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Greater Manchester Newspapers
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Surrey Advertiser and
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Company number 94531

Guardian Media Group plc Annual Report and Accounts 2006

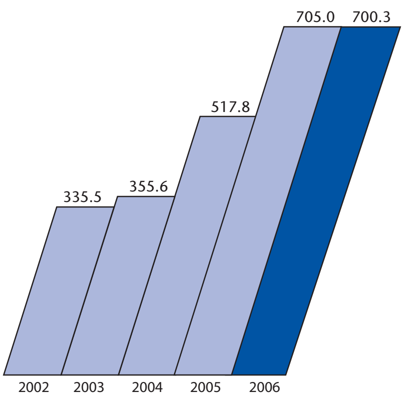
GUARDIAN MEDIA GROUP

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

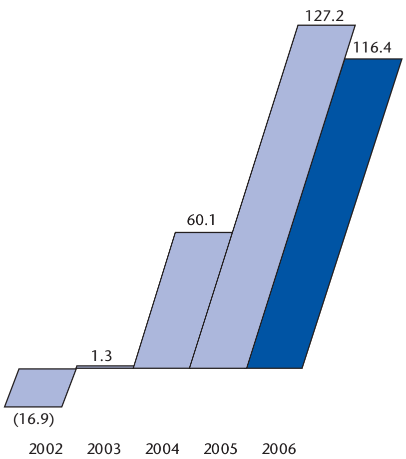
The Scott Trust was created in 1936 to secure the financial and editorial independence of the Guardian in perpetuity.

Financial highlights

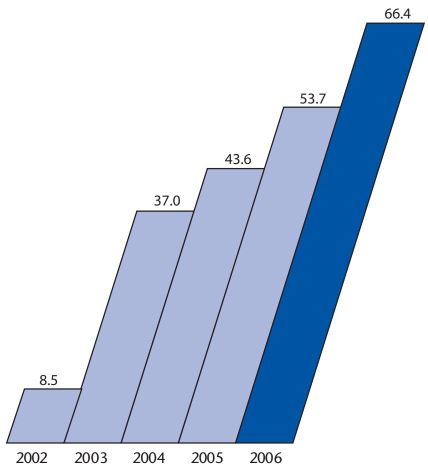
The financial highlights for 2006 and 2005 have been drawn up in accordance with International Financial Reporting Standards (IFRS). For 2004, 2003 and 2002 the figures shown are as originally reported under UK GAAP, the principal adjustments in order for these figures to comply with IFRS comprise goodwill amortisation and defined benefit pension funds liabilities.



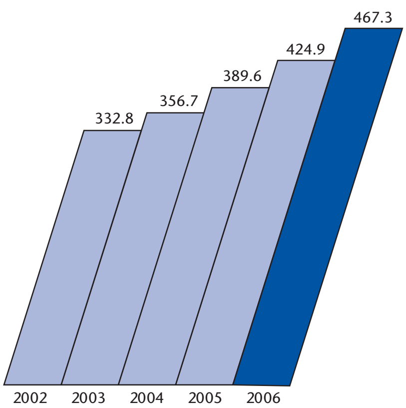
Turnover. £m



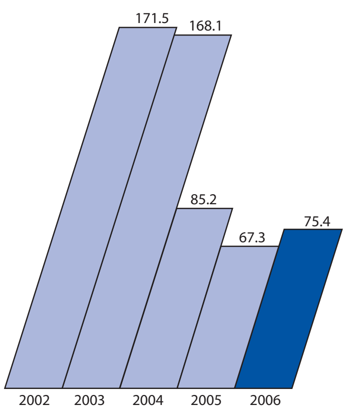
Operating profit/(loss) before amortisation and exceptional items. £m



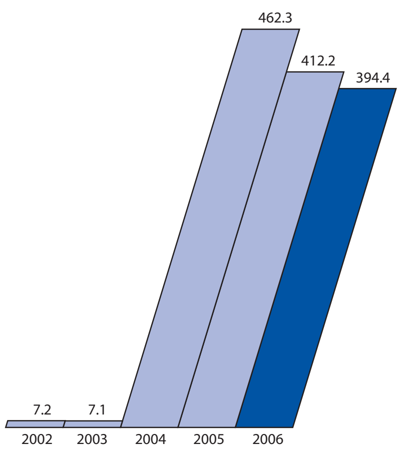
Profit before taxation. £m



Net assets. £m



Cash and cash equivalents. £m



Debt (net of costs). £m

Guardian Media Group plc operational structure

GUARDIAN MEDIA GROUP

National Newspapers Division

- Publishers of The Guardian, The Observer, The Guardian Weekly, Money Observer and Public.

- Electronic publishers of Guardian Unlimited and online education content provider Learnthings.

Regional Newspapers 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.

- Channel M
A television station for Manchester broadcasting free to air and on digital, cable and satellite.

- Fish4
(25.1%)
A company that provides electronic classified advertising services.

Trader Media Division

- A multi-media publishing company.

- Print titles include Auto Trader, Top Marques, Bike Trader, Truck and Plant Trader, Motorhome and Caravan Trader, Farmers Trader, Fast and Modified, Boats and Yachts, Buy a Boat, Auto Freeway, Ad Trader, TNT Magazine, TNT Midweek, Fusion, Classic American and Dealer Update.

- Electronic publishers of autotrader.co.uk, adtrader.co.uk and carzone.ie, as well as sites for most other UK print titles.

- Additional digital services including customer relationship management and vehicle manufacturer related websites.

- Publishing subsidiaries in The Netherlands, Italy, South Africa and associated websites.

- Printers include Apple Web Offset, Acorn Web Offset and Wiltshire.

GMG Radio Division

- Operates regional radio stations under the Real Radio brand in South Wales, South and West Yorkshire and Central Scotland, and under the smooth fm brand in London and the North West.

- MXR
(24.3%)
A company that holds regional digital multiplex licences.

- Digital News Network
(22%)
A company that provides news services.

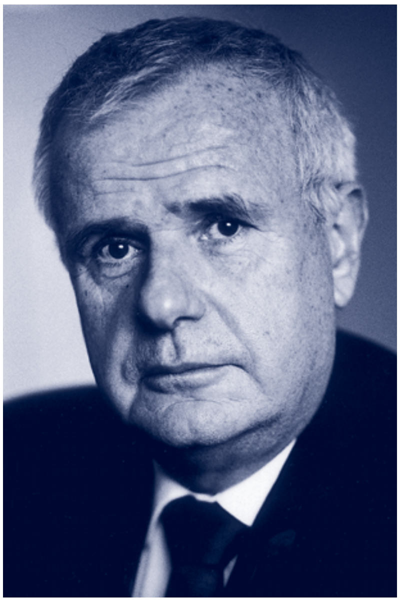
Other Interests

- Seven Publishing
(35.5%)
Publisher of consumer magazines – delicious., Sainsbury's magazine and puzzle magazines.

- Trafford Park Printers
(50%)
Prints The Guardian, The Observer, The Daily Telegraph and The Sunday Telegraph.

- Paper Purchase & Management
(50%)
Provider of newsprint and magazine paper to the National and Regional Newspapers divisions', Trader Media division, The Daily Telegraph and The Sunday Telegraph.

Chairman's statement



Paul Myners
Chairman

In the year ending 2 April 2006, turnover from continuing operations decreased by 0.7% to £700.3 million with pre-tax profits from continuing operations rising to £66.4 million from £53.7 million last year. Operating profit for the year, excluding exceptional items, was £116.4 million compared with £127.2 million last year. As the Group accounts have been prepared on an International Financial Reporting Standards (IFRS) basis for the first time, prior year comparative numbers have been restated.

Net interest payable and other investment income for the year was £17.4 million compared with £30.0 million last year which also included refinancing charges. The statutory profit after taxation, exceptional items and discontinued operations was £45.9 million, up from £44.1 million last year. Total borrowing fell from £412.2 million in 2005 to £394.4 million at year-end 2006.

These are a very satisfactory set of financial results in what has been difficult trading conditions across the media sector in general, and the national and regional press in particular. It has also been a year of very considerable investment in both our traditional publishing activities and in the digital/electronic publishing future. This is a tangible manifestation of the Group's long-term vision, creativity, innovation and courage.

Many newspapers driven by the quest for shareholder value, identified cost-cutting as their solution to a tough market complicated by the impact of the internet and mobile products. Some, opting instead for a change of format, took the view that since younger people were said to prefer tabloids and since the same broadsheet presses could deliver the new format (at limited extra expense), the socio-economic solution was both obvious and unarguable.

It is in circumstances like these where the particular ownership structure of GMG confers great advantage. The requirements of our shareholders are expressed in terms broader than pure financial return, enabling us to pursue strategic ideas primarily designed to maintain the independence of the Guardian, Observer and Guardian Unlimited. This underpinning gives us confidence to take courses of action which keep faith with our heritage.

The stunningly successful launches of the Guardian and Observer in the full-colour 'Berliner' format were the significant fruits of that confidence in the provision of a new platform for the vital liberal voices of both titles; the delivery of a format and design for the genuine benefit of readers and advertisers and the creation of a modern space for the best journalism around. Successive awards and positive circulation returns mark an achievement engineered by original thinking, backed with an £80 million investment in new presses, undertaken three years ahead of a pre-planned investment in the replacement of old presses, and delivered to the highest standards of professionalism across the organisation.

The vitality of our Group has been well demonstrated during the course of the last year. As the Chief Executive reports, our Regional Newspapers are engaged in a thorough and on-going reorganisation to secure their position in the new multi-media environment; Trader Media has facilitated the acceleration of its online businesses, launched the transformation of its UK and Ireland publishing operations, together with a programme of new business development and strategic acquisitions, while GMG Radio's year has produced increases in revenue, audience and profit.

On 5 May 2006, the Board announced its intention to rebalance the Group's portfolio of businesses by selling a minority shareholding in Trader Media Group through an initial public offering on the London Stock Exchange at some stage during the 2006/07 financial year, subject to market conditions.

This will allow the Group to continue to benefit from the ownership of this successful business whilst reducing debt and freeing up capital to support existing and new businesses. No significant new investment from the proceeds of the proposed public offering is currently under contemplation.

During the year, the Board appointed two new executive directors. Mark Dodson, the Chief Executive of Regional Newspapers division, joined the Board in October 2005, in anticipation of the retirement of Ian Ashcroft on 2 December 2005. Ian had been with the Company since 1972 in a variety of roles at both National and Regional Newspapers divisions. I take this opportunity to record the sincere appreciation of my colleagues and myself for his long service and contribution to the work of the GMG Board. On 31 January 2006, the Chief Executive of GMG Radio division, John Myers, also joined the Board as an executive director.

On 13 January 2006, Sir Robert Phillis announced that because he was to undergo a bone marrow transplant later in the year, he had decided to stand down as GMG Chief Executive and as a member of the Scott Trust at the end of July 2006. Sir Robert joined the Group in December 1997 from the BBC, where he had been Deputy Director-General. Prior to that he was Chief Executive of ITN; Group Managing Director of Carlton Communications and Managing Director of Central Independent Television.

The Board is hugely appreciative of everything that Sir Robert has achieved since he joined the Group. It is stronger now than at any time in its history. Our overriding purpose of guaranteeing the future of the Guardian has been secured under his leadership and the Board joins me in wishing him and his wife, Jean, well in the future. I am delighted that he has agreed to continue to serve the Board as a non-executive director for a transitional period.

On 8 May 2006, I was able to announce that Carolyn McCall had been appointed to succeed Sir Robert as Chief Executive of GMG on his retirement at the end of July 2006. Carolyn McCall is currently Chief Executive of the National Newspaper division. She has held this role since 2000, when she also joined the Group Board. Carolyn was previously Advertisement Director, Commercial Director and Deputy Managing Director. Carolyn is a Non-Executive Director of Tesco PLC and Chair of Opportunity Now, the UK’s leading membership organisation for gender equality and diversity at work. The Group Board is delighted that Carolyn will be taking up this role and wishes her every success.

Heather Luff and family have our deepest sympathies in respect of the untimely death of Graham Luff in November last year. Graham retired from the Board at the end of March 2005 having led Trader Media Group Limited with great distinction since its creation in May 2000.

In a world where constant change is now common currency, our primary challenge remains unchanged and simple: securing the financial and editorial independence of our main titles in perpetuity.

Paul Myners
paul.myners@gmgplc.co.uk

Chief Executive's review of operations

Sir Robert Phillis
Chief Executive

This has been a landmark year which reflects great credit on our staff throughout GMG. It has been a year of momentous change within our national newspapers, a step change within our regional titles, of sustained progress across our radio stations and it has marked major progress in the transformation of Trader Media.

Taken together, these profound shifts are strengthening the Group at a time when the communications revolution is dealing harshly with organisations long on tradition and short on vision.

Our advantage – curiously perhaps in a world which is being reshaped by technology – lies in our heritage. This enables us to draw strength from an enduring philosophy which supports talent and creative quality while being unafraid to back considered judgement.

This is how our organisation came to make an early investment in our extensive and increasingly formidable online portfolio. This is how the Guardian and Observer, supported by an £80 million capital investment programme, changed formats in a manner and at a time of our choosing.

There is a common thread which runs through the professionalism of GMG's people. It links our core principles of honesty and objectivity to our trusted brands. And in a crowded global communications space, where fact has to fight harder than ever to keep ahead of comment of all kinds, the daily renewal of that trust is, for this organisation, our first duty.

Turning now to the review of the Group's operations by Division:-

National Newspapers

It has been a year of remarkable change and challenge for the National Newspaper division (GNL), culminating in the highly successful launches of the Guardian and the Observer in the full-colour 'Berliner' format, in September 2005 and January 2006 respectively. Overall, the national newspaper market has continued to be intensively competitive with unprecedented marketing and promotional activity required to attract and retain readers in a fragmenting media landscape, and with advertising revenues adversely impacted by a relatively weak market. In a year of significant investment around format change, losses for National Newspapers were £19.3 million before exceptional items (2005 £18.6 million), on a turnover 1.5% up at £237.4 million. After the exceptional items, primarily associated with the implementation of the new printing arrangements, total losses for the year were £49.9 million.

The success of the 'Berliner' format change for the Guardian and Observer has been widely acknowledged. The decision to avoid the 'easy' short-term tabloid route, and to re-press for the 'Berliner' format three years ahead of a planned investment in new presses, has been more than vindicated with readers and advertisers clearly attracted to a format and design which so effectively provides greater ease of use whilst retaining journalistic integrity. The reputation and influence of both papers as important liberal voices has been amplified by the new format.

The Guardian has achieved a significant circulation increase since its September 2005 launch, with headline sales of over 380,000 for the first six months and full price sales increasing by an average of 23,000 copies per month in the same period. This success was repeated at The Observer in January with another highly successful launch and an average monthly circulation increase of nearly 40,000 full price sales in the first five months since launch. Crucially, both launches also proved popular with advertisers, who were consulted widely ahead of launch.

Underlying factors including structural changes in the advertising market have meant a difficult year for most media owners. But format change boosted display advertising revenue in both the Guardian and the Observer to ensure that difficult pre-launch trading conditions were compensated for, in part, by post-launch display revenue growth. A buoyant digital market also boosted revenue with growth of almost 50% across Guardian Unlimited and Guardian Jobs, to a degree offsetting losses from continuing poor conditions in the recruitment market. Overall, GNL performed well in difficult market conditions with advertising revenues down 2.7% year-on-year.

The smooth execution of both launches was even more remarkable given the scale of the project. The 184 year-old Guardian and the 213 year-old Observer were both redesigned completely from scratch, a new print centre had to be built in East London, and three brand new presses had to be commissioned from Germany and installed in London and Manchester. Many of GNL's processes had to be changed, ranging from the way it communicates with advertisers to the way its papers are displayed and promoted at retail. All this was achieved in less than 18 months.

The extraordinary pace of change in the media industry, with emerging digital businesses disrupting the activities and revenues of traditional content businesses, has required a particular focus on our digital strategy, alongside print. GNL's ambition is to be the leading independent liberal voice in the world, providing relevant, personalised content and connectivity to audiences both in the UK and globally.

Guardian Unlimited had another record-breaking year for both traffic and revenues, reaching a record 12.9 million unique users in March 2006. GNL's digital businesses enjoyed a 41% increase in total revenues. The site remains by far the most popular published by UK newspapers, with a 10% share of the online newspaper market.

Innovation, as ever, remains crucial to growth and success, particularly in the development of communities and user-generated content. *Been There*, a travel site entirely dependent on users' recommendations, and highlights of which form a Readers' Guide in Saturday's *Travel* section, has been launched. And, in 2006, four years after being the first UK newspaper to introduce a blog, *Comment Is Free* made its debut. It is hoped that this ground-breaking blog will become one of the focal points for intelligent debate on the web.

Learnthings, the digital education content business, has enjoyed a busy year, delivering its first profit contribution. Learnpremium and Learnnewsdesk, the company's subscription products for schools, are now available in one form or another in 6,000 UK schools.

During the year the division has been developing Newsmaker, which will simulate the Guardian's Newsroom experience in any classroom, by creating an interactive environment that replicates newspaper production for teachers and students to use in all subjects.

GNL now has the most modern and vibrant newspapers in the country, using the most advanced presses in the UK, alongside the best online newspaper in the world. It is actively investing in its newspapers to ensure they can compete effectively and retain their integrity, relevance and vitality for the future.

Regional Newspapers

A static advertisement market coupled with a defection of readers and advertisers to the internet has presented the division with a series of challenges and this has been reflected in a downturn in the overall financial performance of the division. Profits for Regional Newspapers were £21.6 million before exceptional costs (2005 £34.4 million), on a turnover 7% down at £126.8 million.

In Manchester, the aim has been to develop the best possible staffing structure to meet the needs of the rapidly fragmenting media market, with managers working hard to bring various parts of the operation together into a single, connected media business. This unfortunately resulted in a number of redundancies which, wherever possible, were achieved on a voluntary basis.

Advertising revenues were severely depressed during the year, but recovered in the first quarter of 2006 such that at the year-end revenue of £105.7 million was down 8.4% on 2005, with recruitment revenues being most seriously impacted with a 17.8% decline year-on-year. The division is developing a more flexible range of media options for our advertisers which will address a number of key issues over the coming year. All advertising sales functions have been brought together under the banner of M.E.N. Media Sales, with responsibility for commercial revenues across all media platforms in Greater Manchester. M.E.N. Media Sales will shape advertising sales strategies to meet the varied future requirements of advertising clients.

