weeklies also participated fully in the event.

Like our titles in Reading and Surrey, MEN has followed the industry trend of concentrating on full-price sales at the expense of bulk sales and promotional copies. All three businesses showed "actively-purchased" sales gains within falls of the total circulation. Our northern weeklies continued their trend of circulation growth. Surrey & Berkshire were more affected than our northern titles by the downturn in job advertising, with many of the lead dotcom and telecom companies at the heart of the stock market decline in their area. The previous year's £11 million investment in an all-colour press proved timely and the jobs shortfall was offset, to an extent, by an excellent year in property and motor advertising.

GMG Radio

The year under review produced impressive growth in the division with our analogue stations reaching more than 1 in 20 of the population, listening for over 22 million hours a week. Revenue and audience levels rose above the average performance within the industry.

Our three Real Radio stations in Scotland, Wales and Yorkshire continued to perform above expectations. Real Wales now reaches 26 per cent of its population and is contributing significant profits. Real Scotland now records more than twice the listening hours since our acquisition of its predecessor station, Scot FM, and has exceeded its budgeted financial performance. Real Radio Yorkshire has recently completed its first year of operation with 384,000 listeners and growing revenue streams.

Radio – impressive growth

The Group's acquisition of jazz fm plc has been the main focus of our radio management team. Many new programmes and strands have been introduced after substantial research. Audience levels are climbing and RAJAR research at the end of Quarter 1 2003 shows that almost 1.4 million adults are tuned in every week across the UK. GMG has invested in new broadcast and office facilities for both Jazz stations, aimed at enabling the business to achieve further growth.

JAZZFM Enterprises continues to deliver strong results. The Enterprise Division within *JAZZFM* is responsible for the distribution and sale of recordings under the Hed Kandi and *JAZZFM* labels and for organising events. Hed Kandi continues to show promise with increased record sales both in the UK and abroad, while *JAZZFM* records is working closely with the station programming team to match releases in line with the output in the coming year. In addition to continuing with former jazz contracts, the events team is working closely with the Real Radio stations to produce live shows for audiences in their particular transmission areas.

GMG has a 39.5 per cent shareholding in Radio Investments Limited, which gives the Group an interest in 22 local radio stations across the UK. Possible deregulation in the radio industry may provide opportunities for further expansion.

Together with our partners in MXR Holding Limited, GMG were successful in an application for the regional digital licence for Yorkshire. Subsequently we have consolidated our digital radio interests and disposed of our shareholding in Oneword Radio in return for a shareholding in UBC Media Group plc.

Testing year has proved the value of our corporate plan

Trader Media

I reported last year that Trader Media Group (TMG) had made major progress since the merger of GMG's Auto Trader Division with Hurst Publishing. This year has seen further growth and enhanced performance across all of its operations. At the core of the business, which now employs 4,000 people in 40 locations, is Auto Trader, the UK's leading motoring magazine, with a weekly circulation of more than 340,000. Readership has grown by more than 20 per cent year-on-year. The website, autotrader.co.uk, is also the UK's busiest automotive site with over 123 million monthly page impressions, representing a 75 per cent growth since last year.

The success in both print and new media is a clear measure of Auto Trader's market leadership, brand strength and its pre-eminence in all of the key channels to market. The Auto Trader interactive offer is now live on Sky as well as via mobile phones.

TMG also produces other widely recognised automotive classified magazines with associated websites including Top Marques, Bike Trader, Truck Trader, Motorhome and Caravan Trader, Auto Freeway and Classic American. Other classified magazines include Ad Trader, TNT, Southern Cross and Boats & Yachts for Sale, which combine to produce a circulation of over 1 million copies every issue and deliver even greater consumer reach when web traffic is included. The overseas divisions in South Africa, the Netherlands and Italy have also seen significant growth in the year.

Progress in circulation, web traffic and brand strength have translated into record-breaking business performance in the year ended March 2003. Strong circulation has supported cover price increases, and advertising yields have continued to improve, with all magazines produced in full colour and with the majority now perfect bound. The success of the websites has attracted new clients, the dealer groups and the major motoring brands, and enabled the UK New Media Division to move into profitability.

TMG is well placed to extend its market leadership and growth through 2004 and beyond.

Group outlook

I have commented before on the benefits of our unique ownership structure, which, through the unfailing support of the Scott Trust, has enabled us to increase investment in the Guardian and the Observer and to back innovation and the delivery of high quality products across the organisation. The Group's performance during another testing year has proved the value of our corporate plan to develop and grow a diversified media business with a balanced portfolio that will ensure the long-term profitability of GMG. It is this that secures the editorial and financial independence of our national newspapers and enables us to enhance our main publications, extend the reach of our digital publishing capacity, and broaden the base of our wide range of media activities.

Year of progress – now year of real potential

The Government's Communications Bill, which embodies lighter touch regulation within the radio and television industries, is expected to pass into law in the second half of this year. We are in a strong position to take advantage of any opportunities for growth within the operating divisions or through additions to the portfolio, which will add value to our corporate plan.

The year under review has been another one of progress for GMG and the year ahead offers substantial potential. We approach it in positive mood, not only because of the support of the Scott Trust, but because of the unstinting commitment to what we seek to achieve on a daily basis, which is shown by staff throughout the organisation.

Bob Phillis
bob.phillis@gmgplc.co.uk

The Scott Trust

Hugo Young
Chairman, The Scott Trust

The Scott Trust, 100 per cent owner of Guardian Media Group, is a strange hybrid among substantial British businesses. Two business cultures do not always coexist successfully, but the Trust and GMG show that it can be done to the advantage of owners, employees, large company objectives and the wider public interest.

All the businesses within GMG are run on commercial principles, the Guardian and the Observer no less than Trader Media Group and our many regional titles and burgeoning radio stations. All exist and flourish in highly competitive markets, which means they share a philosophy of intense competitive zeal. The board of GMG brings together executives from the national newspapers and the other businesses in an environment where this philosophy plays out across the company.

But the Trust, as an overseeing owner, adds an extra dimension, bequeathed to it by its founders in 1936, whose sole objective was to preserve the then Manchester Guardian. The paper, in the private ownership of the Scott family, was threatened by accumulated death duties. By surrendering ownership and forming the Trust, the family forestalled that mortal danger, and constructed a device that shielded the paper from takeover by unwanted predators. Future trustees were instructed only that the business and newspapers should be "carried on as nearly as may be upon the same principles as they have heretofore been conducted".

This the Trust has done, even as the business has grown a hundredfold, turning over £526 million (including share of joint ventures and associates) in the current year. Alongside an intense commercialism runs a protective regard for our national newspapers that requires them to follow, for their own good and to fulfil the Trust's obligations, a broader remit than that of simple profit. They are profit-seeking, without in every year having to be profit-making. The Guardian and the Observer need nurturing through hard times, as well as being encouraged to expand and prosper when times are easier. The ownership structure of the business, as long as it is run by people who understand it, allows this to happen with the right mix of challenge and support. At present, I am happy to say, there is no executive in GMG who does not fully absorb the truth that the company exists, in the end, to support the Guardian and the Observer. Indeed, they seem to rejoice in it.

The Trust's role in this is supervisory. It does not manage anything, yet does more than silently listen and occasionally warn. A mixed team of GMG insiders and independent outsiders, it holds management to account and is consulted about major investments. It was able to support such important additions to Guardian activities as the archive and teaching centre, The Newsroom, something no other paper would be able to contemplate in these harsh and panicky times. Likewise, it has supported GNL's adventurous drive into the Internet, where the Guardian is the leading British newspaper site. Not only two cultures, but the future as well as the past.

The Trustees are the final interpreters of the famously terse instruction that the business should be run "as heretofore". We will continue to be stewards of an idea of ownership, and a faith in high-class journalism, that runs right through the company.

Hugo Young
hugo.young@guardian.co.uk

The Scott Trustees

Hugo Young (Chairman)
Aged 64. Member and Chairman of the Trust since 1989. Joined the Guardian as a political columnist in 1984, from the Sunday Times where he had been Deputy Editor.

Larry Elliott
Aged 47. Joined the Trust in 2002. He joined the Guardian as an industrial reporter from the Press Association in 1988. He became economics correspondent in 1989 and economics editor in 1995.

Anne Lapping
Aged 61. Joined the Trust in 1994. She is a Director of Brook Lapping Productions Limited and Deputy Chair of an NHS Trust. She was formerly on the board of Channel Four Television Company Limited and a writer on the Economist.

Paul Myners
Aged 55. Joined the Trust and Group in March 2000. He is also Chairman of Aspen Insurance plc and an independent director on the board of The Bank of New York Inc., Marks and Spencer Group plc and mmO2 plc. He is a member of the Financial Reporting Council and a Trustee of Tate and Glyndebourne.

Geraldine Proudler
Aged 46. Joined the Trust in 2002. She is a solicitor specialising in media law. Partner at law firm Olswang. She headed the teams acting for the Guardian in its successful defences of libel actions brought by cabinet minister Jonathan Aitken and Neil Hamilton MP.

Robert Phillis
Aged 57. Joined the Trust and Company in December 1997 from the BBC where he was Deputy Director-General. He was previously Chief Executive of ITN, Group Managing Director of Carlton Communications plc and Managing Director of Central Independent Television plc.

Peter Preston
Aged 65. Joined the Trust in 1979. He was Editor of the Guardian from 1975 to 1995 and afterwards became Editor in Chief of the Guardian and the Observer, before retiring in 1998. He is a Co-Director of the Guardian Foundation, Chairman of the British Executive of the International Press Institute and a Governor of the British Association for Central and Eastern Europe.

Alan Rusbridger
Aged 49. Joined the Trust in 1997 and the Board in 1999. Joined the Guardian as a reporter in 1979, became Deputy Editor in 1993, appointed to Guardian Newspapers Board in 1994 and became Editor in 1995. He is Executive Editor of the Observer.

Jonathan Scott
Aged 55. Joined the Trust in 1988. He is currently a Director of KPMG Corporate Finance where he has been for 5 years and he was previously a Director of SBC Warburg.

Martin Scott
Aged 61. Joined the Trust in 1988. He worked for the Company in Manchester from 1965 to 1978. He is a speaker and consultant at Ashridge and other business schools.