The streamlining of operations also led to the closure of *City Life* and *V* magazines. The new strategy is based on brands which can profitably be developed in the future in an on and offline capacity. The major area for development will be the local TV station, Channel M. The station has continued to grow with the recruitment of over 60 new staff and a move into the iconic Urbis centre in the heart of Manchester. It is now seen as the UK's most successful local TV station. Revenues for the station are growing steadily with the launch of live news throughout the early evening, along with a number of locally-targeted sport and entertainment shows. Breakfast programming is scheduled to start in the autumn providing an 18-hour daily schedule of programmes for the people of Manchester. Channel M's move to a Sky digital platform, alongside the terrestrial and NTL platforms, means that a potential audience of over one million adults is able to receive the channel in Greater Manchester alone, providing a credible alternative to the current offerings on BBC and ITV for local news and information.

Other areas under continuing development in Manchester include the diversification of online options. *manchesteronline* currently attracts around 12.5 million page impressions and approximately 3.2 million unique users each month, making it the biggest web portal for the city region. Online products which have been launched this year include *CV Station* – a web-based CV matching site which currently has nearly 4,500 registered 'members' and *Postings Plus*.

This service aims to provide advertisers with a lower entry cost for recruitment advertising. The early stages of this site's development are showing considerable potential for the generation of new revenue streams in recruitment.

September will see all the Greater Manchester newspapers printed on some of the world's most advanced presses at Mirror Colour Printers in Oldham. The wholesale move of printing from Trafford Park to Oldham coincides with the move from the Deansgate offices to a state-of-the-art office complex on Hardman Street, at the heart of Manchester's new business district in the multi-million pound Spinningfield development. The new Manchester offices will give the division the perfect environment to grow and develop staff and a range of media products to ensure that its portfolio remains the premier media choice in the UK's fastest growing and most successful regional centre.

In Surrey and Berkshire, the market has been no less tough, though the move to distribute the Reading Evening Post free each Wednesday has had a remarkable affect upon the market, with the GMG title emerging as a strong contender to be the newspaper of choice for the people of Reading.

In Surrey, a depressed circulation sale has focused the division's attention on the development of paid-for sales alongside online revenues, which is of paramount importance to ensure the division will thrive in the new media market environment.

Trader Media

Trader Media had another outstanding year in terms of its financial performance. Operating profit was £119.5 million (up 2.8% on the previous year), on a turnover of £303.3 million (up 0.5% on 2005).

2005/06 was a year of fundamental change for Trader Media. The division has ambitious plans to continue making strong financial contributions to the Group. This ambition has to be set in context. The competitive environment is getting more challenging with strong web brands joining traditional publishing competition, offering different options for consumers and customers alike. Added to this, the demands of key customers are changing with advertisers purchasing packages across multiple magazines and digital media.

Trader Media has now begun a five year plan to transform its UK and Ireland publishing operations, increasing efficiency and streamlining back office operations to combine excellent customer service with the delivery of ambitious profitable growth. The company continues to build its market-leading brands, both online and in print and by investing heavily in technology combined with Trader Media's unique way of working (and selling) locally.

2006 also saw the start of a programme of new business development and strategic acquisitions which will help to drive the improvement of TMG's service and offer to core customers, who will benefit from an increased range of brands. The acquisition of 'carzone.ie' in November 2005, brought the number one Irish automotive website into the portfolio alongside autotrader.ie and contributed its first profits to TMG in December 2005. This new acquisition was followed in April 2006 with the acquisitions of 2nd Byte, a leading provider of Online Stock Locators to nine vehicle manufacturers as well as Contact Advantage, a specialist provider of Customer Relationship Management (CRM) systems to the automotive dealership market. In addition 2006 will see the start up of Trader Data Systems (TDS), a new vehicle provenance checking operation.

Auto Trader remains the main engine for the business, with total profit for the brand (publishing and digital) up 6% versus last year, although like all motoring publications, the UK Auto Trader magazines came under circulation pressure.

Auto Trader Digital continued its remarkable growth becoming a top 5 UK website, with excellent figures for site traffic, dealer revenues and profitability. In the final months of the year, page impressions reached 357.5 million per month (2005 216.1 million) and unique users reached 6.57 million per month (2005 3.86 million). Over 37% of site visits for all automotive classified sites are to Auto Trader digital. Some 8,400 dealers did business online and the ability to add value and drive yield with these customers helped increase online profits by 53% year-on-year. When publishing and digital are combined, some 60% of UK dealers use the brand.

Looking forward, this performance is set to continue as new consumer initiatives introduced in 2006 take full effect. New offerings also mean new revenue streams, with the insurance operation for example, doubling its profitability in the year.

Although similar market circumstances faced our other widely recognised automotive classified magazines and associated websites, which include Bike Trader, Top Marques, Auto Freeway, Truck and Plant Trader, Motor Home and Caravan Trader, Farmers Trader and Classic American, all performed very strongly with overall profits up 3% versus last year. Innovation and extension of the web offering for each of these products is in progress which will ensure this strong performance continues.

Ad Trader, like all players in the 'general classified' sector had a challenging year with circulation down 14% year-on-year. Trader Media is focusing on bringing new product innovation and advertising revenue in to the brand going forward and have launched Wooo.co.uk, a new free local community information classified advertising site powered by Ad Trader. Wooo.co.uk will roll out to most large cities in the UK during the 2007 financial year.

Trader Media's overseas divisions in Holland, South Africa and Italy performed well overall with profits up 10% year-on-year. The big digital push in Italy, which added some 20,000 cars in just a few months, underlines the future potential for all the overseas divisions.

Print division profits increased by 26% in 2006, including pension accounting adjustments. Acorn was a star performer winning new business and awards which encouraged the investment in computer-to-plate equipment at this site, completing the transformation of all three print sites and providing a firm foundation for continuing future success.

TNT had a strong start to the year, but the decline in recruitment advertising and the London bombings contributed to a fall off in performance. However, the shortfall in revenue was limited to 14% year-on-year, excluding the Australian business which was sold during 2004/05. Product innovation like the launch of *Fusion* in March 2006, targeted at the half a million-plus Eastern Europeans living in Greater London, is an indication of new measures being introduced to restore profit growth.

In a difficult year, Trader Media maintained its record of continuous profit growth, outperformed the competition and gained market share. The programme of innovation, business development and the re-engineering of the business will maintain the company's leadership role in the sector.

GMG Radio

Despite the gloom surrounding the largest UK radio players, GMG Radio continues to move forward. In pure radio terms, revenue at £27.9 million grew by 13.9% and operating profit at £2.7 million compared with the previous year of £1.0 million. This was achieved against the background of further audience increases.

The Real Radio brand continues to grow through the division's commitment to quality local content and solid regional entertainment. In Scotland, Real has seen hours grow to over 9.8 million with revenue and profit at record levels. In just four years revenue has grown by some 600% and the station is now clearly the market leader in both share and hours across the central belt of Scotland. Real Wales, our first radio licence, continues to hold on to its pole position across South Wales while Real Yorkshire, which operated in the most competitive area of all the Real brands, is also demonstrating growth with further progress expected in the coming year.

Perhaps the most pleasing aspect within GMG Radio has been the success of the new brand, smooth fm, and the continued increase in revenues generated. The decision to change the name from *jazz fm* has proved to be popular. While the London operation has only recently been rebranded, the station in the North West has seen its audience figures rise considerably and is now delivering solid profit for the first time.

Revenue increases at a time of much debate about the decline of radio advertising overall have shown that GMG Radio has outperformed the market because of a continued focus on local, regional and a growing online market combined with real growth in its national revenues. Although the business delivered a year-on-year increase of 14%, the final quarter of the year achieved 20% revenue growth and the start to the new financial year is looking positive.

Throughout the year GMG Radio has once again been recognised with awards and plaudits for the quality of its output. This has been particularly true of its journalism which underpins our commitment to news and speech-based content.

GMG Radio believes that the future for successful groups in radio will be based on strong brands and GMG Radio is well placed to take advantage of this situation through the Real and smooth services. It believes that smaller local radio stations are best managed within locally-focused companies and has therefore sold its shareholding in Reading fm and the spare digital service in Leeds was sold to Leeds United FC. GMG Radio is now focused entirely on large regionally-based radio operations, having also sold its record label to the Ministry of Sound during the year.

Looking ahead, the division's key objective for the year is to grow the size and scale of its operations through licence applications and acquisitions as and when suitable opportunities arise.

Group Outlook

This has been a year in which the benefits of our diverse portfolio have enabled us to undertake a significant programme of renewal, underpinned by major long-term capital investment.

The fact that this programme has been completed at a time of economic uncertainty, accompanied by further rapid technological developments across the communications sector – all competing for the attention of consumers and advertisers alike – says much about the resilience of our strategic plans.

It also, of course, reflects the value of the unwavering support of the Scott Trust, vividly demonstrated by its unstinting backing for the publication of the Guardian and Observer in the new 'Berliner' format.

The support of all of our staff across GMG continues to be a major strength at a time of unrelenting change, particularly, as demonstrated in Regional Newspapers and Trader Media where a number of jobs have had to be lost.

As the Chairman has reported, on 5 May 2006, we announced our plans to sell a minority shareholding in Trader Media Group through an initial public offering on the London Stock Exchange at some stage during the 2006/07 financial year, subject to market conditions.

Trader Media is a valued and important part of the GMG Group and one which is successfully transitioning in the new digital age. The sale of a minority stake will help facilitate the rebalancing of our assets within the overall GMG portfolio. Nevertheless great caution will need to be exercised in the reinvestment of the proceeds of such a sale, having proper regard for the need to protect, develop and create value within the portfolio for the long-term.

As the communications revolution accelerates, we believe we are well placed to make further progress, not only because of our strong financial position, but because of our early decisions to take on and exploit opportunities presented by the digital environment. As a result, in an era of consistent unpredictability and persistent challenge, our core commitment to the editorial and financial independence of the Guardian remains as clear and as strong as ever. Editorially, I believe the Guardian to be in a class of its own. Financially, both it and the Group are more secure now than at any time in their history.

This will be my last report as Chief Executive of Guardian Media Group, since I have decided to retire from full-time executive employment, because of health considerations, at the end of July 2006. Carolyn McCall has been appointed as my successor and I am delighted she will be taking over from me. Carolyn's drive, energy and understanding will ensure continuing success for GMG in the digital age and she has my total support.

It is almost nine years since I joined Guardian Media Group plc as Chief Executive. It has been an exciting, demanding, challenging and rewarding time. There has been enormous change during my period of office, and I believe the Group is now soundly placed to grow from strength to strength in the rapidly changing digital media future. I wish Carolyn, my successor, well and I will take great satisfaction and pride from the continuing growth and success of this remarkable and unique organisation.

Finally I would like to thank all of those colleagues, past and present, with whom I have had the pleasure of working on the Scott Trust, the GMG Board, and throughout the entire organisation. It has been a great privilege.

Bob Phillis

Sir Robert Phillis
bob.phillis@gmgplc.co.uk

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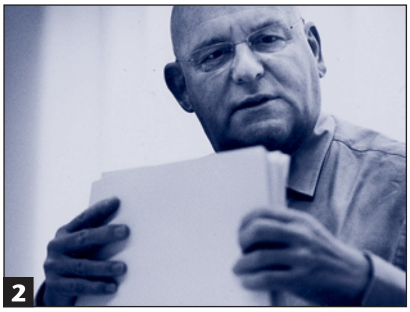

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Guardian Media Group plc Board of directors

1 Paul Myners*+^
Chairman
Aged 58. Joined the Group in 2000. He is Chairman of the Remuneration and Nominations Committees. He is also Chairman of Marks & Spencer plc and The Low Pay Commission, and a member of Court of the Bank of England. He is Chairman of the Trustees of Tate and a Trustee of The Smith Institute.

4 Alan Rusbridger
Editor,
The Guardian
Aged 52. 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, became Editor in 1995, and joined the Scott Trust in 1997. He is Executive Editor of The Observer, a Member of the Press Complaints Commission's Code Committee, a Visiting Fellow at Nuffield College and Visiting Professor of History at Queen Mary's London.

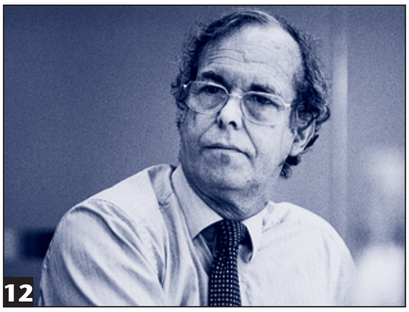
2 Sir Robert Phillis
Chief Executive,
Guardian Media Group plc
Aged 60. Joined the Group in 1997 from the BBC where he was Deputy Director-General. He was previously Chief Executive of ITN, Group Managing Director of Carlton Communications plc and Managing Director of Central Independent Television plc. He is Non-Executive Chairman of All3Media Group Limited and a Non-Executive Director of ITV plc.

5 Carolyn McCall
Chief Executive,
National Newspaper Division
Aged 44. Appointed to the Board in 2000. Appointed to Guardian Newspapers Board in 1995. She is Chair of Opportunity Now and a Non-Executive Director of Tesco PLC.

3 Nick Castro
Group Finance Director
Aged 55. Joined the Group and Board in 1998. He was previously Group Finance Director of Yorkshire Tyne Tees Television Holdings plc and a partner with KPMG in London.

6 Mark Dodson
Chief Executive,
Regional Newspaper Division
Aged 45. Joined the Group in 1988 and became Chief Executive of Greater Manchester Weekly Newspapers in 1998. He was appointed to the Board in October 2005. He is also on the Board of The Newspaper Society and fish4 Limited.

7 Jerry Fowden
Chief Executive,
Trader Media Division
Aged 49. Joined the Group in January 2005 and was appointed to the Board in April 2005. He was previously Chief Operating Officer and President Europe for InBevSA, Chief Executive Officer of Bass Brewers and Managing Director Holidays Division, and Board member of The Rank Group PLC. He started his career at the Mars Group. He is a Non-Executive Director of Chesapeake Corporation (US Listed Multinational Packaging Company).



8 John Myers
Chief Executive,
GMG Radio Division
Aged 46. Joined the Group in 1999 and launched GMG Radio Holdings Limited. He was appointed to the Board in January 2006. He was previously Chief Executive of Border Radio Holdings Limited. He is a member of the Sony Radio Awards Committee and Deputy Chairman of the Radio Academy. He was awarded a fellowship for his contribution to radio in 2002.

11 Richard Eyre*^
Independent
Aged 52. Joined the Board in 2004. He is Non-Executive Chairman of RDF Media Limited. He has held several chief executive positions in key media companies, including Pearson Television Limited, ITV Network and Capital Radio plc.

9 Giles Coode-Adams OBE DL*^
Senior Independent Director
Aged 67. Joined the Board in 1999. He is Chairman of the Audit Committee. He was formerly a Managing Director and then senior adviser 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.

12 Andrew Karney*+^
Independent
Aged 64. Joined the Board in 1997. He is a Director of Baronsmead VCT 3 plc and Chairman of Tiri, an anti corruption non-governmental organisation. He has recently been a Director of Language Line Limited and a number of small venture capital backed companies. He was for many years an Executive Director of Logica plc and was a founder Director of Cable London plc.

10 John Bartle CBE+^
Independent
Aged 61. 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.

13 Phil Boardman
Company Secretary
Aged 49. Joined the Group and appointed Company Secretary in 2001. Previously he was Group Financial Controller of Hickson International PLC and Fenner PLC.

* Audit Committee
\+ Remuneration Committee
^ Nominations Committee

The Scott Trust

Dame Liz Forgan DBE
Chair, The Scott Trust

Can a set of values laid out in 1936 have any real meaning for a 21st century media organisation undergoing the fastest, most total revolution since movable type?

Some might see the Scott Trust and its pre-war values as a force for stability, permanence and changelessness. Possibly fatal qualities in the age we live in.

The Scott legacy – our enduring values and the financial security of trust ownership – could easily be a recipe for inaction and ostrich behaviour. But it also gives us the possibility of approaching an uncertain and risk-laden future with more courage and confidence than a normal company could easily deploy. We shall not be ostriches.

The pace of change will get faster with every year that passes. The prize is to the well-resourced, the bold and the inventive and we are lucky enough to be all three. The Scott Trust structure means it can take the long view of all its assets – both those divisions which are driven to maximise profits and those which, like the Guardian, are profit-seeking but exist to deliver benefits over and above the bottom line.

That means bold innovation to look beyond traditional audiences and sources of revenue – the Guardian and the Observer both marking triumphant transformations to the 'Berliner' format, the Manchester Evening News taking a radical approach to distribution in the inner city, Trader Media as a model of how to ride the wave of online communication and stay ahead of the tide, GMG Radio upturning the market in Scotland with its refreshing programming and Guardian Unlimited growing a new global culture alongside the established journalism of the national newspapers.

The Scott Trust is 70 years old this year. Whatever the somewhat austere C P Scott might have thought about smaller, many-segmented papers with colour on every page, I believe he would have taken some pride in the fact that the anniversary has been marked by a cascade of top awards for our publications, from Newspaper of the Year, Editor of the Year and Best Designed Newspaper in the World for the Guardian, Best Newspaper Website in the World for GU and Newspaper Design of the Year and Best Supplement for the Observer. These represent the independent judgement of our peers and our readers and testify to the fulfilment of a key Scott Trust purpose – to maintain quality journalism.

Big decisions lie not far ahead for us as for every media organisation. What portfolio of businesses will best guarantee the security of our remit in the future? How far and how fast will our diverse media structure merge into a single multi-media universe? How does the Scott tradition of trustworthy, liberal journalism react to the anarchic energy of the blogger and consumer-generated content? Does globalism's winner take all effect threaten our pluralist instincts?

The Trust Deed's injunction to the Scott Trustees is of only marginal help in confronting such monster questions. We are simply instructed to carry on the business of the company 'as heretofore'. But in a sector where production, distribution, even the physical incorporation of our product has undergone fundamental change this turns out to be an inspired piece of flexible constitution-making.

The Chairman and Chief Executive have described a year of innovation all around the Group. But for me the event which will stand as an emblem of how the values of 'heretofore' continue to inspire pioneering change must be the launch of the Guardian's blog site, a pioneering leap into the future which hurls writers and readers together with a huge web population most of whom will never have seen a copy of the paper. The tone is very different from the Guardian's normal crafted prose and tolerant courtesies but it is unmistakeably a voice of the 21st century. How beguiling that it should find its name, *Comment is Free*, in one of the most celebrated phrases coined by C P Scott himself in his great Centenary Leader written in 1921.

Dame Liz Forgan DBE
liz.forgan@gmgplc.co.uk

The Scott Trustees

Dame Liz Forgan DBE
Chair of the Scott Trust
Aged 61. Chair of the Scott Trust since 2003. She was formerly an Independent Director of Guardian Media Group plc, 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.

Larry Elliott
Aged 50. 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.

Andrew Graham
Aged 64. Joined the Trust in March 2005. He is the Master of Balliol College, Oxford, Chairman of the Advisory Board of the Oxford Internet Institute and an elected member of the Council of Oxford University. He was Economic Adviser to the Prime Minister, 1967-69 and 1974-76; and, from 1988-94, to the Leader of the Labour Party, John Smith. From 1998 to 2005, he was a Non-Executive Director of Channel 4 Television.

Will Hutton
Aged 56. Joined the Trust in 2004. He is Chief Executive of The Work Foundation and is a Governor of the London School of Economics. He was formerly on the Board of Guardian Newspapers Limited and editor in chief of The Observer.

Paul Myners
Aged 58. Joined the Trust and Group in 2000. He is Chairman of Marks & Spencer plc and The Low Pay Commission, and a member of Court of the Bank of England. He is Chairman of the Trustees of Tate and a Trustee of the Smith Institute.

Sir Robert Phillis
Aged 60. Joined the Trust and Group in 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. He is Non-Executive Chairman of All3Media Group Limited and a Non-Executive Director of ITV plc.

Geraldine Proudler
Aged 49. Joined the Trust in 2002. She is a solicitor specialising in media law. Partner at law firm Olswang. She has defended the Guardian in libel actions since 1982, including the successful defences of actions brought by cabinet minister Jonathan Aitken and Neil Hamilton MP.

Alan Rusbridger
Aged 52. 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, a Member of the Press Complaints Commission's Code Committee, a Visiting Fellow at Nuffield College and Visiting Professor of History at Queen Mary's London.

Jonathan Scott
Aged 58. Joined the Trust in 1988. He is currently a consultant to KPMG Corporate Finance. He was previously a Director of KPMG Corporate Finance and SBC Warburg.

Martin Scott
Aged 64. 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.

Secretary
Phil Boardman
Aged 49. Appointed Secretary of the Trust in 2004. He joined the Group and was appointed Company Secretary in 2001. Previously he was Group Financial Controller of Hickson International PLC and Fenner PLC.

Corporate social responsibility

Guardian Media Group not only has a direct impact on the communities it serves through the editorial coverage in its numerous publications, websites and radio stations, but also through a huge range of volunteering and charitable initiatives.

Altogether, the Scott Trust, GMG and the individual divisions helped raise more than £1.6 million last year through philanthropic activities. While each division chooses to support its own charitable ventures, a more strategic focus has been placed at the centre of the Group with the creation of the Scott Trust Foundation.

Its remit reflects one of the Trust's key objectives of 'promoting the causes of freedom of the press and liberal journalism both in Britain and elsewhere'. It has three separate arms: the existing Guardian Foundation, the Newsroom visitor and archive centre, and a newly formed Scott Trust charitable fund.

Guardian Foundation

The Guardian Foundation supports the creation and running of successful and editorially independent newspapers in eastern Europe and southern Africa. Through talks, seminars and practical training involving GMG journalists, the foundation aims to share expertise with journalists overseas.

As well as continued support for long-standing projects, such as financing the Mail and Guardian's training scheme for young journalists in South Africa, the Foundation has developed partnerships in some new countries. For example, it went to Ukraine to run a seminar on the art of reporting the EU, and invited a group of young Albanians to London to find out about the mechanics of setting up their own newspaper. A new alliance with the BBC World Service Trust is now delivering online lessons in newspaper writing from Moscow to Colombo.

The range of activities hosted by the Newsroom included the Children's Big Draw event in 2005.

Newsroom visitor and archive centre

The Guardian's Newsroom visitor and archive centre in London continues to build its reputation, receiving more than 10,000 educational visitors from across the UK in the last year alone. Two full-time education officers work with school groups, further and higher education students, adult learners and families to create newspaper front pages using state-of-the-art IT. The popular free workshops are booked up a year in advance, with a long waiting list.

The range of activities has been extended further this year to include seminars and conferences on subjects such as careers in the media and the war on terror. One-off workshops also run in conjunction with the Newsroom's rolling programme of exhibitions and there is also an archive that preserves the Group's heritage. www.guardian.co.uk/newsroom

Scott Trust charitable fund

The Scott Trust charitable fund was set up in 2005 to support projects associated with independent journalism, journalistic ethics, media literacy and journalist training in the UK and abroad. The fund includes representatives from all GMG divisions.

The Scott Trust Bursaries provide support for aspiring journalists to study for a Post Graduate Diploma in Journalism. Six bursaries are awarded, three at City University, London, two at the University of Sheffield and one at Goldsmith's College, University of London. The aim of the award is to assist students who face financial hardship in attaining the qualifications needed to pursue a career in journalism plus encouraging graduates from diverse social and ethnic backgrounds particularly from minority ethnic backgrounds currently under represented in journalism. The award provides financial and training support for students including course fees, a subsistence allowance and as part of the course syllabus, work experience training placements in both our regional and national newspapers. There is no offer of employment with the Guardian Media Group attached to these awards, however students have been successful in gaining employment based on merit once they have completed their course.

Successful bursary students are selected by a panel of GMG journalists and the course leader from the participating universities plus the Bursary Scheme Co-ordinator who chairs the selection panel, organises the work experience placements and administers the scheme throughout the year.

The bursaries are recognised as a prestigious award. Over the past fifteen years the scheme has successfully provided a much needed training opportunity. Most of our past awardees are now established journalists in both print and broadcast media.

Guardian Newspapers Limited (GNL)

GNL continues to support schools and charities by providing volunteers, funding and expertise through long-term partnerships. More than 120 employees (8%) volunteer regularly, a figure likely to increase in the coming year with the introduction of a time-off policy which will give staff flexibility to volunteer during working hours for a wide range of community organisations.

Education programme

The schools volunteering programme involves five partner schools in London and Manchester, which are all typical inner-city schools with students from diverse ethnic and social backgrounds. GNL employees regularly give an hour a week to providing reading, mentoring and special needs support.

Children in Gumbi Village, Malawi.

There is also an international dimension to the education programme. Following on the back of a Guardian article about a village in Malawi whose inhabitants were unable to fund their children's education, readers donated more than £20,000. A further £5,000 was raised by Guardian staff from our annual Christmas raffle. As a result, 70 children are now attending secondary school and we are also paying for the local secondary and primary schools to be redeveloped, with libraries and new classrooms being built.
www.guardian.co.uk/gumbi

Journalism
GNL supports several projects which engage young people with an interest in journalism, including a partnership with Live!, a magazine written and produced solely by young people for their peers in south London, and Children's Express, a charity that gives disadvantaged youngsters a voice on topical issues, through the articles they write. *www.guardian.co.uk/community*

Groups of young people from Live! magazine based in South London.

HIV/Aids

The Guardian teamed up with Médecins Sans Frontières (MSF) for its 2005 Christmas appeal and raised more than £700,000 through a mixture of one-off donations and monthly direct debits. The funds are being channelled through 10 MSF clinics in Africa to enable HIV-positive people to live healthy and full lives. The money will go to providing life-saving drugs and medical care.

Separately, GNL manages a project in Malawi, supported by readers' donations, which is paying for scores of people with HIV to receive free life-saving ARV drugs.

In Ghana, the division is supporting a project that is working with local communities to explore the issues of HIV, Aids and sexual health through a programme of group workshops using interactive theatre. Theatre for a Change is seeking to reduce the number of new infections of HIV/Aids among young people, by encouraging behavioural change. The organisation specialises in the use of interactive theatre as a tool for development among marginalised communities.

The Christmas appeal 2005 raised more than £700,000 for HIV-positive people in Africa.

Payroll giving and match-funding

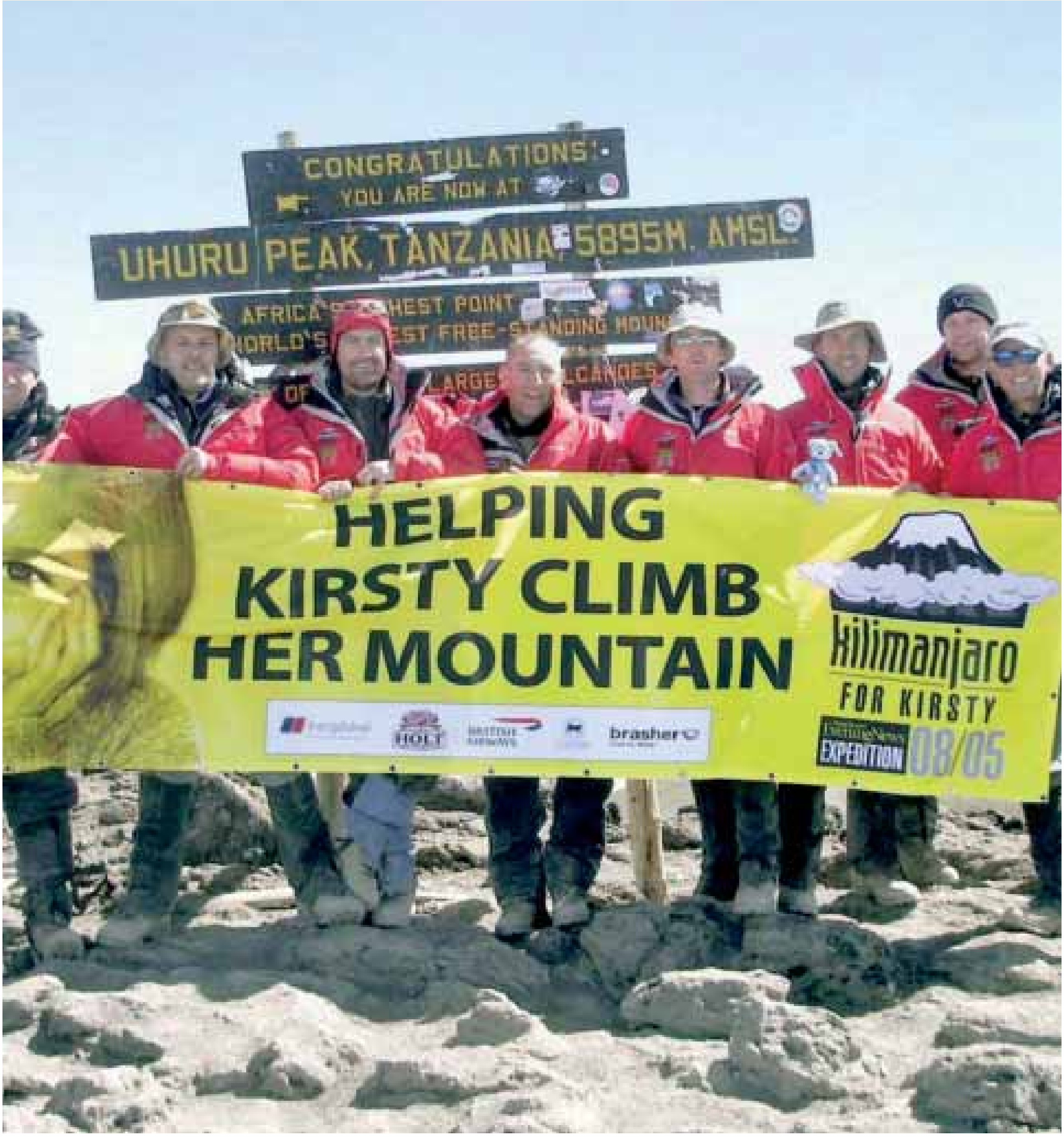
While GNL supports various charities that fit with the company's values or editorial themes, our payroll giving and match-funding schemes give staff the option to choose their own charitable organisations to support. As well as matching employees' fundraising efforts pound for pound for the first £100, we also encourage staff to sign up to payroll giving. Over one-third of our 1,500 employees (26% last year) now donate to over 200 charities, which compares with a national average of just 2%. As a result, charities received over £100,000 additional funding over the past year.
www.guardian.co.uk/getinvolved

Regional Newspapers

The Manchester Evening News (MEN) won the Community Newspaper of the Year award for its support for the Kirsty Appeal, a charity that has been set up to help Francis House Children's Hospice in Didsbury, Manchester, remain open in perpetuity.

An ascent of Kilimanjaro organised by MEN Editor Paul Horrocks raised £105,000 for the Francis House Children's Hospice.

The highlight of the campaign was the ascent of Mount Kilimanjaro in Tanzania by a team led by MEN Editor Paul Horrocks. Other members included Mark Rix, media sales Managing Director, and Dave Healey, Deputy Postal Manager. The 10-day climb raised £105,000 for the hospice which is now within reach of its £5 million target.



Several newspapers in the Greater Manchester area also launched successful fundraising campaigns during the year. The Macclesfield Express helped raise £1.5 million to open a cancer care unit at the local hospital, while the Oldham Advertiser collected more than £50,000 in the past year for its local hospice. Many titles had Christmas appeals with Rochdale, Oldham and the Tameside Advertiser combining to run a Secret Santa appeal at their local shopping centres ensuring hundreds of under-privileged children received Christmas presents.

Award-winning reporter Kate Bradbrook, 24 is a graduate of the Real Media School, which offers journalism bursaries to students and encourages schoolchildren to develop an interest in radio.

Trader Media

Trader Media's partnership with Whizz Kidz, the charity that provides customised wheelchairs, tricycles and other specialised mobility equipment to disabled children across the UK, is going from strength to strength. Almost £100,000 has been donated in less than two years, and the project is now being extended to offer volunteering opportunities for staff.

GMG Radio

The GMG Radio division's flagship annual fundraising campaign is its 'Bring a Pound to Work Day' campaign, which all the stations are involved in. Staff participate in a number of events, which over the past year have included a dragon boat race in the North-West and an It's a Knockout competition in Strathclyde.

Last year alone the five stations raised over £200,000 and this year's figure currently stands at around £260,000. The funds are distributed to nominated local causes including Sheffield Children's Hospital, Wales's Noah's Ark Appeal and NCH Scotland.

In the field of education, the Real Media School is now in its third term and has over the past few months visited primary schools across Yorkshire and introduced more than 300 youngsters to the world of radio. Further education and graduate students get to spend time with experienced radio professionals, and the scheme also sponsors one selected student a year who receives funding for tuition fees and one-to-one coaching sessions.

Traditional shelters in Sri Lanka built by Concern.

Tsunami update

Guardian Media Group to date have helped raise more than £5.5 million for the survivors of the Asian Tsunami.

GMG made a corporate donation of £250,000 to international development charity, Concern, which was used to build hundreds of transitional shelters in Sri Lanka for those made homeless by the disaster.

The Guardian/Observer Christmas appeal raised £1.2 million, which also went to Concern's rehabilitation work in Sri Lanka.

The Stockport Express and Times collected new and good-as-new items for Oxfam and the South Manchester Reporter's appeal contributed to the local community's response of more than £500,000.

The Manchester Evening News, which joined Greater Manchester's disaster appeal committee, opened its own appeal with a £10,000 pledge. More than £400,000 was raised, including a donation of £125,000 from a local businessman.

All of GMG Radio's stations took part in the UK Radio Aid Day, when British commercial radio raised more than £3.2 million.

Financial review

This review covers the 52 weeks to 2 April 2006 and provides an overview of the Group's financial performance and position.

The financial statements including comparatives have been prepared in accordance with International Financial Reporting Standards (IFRS). There is not a mandatory requirement for the Group to report using IFRS, however, given the scale of the Group's operations and ongoing public interest in the Group's activities, the Board determined that IFRS should be adopted with effect from 4 April 2005 and accordingly the comparative period numbers have been restated. The principal differences arising from the transition to IFRS from UK GAAP are set out in note 37 on pages 66 and 67.

The Group results for the year contain significant exceptional items relating to both the National and Regional Newspapers Divisions' investment in new printing facilities and the 'Berliner' launch.

The analysis of turnover and operating profit below detail underlying performance.

Turnover

Turnover from continuing operations for the year of £700.3 million decreased by 0.7% on last year.

Advertising and new media revenues (excluding share of joint ventures and associates) decreased by 4.1% to £503.7 million.

Circulation revenues (excluding share of joint ventures and associates) increased by 1.0% to £127.4 million.

Profits

The Group achieved an operating profit from continuing operations before exceptional items, of £116.4 million (2005 £127.2 million).

Exceptional items of £31.8 million relate to printing project costs (2005 £45.7 million, included printing project costs and the write off of the unamortised costs of the Trader Media debt refinancing £5.4 million).

Taxation

The Group's tax charge for the year was £20.5 million (2005 £19.8 million). The effective tax rate on continuing operations is 30.9% (2005 36.9%). The excess above the UK statutory rate is explained by the adjustment to the taxable profits for various non-deductible items together with the higher rate foreign taxes borne on overseas income and dividends as well as net adjustments in respect of associates' unrelieved tax losses exceeding the aggregate of non-taxable income, deferred tax movements (relating to the utilisation of previously unrecognised brought forward losses) and prior year adjustments. There is a deferred tax asset recognised in the balance sheet of £1.5 million (2005 £2.2 million), and a deferred tax asset not recognised of £5.3 million (2005 £7.1 million), which includes pre acquisition tax losses carried forward in a number of subsidiary companies.

Cash flow

The Group generated £8.1 million of cash in the year (2005 consumed £17.9 million). Net cash inflow generated from operating activities amounted to £110.6 million (2005 £137.4 million). Cash outflows include net interest payable of £16.3 million (2005 £25.9 million), tax £21.7 million (2005 £21.2 million), net cash used in investing activities of £41.0 million (2005 £58.0 million) and financing £24.0 million (2005 £59.1 million).