Helping communities in need – from Manchester to Africa

It would be reasonable to imagine that the spectacular closing ceremony of the 2002 Manchester Commonwealth Games, watched by nearly 10 million viewers in the UK, with a global television audience of over 1 billion, marked the conclusion of GMG's major community exercise, based on the event and planned over the previous two years.

But after the athletes and the TV cameras had gone, the Group's range of community initiatives entered a new phase which continues today.

The East Manchester regeneration programme is now helping to tackle problems such as unemployment, social exclusion, crime and urban decay, by producing 6,000 new jobs and £600 million of new investment. A GMG/Business in the Community seminar attended by the Minister for Competitiveness, Stephen Timms, identified the kind of partnership which operated during the Games as a model for future community initiatives. The New Deal for Communities, together with SureStart and the East Manchester Education Action Zone, is already providing major benefits. The showpiece location of the Games – the City of Manchester Stadium – will now provide a range of facilities for the local community as well as being the new home of Manchester City Football Club. The city's Velodrome and the Aquatic Centre – the backdrops for so many sporting dramas during the Games – will provide a lasting legacy with top-class facilities for Manchester's young people.

GMG had decided at the outset that its role as Official Media Sponsor of the Games would enable it to demonstrate its commitment to the community and the value of the Scott Trust's principles, which are at the core of the Group's activities. Support for education and schools, for example, was demonstrated alongside the launch of citizenship within the National Curriculum. Through the Observer, Learnthings Limited, and the Manchester Evening News, students in more than 6,000 UK secondary schools were asked for their views on what it meant to be a British citizen in 21st Century multi-cultural Britain. The winning entries, which included masks, essays and a mural from pupils with special needs, were displayed at our open-air gallery at Sportscity. Together with Youth Charter for Sports, Culture and the Arts and the Greater Manchester Weekly Newspaper Group (GMWM), a challenge was issued to young people in the area to play a part in improving their own communities. More than 250 applied through GMWN's 20 local titles to take part in a trip to South Africa. After a rigorous selection process, 15 were selected to go on a 10-day Spirit of the Streets tour, involving visits to an aids clinic, a youth prison, an apartheid museum and the Soweto township. In addition, reporters from GMG's Manchester-based titles, working in partnership with Liverpool Community College, are training several young people in journalism as part of the Games legacy programme.

Young people from the Manchester area visiting an apartheid museum during the South African Spirit of the Streets tour.

Another lasting benefit flows from the partnership between GMG and the New East Manchester (NEM) project. One of the major difficulties in the area was a lack of a credible communication tool to publicise plans and developments and to form a relationship with residents. GMWN and NEM developed a unique public/private publishing initiative that has enabled a new weekly newspaper – the North East Manchester Advertiser – to be produced for more than 70,000 residents in the area.

Pupils from Coombe Girls School taking part in a workshop session at The Newsroom Education Centre.

In London, The Newsroom, the new visitor and education centre opposite the Guardian and the Observer offices in Farringdon Road, is already booked several months in advance. In the ten months to April 2003, its two full-time education officers held over 200 sessions involving more than 5,000 people. Activities included schoolroom workshops; higher education visits from across the UK and other parts of Europe, as well as the USA; family days; teacher training and adult learning. All educational sessions are free of charge. Students have access to the latest technology, including a specially-devised publishing system, interactive whiteboard, digital camera and scanners to help them engage and interact with the news and archives to create their own front pages.

Guardian Newspapers Limited (GNL) continued to build on its range of successful community initiatives, especially in the field of education. Around 10 per cent of the 1,200 staff have been involved in one of the many volunteering initiatives at three local schools.

At the Elizabeth Garrett Anderson girls secondary school, the creation of a £35,000 global garden at the concrete-dominated site and the completion of a high-tech £1.9 million language and learning centre have been the main visible dividends. Not only did the company provide the school with an initial £50,000 seedcorn funding, but executive editor Jo Confino chaired the strategy group in charge of building the language centre.

It also secured support from Saatchi & Saatchi to brand the new centre. GMG Chief Executive Bob Phillis hosted a fact-finding trip to the school by senior executives from a number of major firms at the request of Business in the Community. The visit inspired many of those present to further develop existing projects. At the Richard Cloudesley special needs school in London's Barbican, a partnership has also been formed with the City University to work with pupils designing and building a robot to compete in the BBC's Technogames series. Both it and the Hugh Myddleton primary school receive help from staff with key specialist knowledge, from assistance with reading programmes through to photographic and cartoon projects. As part of its commitment to diversity, the Guardian organised a summer of positive action when around a dozen aspiring journalists from ethnic minorities took part in a two-week work experience programme. A total of 297 employees have signed up to the Give As You Earn scheme, donating to over 150 different charities, which with GNL's support, will benefit by £62,486 annually. The Guardian/The Observer/Guardian Unlimited Xmas Appeal raised more than £800,000 from readers, including gift aid, for WaterAid as well as Fairbridge, a charity which works with 13 to 25-year-olds in many of the UK's most deprived inner cities. The Appeal looks for causes – one international, one national – that have been in the news and in the public eye. WaterAid was chosen because water had become a global issue, while Fairbridge connected with the national debate about teenage offenders, poverty and children excluded from school.

Cartoonist Steve Bell at The Newsroom for The Big Draw, a campaign to get people drawing.

The Guardian Foundation has continued to develop its work in supporting the creation of successful and editorially independent newspapers in the Guardian tradition, both in Eastern Europe and, more recently, in Africa. During the

Living up to Scott – new audit checks how well we do it

year it also worked in Macedonia for the first time. The Foundation brings together journalists at a relatively senior level to share experiences through seminars and work placements in the UK and abroad. It also provides expertise in commercial as well as editorial production. The Foundation has a grant-making capacity for use in training and in the broader areas of Press freedom and during the year helped set up the first Bulgarian national investigative journalism prizes, enabling the two winners to visit Britain and spend time working with the Guardian, the Observer and Manchester Evening News. The former Guardian editor, Peter Preston, travelled across Eastern Europe and Africa, delivering lectures and chairing seminars on topics such as political reporting and press freedoms. Separately, the Scott Trust spent £56,000 supporting the development of talented journalists in this country, providing bursaries for six aspiring writers to study journalism at the City University, London, and Sheffield University.

The Manchester Evening News (MEN) has put substantial resources into supporting young people. As well as sponsoring the Greater Manchester Youth Games, bringing together children from some of the city's most deprived boroughs for a two-day sports festival, it also launched a fund-raising scheme with local schools to send educational resources to Iraq. A fund-raising scheme linked with Disney On Ice, at which £1 for every ticket purchased by readers added up to £10,000 for the Francis House Hospice for terminally ill children, is among many MEN initiatives in the local community. The editor, Paul Horrocks, is vice chancellor of the Community Foundation, which campaigns on local issues.

The Stockport Express invited members of the Council for Voluntary Services into its offices to produce a supplement on volunteer activities under the guidance of editorial staff. Journalists are also supporting Pure Radio, a new non-commercial radio station set up as an employment training initiative for people with learning disabilities, by presenting regular news items taken from the paper. More than £300,000 has been raised for the Macmillan Cancer Unit Appeal and a fund-raising campaign was mounted to re-open beds in Cheshire Hospice. The Tameside Advertiser continues to develop its links with Willow Wood Hospice, regularly featuring a full page of information on fund-raising ideas and events. In the Surrey and Berkshire division, the Reading Evening Post has formed a successful partnership with Thamesbridge College, providing publicity, marketing consultancy and financial leverage. Editor Andy Murrill is now one of the school's governors. Reporters from the Woking News and Mail have also been sharing their expertise by giving media talks to local schools and voluntary organisations.

Real Radio has helped hundreds of charities and local projects with publicity through Real Action, a free daily broadcast for community and charitable organisations in Yorkshire, Wales and Scotland. The 'Bring a Pound to Work Day' was publicised across the stations in partnership with local businesses and raised almost £100,000 for local charities, including the Noah's Ark Appeal to build the first children's hospital in Wales. Real Radio staff went out into the workplaces to collect cash that listeners had taken into work. Staff also joined forces with the Prince's Trust to raise money for projects for young people from deprived areas in South Wales. In partnership with local colleges, Real Radio in Yorkshire is sponsoring a one-year media course to train journalists, while in Scotland work experience placements have been provided through the Youth Employment project.

Apple Web Offset continues to support the Children's Adventure Farm Trust, following its work with the project last year which enabled more than 100 disadvantaged children to attend the Commonwealth Games. A charity account has been set up, funded by a hundred Apple Web employees who each contribute £4 a month to selected charities. The first £3,000 was used to sponsor a week for one group at the adventure farm.

Internationally, South African Auto Trader commits resources to helping children with AIDS. Since 2000 it has supported the Lambano Baby Sanctuary in Johannesburg, which seeks to provide a home environment for babies and children who are HIV-positive. In the UK, Auto Trader encourages both staff payroll donations and individual fund-raising by matching all contributions to the South African project. Staff have volunteered to visit the sanctuary and decorate parts of it, as well as giving moral support. Auto Trader also runs Living with AIDS workshops as part of their staff education initiative. To encourage people from disadvantaged backgrounds into work, Auto Trader's Learnership project, set up in 2002, provides training facilities to students in business studies, graphic design, art and DTP. A year's formal employment is offered to two students each year.

Proving that it is even possible to link recycling with good causes, Workthing runs a project to raise money from old toner cartridges for staff-nominated charities. Staff also plan to take part in the Jeans for Genes day later this year, supporting a range of medical charities.

The Scott Trust's principles are as evident within the Group's social responsibility programmes as they are within any other part of GMG's activities. They embrace not only the community, but customers, suppliers and our staff. One of the major new projects begun this year has been the launch of a social, environmental and ethical audit of all of the operations within Guardian Newspapers Limited, to establish how well the company lives up to the Trust's principles. Staff, suppliers, and readers of the Guardian have been surveyed. An independently-audited report is being presented to the GNL board and the process will be repeated on an annual basis. Consideration will be given to extending this exercise to other divisions within the Group as a further demonstration of GMG's long-term commitment to the community at large, as well as to those who have a very direct relationship with us.

Financial review

Turnover
Group turnover (including share of joint ventures and associates) for the year of £526.0 million increased by 15.2% on last year. Advertising revenue (excluding share of joint ventures and associates) increased by 4.1% to £254.9 million. Circulation revenue (excluding share of joint ventures and associates) increased by 6.2% to £81.7 million.

Profits
The Group achieved a profit before taxation of £36.9 million (2002 £9.8 million). This result includes income from investments and net interest receivable which totalled £7.2 million (2002 £6.9 million).

Underlying these results is a significant charge to the profit and loss account of £20.3 million (2002 £33.7 million) in further development of the Group's new media operations, including internet and digital archive activities. In addition the Group has charged £8.8 million (2002 £4.7 million) to the profit and loss account in respect of the amortisation of goodwill, £3.0 million (2002 £2.3 million) of which relates to subsidiaries, with the remainder relating to joint ventures and associated companies.

The Group has for the first time included an analysis of its results by segment of the business, in note 3 to the accounts. This shows turnover, operating profit stated before amortisation, profit on ordinary activities before interest and taxation, and operating assets for both the current and preceding year.

The Group achieved a net profit of £0.2 million (2002 £2.9 million) on the sale/closure of operations.

Taxation
The Group taxation charge of £13.3 million (2002 £3.9 million) represents a 36% charge on Group profits. This results primarily from the significant charge for amortisation in these accounts, as explained above, which is not allowed as a charge for tax purposes, offset by adjustments to the taxation charge in respect of earlier periods.

Cash flow
The Group consumed £3.1 million of cash in the year (2002 £28.5 million). Net cash outflow from continuing operating activities amounted to £4.2 million (2002 £6.0 million). Cash inflows include net interest and dividends of £22.5 million (2002 £21.6 million). Cash outflows comprised mainly net expenditure on acquisitions less disposals of £14.5 million (2002 £13.1 million), tax of £1.3 million (2002 £14.8 million), and net capital expenditure of £5.7 million (2002 £17.5 million).

Balance sheet
As at 30th March 2003, the Group had net assets of £356.7 million, an increase of £23.9 million on last year. Working capital showed a net increase of £2.6 million.

The Group continues to be in a strong financial position, with net funds of £161.4 million, a decrease of £2.9 million over the previous year.

Treasury Policy
The Group maintains a centralised treasury function whose core functions are to minimise financial risk, whilst maximising returns on cash deposits.

Deposits of funds are made with banks and financial institutions approved by the Board and within set credit limits. Variable rates of return are earned on these deposits.

The Group has limited foreign currency exposure on the translation of overseas operations results and net assets into Sterling and from trading transactions in foreign currencies. Currency exposures are only hedged when there are known material cashflows.

During the year the only financial derivatives used by the Group have been forward foreign exchange contracts.

Events
The significant events in the financial year ended 30th March 2003 occurred in the Radio Division. In July 2002, we acquired the remaining share capital of jazz fm plc for £39.0 million. We previously held 18.4% of the equity of jazz fm plc. Management has been strengthened in the three main areas of the jazz business – the London licence, the North West licence and the Enterprise business – and an application for a further licence, in the West Midlands, has now been lodged.

At the same time we re-shaped our portfolio of digital licences to align them more closely with our analogue licences, focused around the Real and jazz brands. This entailed the disposal of our one third stake in Oneword Radio and the relinquishing of our city digital licences.

In August 2002 we sold our investment in Artsworld. We had fully provided against this investment in the accounts to March 2002. We disposed of our shareholding in M & G Media Investment Limited.

We increased our holding in Fish4 Limited to 25.1% from 21.6% in 2002. During the year we invested a further £2.1 million in Fish4 Limited.

Finally, on 29th May 2003 we acquired all the shares we did not previously own in Guardian Education Interactive Limited, the holding company for our education business, learnpremium.co.uk. The acquisition of the 45% stake was completed at a cost of £0.4 million.

Nick Castro

Corporate governance

The Board is committed to high standards of corporate governance and believes that it is in the interest of all its stakeholders to detail how the principles of corporate governance are applied within the Group.

The Board

The Guardian Media Group Board comprises five executive directors and five independent directors. The Board is headed by an independent Chairman whose role is distinct and separate from that of the Chief Executive. J G S Coode-Adams is the senior independent director.

The biographical details of all the directors and the Company Secretary set out on page 4, outline the directors' wide range of business experience.

All directors are subject to election by the Scott Trustees at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than three years.

The directors met as a Board 10 times in the last financial year to receive, review and determine upon information relating to all of the Group's activities. Specific matters reserved for Board consideration include monitoring of Group strategy, reviewing trading performance and approval of significant capital expenditure, acquisitions and disposals. The Board is provided with timely and appropriate information prior to each Board or Committee of the Board covering the items included on the agenda for such meetings. The Chairman of the Scott Trust attends all Board meetings and is a member of the Remuneration and Nominations Committees.

Directors receive appropriate briefings on the Group and its activities and follow a tailored induction programme when they are appointed to the Board. They are encouraged to visit the Group's operations and meet local management.

All directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. A procedure exists for directors to take independent professional advice, at the Group's expense, if necessary in the furtherance of their duties.

The Scott Trust

The Scott Trust, which is self-perpetuating, chooses to ensure that only a minority of its members are executives within the Group. At present two trustees, R W Phillis and A Rusbridger, fall into that category, while P Myners is independent chairman of the Group.

One place on the Scott Trust is reserved for a Guardian journalist, at present L Elliott, who is chosen by the other Trustees in consultation with the body of Guardian journalists.

The journalist-trustee serves for seven years. The normal tenure of other trustees, except those in executive positions, is limited to ten years, with the possibility of extension for another five years by unanimous vote of the Trust.

Committees

The Board has a number of Committees consisting of independent directors and with executive directors and senior executives in attendance. Composition of the Committees and frequency of meetings is set out in the table below:

Director	Audit Committee	Remuneration Committee	Nominations Committee
P Myners	Member	Chairman	Chairman
J Bartle		Member	Member
J G S Coode-Adams	Chairman		Member
E A L Forgan		Member	Member
A L Karney	Member	Member	Member
Frequency of meeting per financial year	At least 2	4	As and when necessary

Details of the purpose of the Committees, which all have written terms of reference are set out below.

Audit Committee
The Audit Committee, which consists of three independent directors, is chaired by J G S Coode-Adams. The Chief Executive, Group Finance Director, Company Secretary, and senior representatives of the external auditors normally attend the Committee's meetings. At least once a year the Committee meets with the external auditors without executive members of the Board present.

The Committee recommends the appointment of the external auditors and agrees their scope of work and fees prior to the commencement of the annual audit. The Committee considers issues arising from the external audit and reviews the annual financial statements and written reports from the external auditors; it monitors internal financial control procedures and reviews the operation and output of the internal audit function.

The Committee's proceedings are minuted by the Company Secretary and formally reported to the Board.

Remuneration Committee
The Remuneration Committee is chaired by P Myners, and consists of four independent directors and H Young, Chairman of the Scott Trust. On matters other than those concerning themselves, the Chief Executive and Group Personnel Adviser normally attend the Committee's meetings.

The Committee is responsible to the Board for determining the remuneration packages of the executive directors and other senior executives and advises on executive remuneration policy issues. The Committee has access to professional advice where necessary.

The Committee's proceedings are minuted by the Group Personnel Adviser.

Details of Board remuneration are set out on page 21.

Nominations Committee
Chaired by P Myners, it deals with the selection and makes recommendations to the Board on the appointment of Board members, where necessary using the benefit, advice and assistance of external search consultants. The Committee consists of five independent directors and H Young, Chairman of the Scott Trust.

Executive directors attend by invitation.

Scott Trust approval is required for the appointment of the Chairman of the Board and editors of the Guardian, the Observer and the Manchester Evening News.

The Committee's proceedings are minuted by the Group Personnel Adviser.

Directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30th March 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking responsible steps for the prevention of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern
After reviewing the Group's cash balances and projected cash flows the directors believe that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal Control
The Board is responsible for the Group's system of internal control. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control during the year.

The key features of the internal control system are:

- a clear organisation structure with defined levels of delegated responsibility to operational management;

- maintenance of risk registers at both operational and Group level which identify and evaluate risks and document control procedures and monitoring arrangements. Regular review and update of risk registers is embedded in operational reporting procedures;

- certain key Group functions including taxation, treasury and insurance are handled centrally with regular reports to the Board through the Group Finance Director. The treasury function operates within Board approved defined limits;

- a structured process for approval of capital projects which includes appropriate authorisation levels. Post capital expenditure reviews are undertaken by internal audit with reports provided to the Audit Committee and Board;

- all significant acquisitions or investments are subject to detailed internal appraisal involving both Group and operating personnel, and due diligence procedures, prior to being presented to the Board for approval. Post-acquisition reviews are undertaken;

- comprehensive business planning procedures which include a rigorous annual budget process, culminating in the budget for the year ahead and plans for subsequent years, being approved by the Board. Six-quarter rolling forecasts are updated quarterly and presented to the Board for review and comment;

- monthly management accounts which report on trading performance by operation against budget and previous year, including relevant key performance indicators and latest year-end forecasts are provided to local and divisional management and the Board;

- reports by the internal audit department to the Audit Committee on a rolling programme of financial assurance work;

- regular review of business operations throughout the Group by operating and executive management.

Throughout the year under review and up to the date of approval of this report, the Board has operated procedures at all major trading subsidiaries, but excluding joint ventures and associates, which meet the requirements of the Combined Code relating to internal control as set out in 'Internal Control Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England & Wales.

Report of the directors

The Directors present their report and the audited financial statements of the Group for the year ended 30th March 2003.

Activities and review of the business
The principal activity of the Group is the dissemination of news, information and advertising matter by way of print and other media.

The Group results for the period are set out in the Group profit and loss account on page 24. A review of the Group's performance and future prospects is contained in the Chairman's statement on pages 2 and 3 and the Chief executive's review of operations on pages 6 to 9. The company has paid a preference dividend of 4.0p (2002 4.0p) per share amounting to £4,000 (2002 £4,000). The Directors do not recommend payment of any dividend on the ordinary shares.

Employee involvement
There is regular contact between management and employees' representatives so as to ensure that employees are provided with information on matters of concern to them as employees and are aware of the financial and economic factors affecting the performance of the Group and so that their views can be taken into account in making decisions which are likely to affect their interests.