Balance sheet

The Group had net assets of £467.3 million as at 2 April 2006 (2005 £424.9 million).

By year-end Group net debt totalled £319.0 million, a decrease of £25.9 million on the previous year. Net debt, ring-fenced in Trader Media Group Limited totalled £334.2 million.

All financial covenants attached to the Trader Media loan facility have been met.

Leasing facilities totalling £71.1 million are in place in respect of the National and Regional Newspapers Divisions' printing projects. The leases have a fixed interest rate for the entire life of the leases. The Group commenced drawing against the facilities on 30 June 2005.

Treasury policy

The Group maintains a centralised treasury function which operates in accordance with Board approved policies. Its principal objectives are to minimise financial risk, whilst maximising returns on cash deposits and minimising the cost of the Trader Media borrowing facilities.

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 in place an interest rate hedge covering two-thirds of the outstanding Trader Media debt which hedges a reducing level of obligation to a minimum of £154.9 million at maturity in March 2008. The swap rate is 5.11% for the life of the hedge.

Whilst Trader Media has a small number of overseas operations, overall the Group continues to have 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 they are known material cash flows. In 2005/06 forward contracts have been put in place to hedge currency exposures on capital expenditure for the National and Regional Newspapers Divisions' printing projects.

Acquisitions and disposals

During November 2005, the Group acquired 100% of the ordinary share capital of Webzone Limited, a company incorporated in the Republic of Ireland, for a preference share consideration of £5.4 million. Following this acquisition, preference shares issued as part of the equity consideration were redeemed at par for £2.3 million. In addition fees of £0.3 million were capitalised to cost of investment and settled in cash.

During January 2006, the Group sold the trade and assets of its Enterprise music activities, part of Smooth FM (London) Limited to the Ministry of Sound for a net consideration of £3.0 million. Goodwill written off through the profit and loss account on disposal totalled £2.6 million. This resulted in a loss of £0.8 million.

During the year, the Group increased its shareholding in Reading Broadcasting Company Limited from 36.9% to 63.7%. In November 2005, the Group sold its entire shareholding for £1.0 million net consideration. This gave rise to a profit on disposal of £1.4 million.

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.

In preparing its corporate governance statement, the Board has closely followed the recommendations set out in the Combined Code, issued in July 2003. The Board has also taken into account the Group's unique structure, with 100% of the ordinary share capital of the Group being held by the Scott Trust. Three trustees are directors of the Group and the Chair of the Trust also attends all Board meetings and is a member of the Remuneration and Nominations Committees. This results in a closer relationship between management and shareholder, than was envisaged in the Combined Code.

The Board

The Guardian Media Group Board currently comprises a Chairman, seven executive directors and four independent directors. The Board is headed by a Chairman whose role is distinct and separate from that of the Chief Executive. The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board. Giles Coode-Adams is the senior independent director.

All the independent directors are free from any business or other relationship that could materially interfere with the exercise of their independent judgement. They each meet the independent criteria set out in the Combined Code. The Chairman is not judged to be an independent director by virtue of his position as Chairman.

The biographical details of all the directors and the Company Secretary set out on pages 12 and 13, 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.

A monthly financial report is provided to the directors. Board papers, which include regular and ad hoc reports, are circulated to the directors by the Company Secretary in advance of Board meetings so as to ensure Board members are supplied, in a timely manner, with the information they need. There is a written schedule of specific matters reserved for Board consideration which includes monitoring of Group strategy, reviewing trading performance and the approval of significant contracts, capital expenditure, acquisitions and disposals.

Led by the Chairman, the independent directors, excluding any executive directors, met formally once during the year. The senior independent director also led a meeting of independent directors, without the Chairman present, which appraised the Chairman's performance.

On appointment to the Board, directors receive appropriate briefings on the Group and its activities and follow a tailored induction programme. 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.

A performance appraisal of Board members and a process to review the effectiveness of the Board and its Committees have been introduced. To date the Chairman and all the directors have undergone a rigorous appraisal and the effectiveness of the Board, Audit Committee and Remuneration Committee have been reviewed using a questionnaire approach. The Board plans to review the effectiveness of the Nominations Committee during the forthcoming year.

The Board intends to undertake bi-annual performance appraisals of all Board members and reviews of the effectiveness of the Board and its three Committees, with the intervening years having scheduled progress meetings to follow-up identified actions.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors. In accordance with the Company's Articles of Association, the directors and officers of the Company are all indemnified out of the assets of the Company, to the extent permitted by law, in respect of liabilities incurred as a result of their office. In addition to this general indemnity, the Company has also put in place a specific deed of indemnity setting out in greater detail the terms and conditions of the Company's indemnity. Neither the Company's indemnities nor directors' and officers' insurance provide cover in the event that a director or officer has acted fraudulently.

Executive Committee

The Board delegates management of the Group businesses to the Executive Committee, which meets monthly.

Chaired by the Chief Executive, the Executive Committee comprises the four divisional chief executives, the Group Finance Director, the Group HR Director and the Company Secretary.

The Executive Committee is responsible to the Board for implementation of Group strategy, monitoring of business performance, and the approval of budgets, significant capital expenditure and contracts, and acquisitions and disposals for recommendation to the Board.

The Scott Trust

The Scott Trust, which is self-perpetuating, chooses to ensure that only a minority of its members are executive directors within the Group. At present two trustees, Sir Robert Phillis and Alan Rusbridger, fall into that category, while Paul Myners is Chairman of the Group.

One place on the Scott Trust is reserved for a Guardian journalist, at present Larry 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 non-family 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.

During the year a review of the Trust's corporate governance was undertaken.

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
Paul Myners	Member	Chairman	Chairman
John Bartle		Member	Member
Giles Coode-Adams	Chairman		Member
Richard Eyre	Member		Member
Andrew Karney	Member	Member	Member
Frequency of meeting per financial year	4	7	As and when necessary

The number of meetings of the Board and Committees held in the financial year ended 2 April 2006 with details of individual attendance by directors is set out in the table below:-

Director	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nominations Committee Meetings
Paul Myners	10	3	7	3
Sir Robert Phillis	10	4*	7*	2*
Ian Ashcroft (resigned 2 December 2005)	7			
Nick Castro	11	4*		
Mark Dodson (appointed 3 October 2005)	6			
Jerry Fowden (appointed 4 April 2005)	11			
Carolyn McCall	11			
John Myers (appointed 31 January 2006)	3			
Alan Rusbridger	10			
John Bartle	11		7	3
Giles Coode-Adams	11	4		3
Richard Eyre	10	3		3
Andrew Karney	11	4	7	3
* in attendance				
Number of meetings held	11	4	7	3

Corporate governance

continued

Details of the purpose of the Committees are set out below. All the Committees have written terms of reference, which are subject to annual review and which are available on request from the Company Secretary and can be accessed on the Group website *www.gmgplc.co.uk*.

Audit Committee

The Audit Committee, which consists of the Chairman and three Independent Directors, is chaired by Giles Coode-Adams. The Chief Executive, Group Finance Director, Company Secretary, Controller of Internal Audit and senior representatives of the external auditors normally attend the Committee's meetings. At least once a year the Committee or the Committee chairman meets with the external auditors and separately with the Controller of Internal Audit, without executive members of the Board present.

The Committee makes recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors and agrees their scope of work and fees prior to the commencement of the annual audit. The Committee has a written policy on the engagement of the external auditor to supply non-audit services, which clearly sets out areas where the external auditor cannot provide non-audit services, for example, accounting or managing internal audit work, as it could impact on their objectivity and independence. 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 reviews arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Committee has an agreed annual calendar of activities and has increased the number of meetings to four per financial year. This now enables the Committee to meet in turn with the Divisional Chief Executive and Divisional Finance Director of each of the four main divisions.

The Committee's proceedings are minuted and circulated to all Board members by the Company Secretary. The Audit Committee Chairman formally reports on the outcome of Audit Committee meetings to the Board.

During the financial year ended 2 April 2006 the activities of the Audit Committee included:-

- monitoring the integrity of the Group's financial statements and reviewing the significant and financial reporting judgements contained in them;
- review of the external audit strategy and subsequent report by the external auditors;
- review and approval of the internal audit plan for the 15 month period to March 2007;
- receipt and review of periodic reports from the Controller of Internal Audit;
- update on the Group's plans to implement International Financial Reporting Standards;
- review of the Committee's terms of reference;
- review of the actions taken to improve the effectiveness of the Committee as identified in the effectiveness review undertaken in 2004/05;
- pre-approval, where required, of non-audit work performed by the external auditors;
- meeting with the Divisional Chief Executive and Divisional Finance Director of all four divisions to discuss:-
  - divisional risk registers;
  - internal and external audit issues;
  - IT investment plans;
  - timetable adherence;
  - resources;
  - assistance from the Group;
- review of Divisional and Group risks.

Remuneration Committee

The Remuneration Committee is chaired by Paul Myners, and consists of two independent directors and Dame Liz Forgan, Chair of the Scott Trust. On matters other than those concerning themselves, the Chief Executive and Group HR Director 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 earning a salary above a level determined by the Committee and advises on executive remuneration policy issues. The Committee has access to professional advice where necessary. PricewaterhouseCoopers LLP, who are also the Group auditors, have provided remuneration advice to the Committee.

The Committee's proceedings are minuted by the Group HR Director and circulated to all independent directors. The Remuneration Committee chairman provides the Board with a summary report of the Remuneration Committee meeting.

A review of the effectiveness of the Committee took place during 2005/06. As a result of the review, the Committee asked for earlier circulation of Committee papers prior to a Committee meeting and regular updates on market comparabilities on total remuneration and pensions.

Details of Board remuneration are set out on pages 30 to 32.

Nominations Committee

Chaired by Paul Myners, it deals with the selection of 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 ensures that plans are in place for an orderly succession for appointments to the Board and to senior Group management. The Committee consists of all the independent directors and Dame Liz Forgan, Chair of the Scott Trust.

Executive directors attend by invitation.

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

External search consultants, The Zygos Partnership, were retained to assist with the appointment of Mark Dodson and in appointing Carolyn McCall as Chief Executive with effect from 1 August 2006.

The Committee's proceedings are minuted by the Company Secretary and the outcome of the meetings are formally reported to the Board by the Chairman of the Nominations Committee.

A review of the effectiveness of the Committee is planned for 2006/07.

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 responsibility delegated 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 and significant contracts 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.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Compliance with Code

Whilst as an unlisted plc there is no requirement for the Company to comply with the Combined Code, the directors believe that throughout the year and up to the date of the approval of the accounts the Company had complied with the provisions of the Combined Code throughout the year, issued in July 2003 with the following exceptions:-

- a majority of non-executive directors, excluding the Chairman, were not, as defined by the Combined Code, independent. Given the close relationship between management and shareholders, as described above, the Board has no plans to increase to a majority the independent director representation on the Board;
- the Chairman also chairs the Remuneration Committee; this will be addressed by the Board in 2006/07;
- there is no formal procedure yet in place to review the effectiveness of the Nominations Committee. The Board plan to undertake a review of the effectiveness of the Nominations Committee in 2006/07;
- appraisal of Board members and review of effectiveness of the Board and its Committees will take place on a bi-annual basis with the intervening year used to review progress on actions identified during the respective appraisals and reviews. The Board have reviewed the appraisal processes and consider the bi-annual review outlined above to be effective;
- current executive directors' contracts do not contain details of compensation commitments should there be an early termination of the contract. The Remuneration Committee intend to include appropriate compensation commitments clauses in the contracts of new executive directors;
- no current members of the Audit Committee have recent and relevant financial experience as defined by the Combined Code. The Board intend to recruit an independent director with such experience in 2006/07.

Report of the directors

The directors present their report and audited financial statements of the Group for the year ended 2 April 2006.

Activities and business review
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 profit and loss account on page 34. A review of the Group's performance, future prospects and financial risks are contained in the Chairman's statement on pages 3 and 4, the Chief Executive's review of operations on pages 5 to 11 and the financial instruments accounting policy note on pages 40 and 41. The Company has paid a preference dividend of 4.0p (2005 4.0p) per share amounting to £4,000 (2005 £4,000). The directors do not recommend payment of any dividend on the ordinary shares.

Land and buildings
The market value of land and buildings is estimated by the directors to be approximately £19.4 million greater than its balance sheet value of £36.8 million.

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 Group at the year-end was 30 days (2005 27 days).

Donations
Charitable donations amounted to £351,261 (2005 £630,950). 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 2 April 2006 are listed on pages 12 and 13.

Ian Ashcroft, who was a director on 4 April 2005, retired on 2 December 2005. Jerry Fowden was appointed as a director on 4 April 2005. Mark Dodson was appointed as a director on 3 October 2005. John Myers was appointed as a director on 31 January 2006. 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.

Statement of 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 and the financial statements comply with International Financial Reporting Standards. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 2 April 2006 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 confirm, so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

Financial instruments

The financial risk management objectives and policies of the Group are detailed in note 1 of the notes to the accounts.

Post balance sheet events

Details of post balance sheet events are given in note 35 on page 64.

Independent 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

29 June 2006

Directors' remuneration report

This is the first report by the Remuneration Committee which has been established in accordance with the recommendations of the Combined Code.

Chaired by Paul Myners, the Committee consists of two independent directors, John Bartle and Andrew Karney and the Chair of the Scott Trust, Dame Liz Forgan.

Remuneration policy for executive directors

The Remuneration Committee ensures that executive directors are remunerated fairly, taking into account both external market factors and the values of the Group, which commit us to fair and equitable treatment of all who work for us. Thus, we undertake to provide a package of benefits which are sufficiently competitive to attract and retain the most talented senior executives in our industry. At the same time, decisions on senior executive packages are made with reference to internal equities and to ensure that there is a transparency and 'felt fairness' about our executive remuneration policy. We aim to fairly recognise both individual contributions and collective achievements. Accurate data on the internal market is provided by the Group HR Director, and regular updates on the external market environment by PricewaterhouseCoopers LLP, who are also the Group auditors.

Salary and benefits

Salary is reviewed annually and is determined by the Remuneration Committee, having regard to market conditions and internal relativities.

All executive directors receive a company car, or cash alternative, and private health care benefits. Life insurance is provided as part of their pension arrangements.

Performance related bonus

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

Executive directors are able to earn a bonus of a maximum of 100% of basic salary, dependent upon performance conditions being met. The percentage of salary which can be earned as a bonus based on financial performance targets and the percentage based on personal objectives is set out below for each executive director:-

	% based on financial performance targets	% based on personal objectives
Sir Robert Phillis	65%	35%
Ian Ashcroft	70%	30%
Nick Castro	65%	35%
Mark Dodson	70%	30%
Jerry Fowden	75%	25%, but total bonus cannot exceed 75% of salary
Carolyn McCall	35%	65%
John Myers	70%	30%

Similar bonus arrangements, albeit with a lower quantum, apply to other senior executives in the operating divisions.

Following the acquisition of the remaining shares in Trader Media Group Limited in October 2003, Graham Luff was provided with a deferred bonus arrangement based on both the achievement of pre-determined annual financial targets and a personal commitment to remain with the company for a specified period of time post acquisition. The deferred bonus was paid in March 2005. On joining Trader Media Group Limited in January 2005, Jerry Fowden was provided with a deferred bonus arrangement based on achievement of pre-determined financial and personal targets.

Alan Rusbridger has no contractual entitlement to a bonus payment. In 2005/06 the Remuneration Committee decided to award Alan a bonus of £175,000 in recognition of his leading role in the successful launch of the new format Guardian and Observer newspapers, all of which he elected to take as an additional pension contribution.

Pensions

Retirement benefits are accruing to the executive directors under money purchase schemes. Contributions made by the Group to the schemes are shown in the table of directors' emoluments.

Ian Ashcroft was also a member of a top-up scheme providing defined benefits. This scheme is non-contributory as regards the members, and the Company is contributing to the scheme as set out on the latest actuarial valuation report as at 31 March 2004. Ian retired from the Company on 2 December 2005.

Service contracts

All executive directors have service contracts terminable on 12 months notice by the Company or by the director.

The Chairman has a letter of appointment which allows for 3 months notice by the Chairman; no notice period is required by the Company.

Independent directors have letters of appointment that allow for 3 months notice by the director; no notice period is required by the Company. Terms and conditions of appointment of independent directors are available for inspection by any person at the Company's registered office during normal business hours.

Details of the service contracts of directors are as follows:-

	Contract date	Contract unexpired term	Notice period	Contractual termination payments
Paul Myners	31 March 2006	3 years	–	None
Sir Robert Phillis	Retiring as Chief Executive on 31 July 2006			
Ian Ashcroft	Retired 2 December 2005			
Nick Castro	30 January 2003	12 month rolling	12 months	Notice period
Mark Dodson	1 October 2005	12 month rolling	12 months	Notice period
Jerry Fowden	10 January 2005	12 month rolling	12 months	Notice period
Carolyn McCall	To be appointed as Chief Executive with effect from 1 August 2006			
John Myers	31 January 2006	12 month rolling	12 months	Notice period
Alan Rusbridger	8 February 2001	12 month rolling	12 months	Notice period
Independent directors				
John Bartle	31 March 2006	1 year 9 months	–	None
Giles Coode-Adams	31 March 2006	2 years 1 month	–	None
Richard Eyre	31 March 2006	1 year 1 month	–	None
Andrew Karney	Retiring as an independent director on 30 November 2006			

Directors' remuneration report

continued

Directors' emoluments

	Salary/ fees £000	Performance related bonus £000	Benefits in kind £000	**Total 2006 £000**	Total 2005 £000	Employer's contributions to money purchase pension schemes **2006 £000**	2005 £000
Paul Myners	50	–	–	**50**	50	**–**	–
Sir Robert Phillis[1]	407	280	34	**721**	675	**135**	130
Ian Ashcroft[2] (* to 2 December 2005)	152	40	30	**222**	403	**36**	47
Nick Castro	222	159	11	**392**	370	**69**	65
Mark Dodson (* from 3 October 2005)	87	51	9	**147**	–	**28**	–
Jerry Fowden (* from 4 April 2005)	381	159	29	**569**	–	**141**	–
Graham Luff (* to 31 March 2005)	–	–	–	**–**	869	**–**	28
Carolyn McCall	280	215	–	**495**	456	**85**	80
John Myers (* from 31 January 2006)	32	15	4	**51**	–	**3**	–
Alan Rusbridger	312	–	17	**329**	373	**284**	172
Independent directors							
John Bartle	30	–	–	**30**	28	**–**	–
Giles Coode-Adams	55	–	–	**55**	53	**–**	–
Richard Eyre (* from 27 May 2004)	30	–	–	**30**	24	**–**	–
Andrew Karney[3]	30	–	–	**30**	28	**–**	–
	2,068	919	134	**3,121**	3,329	**781**	522

* Date of appointment, resignation or other changes to directorships

[1] Sir Robert Phillis has announced his intention to take early retirement as Chief Executive on 31 July 2006. The Company has undertaken to make an annual payment, totalling £169,083, in respect of his pension contributions, life insurance and private healthcare benefits in line with his service agreement and until his 65th birthday. The Board has invited Sir Robert to become a non-executive director for a transitional period following his retirement as Chief Executive. He will receive a fee of £32,000 per annum.