Employment of disabled persons
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Creditor payment policy
The Group has implemented systems to ensure the prompt recognition of all identifiable liabilities to creditors and payments are made to these creditors in line with the CBI's Prompt Payers Code. The creditor days figure for the company for the year was 26 days (2002 25 days).

Donations
Charitable donations amounted to £185,400 (2002 £110,700). There were no contributions to political organisations during the period.

Ownership
All the ordinary shares of Guardian Media Group plc are owned by the Scott Trust.

Directors
The Directors at 30th March 2003 are listed on page 4.

J R Harris, who was a Director on 1st April 2002, resigned on 26th September 2002. All other directors served throughout the year.

According to the Register kept under section 325 of the Companies Act 1985, no Director had any interest in the shares of the company or its subsidiaries and joint ventures.

Directors emoluments

	Salary/ fees £000	Performance related bonus £000	Benefits in kind £000	**Total 2003 £000**	Total 2002 £000	Employer's contributions to money purchase pension schemes **2003 £000**	2002 £000
P Myners	50	–	–	**50**	50	**–**	–
R W Phillis	339	190	35	**564**	381	**122**	102
I S Ashcroft	204	157	21	**382**	316	**38**	47
N Castro	197	129	14	**340**	225	**59**	48
C McCall	220	165	21	**406**	296	**48**	56
A C Rusbridger	250	–	15	**265**	253	**94**	96
Non-executive directors							
J Bartle (*from 1st January 2002)	25	–	–	**25**	6	**–**	–
J J D Bullmore (*to 31st December 2001)	–	–	–	**–**	19	**–**	–
J G S Coode-Adams	25	–	–	**25**	25	**–**	–
E A L Forgan	25	–	–	**25**	25	**–**	–
J R Harris (*to 26th September 2002)	–	–	–	**–**	–	**–**	–
A L Karney	25	–	–	**25**	25	**–**	–
	1,360	641	106	**2,107**	1,621	**361**	349
Contract variation payments (see below)				**265**			
				2,372			

* Date of appointment, resignation or other changes to directorships.

Salary/fees
Salaries and fees have been set by the Remuneration Committee having regard to market conditions.

The company has paid Trader Media Group Limited £16,000 for the services of J R Harris as a Director of the company up to the date of his retirement on 26th September 2002. J R Harris's emoluments as an executive director of Trader Media Group Limited are included in their financial statements.

Contract variation
During the year contractual terms of employment with R W Phillis and N Castro were varied so that all executive directors, who participate in the performance related bonus scheme now have more consistent schemes. R W Phillis and N Castro received contract variation payments of £165,000 and £100,000 respectively. For purposes of comparison these payments have been identified separately in the table above. The emoluments disclosed for R W Phillis in 2002 include a prior year salary increase of £15,000.

Performance related bonus
The bonus arrangements of executive directors have been determined by the Remuneration Committee.

a) The bonus arrangements for the executive directors are based on annual pre-determined divisional and group financial performance targets and personal objectives.

   Similar bonus arrangements apply to other senior executives in the operating divisions. There is a separate phantom option scheme in the Radio Division for which provision has been made.

b) A C Rusbridger has no contractual entitlement to a bonus payment.

Report of the directors

continued

Pensions
Retirement benefits are accruing to the executive directors under money purchase schemes. Company contributions disclosed for R W Phillis and A C Rusbridger in 2002 include prior year arrears of £5,000 and £75,000 respectively.

J R Harris and I S Ashcroft are also members of a top-up scheme providing defined benefits. This scheme is non-contributory as regards the members and in the opinion of the actuary, no contributions are required to be made by the company as the scheme is fully funded to meet its liabilities as they fall due.

Benefits in kind
These relate to the provision of motor car, fuel and healthcare benefits.

Independent auditors
Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 25th February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board

Phil Boardman
Secretary

24th June 2003

Independent auditors' report

To the members of Guardian Media Group plc

We have audited the financial statements which comprise the group profit and loss account, the balance sheets, the group cashflow statement, the group statement of total recognised gains and losses and the related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the report of the directors, the chairman's statement, the chief executive's review of operations, the Scott Trust report, the social responsibility report, the financial review and the corporate governance statement.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 30th March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

24th June 2003

Group profit and loss account

For the year ended 30th March 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Turnover including share of joint ventures and associates					
Continuing operations		**519.2**		456.4	
Acquisitions		**6.8**		–	
			526.0		456.4
Less: share of joint ventures			**(163.9)**		(116.0)
Less: share of associates			**(6.5)**		(4.9)
Group turnover	2		**355.6**		335.5
Operating costs	4		**(357.3)**		(354.7)
Group operating loss					
Continuing operations		**(0.8)**		(16.8)	
Acquisitions		**(0.9)**		(2.4)	
	6		**(1.7)**		(19.2)
Share of profit of joint ventures			**39.1**		25.6
Share of losses of associates			**(7.6)**		(4.8)
Total operating profit: group and share of joint ventures and associates			**29.8**		1.6
Exceptional items:					
Disposal of subsidiaries, joint ventures and associates	7		**0.2**		2.9
Disposal of fixed asset investments	7		**(0.3)**		(1.6)
Profit on ordinary activities before interest and taxation			**29.7**		2.9
Income from fixed asset investments	8		**1.2**		1.0
Interest receivable and similar income	9		**32.8**		33.3
Interest payable and similar charges	10		**(26.8)**		(27.4)
Profit on ordinary activities before taxation			**36.9**		9.8
Tax on profit on ordinary activities	11		**(13.3)**		(3.9)
Profit on ordinary activities after taxation			**23.6**		5.9
Equity minority interests	27		**(0.1)**		(0.4)
Profit for the financial period	12		**23.5**		5.5
Preference dividend paid			**–**		–
Retained profit for the period	26		**23.5**		5.5

All joint ventures and associates relate to continuing operations.

The notes on pages 30 to 50 form part of these financial statements.

Group balance sheet

As at 30th March 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Fixed assets					
Intangible assets	13		**66.1**		25.9
Tangible assets	14		**45.1**		53.3
Investments					
Joint ventures	16				
Share of gross assets		**35.5**		25.7	
Share of gross liabilities		**(27.9)**		(17.6)	
			7.6		8.1
Loans to joint ventures	16		**255.6**		262.8
Associates	17		**12.5**		17.3
Other investments	18		**4.9**		9.9
			391.8		377.3
Current assets					
Stocks	20	**0.6**		1.5	
Debtors	21	**87.0**		68.9	
Cash at bank and in hand		**168.1**		171.5	
		255.7		241.9	
Current liabilities					
Creditors: amounts falling due within one year	22	**(81.8)**		(67.2)	
Net current assets			**173.9**		174.7
Total assets less current liabilities			**565.7**		552.0
Creditors: amounts falling due after more than one year	23		**(6.3)**		(6.9)
Provisions for liabilities and charges					
Joint ventures	16				
Share of gross assets		**62.1**		71.2	
Share of gross liabilities		**(268.3)**		(287.2)	
Goodwill arising on acquisition		**3.5**		3.7	
			(202.7)		(212.3)
Net assets			**356.7**		332.8
Capital and reserves					
Called up share capital	25		**1.0**		1.0
Profit and loss account	26		**355.7**		331.8
Equity shareholders' funds		**356.6**		332.7	
Non-equity shareholders' funds		**0.1**		0.1	
Total shareholders' funds			**356.7**		332.8

These financial statements were approved by the Board of Directors on 24th June 2003 and signed on its behalf by:

Paul Myners
Chairman

Nick Castro
Finance Director

The notes on pages 30 to 50 form part of these financial statements.

Company balance sheet

As at 30th March 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Fixed assets					
Tangible assets	14		**0.4**		2.2
Investments					
Subsidiary undertakings	15		**202.8**		162.6
Joint ventures	16		**10.5**		14.7
Associates	17		**–**		12.2
Other investments	18		**1.8**		4.3
			215.5		196.0
Current assets					
Investments	19	**40.7**		16.1	
Stocks	20	**0.1**		1.4	
Debtors	21	**103.7**		111.1	
Cash at bank and in hand		**66.7**		70.6	
		211.2		199.2	
Current liabilities					
Creditors: amounts falling due within one year	22	**(285.1)**		(251.5)	
Net current liabilities			**(73.9)**		(52.3)
Total assets less current liabilities			**141.6**		143.7
Creditors: amounts falling due after more than one year	23		**–**		(0.2)
Net assets			**141.6**		143.5
Capital and reserves					
Called up share capital	25		**1.0**		1.0
Profit and loss account	26		**140.6**		142.5
Equity shareholders' funds		**141.5**		143.4	
Non-equity shareholders' funds		**0.1**		0.1	
Total shareholders' funds			**141.6**		143.5

These financial statements were approved by the Board of Directors on 24th June 2003 and signed on its behalf by:

Paul Myners
Chairman

Nick Castro
Finance Director

The notes on pages 30 to 50 form part of these financial statements.

Group statement of total recognised gains and losses

For the year ended 30th March 2003

	2003	2002
	£m	£m
Profit for the financial period	**23.5**	5.5
Unrealised deficit on revaluation of investments	**–**	(0.5)
Exchange differences	**–**	0.2
Total recognised gains and losses relating to the period	**23.5**	5.2

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical equivalents.

	Note	**2003**	2002
Reconciliation of movements in group shareholders' funds		**£m**	£m
Balance at 1st April 2002		**332.8**	327.6
Retained profit for the period		**23.5**	5.5
Other recognised losses for the period		**–**	(0.5)
Exchange differences		**–**	0.2
Goodwill written back	7	**0.4**	–
Balance at 30th March 2003		**356.7**	332.8

The notes on pages 30 to 50 form part of these financial statements.

Group cash flow statement

For the year ended 30th March 2003

	Note	2003 £m	2002 £m
Net cash outflow from continuing operating activities (see page 29)		**(4.2)**	(6.0)
Dividends from joint ventures and associates		**0.1**	–
Returns on investments and servicing of finance			
Other dividends received		**1.1**	1.0
Interest received		**21.7**	20.9
Finance lease interest paid		**(0.3)**	(0.3)
Net cash inflow from returns on investments and servicing of finance		**22.5**	21.6
Taxation		**(1.3)**	(14.8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(6.2)**	(18.3)
Sale of tangible fixed assets		**0.5**	0.8
Purchase of other fixed asset investments		**–**	(0.7)
Sale of other fixed asset investments	7	**–**	2.0
Net cash outflow from capital expenditure and financial investment		**(5.7)**	(16.2)
Acquisitions and disposals			
Purchase of shares in subsidiary companies	30	**(38.2)**	(20.3)
Cash acquired with subsidiary		**1.5**	–
Sale of shares in subsidiary companies	7	**–**	1.8
Purchase of shares in joint ventures and associates	30	**(2.2)**	(2.9)
Sale of shares in joint ventures and associates	7	**0.1**	–
Loans made to joint ventures		**(5.6)**	(4.2)
Loans repaid by joint ventures		**29.9**	12.8
Loans made to associates		**(0.1)**	(0.3)
Loans repaid by investments		**0.2**	–
Loans made to investments		**(0.1)**	–
Net cash outflow for acquisitions and disposals		**(14.5)**	(13.1)
Cash outflow before management of liquid resources and financing		**(3.1)**	(28.5)
Management of liquid resources			
Cash returned from short term deposit		**5.8**	22.9
Net cash inflow from management of liquid resources		**5.8**	22.9
Financing			
Payment of principal under finance lease		**(0.5)**	(0.2)
Net cash outflow from financing		**(0.5)**	(0.2)
Increase/(decrease) in cash in the period	28	**2.2**	(5.8)

Reconciliation of net cash flow to movement in net funds

For the year ended 30th March 2003

	Note	**2003 £m**	2002 £m
Increase/(decrease) in cash in the period		**2.2**	(5.8)
Cash inflow from decrease in liquid resources		**(5.8)**	(22.9)
Cash outflow from decrease in lease financing		**0.5**	0.2
Change in net funds resulting from cash flows		**(3.1)**	(28.5)
Exchange differences		**0.2**	(0.7)
Movement in net funds in the period		**(2.9)**	(29.2)
Opening net funds		**164.3**	193.5
Closing net funds	28	**161.4**	164.3

Reconciliation of operating profit to net cash outflow from operating activities

	2003 £m	2002 £m
Continuing activities		
Operating loss	**(1.7)**	(19.2)
Depreciation	**13.4**	14.0
Impairment of investments	**0.3**	–
Amortisation	**3.0**	2.3
Profit on sale of tangible fixed assets	**(0.2)**	–
Decrease in stocks	**1.0**	0.1
Increase in debtors	**(16.6)**	(1.2)
Increase/(decrease) in creditors	**(3.4)**	(2.0)
Net cash outflow from continuing operating activities	**(4.2)**	(6.0)

The effect of acquisitions on the Group's net operating cash flows are shown in note 30.

1. Accounting policies

Accounting basis
The financial statements on pages 24 to 50 have been prepared in accordance with applicable accounting standards in the United Kingdom. Set out below is a summary of the more important Group accounting policies, which have been applied consistently. The financial statements have been prepared on the historical cost basis.

Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30th March 2003, with the exception of Guardian Media Group Jersey Limited and the companies within the Radio Division which are made up to 31st March 2003. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, the subsidiary's assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date. Goodwill is capitalised as an intangible asset and written off to the profit and loss account over its estimated useful life, a maximum period of 20 years. Radio licences that are acquired as part of a company acquisition are capitalised as goodwill.

As permitted by FRS 10, goodwill written off prior to 1999 has not been reinstated. On disposal this goodwill is written back through the profit and loss account.

Joint ventures and associates
A company is treated as an associate when the Group has a participating interest in its equity share capital and exercises a significant influence over operating and financial policy.

A company is treated as a joint venture when the Group holds an interest on a long term basis and jointly controls the company with one or more venture parties.

Long term loans to joint ventures include interest rolled up which will not be paid until the principal loan repayment date.

The Group's share of profits less losses of joint ventures and associates are included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the audited financial statements of the undertakings concerned. Where a joint venture or an associate has a different year end date to the Group, amounts from the latest audited accounts are adjusted, using management accounts, to bring in to line with the Group's year end date. The amounts involved are not material to the Group.

Depreciation and carrying value of fixed assets
Tangible fixed assets, other than freehold land, are stated at cost less depreciation. Depreciation of tangible fixed assets has been calculated to write off original cost by equal instalments over the estimated useful life of the asset concerned. The principal annual rates used for depreciation are:

Plant	10%
Computer equipment	20%-33%
Motor vehicles	20%
Furniture, fixtures and fittings	10%

Freehold and long leasehold buildings are written off over their estimated useful lives or fifty years, whichever is the shorter. Freehold land is not depreciated.

Depreciation is charged on assets from the time they become operational.

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances suggest that their carrying amount may not be recoverable. When an impairment review is undertaken, the recoverable amount is calculated as the net present value of expected future cash flows of the relevant income generating unit.

Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts which have been prepared and approved by the Board.

1. Accounting policies (continued)

No timing differences are recognised in respect of:

- fair value adjustments to acquired tangible fixed assets where there is no commitment to sell the asset,
- gains on the sale of assets where those gains have been rolled over into replacement assets, and
- additional tax which would arise if the profits of overseas subsidiary undertakings, joint ventures and associates were distributed, in excess of those dividends that have been accrued.

The deferred tax assets and liabilities are not discounted.

Turnover
Turnover represents the amount of goods and services (net of VAT, trade discounts and anticipated returns) provided to external customers.

Circulation and advertising revenue is recognised on publication, broadcast or display.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost is determined on a first in, first out basis.

Translation of foreign currencies
Assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the year end and the results of overseas subsidiaries are translated at the average rate of exchange for the financial year. Exchange differences arising from the translation of the opening net investment in subsidiaries and on long term inter-company balances used to finance those investments, together with differences from the translation of the results of those companies at the average rate, are taken to reserves. Other exchange differences are taken to the profit and loss account.

Pensions
The majority of the Group's employees are members of defined contribution pension schemes operated by the parent company. The charge to the profit and loss account comprises the total contributions payable to the schemes in the period. The expected cost of pensions in respect of defined benefit schemes operated by Group companies is charged to operating profit so as to spread the cost of pensions over the service lives of employees. Variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. The cost is assessed in accordance with the advice of independent qualified actuaries.

The Group is complying with SSAP 24 'Accounting for Pension Costs' and providing the transitional disclosures under FRS 17 'Retirement benefits' which this year include information on the movement in the pension balance during the year (see note 36).

Investment income
Income from bank and short term deposits is included in the financial statements when receivable. Dividends are included in the accounting period in which they are received.

Finance and operating leases
Assets held under finance leases are capitalised at the fair value of the asset at the inception of the leases, with an equivalent liability categorised under creditors due within and after one year. Assets are depreciated over the shorter of the lease term and their estimated useful economic life. Finance charges are allocated to accounting years over the life of each lease to produce a constant rate of return on the outstanding balance.

Costs in respect of operating leases are charged to operating profit when incurred.

Valuation of investments
The valuation of investments are reviewed annually and any major changes incorporated in the financial statements. Listed investments are valued by the Directors at the lower of cost or market value. Unlisted investments are stated at cost except where the net asset value is below cost in which case a provision is made for any impairment in accordance with FRS 11.

Current asset investments are recorded at the lower of cost and net realisable value. Where a current asset investments net realisable value is lower that its cost, an amount is provided in the profit and loss account for the diminution in value. Where the reason for making the provision has ceased to apply to any extent, the provision is written back through the profit and loss account to that extent.

Website development costs
Design and content costs of a website are capitalised if there is a reasonable expectation that the future economic benefits generated by the website are in excess of amounts capitalised. All other costs are written off as incurred.

Website planning costs and expenditure to maintain and operate the website once developed, are charged against profits in the year in which they are incurred.

2. Turnover

Sales are made substantially in the U.K.

3. Segmental information

	Turnover		Operating profit/(loss) before amortisation		Profit/(loss) on ordinary activities before interest and taxation		Operating assets	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Parent company and Group undertakings	**355.6**	335.5	**1.3**	(16.9)	**(1.8)**	(17.9)	**283.7**	256.9
Joint ventures	**163.9**	116.0	**40.3**	26.9	**39.1**	25.6	**60.5**	58.6
Associates	**6.5**	4.9	**(3.0)**	(3.7)	**(7.6)**	(4.8)	**12.5**	17.3
	526.0	456.4	**38.6**	6.3	**29.7**	2.9	**356.7**	332.8
Newspapers	**376.1**	331.3	**26.5**	20.1	**26.5**	20.1	**40.1**	52.6
Magazines	**120.5**	111.6	**42.6**	31.3	**41.4**	30.1	**50.5**	43.8
Radio	**21.6**	8.2	**(4.3)**	(4.5)	**(9.1)**	(6.5)	**82.9**	45.5
New Media	**7.8**	5.3	**(17.6)**	(32.2)	**(20.3)**	(33.7)	**11.8**	13.5
Group costs	**–**	–	**(8.6)**	(8.4)	**(8.8)**	(7.1)	**3.3**	5.9
	526.0	456.4	**38.6**	6.3	**29.7**	2.9	**188.6**	161.3
Cash							**168.1**	171.5
							356.7	332.8

Working capital is managed by Group for Newspapers and certain New Media activities. For both 2003 and 2002 New Media excludes the internet activities of Trader Media which are shown within Magazines.

4. Operating costs

	2003	2002
	£m	£m
Raw materials and consumables	**59.9**	57.7
Other external charges	**46.9**	47.7
Staff costs (see note 5)	**112.5**	111.3
Depreciation of tangible fixed assets	**13.4**	14.0
Amortisation of goodwill	**3.0**	2.3
Other operating charges	**121.8**	121.7
Profit on sale of tangible fixed assets	**(0.2)**	–
	357.3	354.7

5. Staff costs

		2003	2002
		£m	£m
(a)	Staff costs during the period including executive directors		
	Wages and salaries	**97.5**	96.1
	Employer's social security costs	**9.8**	10.0
	Employer's pension costs	**5.2**	5.2
		112.5	111.3

(b)	Average number of persons employed including executive directors		
		No.	No.
	Production	**1,490**	1,546
	Selling and distribution	**1,241**	1,288
	Administration	**439**	445
		3,170	3,279

(c)	Emoluments of directors of Guardian Media Group plc	**2003**	2002
		£000	£000
	Aggregate emoluments	**2,372**	1,621
	Company pension contributions to money purchase schemes	**361**	349

Included in aggregate emoluments are contract variation payments made to two directors totalling £265,000 (2002 £nil).