[2] On retirement, Ian Ashcroft acquired his company car at a discount to its market value. The discount of £21,357 is included in his benefits in kind.

[3] Andrew Karney has announced his intention to retire in November 2006 on completing 9 years service as an independent director.

Certain executive directors have outside non-executive directorships. Individuals retain the fees received from such directorships as follows:-

Sir Robert Phillis is non-executive chairman of All3Media Group Limited and earned fees of £50,000 in their year ended 31 August 2005 (2004 £25,000). He was appointed as a Non-Executive Director of ITV plc on 7 February 2005 and earned fees of £46,000 in their year ended 31 December 2005.

Jerry Fowden is a Non-Executive Director of Chesapeake Corporation and earned fees of US$ 66,200 in their year ended 31 December 2005.

Graham Luff was a Non-Executive Director of Robert Walters plc and earned fees in their year ended 31 December 2004 of £28,000.

Carolyn McCall was appointed as a Non-Executive Director of Tesco PLC on 1 March 2005 and earned fees in their year ended 26 February 2006 of £50,000.

Remuneration policy for the Chairman and independent directors

Remuneration for the Chairman and independent directors comprises fees for their services in connection with Board and Board committees. The Chairman and the independent directors are not eligible for pension fund membership and will not participate in any of the Group's bonus schemes.

The level of fees for independent directors is reviewed annually and approved by the Board. In 2005/06 the independent directors were paid a basic fee of £30,000 with further fees payable for additional responsibilities such as being chairman of a committee. For 2006/07 the basic fee has been increased to £32,000.

Giles Coode-Adams received an additional fee as senior independent director, being chairman of the Audit Committee and a non-executive director of Trader Media Group Limited.

The Chairman has declined to accept offers to increase his salary since his appointment to the Board in March 2000.

Paul Myners
Chairman of the Remuneration Committee

29 June 2006

Independent auditors' report

To the members of Guardian Media Group plc

We have audited the Group financial statements of Guardian Media Group plc for the year ended 2 April 2006 which comprise the profit and loss account, statement of recognised income and expense, balance sheet, cash flow statement, and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Guardian Media Group plc for the year ended 2 April 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Group financial statements give a true and fair view and have been 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 Group 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the financial highlights, the Chairman's Statement, the Chief Executive's review of operations, the Scott Trust report, the corporate social responsibility report, the financial review, the corporate governance statement, the report of the directors and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:-

– the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 2 April 2006 and of its profit and cash flows for the year then ended;

– the financial statements have been properly prepared in accordance with the Companies Act 1985;

– the information given in the report of the directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

29 June 2006

Profit and loss account

For the year ended 2 April 2006

	Note	2006 Before exceptional items £m	2006 Exceptional items £m	2006 Total £m	2005 Before exceptional items £m	2005 Exceptional items £m	2005 Total £m
Continuing operations							
Turnover	2,3	**700.3**	**–**	**700.3**	705.0	–	705.0
Operating costs	4	**(583.9)**	**(31.8)**	**(615.7)**	(577.8)	(40.3)	(618.1)
Operating profit		**116.4**	**(31.8)**	**84.6**	127.2	(40.3)	86.9
Income from other financial assets	6	**0.3**	**–**	**0.3**	0.9	–	0.9
Interest payable and similar charges	7	**(24.2)**	**–**	**(24.2)**	(36.3)	(5.4)	(41.7)
Interest receivable and similar income	7	**6.5**	**–**	**6.5**	10.8	–	10.8
Share of post tax profits of joint ventures	13(a)	**0.4**	**–**	**0.4**	0.5	–	0.5
Share of post tax losses of associates	13(b)	**(1.2)**	**–**	**(1.2)**	(3.7)	–	(3.7)
Profit before taxation	4	**98.2**	**(31.8)**	**66.4**	99.4	(45.7)	53.7
Taxation	8	**(30.1)**	**9.6**	**(20.5)**	(33.5)	13.7	(19.8)
Profit for the year from continuing operations		**68.1**	**(22.2)**	**45.9**	65.9	(32.0)	33.9
Profit for the year from discontinued operations	9	**–**	**–**	**–**	1.4	8.8	10.2
Profit attributable to equity shareholders'		**68.1**	**(22.2)**	**45.9**	67.3	(23.2)	44.1

The notes on pages 37 to 69 form part of these financial statements.

Statement of recognised income and expense

For the year ended 2 April 2006

	Note	2006 £m	2005 £m
Profit attributable to equity shareholders'		**45.9**	44.1
Actuarial losses	30	**(3.7)**	(2.4)
Deferred taxation on actuarial losses		**0.5**	0.8
Joint venture – actuarial gains/(losses)	13(a)	**0.8**	(0.8)
Joint venture – deferred taxation	13(a)	**(0.3)**	0.1
Fair value losses – interest rate swap		**(1.3)**	–
Currency translation differences on foreign currency net investments		**0.5**	–
Net losses not recognised in the profit and loss account		**(3.5)**	(2.3)
Total recognised income for the year		**42.4**	41.8

Balance sheet

As at 2 April 2006

	Note	2006 £m	2005 £m
Assets			
Non-current assets			
Goodwill	10	**645.7**	643.7
Intangible assets	11	**9.3**	6.8
Property, plant and equipment	12(a)	**146.4**	130.4
Investments accounted for using the equity method	13(a),13(b)	**13.2**	11.0
Other financial assets	13(c)	**4.5**	5.9
Retirement benefit asset	30	**–**	0.3
Deferred tax assets	23	**1.5**	2.2
		820.6	800.3
Current assets			
Inventories	14	**3.0**	2.5
Trade and other receivables	15	**125.6**	120.8
Cash and cash equivalents	17	**75.4**	67.3
		204.0	190.6
Liabilities			
Current liabilities			
Financial liabilities			
– Borrowings	18	**40.2**	36.9
– Financial instruments	19	**0.2**	0.5
Trade and other payables	20	**103.1**	98.1
Current tax liabilities	16	**7.5**	11.1
Provisions	22	**33.0**	4.7
		184.0	151.3
Net current assets		**20.0**	39.3
Non-current liabilities			
Financial liabilities	18	**354.2**	375.3
Retirement benefit liabilities	30	**3.3**	6.1
Other non-current liabilities	21	**0.9**	0.5
Provisions	22	**14.9**	32.8
		373.3	414.7
Net assets		**467.3**	424.9
Shareholders' equity			
Share capital	24	**0.9**	0.9
Retained earnings	25	**466.4**	424.0
Total shareholders' equity		**467.3**	424.9

These financial statements were approved by the Board of directors on 29 June 2006 and signed on its behalf by:-

Paul Myners
Chairman

Nick Castro
Finance Director

The notes on pages 37 to 69 form part of these financial statements.

Cash flow statement

For the year ended 2 April 2006

	Note	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	28	**110.6**	137.4
Interest received		**7.0**	6.9
Interest paid		**(23.3)**	(32.8)
Tax paid		**(21.7)**	(21.2)
Net cash from operating activities		**72.6**	90.3
Cash flow from investing activities			
Acquisition of subsidiaries (net of cash acquired)		**(2.5)**	(0.9)
Disposal of subsidiaries (net of cash disposed)		**–**	5.3
Disposal of trade and assets		**3.0**	–
Loans repaid by joint ventures		**–**	1.0
Acquisition of shares in associates		**(1.0)**	(3.2)
Proceeds of disposal of shares in associates		**1.0**	13.0
Loans made to associates		**(2.9)**	(1.0)
Loans repaid by associates		**0.7**	–
Proceeds from sale of intangibles		**0.5**	–
Purchase of intangibles		**(1.2)**	(3.4)
Proceeds from sale of property, plant and equipment		**13.6**	2.9
Purchase of property, plant and equipment		**(52.3)**	(71.4)
Purchase of other financial assets		**–**	(0.8)
Other loans advanced		**(0.3)**	(0.4)
Dividends received		**0.4**	0.9
Net cash used in investing activities		**(41.0)**	(58.0)
Cash flows from financing activities			
Finance lease principal payments		**(6.2)**	(1.9)
Increase in finance lease debt		**53.2**	–
Repayment of borrowings		**(71.0)**	(57.2)
Net cash used in financing activities		**(24.0)**	(59.1)
Non-cash – financing		**0.5**	8.9
Net increase/(decrease) in cash and cash equivalents		**8.1**	(17.9)
Cash and cash equivalents at beginning of the period		**67.3**	85.2
Cash and cash equivalents at end of the period	17	**75.4**	67.3

Notes

relating to the 2006 financial statements

1. Accounting policies

Accounting policies for the year ended 2 April 2006
The principal accounting policies adopted in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The financial statements on pages 34 to 36 have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

First time adoption of IFRS
The date of transition to IFRS was 29 March 2004, which is the beginning of the comparative period to the year ended 2 April 2006. The Group has applied IFRS 1 for first time adoption of IFRS, and has applied the following exemptions:-

- business combinations: the Group has chosen not to restate business combinations prior to the transition date on an IFRS basis;
- employee benefits: cumulative actuarial gains and losses at the date of transition on the valuation of post-employment benefit assets and liabilities have been recognised in full through reserves;
- cumulative translation differences: these have been deemed to be nil at the date of transition. Any gain or loss on a subsequent disposal of foreign operations will exclude translation differences that arose before 29 March 2004;
- preference shares will be reclassified from equity to long-term debt.

To enhance comparability, the Group has chosen to adopt IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 29 March 2004.

New accounting standards and IFRIC interpretations
Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Group have assessed the impact of these new standards and interpretations, and it is anticipated that they will have no material impact on the Group's financial statements.

Basis of consolidation
The Group accounts consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 2 April 2006, with the exception of Guardian Media Group Jersey Limited and the companies within the GMG Radio Division which are made up to 31 March 2006.

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from, the date control passes. Intra-group transactions, balances and unrealised gains are eliminated fully on consolidation.

The accounting policies of subsidiaries are consistent with the policies adopted by the Group.

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 parties.

A company is treated as an associate when the Group has a significant influence over that company and has the power to participate in its financial and operating policy decisions.

1. Accounting policies (continued)

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in joint ventures and associates includes goodwill (net of any impairment) identified on acquisition. The Group's share of post acquisition profits or losses are included in the consolidated profit and loss account. When the Group's share of losses in a joint venture or associate equal or exceed its interest in the joint venture, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the undertakings concerned. Where a joint venture or associate has a different year-end date to the Group, amounts from the latest audited accounts are adjusted using management accounts, to bring them into line with the Group's year-end date. The amounts involved are not considered to be material to the Group.

Business combinations
The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities acquired are measured at fair value at the date of acquisition, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the profit and loss account. The Group has a year from the date of acquisition to determine final fair values.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services that are subject to risks and returns that are different from those of segments operating in other economic environments. As Group activities are predominantly UK based, segmental reporting is provided on the basis of business segment only.

Revenue recognition
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.

Revenues from barter transactions are recognised when the advertisements are displayed or broadcast and are recorded at the fair value of goods or services received.

Exceptional items
Items of income and expense are recognised as exceptional when their effect on the financial statements is so material that their nature and amount requires separate disclosure. These items are usually non-recurring.

Finance income
Income from bank and short-term deposits is included in the financial statements when receivable.

Dividend income
Dividends receivable are recognised in the financial statements when the shareholders right to receive payment is established.

Property, plant and equipment
All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price of the asset and directly attributable costs in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Borrowing costs are not capitalised.

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 of property, plant and equipment has been calculated to write off original cost by equal instalments over the estimated useful life of the asset concerned. Depreciation is charged on assets from the time they become operational.

1. Accounting policies (continued)

The principal annual rates used for depreciation are:-

Plant	6.7%-10%
Computer equipment	20%-33%
Motor vehicles	20%
Furniture, fixtures and fittings	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying value of property, plant and equipment 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. Impairment amounts are charged to the profit and loss account.

Non-current assets held for sale
On classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs of disposal. Impairment losses on initial classification as held for sale are included in the profit and loss account, as are any gains and losses on subsequent re-measurement.

Translation of foreign currencies
The financial statements are presented in sterling, which is the Company's functional and presentational currency.

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency other than sterling are translated into sterling as follows:-

– assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the year-end;
– income and expense items of overseas subsidiaries are translated at the average rate of exchange for the financial year.

All resulting exchange differences are tracked and recognised in a translation reserve. On disposal of a foreign entity, the appropriate amount of cumulative translation difference relating to the entity is included in the gain or loss on sale in the profit and loss account.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

Foreign currency transactions are translated into sterling using the exchange rate at the date of the transactions. Any gains or losses resulting on such transactions and from the translation of year-end monetary assets and liabilities using year-end exchange rates are recognised in the profit and loss account.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition and in accordance with IAS 36 'Impairment of assets' is not amortised.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested for impairment annually on the 31 December, or at any other time that there is an indication of impairment, and is carried at cost less accumulated impairment losses. Impairment losses are charged to the profit and loss account.

Intangible assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. In calculating value in use future cash flows are discounted and adjusted for the directors' assessment of risk. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(a) Trademarks and licences
Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the lower of estimated useful life or 20 years.

1. Accounting policies (continued)

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the lower of estimated useful life or 5 years.

(c) Internally-generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Website development costs are capitalised only if all of the following conditions are met: the asset created can be identified; it is probable that the asset created will generate future economic benefits; and the development cost can be measured reliably. Such assets are amortised on a straight line basis over their useful economic life. Where no asset can be recognised, development expenditure is charged to the profit and loss account in the period in which it is incurred.

Current taxation

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted by the balance sheet date.

Deferred taxation

Deferred taxation is recognised in respect of all taxable temporary differences arising at the balance sheet date to the extent that they represent an obligation to pay more tax in the future or a right to pay less tax in the future.

Deferred tax assets are regarded as recoverable and recognised in the financial statements for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that the deferred tax asset will be recovered. The recoverability of losses is assessed on the basis of available evidence, including forecasts which have been prepared and approved by the Board.

Inventories

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

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade receivables

Trade receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. All provisions are reviewed periodically and at year-end are adjusted to reflect the best current estimate.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(c) Borrowings

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Finance and issue costs associated with debt are charged to the profit and loss account at a constant rate over the period from the date of issue to the point where there is a genuine commercial possibility that the commercial life of the instrument will expire.

(d) Trade payables

Trade and other payables are recognised at original cost.

(e) Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

1. Accounting policies (continued)

The Group uses derivative financial instruments, primarily foreign currency forward contracts, to hedge its risks associated with foreign currency fluctuations arising from certain assets, liabilities and firm commitments. The significant interest rate risk arises from bank loans. The Group's policy is to convert a proportion of its floating rate debt to fixed rates, through the use of interest rate swaps.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provides written principles on the use of derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Under IAS 39 'Financial instruments: Recognition and Measurement', derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting or for which hedge accounting is not applied are recognised in the profit and loss account as they arise.

The fair value of interest rate swaps is based on the market price of comparable instruments at the balance sheet date if they are publicly traded. The fair value of the forward currency contracts has been determined based on market forward exchange rates at the balance sheet date.

The Group does not apply hedge accounting to forward foreign exchange contracts.

The Group applies hedge accounting where interest rate swaps are held to manage the interest rate exposure of borrowings.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document the relationship between the hedged item and the hedging instrument and demonstrate that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised directly in equity and the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

Provisions
A provision is recognised in the financial statements when an obligation exists at the balance sheet date, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of that obligation can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted where the effect is material.

Contingent liabilities are not recognised, but are disclosed unless an outflow of resources is remote. Contingent assets are not recognised, but are disclosed where an inflow of economic benefit is probable.

Share capital
Ordinary shares are classified as equity. Preference shares are classified as liabilities.

1. Accounting policies (continued)

Finance and operating leases
Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the asset at the inception of the lease and the present value of minimum lease payments. The equivalent liability is categorised under current and non-current liabilities. Assets are depreciated over the shorter of the lease term and their estimated useful 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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease. Incentives received are recorded as deferred income and spread over the term of the lease on a straight line basis.

Sale and finance leaseback transactions
Where sale and finance leaseback transactions are entered into as a means of raising finance, the asset is regarded as being retained rather than disposed of and re-acquired. No adjustment to the carrying value or to the expected useful economic life of the asset is therefore made. The difference between the sale price and the fair value is recognised as a liability and charged to the profit and loss account over the period of the lease agreement.

Employee benefit costs

(a) Defined contribution schemes
More than 90% of the Group's employees are members of defined contribution pension schemes, the costs in respect of these schemes are charged to the profit and loss account as incurred.

(b) Defined benefit schemes
The Group contributes to a small number of defined benefit pension schemes. The operating and financing cost of such schemes are recognised separately in the profit and loss account, service costs are spread systematically over the lives of the employees and financing costs are recognised in the periods in which they arise. Finance costs are included in operating costs.

The liability in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities, which have terms approximating the terms of the related liability.

The charge to the profit and loss account comprises the total contributions payable by the Group to the schemes in the period. Actuarial gains or losses in respect of these schemes are shown in the statement of recognised income and expense.

(c) Bonus plans
Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amount expected to be paid when they are settled.

(d) Share based payment agreements
Employee services received in exchange for cash-settled share based payments, are recognised at the fair value of the liability and are charged to operating profit when incurred.

2. Turnover
Sales are made substantially in the UK.

3. Segmental information

As Group activities are predominantly UK based, segmental reporting is provided on the basis of business segment only. The products and services provided by each business segment are disclosed on page 2 in the Guardian Media Group plc operational structure. Other Group activities principally includes the Group's investments and its share of its joint ventures and associates, Trafford Park Printers Limited, Paper Purchase & Management Limited, Seven Publishing Limited, Reading Broadcasting Company Limited, the results of the Enterprise music activities, and the costs associated with the head office.

For the year ended 2 April 2006	National Newspapers £m	Regional Newspapers £m	Trader Media £m	GMG Radio £m	Other Group activities £m	**Total £m**
Continuing operations						
Turnover	237.4	126.8	303.3	27.9	4.9	**700.3**
Operating profit/(loss) before exceptional items	(19.3)	21.6	119.5	2.7	(8.1)	**116.4**
Operating profit/(loss)	(49.9)	20.4	119.5	2.7	(8.1)	**84.6**
Income from other financial assets						**0.3**
Interest expense						**(24.2)**
Interest income						**6.5**
Post tax results joint ventures and associates	–	(0.5)	0.1	–	(0.4)	**(0.8)**
Profit before tax						**66.4**
Taxation						**(20.5)**
Profit for the year from continuing operations						**45.9**
Segment assets	126.5	59.6	672.6	70.9	81.8	**1,011.4**
Investment in equity accounted joint ventures and associates	–	2.2	0.2	0.3	10.5	**13.2**
Total assets	126.5	61.8	672.8	71.2	92.3	**1,024.6**
Segment liabilities	(124.3)	(47.2)	(378.7)	(4.9)	(2.2)	**(557.3)**
Other segment items:-						
Capital expenditure	27.9	16.2	7.7	0.4	0.1	**52.3**
Depreciation	7.8	2.7	9.6	0.7	0.1	**20.9**
Amortisation of intangible assets	0.5	0.6	1.1	–	–	**2.2**
Impairment of trade receivables	0.1	1.5	1.4	–	–	**3.0**

3. Segmental information (continued)

For the year ended 3 April 2005	National Newspapers £m	Regional Newspapers £m	Trader Media £m	GMG Radio £m	Other Group activities £m	Total £m
Continuing operations						
Turnover	233.8	136.3	301.9	24.5	8.5	705.0
Operating profit/(loss) before exceptional items	(18.6)	34.4	116.2	1.0	(5.8)	127.2
Operating profit/(loss)	(48.3)	23.8	116.2	1.0	(5.8)	86.9
Income from other financial assets						0.9
Interest expense						(41.7)
Interest income						10.8
Post tax results joint ventures and associates	–	(2.4)	0.1	–	(0.9)	(3.2)
Profit before tax						53.7
Taxation						(19.8)
Profit for the year from continuing operations						33.9
Discontinued operations						
Turnover	–	–	–	–	3.9	3.9
Operating loss	–	–	–	–	(2.5)	(2.5)
Profit on disposal of operation	–	–	–	–	8.8	8.8
Profit before tax	–	–	–	–	6.3	6.3
Taxation	–	–	–	–	3.9	3.9
Profit for the year from discontinued operations	–	–	–	–	10.2	10.2
Net profit attributable to equity shareholders						44.1
Segment assets	116.6	55.8	672.8	74.5	60.2	979.9
Investment in equity accounted joint ventures and associates	–	1.0	0.1	0.2	9.7	11.0
Total assets	116.6	56.8	672.9	74.7	69.9	990.9
Segment liabilities	(50.8)	(53.4)	(449.5)	(5.0)	(7.3)	(566.0)
Other segment items:-						
Capital expenditure	50.7	6.2	13.9	0.6	–	71.4
Depreciation	3.2	3.1	9.7	0.7	0.1	16.8
Amortisation of intangible assets	1.0	0.6	1.2	–	0.1	2.9
Impairment of trade receivables	1.1	0.9	0.6	–	–	2.6

4. Profit before taxation

	2006 £m	2005 £m
Raw materials and consumables	**88.6**	79.3
Other external charges	**82.9**	53.7
Staff costs (see note 5)	**219.1**	216.4
Depreciation of tangible fixed assets:-		
– Owned assets	**17.7**	15.9
– Under finance leases	**3.2**	0.9
Other expenses	**204.2**	251.9
	615.7	618.1

For year ended 2 April 2006, the analysis above includes exceptional operating costs of £31.8 million (2005 £40.3 million), on which a tax credit of £9.6 million (2005 £12.1 million) arises, that principally result from the decisions of both the National and Regional Newspapers divisions' to invest in new printing facilities and revise paper formats in 2005. The costs include launch costs, external contract costs, provisions against asset values (predominantly assets held by joint ventures), expenses incurred in the preparation of the new printing facilities, and expenses relating to format trials and redesigns and commissioning.

The following items have been included in arriving at operating profit:-	2006 £m	2005 £m
Amortisation of intangibles	**2.2**	2.9
Profit on sale of intangibles	**(0.5)**	–
Profit on sale of property, plant and equipment	**(0.3)**	(1.7)
Loss on sale of trade and assets	**0.8**	–
Impairment of investments accounted for using equity method	**1.0**	1.1
Impairment of other financial assets	**1.3**	0.3
Other operating lease rentals payable:-		
– Plant and machinery	**9.1**	6.2
– Property	**5.1**	4.5
– Other	**1.6**	0.7
Repairs and maintenance expenditure on property, plant and equipment	**4.1**	5.5
Trade receivables impairment	**3.0**	2.6
Research and development costs	**–**	0.2

Services provided by the Group's auditor
During the year the Group obtained the following services from the Group's auditor as detailed below:-

	2006 £m	2005 £m
Statutory audit	**0.5**	0.4
Further assurance services	**0.4**	0.2
Tax services:-		
– Compliance services	**0.2**	0.2
– Advisory services	**0.3**	0.2
Other services not covered above	**0.1**	0.1
	1.5	1.1

5. Employees and directors

	2006 £m	2005 £m
Staff costs for the Group during the period including executive directors		
Wages and salaries	189.6	186.9
Employer's social security costs	19.6	19.0
Employer's pension costs	9.9	10.5
	219.1	216.4

	No.	No.
Average monthly number of persons employed including executive directors		
Production	2,850	2,662
Selling and distribution	2,535	2,804
Administration	1,722	1,746
	7,107	7,212

	£m	£m
Key management compensation		
Salaries and short-term employee benefits	10.2	10.2
Post employment benefits	1.3	1.1
Termination benefits	0.2	0.1
Share based payments	–	3.4
	11.7	14.8

Share based payment arrangements

Since July 2001, a number of substantially similar Phantom Share Option (PSO) schemes have been entered into. These PSO schemes give certain employees of the Group the rights to cash payments calculated by reference to the market value of the shares of certain Group companies. The full vesting requirements are that these employees remain with the Group for three years. The maximum term of the options granted is ten years.

All PSO schemes have been settled in cash in full during the year following an independent valuation of the relevant companies.

The amounts recognised in the financial statements (before taxes) for PSO transactions are summarised as follows:-

	2006 £m	2005 £m
Profit and loss account		
Profit before tax – other expenses	–	3.4
Balance sheet		
Deferred taxation	–	2.2
Accruals and deferred income	–	(7.4)
Net assets	–	(5.2)

Movement on options during the year:-	Number of phantom shares
Outstanding at 3 April 2005	1,887,953
Exercised during the period	(1,887,953)
Outstanding at 2 April 2006	–

For the principal PSO scheme covering £6.9 million of the £7.4 million accrued at 3 April 2005, the fair value of £8.79 per phantom share at that date and at the exercise date was derived from an independent valuation of the relevant business, performed using standard valuation techniques in which published data from industry transactions was used and adjusted for the relevant business' unlisted status. The weighted average exercise price was £0.24. The weighted average price at the grant date was £nil.

6. Income from other financial assets

	2006 £m	2005 £m
Dividends from unlisted investments	**0.3**	0.9

7. Finance costs – net

	2006 £m	2005 £m
Interest expenses		
Interest payable on bank and other borrowings	**(20.7)**	(34.5)
Interest payable on hedging instruments	**(1.1)**	(0.5)
Debt issue costs amortised	**(0.5)**	(6.0)
Interest payable on finance leases	**(1.9)**	(0.7)
Interest payable and similar charges	**(24.2)**	(41.7)
Interest income		
Interest receivable on cash and cash equivalents	**6.5**	6.8
Fair value gain on forward exchange contract	**–**	2.8
Fair value gains – close out of interest rate collar	**–**	1.2
Interest receivable and similar income	**6.5**	10.8
Finance costs – net	**(17.7)**	(30.9)

8. Tax on profit on ordinary activities

	2006 £m	2005 £m
Analysis of charge in period		
Current tax		
Continuing operations	**19.6**	20.9
Discontinued operations	**–**	(3.9)
	19.6	17.0
Deferred taxation		
Continuing operations	**0.9**	(1.1)
Taxation	**20.5**	15.9

8. Tax on profit on ordinary activities (continued)

	2006 **£m**	2005 £m
Tax on items charged to the statement of recognised income and expense		
Deferred tax credit on actuarial losses	**0.5**	0.8

	2006 **£m**	2005 £m
Factors affecting tax charge for the period		
The tax for the period is higher (2005 higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:-		
Profit on ordinary activities before tax	**66.4**	53.7
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	**19.9**	16.1
Effects of:-		
Expenses not deductible for tax purposes	**3.0**	3.9
Income not taxable	**(0.5)**	(0.1)
Current year movement on deferred tax	**(1.1)**	(1.0)
Foreign taxes	**0.7**	0.5
Adjustment to tax charge in respect of joint ventures and associates	**0.4**	0.3
Adjustment to tax charge in respect of previous periods	**(1.9)**	0.1
Total taxation (continuing operations)	**20.5**	19.8

9. Discontinued operations

	2006 **£m**	2005 £m
Post tax results from discontinued operations	**–**	1.4
Gain on disposal of subsidiary	**–**	3.9
Gain on disposal of associate	**–**	4.9
Net gain on disposal	**–**	8.8
Total discontinued operations	**–**	10.2

Cash flows from discontinued operations

	2006 **£m**	2005 £m
Net cash flows from operating activities	**–**	(11.4)
Net cash flows from investing activities	**–**	18.3
	–	6.9

Further information relating to the 2005 discontinued activities is shown in note 3 on page 44.

10. Goodwill

	£m
Cost	
At 4 April 2005	667.9
Acquisitions - through business combinations	4.6
Disposals	(2.8)
At 2 April 2006	**669.7**
Accumulated impairment	
At 4 April 2005	24.2
Disposals	(0.2)
At 2 April 2006	**24.0**
Net book value	
At 2 April 2006	**645.7**

Goodwill relates principally to the acquisition of Trader Media Group Limited and acquisitions within GMG Radio Division.

During the year ended 2 April 2006, the goodwill in respect of Trader Media Group Limited was tested in accordance with IAS 36 'Impairment of assets' on a value in use basis as follows:-

– Future cash flows for the years ending 2007, 2008, 2009 which are based on Board approved forecasts, with subsequent years cash flows being increased by 2.5% for each cash generating unit identified.
– Future cash flows have been discounted at a rate appropriate to each individual cash generating unit.
– The discounted cash flows have been compared to the carrying value of goodwill allocated to each cash generating unit.

On the above basis no impairment was deemed necessary at the cash generating unit level.

During January 2006, the Group sold the trade and assets of its Enterprise music activities, part of Smooth FM (London) Limited, goodwill written off through the profit and loss account totalled £2.6 million on disposal.

During November 2005, the Group acquired the 100% of the ordinary share capital of Webzone Limited, a company incorporated in the Republic of Ireland, for an equity consideration of £5.4 million. Following this acquisition, preference shares issued as part of the equity consideration were redeemed at par for £2.3 million. In addition fees of £0.3 million were capitalised to cost of investment and settled in cash.

Goodwill of £4.6 million resulted on acquisition as follows:-

Net assets acquired	
Non-current assets	**£m**
Intangible assets	**1.4**
Current assets	
Debtors	0.4
Cash at bank and in hand	0.1
	0.5
Current liabilities	(0.4)
Deferred taxation	(0.3)
Net current assets	**(0.2)**
Total assets less current liabilities	**1.2**
Provision for liabilities and charges	(0.1)
Fair value of net assets acquired	**1.1**
Purchase consideration - cash	0.3
Purchase consideration - shares	5.4
Total consideration	**5.7**
Goodwill	**4.6**

10. Goodwill (continued)

	£m
Cost	
At 29 March 2004	668.2
Acquisitions - through business combinations	0.8
Disposals	(1.1)
At 3 April 2005	667.9
Accumulated impairment	
At 29 March 2004	24.7
Disposals	(0.5)
At 3 April 2005	24.2
Net book value	
At 3 April 2005	643.7

Goodwill relates principally to the acquisition of Trader Media Group Limited and acquisitions within GMG Radio Division.

During the year ended 3 April 2005, goodwill was tested for impairment in accordance with IAS 36 'Impairment of assets' and was found not to be impaired.

During the year, the Group acquired the remaining shares in Marine Trader Media Limited. The acquisition of the 10% stake was completed at a cost of £0.9 million. Goodwill arising on this transaction of £0.8 million has been capitalised.

11. Intangible assets

	Note	£m
Cost		
At 4 April 2005		18.6
Acquisitions - through business combinations		1.4
Additions at cost		1.2
Reclassifications from property, plant and equipment	12(a)	2.3
Disposals		(0.5)
At 2 April 2006		**23.0**
Accumulated amortisation		
At 4 April 2005		11.8
Reclassifications from property, plant and equipment	12(a)	0.2
Disposals		(0.5)
Charge for period		2.2
At 2 April 2006		**13.7**
Net book value		
At 2 April 2006		**9.3**

Intangible assets mainly comprises computer software which is amortised in accordance with the accounting policy shown in note 1. All amortisation charges in the year have been charged through operating costs in the profit and loss account.

Cost	£m
At 29 March 2004	15.4
Acquisitions	3.4
Disposals	(0.2)
At 3 April 2005	18.6
Accumulated amortisation	
At 29 March 2004	9.1
Disposals	(0.2)
Charge for period	2.9
At 3 April 2005	11.8
Net book value	
At 3 April 2005	6.8

12. (a) Property, plant and equipment

	Note	Land and buildings £m	Plant and vehicles £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost						
At 4 April 2005		33.3	135.2	16.7	61.6	246.8
Additions at cost		0.3	6.4	1.2	44.4	52.3
Reclassifications	11	14.0	57.7	2.5	(76.5)	(2.3)
Disposals		(0.2)	(10.1)	(0.4)	(12.1)	(22.8)
At 2 April 2006		**47.4**	**189.2**	**20.0**	**17.4**	**274.0**
Accumulated depreciation						
At 4 April 2005		9.1	98.0	9.3	–	116.4
Charge for the period		1.3	17.3	2.3	–	20.9
Reclassifications	11	0.3	(1.9)	1.4	–	(0.2)
Disposals		(0.1)	(9.1)	(0.3)	–	(9.5)
At 2 April 2006		**10.6**	**104.3**	**12.7**	**–**	**127.6**
Net book value						
At 2 April 2006		**36.8**	**84.9**	**7.3**	**17.4**	**146.4**

	Land and buildings £m	Plant and vehicles £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
At 29 March 2004	33.4	138.1	15.7	2.1	189.3
Disposal of subsidiaries	(0.1)	(3.6)	(0.6)	–	(4.3)
Additions at cost	0.2	9.2	2.5	59.5	71.4
Disposals	(0.2)	(8.5)	(0.9)	–	(9.6)
At 3 April 2005	33.3	135.2	16.7	61.6	246.8
Accumulated depreciation					
At 29 March 2004	8.0	94.5	9.4	–	111.9
Disposal of subsidiaries	–	(3.4)	(0.6)	–	(4.0)
Charge for the period	1.3	14.2	1.3	–	16.8
Disposals	(0.2)	(7.3)	(0.8)	–	(8.3)
At 3 April 2005	9.1	98.0	9.3	–	116.4
Net book value					
At 3 April 2005	24.2	37.2	7.4	61.6	130.4

Details of material leasing arrangements are given in note 18.

Assets under construction relate to new printing facilities. During the year certain assets under construction at 4 April 2005 were transferred to a joint venture company at cost. Those transfers have been shown as disposals.

Under IAS 36, 'Impairment of assets', the impairment of an asset may exist where operating losses or net cash outflows in respect of the asset arise. An impairment review of certain assets within the National Newspapers division has been performed and in accordance with IAS 36 were not found to be impaired.

12. (b) Property, plant and equipment (continued)

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

	2006	2005
	£m	£m
Cost	71.0	17.1
Accumulated depreciation	(14.8)	(11.0)
Net book value	56.2	6.1

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

	2006	2005
	£m	£m
Freehold	16.6	16.6
Long leasehold	7.5	7.5
Short leasehold	12.7	0.1
	36.8	24.2

In accordance with IAS 36 'Impairment of assets' the Group's land and buildings were valued by independent third party valuers as at 31 December 2005 and were found not to be impaired.

13. Investments

	2006	2005
(a) Interests in joint ventures	£m	£m
At 4 April 2005		
– Net assets	5.5	5.4
– Loans	1.5	2.5
	7.0	7.9
Repayment of loans	–	(1.0)
Profit and loss account - continuing	0.4	0.5
Profit and loss account - discontinuing	–	0.3
Actuarial losses net of deferred tax credit - statement of recognised income and expense	0.5	(0.7)
At 2 April 2006		
– Net assets	6.4	5.5
– Loans	1.5	1.5
	7.9	7.0

13. Investments (continued)

In relation to the Group's interests in joint ventures, the assets, liabilities, income and expenses are shown below:-

	2006 £m	2005 £m
Non-current assets	**32.6**	24.1
Current assets	**14.4**	8.7
Current liabilities	**(14.0)**	(8.4)
Non-current liabilities	**(26.6)**	(18.9)
	6.4	5.5
Income	**31.9**	31.0
Expenses	**(31.4)**	(30.4)
Profit before taxation	**0.5**	0.6
Taxation	**(0.1)**	(0.1)
Share of post tax results from joint ventures	**0.4**	0.5

Details of the Group's joint venture contingent liabilities are shown in note 16 on page 83.