Retirement benefits are accruing to five directors under a money purchase scheme (2002 five directors) and to two directors under a defined benefit scheme (2002 two directors).

	2003	2002
Highest paid director		
Aggregate emoluments - salary and benefits	**374**	309
- contract variation payment	**165**	–
- performance related bonus	**190**	72
	729	381
Company pension contributions to money purchase schemes	**122**	102

The remuneration of the chairman amounted to £50,000 (2002 £50,000).

6. Group operating loss

	2003	2002
	£m	£m
The following amounts have been charged in arriving at the operating loss:		
Depreciation - tangible owned fixed assets	**13.3**	12.0
- tangible fixed assets held under finance leases	**0.1**	2.0
Auditors' remuneration (parent company £78,300 (2002 £81,370))	**0.2**	0.2
Operating lease rentals:		
Plant and machinery	**7.6**	7.8
Buildings	**1.0**	0.6

Remuneration of the company's auditors for provision of non-audit services to the company and its subsidiaries was £0.4 million (2002 £0.8 million).

7. Exceptional items

During the year the Group disposed of its interest in:

	Proceeds £m	Net liabilities disposed of £m	Goodwill £m	Profit/ (loss) £m
Oneword Radio	0.3	–	–	0.3
Disposal of overseas subsidiaries (including reversals of provisions shown within creditors year ended 31st March 2002 £0.1m)	–	(0.3)	0.4	(0.1)
Disposal of subsidiaries, joint ventures and associates	0.3	(0.3)	0.4	0.2
Disposal of fixed asset investments	–	–	–	(0.3)

The tax effect on the exceptional items above is £nil.

During the year ended 31st March 2002 the Group disposed of its interest in:

	Proceeds £m	Cost £m	Profit/ (loss) £m
GMG 1994 (deferred consideration)	1.8	–	1.8
Disposal of overseas subsidiaries (including reversal of provisions shown within creditors year ended 1st April 2001 £0.9m)	–	(1.1)	1.1
Disposal of subsidiaries, joint ventures and associates	1.8	(1.1)	2.9
Unidad Editorial	2.0	0.4	1.6
Artsworld (provision for loss on disposal)	–	3.2	(3.2)
Disposal of fixed asset investments	2.0	3.6	(1.6)

The tax effect on the exceptional items above is £nil.

8. Income from fixed asset investments	**2003 £m**	2002 £m
Dividends from unlisted investments	**1.2**	1.0

9. Interest receivable and similar income	**2003 £m**	2002 £m
Group:		
Interest on cash at bank and short term investments	**2.4**	6.9
Interest receivable from joint ventures	**23.9**	24.7
Other interest receivable	**6.5**	1.7
	32.8	33.3

10. Interest payable and similar charges

	2003 £m	2002 £m
Group:		
Finance leases	**0.2**	0.3
Other loans	**0.2**	0.1
Joint ventures:		
Other loans	**26.4**	27.0
	26.8	27.4

11. Tax on profit on ordinary activities

(a) Analysis of charge in period

	2003 £m	2002 £m
Current tax		
Group:		
UK Corporation tax on profits for the period at 30%	**14.0**	6.0
Adjustments in respect of prior periods	**(3.7)**	(2.5)
	10.3	3.5
Joint ventures:		
UK Corporation tax on profits for the period at 30%	**4.7**	0.8
Adjustments in respect of prior periods	**0.1**	0.1
Foreign taxes	**0.9**	0.7
Associates:		
UK Corporation tax on profits for the period at 30%	**(0.9)**	(0.3)
Current tax charge for period	**15.1**	4.8
Deferred taxation		
Group:		
Current year	**(1.0)**	–
Prior periods	**(0.6)**	–
Joint ventures:		
Current year	**(0.5)**	(0.9)
Prior periods	**0.3**	–
Deferred tax	**(1.8)**	(0.9)
Tax on profit on ordinary activities	**13.3**	3.9

(b) Factors affecting tax charge for the period

	2003 £m	2002 £m
Profit on ordinary activities before tax	**36.9**	9.8
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	**11.1**	2.9
Effects of:		
Expenses not deductible for tax purposes	**4.9**	2.1
Deferred tax asset movement	**2.3**	2.0
Foreign taxes	**0.4**	0.1
Group relief not paid for	**–**	0.2
Adjustment to tax charge in respect of previous periods	**(3.6)**	(2.5)
Current tax charge for period	**15.1**	4.8

11. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges
The Group has a core element of permanent differences relating to non tax deductible items such as capital costs which will generally give rise to a tax charge in excess of 30%.

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. At present there are no binding agreements to sell these assets. The total amount unprovided is £0.8 million (2002 £0.8 million).

12. Profit of the parent company

As permitted by section 228 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The Group results for the period include a loss of £1.9 million (2002 loss of £39.2 million) which is dealt with in the financial statements of the parent company.

13. Intangible assets	The Group £m
Cost	
At 1st April 2002	28.6
Additions	43.2
Disposals	(0.3)
At 30th March 2003	**71.5**
Accumulated amortisation	
At 1st April 2002	2.7
Charge for period	3.0
Disposals	(0.3)
At 30th March 2003	**5.4**
Net book value	
At 30th March 2003	**66.1**
Net book value	
At 31st March 2002	25.9

Intangible assets comprise mainly of goodwill arising on acquisition of radio businesses, which is amortised over the directors estimate of its useful life of up to 20 years.

14. Tangible fixed assets

Group	Land and buildings £m	Plant and vehicles £m	Fixtures and fittings £m	Total £m
Cost				
At 1st April 2002	17.4	59.7	33.5	110.6
Reclassifications	0.3	(1.7)	1.4	–
Additions	0.1	1.4	4.4	5.9
Disposals	–	(3.2)	(1.0)	(4.2)
At 30th March 2003	**17.8**	**56.2**	**38.3**	**112.3**
Depreciation				
At 1st April 2002	3.0	35.4	18.9	57.3
Reclassifications	0.2	0.3	(0.5)	–
Charge for period	0.6	6.3	6.5	13.4
Disposals	–	(2.5)	(1.0)	(3.5)
At 30th March 2003	**3.8**	**39.5**	**23.9**	**67.2**
Net book value				
At 30th March 2003	**14.0**	**16.7**	**14.4**	**45.1**
Net book value				
At 31st March 2002	14.4	24.3	14.6	53.3

Assets held under finance leases, capitalised and included in plant and vehicles:

	2003 £m	2002 £m
Cost	**8.4**	8.0
Accumulated depreciation	**(8.4)**	(8.0)
Net book value	**–**	–

The net book value of land and buildings is made up as follows:

	2003 £m	2002 £m
Freehold	**6.5**	6.6
Long leasehold	**6.5**	6.8
Short leasehold	**1.0**	1.0
	14.0	14.4

Company
Fixed assets net book value of £0.4 million (2002 £2.2 million), comprise long leasehold land and buildings of £0.2 million (2002 £0.2 million) and plant and machinery £0.2 million (2002 £2.0 million).

15. Subsidiary undertakings

The company	Unlisted shares £m	Loan stock £m	Total £m
Cost			
At 1st April 2002	168.1	1.8	169.9
Additions	92.4	–	92.4
Transfer from other investments	2.2	–	2.2
Transfer to subsidiary	(41.2)	–	(41.2)
At 30th March 2003	**221.5**	**1.8**	**223.3**
Amounts written off			
At 1st April 2002	7.3	–	7.3
Charge in period	11.4	1.8	13.2
At 30th March 2003	**18.7**	**1.8**	**20.5**
Net book value at 30th March 2003	**202.8**	**–**	**202.8**
Net book value at 31st March 2002	160.8	1.8	162.6

Particulars of the principal subsidiary companies are given in note 37.

16. Joint ventures

(a) The group	Investments Share of net assets £m	Provisions Share of net liabilities £m	Goodwill £m	Loans £m	Total £m
At 1st April 2002	8.1	(216.0)	3.7	262.8	58.6
Additions	–	–	–	5.6	5.6
Disposals	–	–	–	(29.9)	(29.9)
Share of retained profit/(loss)	(0.5)	9.8	–	–	9.3
Amortisation	–	–	(0.2)	–	(0.2)
Interest	–	–	–	17.1	17.1
At 30th March 2003	**7.6**	**(206.2)**	**3.5**	**255.6**	**60.5**

16. Joint ventures (continued)

(b) The details of the loan investments in joint ventures are as follows:

	Loan £m	Interest rolled up £m	Total £m	Repayment due	Interest rate
Senior loan debt (unsecured)	56.6	–	56.6	see below	LIBOR plus upward margin based on a consolidated earnings ratio
Unsecured loan notes	80.4	35.6	116.0	31/03/2009	12.75%
	21.0	3.9	24.9	31/03/2009	12.00%
	3.9	1.7	5.6	31/03/2009	15.00%
Term loan facility (unsecured)	25.0	–	25.0	31/12/2008	LIBOR plus 2.5%
	25.0	–	25.0	30/03/2009	LIBOR plus 2.5%
Unsecured loan	2.5	–	2.5	no fixed repayment date	Interest free
At 30th March 2003	**214.4**	**41.2**	**255.6**		

The senior loan debt is repayable in instalments every 6 months until June 2005 in accordance with the loan agreements, £21 million is repayable within one year.

	2003 £m	2002 £m
(c) The group's aggregate share in its joint ventures is detailed below:		
Share of fixed assets	**63.9**	60.8
Share of current assets	**33.7**	36.1
Share of liabilities due within one year	**(20.4)**	(37.2)
Share of liabilities due after one year	**(275.8)**	(267.6)
Share of net liabilities	**(198.6)**	(207.9)
Analysed in balance sheet:		
Investments	**7.6**	8.1
Provisions for liabilities and charges	**(206.2)**	(216.0)
	(198.6)	(207.9)

(d) Dividends received by the Group from joint venture companies were £nil (2002 £nil).