The Group's share of joint ventures capital commitments are shown in note 32 on page 64.

(b) Interests in associates	2006 £m	2005 £m
At 4 April 2005		
– Net assets excluding goodwill	**2.7**	7.8
– Goodwill	**1.3**	3.9
	4.0	11.7
Additions		
– Net assets (transfer from other financial assets)	**0.4**	3.8
– Net assets	**2.6**	–
– Goodwill	**0.9**	0.4
Disposals		
– Net assets	**–**	(6.2)
– Goodwill	**–**	(1.9)
Impairment of goodwill	**(1.0)**	(1.1)
Share of retained loss	**(1.5)**	(2.6)
Dividends	**(0.1)**	(0.1)
At 2 April 2006		
– Net assets excluding goodwill	**4.1**	2.7
– Goodwill	**1.2**	1.3
	5.3	4.0

The Group's share of amounts relating to associates	2006 £m	2005 £m
Total assets	**7.6**	7.4
Total liabilities	**(3.5)**	(4.7)
Revenue	**11.6**	8.5
Trading loss	**(1.5)**	(2.6)
Profit on disposal of associate	**1.3**	5.2

A list of principal subsidiary undertakings, joint ventures and associates is given in note 36.

The associates have no significant contingent liabilities to which the Group is exposed and nor has the Group any significant contingent liabilities in relation to its interest in its associates.

The associates have no significant capital commitments.

13. Investments (continued)

(c) Other financial assets

	2006	2005
	£m	£m
At 4 April 2005	**5.9**	5.0
Additions at cost	**0.3**	1.2
Transfer to associates	**(0.4)**	–
Impairment	**(1.3)**	–
Fair value loss	**–**	(0.3)
At 2 April 2006	**4.5**	5.9
Other financial assets include the following:-		
Unlisted shares	**3.3**	4.0
Term deposits/loans	**1.2**	1.9
	4.5	5.9

14. Inventories

	2006	2005
	£m	£m
Raw materials and consumables	**3.0**	2.5

The Group consumed £88.6 million (2005 £79.3 million) of inventories during the year (note 4).

15. Trade and other receivables

	2006	2005
	£m	£m
Amounts falling due within one year:-		
Trade debtors	**99.3**	92.6
Less: Provision for impairment of receivables	**(3.7)**	(2.6)
Trade debtors – net	**95.6**	90.0
Amounts owed by related parties	**3.0**	3.4
Other debtors	**2.5**	1.3
Prepayments and accrued income	**24.5**	26.1
	125.6	120.8

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this management believe there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

16. Current tax

	2006	2005
	£m	£m
Current tax liability	**7.5**	11.1

17. Cash and cash equivalents

	2006	2005
	£m	£m
Cash at bank and in hand	**59.9**	57.3
Short-term bank deposits	**15.5**	10.0
	75.4	67.3

The effective interest rate on short-term deposits was 4.58% (2005 4.56%) and these deposits have an average maturity of 13 days.

18. Financial liabilities – borrowings

Current	2006 £m	2005 £m
Bank loans and overdrafts due within one year or on demand:-		
Secured - syndicated bank loans	**30.0**	30.0
Unsecured - loan notes	**2.2**	3.9
Finance lease obligations	**5.7**	3.0
	37.9	36.9
Fair value of hedge instrument	**1.3**	–
Redeemable preference shares	**1.0**	–
	40.2	36.9

Non-current	2006 £m	2005 £m
Bank loans:-		
Secured - syndicated bank loans	**299.1**	368.5
Finance lease obligations	**56.7**	12.0
	355.8	380.5
Redeemable preference shares	**2.1**	–
Preference shares	**0.1**	0.1
Debt issue and finance costs	**(3.8)**	(5.3)
	354.2	375.3
The total value of obligations under syndicated bank loans and finance leases repayable by instalments:-		
– between one to two years	**33.1**	33.0
– between two to five years	**286.6**	346.1
– over five years	**36.1**	1.4
	355.8	380.5

The syndicated bank loans are subject to interest at LIBOR plus rates between 0.8% and 1% (2005 1%).

The Group has elected to hedge two-thirds of the outstanding debt. The Group has effected this by the purchase of an interest rate swap which hedges a reducing spiral of obligation from a maximum of £271.6 million in March 2005 to a minimum of £154.9 million at maturity in March 2008. The swap rate is 5.11% for the life of the hedge.

The terms of the senior debt instrument specify an initial repayment date of 3 April 2006 and subsequent repayment dates of twelve monthly intervals from that date until the final maturity date of 31 March 2010. The Group elected to pay £30 million early on 28 March 2006, prior to the financial year-end.

The loan notes are subject to interest at LIBOR less 0.75% in both years. The notes are redeemable by the lender at six monthly intervals until the final redemption date of 30 September 2010.

The syndicated bank loans are secured by all assets of Trader Media Group Limited apart from those of The Car Trader (Pty) Limited, Trader Media Ireland Limited, Marine Trader Media Limited, Trader Media Property Limited, Trader Data Systems Limited, Trader Media (Holdings) Ireland Limited, and Webzone Limited. Trader Media (TNT) Group Limited, whilst operationally part of the Trader Media division is not owned by Trader Media Group Limited and its assets are not secured.

18. Financial liabilities – borrowings (continued)

Redeemable preference shares	**2006**	2005
	£m	£m
Current – 1,500,000 non-voting redeemable preference shares of €1	**1.0**	–
Non-current – 3,000,000 non-voting redeemable preference shares of €1	**2.1**	–

The redeemable preference shares are repayable in tranches of 1,500,000 shares in November 2006, 2007 and 2008 at par.

Preference share capital	**2006**	2005
	£m	£m
Authorised, issued, called up and fully paid:-		
100,000 4% cumulative preference shares of £1 each	**0.1**	0.1

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

19. Financial instruments

Financial instruments disclosures are set out below:-

	Liabilities
	£m
At 2 April 2006	
Forward foreign currency contracts	0.2
	0.2
At 3 April 2005	
Forward foreign currency contracts	0.5
	0.5

Net fair values of derivative financial instruments

The net fair values of derivative financial instruments and designated for cash flows at the balance sheet date were:-

	2006	2005
	£m	£m
Contracts with negative fair values:-		
Forward foreign currency contracts	**0.2**	0.5

20. Trade and other payables - current

	2006	2005
	£m	£m
Trade creditors	**21.5**	16.7
Taxation and social security	**16.0**	19.2
Other creditors	**3.6**	2.6
Accruals and deferred income	**62.0**	59.6
	103.1	98.1

21. Other non-current liabilities

	2006	2005
	£m	£m
Accruals	**0.7**	–
Deferred income	**0.2**	0.5
	0.9	0.5

22. Provisions

	£m
At 4 April 2005	37.5
Charged to profit and loss account	10.8
Utilised in year:-	
Existing	(0.4)
At 2 April 2006	**47.9**
Provisions have been analysed between current and non-current as follows:-	
Current	33.0
Non-current	14.9
	47.9

The provisions relate primarily to the exceptional items disclosed in note 4 to the accounts resulting from the Group's decision to invest in new printing facilities during the year ended 3 April 2005 and are based on the latest available information. Approximately two-thirds will be settled within one year, the balance over a longer term.

	£m
At 29 March 2004	–
Reclassification from creditors	1.2
Charged to profit and loss account	36.7
Utilised in year:-	
Existing	(0.4)
At 3 April 2005	37.5
Provisions have been analysed between current and non-current as follows:-	
Current	4.7
Non-current	32.8
	37.5

23. Deferred taxation

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 30% (2005 30%)

The movement on the deferred taxation account is as shown below:-

	2006	2005
	£m	£m
At 4 April 2005	**2.2**	0.6
Profit and loss (charge)/credit	**(0.9)**	1.1
Disposals	**–**	(0.3)
Acquisition	**(0.3)**	–
Statement of recognised income and expense credit	**0.5**	0.8
At 2 April 2006	**1.5**	2.2

23. Deferred taxation (continued)

	Accelerated tax allowances on fixed assets £m	Tax losses carried forward £m	Short-term and other timing differences £m	Capital gains/ revaluations £m	Total £m
Deferred taxation liabilities					
At 4 April 2005	(3.5)	–	–	(0.4)	(3.9)
Profit and loss credit	0.3	–	–	–	0.3
Acquisitions	(0.3)	–	–	–	(0.3)
At 2 April 2006	**(3.5)**	**–**	**–**	**(0.4)**	**(3.9)**
Deferred taxation assets					
At 4 April 2005	1.0	0.9	4.2	–	6.1
Profit and loss (charge)/credit	(0.1)	0.4	(1.5)	–	(1.2)
Statement of recognised income and expense credit - actuarial losses	–	–	0.5	–	0.5
At 2 April 2006	**0.9**	**1.3**	**3.2**	**–**	**5.4**
Net deferred tax asset at 2 April 2006					**1.5**
Net deferred tax asset at 3 April 2005					2.2

Deferred tax assets have not been recognised where they relate to losses in companies where their future utilisation against profits cannot be reasonably foreseen.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to do so and there is an intention to settle the balances net.

No deferred tax is recognised on the undistributed profits of overseas subsidiaries and associates as they are re-invested by the Group and no tax is expected to be payable on them in the foreseeable future. Since acquisition, subsidiaries have made profits of £3.5 million which have not been remitted to the UK.

24. Share capital

	2006 £m	2005 £m
Authorised, issued, called up and fully paid:-		
900,000 ordinary shares of £1 each	**0.9**	0.9
	0.9	0.9

25. Retained earnings

	£m
The movement on retained profits is analysed below:-	
At 29 March 2004	382.2
Retained profit for the period	44.1
Statement of recognised income and expense	(2.3)
At 3 April 2005	424.0
Retained profit for the period	45.9
Statement of recognised income and expense	(3.5)
At 2 April 2006	**466.4**

Cumulative goodwill written off to Group reserves £58.4 million (2005 £58.4 million).

26. Preference dividends paid

Preference dividends paid during the year amounted to £4,000 (2005 £4,000).

27. Statement of changes in equity

	£m
At 29 March 2004	383.1
Retained profit for the year	44.1
Statement of recognised income and expense	(2.3)
At 3 April 2005	424.9
Retained profit for the year	45.9
Statement of recognised income and expense	(3.5)
At 2 April 2006	**467.3**

28. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:-

Cash generated from operations	**2006 £m**	2005 £m
Continuing operations		
Net profit	**45.9**	33.9
Adjustments for:-		
Tax	**20.5**	19.8
Depreciation	**20.9**	16.8
Loss on sale of trade and assets	**0.8**	–
Profit on sale of associates	**(1.4)**	–
Profit on disposal of property, plant and equipment	**(0.3)**	(1.7)
Profit of disposable of intangibles	**(0.5)**	–
Amortisation of intangibles	**2.2**	2.9
Impairment of associates	**1.0**	1.1
Impairment of non-current financial assets	**1.3**	0.3
Income from non-current financial assets	**(0.3)**	(0.9)
Interest income	**(6.5)**	(8.0)
Interest expense	**24.2**	38.9
Pensions	**(5.3)**	1.9
Share of results of joint ventures after taxation	**(0.4)**	(0.5)
Share of results of associates after taxation	**0.2**	2.7
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):-		
Increase in inventories	**(0.8)**	(0.3)
Increase in trade and other receivables	**(5.2)**	(2.2)
Increase in trade and other payables	**3.9**	6.6
Increase in provisions	**10.4**	37.5
Cash generated from continuing operations	**110.6**	148.8
Discontinued operations		
Net profit	**–**	1.4
Taxation	**–**	(3.9)
Depreciation charge	**–**	0.2
Profit on sale of subsidiaries	**–**	(2.9)
Profit on sale of associates	**–**	(4.9)
Increase in trade and other receivables	**–**	(0.6)
Decrease in trade and other payables	**–**	(0.7)
Cash outflow from discontinued operations	**–**	(11.4)
Cash generated from operations	**110.6**	137.4

29. Acquisitions and disposals

Acquisitions and disposals during the period, none of which are material to the Group, are as follows:-

(a) During November 2005, the Group acquired 100% of the ordinary share capital of Webzone Limited, a company incorporated in the Republic of Ireland, for an equity consideration of £5.4 million. Following this acquisition, preference shares issued as part of the equity consideration were redeemed at par for £2.3 million. In addition fees of £0.3 million were capitalised to cost of investment and settled in cash.

(b) During January 2006, the Group sold the trade and assets of its Enterprise music activities, part of Smooth FM (London) Limited to the Ministry of Sound for a net consideration of £3.0 million. Goodwill written off through the profit and loss account on disposal totalled £2.6 million. This resulted in a loss of £0.8 million.

(c) During the year, the Group increased its shareholding in Reading Broadcasting Company Limited from 36.9% to 63.7%. In November 2005, the Group sold its entire shareholding for £1.0 million net consideration. This gave rise to a profit on disposal of £1.4 million.

30. Pension commitments

Defined contribution schemes
More than 90% of the Group's employees are members of defined contribution pension schemes operated by the Group. The Group also contributes to a small number of pension schemes which are of the defined benefit type, based on final salary. Pension scheme assets are held in separate trustee administered funds.

Pension costs for defined contribution schemes are as follows:-

	2006	2005
	£m	£m
Defined contribution schemes	**9.8**	9.8

Defined benefit schemes
The Group has four (2005 four) defined benefit pension schemes all of which have been accounted for in accordance with IAS 19 'Employee benefits'. The Group has elected to adopt the December 2004 amendments to IAS 19 early as encouraged by the International Accounting Standards Board. In particular, the Group has adopted a policy of recognising all actuarial gains and losses for all of its defined benefit schemes in the period in which they occur, outside the profit and loss account, in the statement of recognised income and expense.

All four defined benefit schemes are closed to new entrants, therefore the average age of active membership is likely to increase at future valuations. At the year-end the Rochdale Observer Executive Pension Plan had no members remaining in the scheme and there are no further liabilities of the scheme at that date. The GMG Supplementary Pension Scheme also had no active members remaining at year-end, however, there are a small number of temporary pensions that will be a future liability to the Scheme. This is not material to the Group. The Surrey Advertiser Newspaper Holdings Ltd Pension & Life Assurance Scheme and the Wiltshire (Bristol) Ltd Retirement Benefit Scheme were closed to future accrual with effect from the 31 March 2006 and 30 April 2006 respectively.

The most recent actuarial valuations of the defined benefit schemes were performed between 5 April 2003 and 31 July 2004 and updated to 2 April 2006 by a qualified independent actuary. The main assumptions made by the actuaries were:-

	2006	2005
Rate of increase in pensionable salaries	**3.80% pa**	3.90% pa
Rate of increase for pensions in payment	**2.80% pa**	3.40% pa
Rate of increase in deferred pensions	**2.80% pa**	2.90% pa
Discount rate	**4.75% pa**	5.50% pa
Inflation assumption	**2.80% pa**	2.90% pa
Expected return on plan assets:-		
Equities	**6.00% pa**	6.75% pa
Bonds	**4.58% pa**	5.50% pa
Cash	**4.50% pa**	4.75% pa

The Group has assumed that mortality will be in line with nationally published PMA92 and PFA92 mortality tables related to members years of birth and incorporating projected 'medium-term' improvements to life expectancy. The assumptions are that a non-pensioner who retires in 2030 at age sixty-five will live on average for a further 23 years after retirement if they are male and for a further 26 years after retirement if they are female. A current pensioner aged seventy will live on average a further 17 years if they are male and for a further 20 years if they are female.

30. Pension commitments (continued)

The amounts recognised in the balance sheet are determined as follows:-

	2006 £m	2005 £m
Present value of funded obligations - all fully or partly funded	**(28.2)**	(27.5)
Fair value of plan assets	**24.9**	23.8
Plan assets not recognised	**–**	(2.1)
Net liability recognised in the balance sheet	**(3.3)**	(5.8)

The amounts recognised in the profit and loss account are as follows:-

	2006 £m	2005 £m
Current service cost	**0.5**	0.6
Interest cost	**1.4**	1.4
Expected return on plan assets	**(1.3)**	(1.3)
Effect of curtailments or settlements	**(0.5)**	–
Total pension cost recognised in the profit and loss account	**0.1**	0.7

These charges are included in operating costs.

The amounts recognised in the statement of recognised income and expense are as follows:-

	2006 £m	2005 £m
Actuarial losses immediately recognised	**(3.7)**	(0.3)
Effect of paragraph 58(b) limit	**–**	(2.1)
Total pension cost recognised in the statement of recognised income and expense	**(3.7)**	(2.4)

Changes in the present value of the defined benefit obligation are as follows:-

	2006 £m	2005 £m
Defined benefit obligation at the beginning of the year	**(27.5)**	(25.3)
Current service cost	**(0.5)**	(0.6)
Interest cost	**(1.4)**	(1.4)
Actuarial losses	**(6.1)**	(0.8)
Contributions paid	**(0.2)**	(0.2)
Curtailments	**1.4**	–
Settlements	**5.1**	–
Benefits paid	**1.0**	0.8
Defined benefit obligation at the end of the year	**(28.2)**	(27.5)

30. Pension commitments (continued)

Changes in the fair value of the schemes assets are as follows:-	**2006**	2005
	£m	£m
Schemes assets at beginning of the year	**23.8**	21.1
Employer contributions	**6.3**	1.6
Member contributions	**0.2**	0.2
Expected return on assets	**1.3**	1.3
Actuarial gains	**2.3**	0.4
Settlements	**(8.0)**	–
Benefits paid	**(1.0)**	(0.8)
Scheme assets at the end of the year	**24.9**	23.8

The Group expects to contribute £1.0 million to its defined benefit pension schemes during the year ending 1 April 2007.

The actual return on plan assets was £3.6 million.

	2006	2005
The major categories of schemes assets are as follows:-	**£m**	£m
Equities	**11.1**	10.8
Bonds	**9.7**	12.8
Cash	**4.1**	0.2
	24.9	23.8

Analysis of the movement in the balance sheet asset/(liability)	**2006**	2005
	£m	£m
At 4 April 2005	**(5.8)**	(4.3)
Total expense recognised in the profit and loss account	**(0.1)**	(0.7)
Contributions	**6.3**	1.6
Net actuarial gains/(losses) recognised in the year	**(3.7)**	(2.4)
At 2 April 2006	**(3.3)**	(5.8)

Cumulative actuarial gains and losses recognised in equity	**2006**	2005
	£m	£m
At 4 April 2005	**(6.6)**	(4.2)
Net actuarial gains/(losses) recognised in the year	**(3.7)**	(2.4)
At 2 April 2006	**(10.3)**	(6.6)

The expected return on assets assumption has been derived by considering the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return assets assumption for the portfolio.