16. Joint ventures (continued)

(e) **The company**	Shares £m	Loans £m	Total £m
Cost			
At 1st April 2002	14.6	6.7	21.3
Disposals	–	(4.2)	(4.2)
At 30th March 2003	**14.6**	**2.5**	**17.1**
Amounts written off			
At 30th March 2003 and 1st April 2002	**6.6**	**–**	**6.6**
Net book value at 30th March 2003	**8.0**	**2.5**	**10.5**
Net book value at 31st March 2002	8.0	6.7	14.7

Particulars of the principal joint venture companies are given in note 37.

17. Associates

(a) **The group**	Interests in associates £m	Goodwill £m	Total £m
At 1st April 2002	12.8	4.5	17.3
Additions	1.8	0.4	2.2
Disposals	–	–	–
Transfer from other investments	0.1	–	0.1
Share of retained loss	(4.2)	–	(4.2)
Dividends	(0.1)	–	(0.1)
Amortisation	–	(2.8)	(2.8)
At 30th March 2003	**10.4**	**2.1**	**12.5**

Particulars of the additions are given in note 30(d).

(b) **The company**	Shares £m	Loans £m	Total £m
Cost			
At 1st April 2002	12.3	0.6	12.9
Transfer to subsidiary company	(12.3)	–	(12.3)
Disposals	–	(0.6)	(0.6)
At 30th March 2003	**–**	**–**	**–**
Amounts written off			
At 1st April 2002	0.1	0.6	0.7
Disposals	(0.1)	(0.6)	(0.7)
At 30th March 2003	**–**	**–**	**–**
Net book value at 30th March 2003	**–**	**–**	**–**
Net book value at 31st March 2002	12.2	–	12.2

17. Associates (continued)

(c) Dividends received by the Group from associates were £0.1 million (2002 £nil)

Particulars of the principal associates are given in note 37.

18. Other investments

(a) The group	Listed shares £m	Unlisted shares £m	Term deposits/ loans £m	Total £m
Cost				
At 1st April 2002	4.6	3.4	1.9	9.9
Additions at cost	0.1	–	0.1	0.2
Disposals	–	–	(0.2)	(0.2)
Transfer to associates	–	(0.1)	–	(0.1)
Transfer to become subsidiary company	(4.6)	–	–	(4.6)
Amounts written off	–	–	(0.3)	(0.3)
At 30th March 2003	**0.1**	**3.3**	**1.5**	**4.9**

(b) The company	Listed shares £m	Unlisted shares £m	Term deposits/ loans £m	Total £m
Cost				
At 1st April 2002	2.2	0.3	1.8	4.3
Additions at cost	0.1	–	0.1	0.2
Disposals	–	–	(0.2)	(0.2)
Transfer to become subsidiary company (note 15)	(2.2)	–	–	(2.2)
Amounts written off	–	–	(0.3)	(0.3)
At 30th March 2003	**0.1**	**0.3**	**1.4**	**1.8**

Market value of investments listed on the London Stock Exchange as at 30th March 2003 for the Group amounted to £0.1 million (2002 £5.8 million) and for the Company £0.1 million (2002 £3.4 million).

Details of shareholdings are given in note 37.

19. Current asset investments

The company's investment in subsidiary undertaking comprises of redeemable preference shares held in GMG Investco Limited (a wholly owned subsidiary undertaking). The preference shares are redeemable on demand at the issuer's option. Under the rights of the preference shares, the proceeds receivable on redemption are €59.4 million. Hence they are accounted for as Euro denominated assets and re-translated at year end exchange rates, with any foreign exchange gains or losses taken to the profit and loss account of the company.

20. Stocks

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Raw materials and consumables	**0.6**	1.5	**0.1**	1.4

21. Debtors

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Trade debtors	**63.3**	47.6	**14.8**	41.3
Amounts owed by subsidiaries	**–**	–	**81.0**	59.0
Amounts owed by joint ventures and associates	**3.5**	4.9	**1.9**	0.4
Other debtors	**13.1**	3.7	**3.0**	2.3
Prepayments and accrued income	**7.1**	12.7	**3.0**	8.1
	87.0	68.9	**103.7**	111.1

Other debtors include deferred tax assets of £1.6 million (2002 £nil) for the Group and £0.4 million (2002 £nil) for the Company (see note 24).

22. Creditors: amounts falling due within one year

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Obligations under finance leases	**0.4**	0.5	**–**	–
Trade creditors	**13.1**	18.7	**3.3**	16.1
Amounts owed to subsidiaries	**–**	–	**255.5**	198.7
Amounts owed to joint ventures	**6.3**	0.2	**–**	–
Corporation tax	**11.7**	1.6	**0.4**	1.8
Taxation and social security	**8.4**	4.9	**10.7**	3.7
Other creditors	**9.4**	8.5	**1.0**	1.5
Accruals and deferred income	**32.5**	32.8	**14.2**	29.7
	81.8	67.2	**285.1**	251.5

23. Creditors: amounts falling due after more than one year

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Obligations under finance leases	**6.3**	6.7	**–**	–
Other creditors	**–**	0.2	**–**	0.2
	6.3	6.9	**–**	0.2
The total value of obligations under finance leases repayable by instalments				
- within one year	**0.4**	0.5	**–**	–
- within two to five years	**2.8**	2.4	**–**	–
- over five years	**3.5**	4.3	**–**	–
	6.7	7.2	**–**	–

24. Deferred taxation

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Recognised assets				
Accelerated tax allowances on fixed assets	**1.0**	(0.3)	**–**	–
Short term and other timing differences	**0.6**	0.3	**0.4**	–
(see note 21)	**1.6**	–	**0.4**	–

	The Group		The Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Unrecognised/unprovided potential deferred tax asset/(liability)				
Accelerated tax allowances on fixed assets	**–**	0.1	**–**	–
Short term and other timing differences	**–**	0.7	**–**	0.9
Tax losses carried forward	**7.0**	2.1	**–**	–
Capital gains/revaluation	**(0.8)**	(0.8)	**(0.4)**	(0.4)

Deferred tax assets have not been recognised where they relate to losses in companies where their future utilisation against profits cannot be reasonably foreseen. The increase in tax losses carried forward relates primarily to acquisitions in the year.

25. Called up share capital

	The Group and the Company	
	2003	2002
	£m	£m
Authorised, issued, called up and fully paid:		
100,000 4% cumulative preference shares of £1 each	**0.1**	0.1
900,000 ordinary shares of £1 each	**0.9**	0.9
	1.0	1.0

The 4% cumulative preference shares have no voting rights attached and in the event of a winding up of the company are not entitled to any surplus assets.

26. Profit and loss account

	The Group	The Company
	£m	£m
The movement on retained profits is analysed below:		
At 1st April 2002	331.8	142.5
Retained profit/(loss) for the period	23.5	(1.9)
Goodwill written back	0.4	–
At 30th March 2003	**355.7**	**140.6**

Cumulative goodwill written off to group reserves £58.4 million (2002 £58.8 million)

27. Equity minority interests

	The Group
	£m
At 1st April 2002	–
Profit and loss account	0.1
less: share of joint ventures	(0.1)
At 30th March 2003	**–**

28. Analysis of net funds

	2002 £m	Cash flow £m	Exchange Differences £m	**2003 £m**
Net cash:				
Cash at bank and in hand	171.5	(3.6)	0.2	**168.1**
Less: deposits treated as liquid resources	(155.1)	5.8	–	**(149.3)**
	16.4	2.2	0.2	**18.8**
Liquid resources:				
Deposits included in cash	155.1	(5.8)	–	**149.3**
Debt:				
Finance leases	(7.2)	0.5	–	**(6.7)**
	(7.2)	0.5	–	**(6.7)**
Net funds	164.3	(3.1)	0.2	**161.4**
Analysed in balance sheet:				
Cash at bank and in hand	171.5			**168.1**
Finance leases				
within one year	(0.5)			**(0.4)**
after one year	(6.7)			**(6.3)**
	164.3			**161.4**

29. Post balance sheet events

On 29th May 2003, the Group acquired the remaining 45% interest in Guardian Education Interactive Limited for a total consideration of £0.4 million.

30. Acquisitions and disposals

Acquisitions and disposals during the period, are as follows:

a) On 5th July 2002, the Group acquired the remaining share capital of jazz fm plc for a total consideration of £39.0 million, £0.8 million of which was satisfied by the issue of loan notes. Goodwill arising on this transaction of £43.2 million has been capitalised and will be amortised over 20 years.

b) During the year, the Group acquired additional shares in two associates for £2.2 million (of which £2.1 million related to Fish4 Limited).

c) On 13th December 2002, the Group disposed of its interest in Oneword Radio Limited for £0.3 million consideration.

d) During the year, the Group disposed of its interests in M&G Media Investment Limited and Artsworld for £nil consideration.

30. Acquisitions and disposals (continued)

Summary of the effect of increased investment in subsidiaries, joint ventures and associates during the period:

	Net cash paid £m	Deferred consideration £m	Total consideration £m	Net assets/ (liabilities) acquired £m	Goodwill capitalised £m
Acquisition of subsidiaries	38.2	0.8	39.0	(4.2)	43.2
Associates	2.2	–	2.2	1.8	0.4
	40.4	**0.8**	**41.2**	**(2.4)**	**43.6**

The net liabilities recorded in the books of the acquired entities were considered to be at their fair values, however these fair values are provisional and may require adjustment next year.

The acquisitions reduced the Group's net operating cash flows by £0.9 million, reduced taxation by £1.0 million and utilised £0.3 million for capital expenditure.

In their last financial periods, to 30th June 2002, the acquisitions made a loss after taxation and minority interest of £2.3 million.

31. Capital commitments authorised

Contracts for capital expenditure and investments for the Group amounted to approximately £3.0 million (2002 £2.2 million). There are no capital commitments in respect of the company (2002 £nil).

32. Contingent liabilities and financial commitments

In the normal course of business the Group has given guarantees in respect of commercial transactions.

These include:

(a) The company has given a guarantee to The Royal Bank of Scotland plc to secure the liabilities of certain of its subsidiary companies. At 30th March 2003, no subsidiary company had a bank overdraft (2002 £nil).

(b) The company has given joint and several guarantees and indemnities and sole guarantees in respect of certain leasing obligations of Trafford Park Printers Limited and Berkshire Press Limited amounting to £11 million (2002 £11 million).

(c) The company has given a sole guarantee on behalf of a subsidiary company in respect of a printing agreement with West Ferry Printers Limited amounting to a maximum of £25 million (2002 £25 million).

33. Operating lease and similar commitments

The Group has entered into a number of operating leases and similar annual commitments. The total amount payable under these leases is as follows:

	Land and buildings		Other	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Expiring within one year	**–**	–	**1.1**	–
Expiring between two and five years inclusive	**0.5**	0.5	**0.4**	–
Expiring in over five years	**1.1**	0.1	**8.2**	8.0
	1.6	0.6	**9.7**	8.0

There are no material operating lease or similar commitments in respect of the company (2002 £nil).

34. Related party transactions

Transactions between subsidiary members of the Guardian Media Group plc are not required to be disclosed under FRS 8 as these transactions are fully eliminated on consolidation. In the course of normal operations, the Group has traded on an arms length basis with joint ventures, associates and other related undertakings, principally Trafford Park Printers, Paper Purchase & Management and Trader Media Group joint ventures. The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

	2003	2002
	£m	£m
Sales	**2.0**	2.7
Purchases	**73.7**	15.8
Loan repayments	**29.9**	12.8
Loans made	**5.6**	4.2
Interest on loans	**23.9**	24.7

As at 30th March 2003 material balances outstanding in relation to these transactions were:

	£m	£m
Loans (including interest rolled up)	**255.6**	262.8

During the year the Guardian Media Group plc paid £90,000 (2002 £90,000) to seven (2002 nine) members of the Scott Trust in relation to their duties as Trustees. A further £250,000 (2002 £234,000) was paid to three (2002 four) of the Trustees, none of whom are directors of the Group, for services rendered to Guardian Newspapers Limited and paid on a normal arms length basis. One Trustee is also a partner in a legal firm which provides services to Guardian Newspapers Limited and is paid on a normal arms length basis. No members of the board received additional remuneration for services as a Trustee (2002 £nil).

35. Ultimate controlling party

The ultimate controlling party of the Group is the Scott Trust which owns 100% of the issued ordinary share capital of Guardian Media Group plc.

36. Pensions

More than 90% of the Group's employees are members of defined contribution pension schemes operated by the company. The Group also contributes to a small number of pension schemes which are of the defined benefit type. Pension scheme assets are held in separate trustee administered funds. The total pension charge for the Group is shown in note 5(a).

The Group has three defined pension benefit schemes all of which have been accounted for in accordance with SSAP 24. The most recent actuarial valuations were performed during 2001 and 2002, the actuaries' recommendations on the level of funding are being followed.

Financial Reporting Standard No. 17
The following information is provided to comply with the transitional arrangements of FRS 17, 'Retirement benefits'.

The market value of the schemes' assets as at 30th March 2003 was £13.8 million (2002 £16.0 million) of which 47.4% (2002 53.6%) was invested in equities, 40.4% (2002 35.2%) was invested in bonds and 12.2% (2002 11.2%) was allocated to other investments.

The assumed rates of return on assets for the year beginning 31st March 2003 are 6.6% (2002 7.0%) pa on equities, 4.9% (2002 5.00%) pa on bonds and 5.6% (2002 5.25%) pa on other investments.

The present value of the schemes' estimated liabilities at 30th March 2003 was £15.2 million (2002 £13.4 million) and the resulting estimated deficit was £1.0 million (2002 surplus £1.8 million) net of deferred taxation.

The main assumptions used to calculate the present value of liabilities are:

	2003	2002
Inflation rate	**2.5% pa**	2.7% pa
Rate of increase in salaries	**3.2% pa**	3.5% pa
Rate of increase for pensions in payment	**3.3% pa**	2.7% pa
Rate of increase for pensions in deferment	**2.5% pa**	2.6% pa
Discount rate	**5.4% pa**	6.0% pa

For illustrative purposes, the effect of recognising the whole of the estimated pension (deficit)/surplus in the Group's balance sheet would be:

	2003 £m	2002 £m
Net assets		
Net assets excluding pension (deficit)/surplus	**356.7**	332.8
(Deficit)/surplus in the scheme	**(1.0)**	1.8
Net assets including pension (deficit)/surplus	**355.7**	334.6
Reserves		
Profit and loss reserve excluding pension (deficit)/surplus	**355.7**	331.8
(Deficit)/surplus in the scheme	**(1.0)**	1.8
Profit and loss reserve including pension (deficit)/surplus	**354.7**	333.6

Analysis of amount charged to operating profit in respect of defined benefit schemes	**2003 £m**
Current service cost	**0.3**
Past service cost	**–**
Total operating charge	**0.3**

36. Pensions (continued)

Movement in (deficit)/surplus during the year	**2003**
	£m
Surplus at the beginning of the year	**2.6**
Movement:	
Current service cost	**(0.3)**
Contributions	**0.2**
Past service cost	**–**
Other finance income	**0.2**
Actuarial loss	**(4.1)**
Deficit at the end of the year	**(1.4)**

Analysis of amount credited to other finance income	**2003**
	£m
Expected return on pension scheme assets	**1.0**
Interest on pension scheme liabilities	**(0.8)**
Net return	**0.2**

Analysis of amount which would be recognised in the statement of recognised gains and losses

	2003
	£m
Actual return less expected return on pension scheme assets	**(3.0)**
Experience gains and losses arising on scheme liabilities	**0.6**
Changes in the assumptions underlying the present value of the scheme liabilities	**(1.7)**
	(4.1)

History of experience gains and losses

	2003
Difference between the actual and expected return on scheme assets:	
Amount (£m)	**(3.0)**
Percentage of scheme assets	**–21.7%**
Experience gains and losses on scheme liabilities:	
Amount (£m)	**0.6**
Percentage of scheme liabilities	**3.9%**
Total amount recognised in statement of total recognised gains and losses:	
Amount (£m)	**(4.1)**
Percentage of scheme liabilities	**–27.0%**

37. Subsidiaries and other companies

The principal activity of the subsidiaries, joint ventures and associates is the dissemination of news, information and advertising matter by way of print and other media. The following information relates to those subsidiary undertakings which, in the opinion of the directors, principally affected the results or financial position of the Group.

(a)

Subsidiary undertakings	Description of shares held	Equity holding
National Newspaper Division		
Guardian Newspapers Limited^	£1 ordinary shares	100%
Regional Newspapers Division		
Greater Manchester Newspapers Limited^	£1 ordinary shares	100%
Surrey and Berkshire Newspapers Limited^	£1 ordinary shares	100%
	£1 deferred shares	100%
Channel M Television Limited^	£1 ordinary shares	60%
Radio Division		
GMG Radio Holdings Limited	£1 ordinary shares	100%
Real Radio Limited^	£1 ordinary shares	100%
Real Radio (Scotland) Limited^-	£1 ordinary shares	100%
Real Radio (Yorkshire) Limited^	£1 ordinary shares	100%
Smooth Radio South Wales Limited^	£1 ordinary shares	100%
London Jazz Radio Limited^	£1 ordinary shares	100%
Jazz FM Northwest Limited^	£1 ordinary shares	100%
Other		
Guardian Media Group Jersey Limited+	1JPY ordinary shares	100%
HR Information Limited^	1p ordinary shares	95.4%
Workthing Limited	10p ordinary shares	95.4%

The subsidiary undertakings are incorporated in Great Britain and registered in England and Wales except where noted.
– Incorporated in Scotland
+ Incorporated in Jersey
^ Investments not held directly by Guardian Media Group plc

(b)

Joint venture companies	Description of total shares	Percentage holding
Trader Media Group Limited^	17,964,240 1p ordinary shares	48%
	2,700,000 fixed dividend, non voting	
	£1 ordinary shares	100%
Paper Purchase & Management Limited	200 £1 ordinary shares	50%
Trafford Park Printers Limited	10,000 £1 ordinary shares	50%
Guardian Education Interactive Limited^	14,545,000 £1 ordinary shares	55%

(c)

Associates		
Radio Investments Limited^	1,893,680 10p ordinary shares	39.5%
Fish4 Limited^	38,076,392 £1 ordinary shares	25.1%
MXR Holding Limited^	750,000 £1 ordinary shares	24.3%
Digital News Network Limited^	600,000 £1 ordinary shares	22.0%

^Investments not held directly by Guardian Media Group plc

All joint venture and associate companies are incorporated in Great Britain and registered in England and Wales and operate principally in their country of incorporation.

Group five year review

Year to	30th March 2003 £m	31st March 2002 £m	1st April 2001 £m	2nd April 2000 £m	28th March 1999 £m
Turnover including share of joint ventures	**526.0**	456.4	437.4	439.0	411.1
Less: share of joint ventures	**(163.9)**	(116.0)	(84.8)	(48.2)	(39.8)
Less: share of associates	**(6.5)**	(4.9)	(4.9)	(0.9)	(5.5)
Group turnover	**355.6**	335.5	347.7	389.9	365.8
Operating costs	**(357.3)**	(354.7)	(339.0)	(347.6)	(319.7)
Operating (loss)/profit	**(1.7)**	(19.2)	9.6	42.3	46.1
Share of profit/(losses) of joint ventures and associates	**31.5**	20.8	19.8	5.1	4.0
Total group operating profit including share of joint ventures and associates	**29.8**	1.6	29.4	47.4	50.1
Exceptional items	**(0.1)**	1.3	26.1	16.0	5.5
Profit on ordinary activities before interest and taxation	**29.7**	2.9	55.5	63.4	55.6
Income from fixed asset investments	**1.2**	1.0	1.8	0.3	4.0
Net interest receivable	**6.0**	5.9	10.0	9.8	8.6
Profit on ordinary activities before taxation	**36.9**	9.8	67.3	73.5	68.2
Tax on profit on ordinary activities	**(13.3)**	(3.9)	(25.2)	(22.3)	(21.1)
Profit on ordinary activities after taxation	**23.6**	5.9	42.1	51.2	47.1

Assets employed					
Intangible assets	**66.1**	25.9	1.5	3.4	2.6
Tangible assets	**45.1**	53.3	49.6	66.6	66.4
Investments	**25.0**	35.3	44.1	34.6	32.7
Cash at bank and in hand less obligations under finance leases	**161.4**	164.3	193.5	175.8	137.1
Other net assets/(liabilities)	**59.1**	54.0	38.9	4.6	(3.5)
Net assets	**356.7**	332.8	327.6	285.0	235.3

Corporate directory

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