All of the Group's defined benefit pension schemes are now closed to new members. This means that the average age of active members in each scheme will increase at future valuations, leading to an increasing current service contribution rate. This may be offset by a falling total pensionable salary resulting from leavers and retirements.

31. 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	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Expiring within one year	**1.9**	2.0	**2.8**	4.6
Expiring between two and five years inclusive	**8.6**	9.8	**11.7**	2.8
Expiring in over five years	**21.3**	21.7	**24.2**	3.4
	31.8	33.5	**38.7**	10.8

32. Capital commitments authorised

Contracts entered into but not provided for, for property, plant and equipment for the Group amounted to approximately £11.4 million (2005 £55.0 million).

33. Related party transactions

Transactions between subsidiary members of the Guardian Media Group plc are not required to be disclosed 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 Limited and Paper Purchase & Management Limited. The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:-

	2006	2005
	£m	£m
Sales	**0.2**	0.3
Purchases	**89.2**	85.0
Loans made	**2.0**	–
Interest on loans	**0.3**	–

At year-end there were no material balances outstanding in relation to these transactions.

During the year the Guardian Media Group plc paid £96,279 (2005 £79,302) to seven (2005 seven) members of the Scott Trust in relation to their duties as trustees. A further £137,646 (2005 £143,496) was paid to two (2005 two) of the trustees, neither of whom are directors of the Group, for services rendered to Guardian Newspapers Limited and paid on a normal arms length basis. No members of the Board received additional remuneration for services as a trustee (2005 £nil).

Key management compensation is disclosed in note 5 on page 46.

34. 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.

35. Post balance sheet events

In April 2006, the Group acquired:-

(a) a 100% interest in Contact Advantage Group Limited, a specialist provider of Customer Relationship Management Systems to the automotive dealership market, for a cash consideration of £0.6 million.

(b) a 30% interest in a photographic imaging company for a cash consideration of £0.3 million.

(c) a 100% interest in 2nd Byte Limited, a leading provider of Online Stock Locators to nine vehicle manufacturers for a cash consideration of £16.1 million.

(d) a 100% interest in Faxpress Limited, which publishes listings of used cars offered for trade to franchised car dealers, for a cash consideration of £0.3 million.

36. Principal subsidiaries, joint ventures and associates

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 Newspapers Division		
Guardian Newspapers Limited^	£1 ordinary shares	100%
Learnthings 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	100%
GMG 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 FM (London) Limited^	£1 ordinary shares	100%
Smooth FM Limited^	£1 ordinary shares	100%
Trader Media Division		
Trader Media Group Limited^	10p ordinary shares	100%
Trader Media (TNT) Group Limited^	1p ordinary shares	100%
Other		
Guardian Media Group Jersey Limited+	1JPY ordinary shares	100%

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

(b) **Joint venture companies**	Description of total shares	Percentage holding
Paper Purchase & Management Limited	200 £1 ordinary shares	50%
Trafford Park Printers Limited	10,000 £1 ordinary shares	50%

(c) **Associates**	Description of total shares	Percentage holding
Seven Publishing Limited	1,694,922 'A' ordinary shares/ 550,000 'B' ordinary shares	35.5%
Fish4 Limited^	56,967,280 £1 ordinary shares	25.1%
MXR Holdings 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 the above joint venture and associate companies are incorporated in Great Britain and registered in England and Wales and operate principally in their country of incorporation.

37. Reconciliation of net assets and profit under UK GAAP to IFRS

The Group reported under UK GAAP in its previously published financial statements for the period ended 3 April 2005. The analysis below shows a reconciliation of net assets as reported under UK GAAP as at 3 April 2005 and 29 March 2004 to the revised net assets under IFRS. In addition, there is a reconciliation of profit under UK GAAP to IFRS as at 3 April 2005.

Reconciliation of equity at 29 March 2004 (date of transition to IFRS)

	Note	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets				
Non-current assets				
Goodwill		643.5	–	643.5
Intangible assets	1	–	6.3	6.3
Property, plant and equipment	1	82.8	(5.4)	77.4
Investments accounted for using equity method	2	21.9	(2.3)	19.6
Other financial assets		5.0	–	5.0
Retirement benefit asset	2	–	2.3	2.3
Deferred tax assets	3	(0.1)	0.7	0.6
		753.1	1.6	754.7
Current assets				
Inventories		2.3	–	2.3
Trade and other receivables	4	118.2	0.8	119.0
Cash and cash equivalents		85.2	–	85.2
		205.7	0.8	206.5
Liabilities				
Current liabilities				
Financial liabilities				
- Borrowings		14.0	–	14.0
Trade and other payables	5	91.5	0.4	91.9
Current tax liabilities		15.4	–	15.4
		120.9	0.4	121.3
Net current assets		84.8	0.4	85.2
Non-current liabilities				
Financial liabilities	6	448.3	1.3	449.6
Retirement benefit liabilities	2	–	6.5	6.5
Other non-current liabilities	7	–	0.7	0.7
		448.3	8.5	456.8
Net assets		389.6	(6.5)	383.1
Shareholders' equity				
Share capital	6	1.0	(0.1)	0.9
Retaining earnings	8	388.6	(6.4)	382.2
Total shareholders' equity		389.6	(6.5)	383.1

37. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Notes to reconciliations from UK GAAP to IFRS at 29 March 2004

1. In accordance with IAS 38, 'Intangible assets', certain assets have been reclassified, broadly computer software.

2. In accordance with IAS 19, 'Employee benefits' the full surplus/deficit on defined benefit pension funds has been brought on to the balance sheet.

3. In accordance with IAS 12, 'Income taxes' a deferred tax asset has been created in respect of the defined benefit pension fund and other provisions.

4. In accordance with IAS 39, 'Financial instruments: Recognition and Measurement', the bad debt provision has been decreased.

5. In accordance with IAS 19, 'Employee benefits', accruals in respect of holiday pay have been increased.

6. In accordance with IAS 39, 'Financial instruments: Recognition and Measurement', preference share capital has been reclassified as a current liability and derivative financial instruments have been shown as a liability on the balance sheet.

7. In accordance with IAS 17, 'Leases', in respect of sale and leaseback arrangements the difference between sale price and previous carrying value has been deferred and will be amortised over the term of the lease.

8. Under IFRS, adjustments to retained earnings broadly comprise net defined benefit pension surplus/deficit in both subsidiaries and joint venture companies, deferred tax asset, derivative financial instruments and adjustments to other provisions and accruals.

	Period ended 3 April 2005 £m
Reconciliation of profit before interest	
Operating profit reported under UK GAAP	50.5
Retirement benefit liability	0.9
Goodwill amortisation (subsidiaries)	33.5
Discontinued operations	2.6
Other adjustments	(0.6)
Operating profit reported under IFRS	86.9
Profit after tax for the year reported under UK GAAP	10.0
Retirement benefit liability	0.9
Goodwill amortisation (subsidiaries)	33.5
Goodwill amortisation (joint ventures and associates)	0.3
Profit on disposal of associate	(0.3)
Derivative financial instruments	0.7
Deferred taxation	(0.4)
Other adjustments	(0.6)
Profit after tax reported under IFRS	44.1

37. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of equity at 3 April 2005

	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets			
Non-current assets			
Goodwill	610.2	33.5	643.7
Intangible assets	–	6.8	6.8
Property, plant and equipment	136.6	(6.2)	130.4
Investments accounted for using equity method	13.7	(2.7)	11.0
Other financial assets	5.9	–	5.9
Retirement benefit asset	–	0.3	0.3
Deferred tax assets	1.1	1.1	2.2
	767.5	32.8	800.3
Current assets			
Inventories	2.5	–	2.5
Trade and other receivables	120.6	0.2	120.8
Cash and cash equivalents	67.3	–	67.3
	190.4	0.2	190.6
Liabilities			
Current liabilities			
Financial liabilities			
- Borrowings	36.9	–	36.9
- Financial instruments	–	0.5	0.5
Trade and other payables	97.4	0.7	98.1
Current tax liabilities	11.1	–	11.1
Provisions	4.9	(0.2)	4.7
	150.3	1.0	151.3
Net current assets	40.1	(0.8)	39.3
Non-current liabilities			
Financial liabilities	375.2	0.1	375.3
Retirement benefit liabilities	–	6.1	6.1
Other non-current liabilities	–	0.5	0.5
Provisions	32.8	–	32.8
	408.0	6.7	414.7
Net assets	399.6	25.3	424.9
Shareholders' equity			
Share capital	1.0	(0.1)	0.9
Retained earnings	398.6	25.4	424.0
Total shareholders' equity	399.6	25.3	424.9

37. Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of profit for the year ended 3 April 2005

	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Turnover	707.8	(2.8)	705.0
Operating costs	(657.3)	39.2	(618.1)
Operating profit	50.5	36.4	86.9
Finance costs - net	(34.3)	3.4	(30.9)
Share of post tax profits of joint ventures	0.6	(0.1)	0.5
Share of post tax losses of associates	(3.9)	0.2	(3.7)
Income from other financial assets	0.9	–	0.9
Taxation	(12.9)	(6.9)	(19.8)
Discontinued operations	9.1	1.1	10.2
Profit attributable to equity shareholders'	10.0	34.1	44.1

An explanation of reconciling items between UK GAAP and IFRS is shown on page 67.

Under UK GAAP Guardian Media Group plc prepared its cash flow statement in accordance with UK Financial Reporting Standard 1 (Revised 1996) 'Cash flow statements'. Its objectives and principles are similar to those set out in IAS 7 'Cash flow statements'.

FRS 1 (Revised 1996) defines cash as cash and bank balances, net of bank overdrafts repayable on demand. IAS 7 in addition includes 'cash equivalents' which are defined as short-term highly liquid investments, which are held for the purpose of meeting short-term cash commitments rather than for investment, that are both convertible to known amounts of cash, and so near their maturity that they present an insignificant risk of changes in value. The inclusion of cash equivalents in the definition of reported cash flows had no significant effect on the reported cash flows for the year to 3 April 2005.

The other principle differences between IFRS and UK GAAP are in respect of classification, under UK GAAP Guardian Media Group plc presented its cash flows by:-

– operating activities;
– dividends received from joint ventures and associates;
– returns on investments and servicing of finance;
– taxation;
– capital expenditure;
– acquisitions and disposals;
– management of liquid resources;
– financing.

Under IFRS only three categories are required. These are operating, investing and financing.

Group five year review

The Group five year review for 2006 and 2005 has been drawn up in accordance with International Financial Reporting Standards. For 2004, 2003 and 2002 the figures shown are as originally reported under UK GAAP, the principal adjustments in order for these figures to comply with IFRS comprise goodwill amortisation and defined benefit pension fund liabilities.

	Year to 2 April 2006 £m	Year to 3 April 2005 £m	Year to 28 March 2004 £m	Year to 30 March 2003 £m	Year to 31 March 2002 £m
Turnover	**700.3**	705.0	517.8	355.6	335.5
Operating costs excluding amortisation and exceptional items	**(583.9)**	(577.8)	(457.7)	(354.3)	(352.4)
Operating profit/(loss) before amortisation and exceptional items	**116.4**	127.2	60.1	1.3	(16.9)
Amortisation and exceptional items	**(31.8)**	(40.3)	(22.4)	(8.6)	(2.8)
Operating profit/(loss) after amortisation and exceptional items	**84.6**	86.9	37.7	(7.3)	(19.7)
Income from other financial assets	**0.3**	0.9	0.4	1.2	1.0
Net interest (payable)/receivable	**(17.7)**	(30.9)	(18.9)	6.0	5.9
Share of profit/(losses) of joint ventures and associates	**(0.8)**	(3.2)	24.4	37.1	21.3
Profit before taxation	**66.4**	53.7	43.6	37.0	8.5
Taxation	**(20.5)**	(19.8)	(10.9)	(13.3)	(3.9)
Profit for the year from continuing operations	**45.9**	33.9	32.7	23.7	4.6
Profit/(loss) for the year from discontinued operations	**–**	10.2	–	(0.1)	1.3
Profit attributable to equity shareholders'	**45.9**	44.1	32.7	23.6	5.9
Assets employed					
Intangible assets (including goodwill)	**655.0**	650.5	643.5	66.1	25.9
Tangible assets	**146.4**	130.4	82.8	45.1	53.3
Investments	**17.7**	16.9	26.9	77.9	85.8
Cash and cash equivalents	**75.4**	67.3	85.2	168.1	171.5
Other net liabilities	**(427.2)**	(440.2)	(448.8)	(0.5)	(3.7)
Net assets	**467.3**	424.9	389.6	356.7	332.8

GUARDIAN MEDIA GROUP

Guardian Media Group plc 2006

Separate financial statements in accordance with UK accounting standards

Report of the directors

To the members of the Guardian Media Group plc

The directors present their report and the audited financial statements of the Company for the year ended 2 April 2006.

Activities and review of the business

The Company is the holding company for the Group.

Business review and future developments

The profit for the year was £0.3 million (2005 £114.8 million). The Company has paid a preference dividend of 4.0p (2005 4.0p) per share amounting to £4,000 (2005 £4,000). The directors do not recommend payment of any dividend on the ordinary shares.

Creditor payment policy

The Company 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 at the year-end was 30 days.

Directors and directors' interests

This information is shown in the Group section of the annual report pages 12, 13 and 28.

Tax status

The Company is a close company for tax purposes.

Statement of 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 and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of changes arising on the adoption of new accounting standards in the year as explained in note 14. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 2 April 2006 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 Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm, so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

After reviewing the Company's cash balances and projected cash flows the directors believe that the Company 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.

Independent 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

29 June 2006

Independent auditors' report

To the members of Guardian Media Group plc

We have audited the parent company financial statements of Guardian Media Group plc for the year ended 2 April 2006 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Guardian Media Group plc for the year ended 2 April 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 parent company financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors is not consistent with the parent company 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the financial highlights, the Chairman's statement, the Chief Executive's review of operations, the Scott Trust report, the corporate social responsibility report, the financial review, the corporate governance statement, the report of the directors and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements.

Opinion

In our opinion:-

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 2 April 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the report of the directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

29 June 2006

Company balance sheet

As at 2 April 2006

	Note	2006 £m	2005 restated (see note 14) £m
Assets			
Fixed assets			
Tangible assets	3	**0.2**	0.2
Investments			
Subsidiary undertakings	4	**315.9**	298.4
Joint ventures	5	**9.5**	9.5
Associates	6	**2.7**	–
Other investments	7	**1.1**	1.8
		329.4	309.9
Defined benefit pension fund	13	**–**	0.2
Current assets			
Debtors	8	**21.9**	57.8
Cash at bank and in hand		**37.6**	31.8
		59.5	89.6
Current liabilities			
Creditors: due within one year	9	**93.2**	105.3
Net current liabilities		**(33.7)**	(15.7)
Creditors: due after more than one year	10	**0.8**	0.1
Defined benefit pension fund	13	**0.1**	–
Net assets		**294.8**	294.3
Capital and reserves			
Share capital	11	**0.9**	0.9
Retained earnings	12	**293.9**	293.4
Total shareholders' funds		**294.8**	294.3

These financial statements were approved by the Board of directors on 29 June 2006 and signed on its behalf by:-

Paul Myners
Chairman

Nick Castro
Finance Director

The notes on pages 76 to 83 form part of these financial statements.

Notes

relating to the 2006 financial statements

1. Accounting policies

Accounting basis
The financial statements on page 75 have been prepared in accordance with the Companies Act 1985 and 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.

Prior year adjustments
Prior year adjustments are detailed in note 14 to the accounts on page 82.

Cash flow statement
As the Group prepares consolidated financial statements under IFRS and prepares its own separate financial statements in accordance with UK accounting standards, the Company is exempt from publishing a cash flow statement.

Depreciation
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 expected 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 expected useful lives or fifty years, whichever is the shorter. Freehold land is not depreciated.

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.

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;
– 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.

Deferred tax assets and liabilities are not discounted.

Investments
Fixed asset investments are stated in the financial statements at cost less any provision required to reflect a diminution in value.

Pension costs
The Company is complying with FRS 17, ‘Retirement Benefits’.

(a) Defined contribution schemes
The majority of the Company’s employees are members of defined contribution pension schemes.

(b) Defined benefit schemes

The Company has a defined benefit pension scheme. The operating and financing cost of this scheme are recognised separately in the profit and loss account, service costs are spread systematically over the lives of the employees and financing costs are recognised in the periods in which they arise. Finance costs are included in operating costs.

The liability in respect of defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities, which have terms approximating to the terms of the related liability.

The charge to the profit and loss account comprises the total contributions payable by the Company to the scheme in the period. Actuarial gains or losses in respect of these schemes are shown in the statement of total recognised gains and losses.

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.

2. (a) Average monthly number of persons employed including executive directors

	2006 No	2005 No
Administration	**34**	30

(b) Auditors' remuneration

	2006 £m	2005 £m
Audit services	**–**	–
Other services	**0.4**	0.4

3. Tangible assets

	Plant and vehicles £m	Fixtures and fittings £m	Total £m
Cost			
At 4 April 2005	0.3	0.1	0.4
Additions at cost	0.1	–	0.1
Disposals	(0.1)	–	(0.1)
At 2 April 2006	**0.3**	**0.1**	**0.4**
Accumulated depreciation			
At 4 April 2005	0.1	0.1	0.2
Charge for the period	0.1	–	0.1
Disposals	(0.1)	–	(0.1)
At 2 April 2006	**0.1**	**0.1**	**0.2**
Net book value			
At 2 April 2006	**0.2**	**–**	**0.2**
Net book value			
At 3 April 2005	0.2	–	0.2

4. Subsidiary undertakings

	Unlisted shares £m
Cost	
At 4 April 2005	424.0
Additions	17.5
At 2 April 2006	**441.5**
Amounts written off	
At 2 April 2006 and 4 April 2005	**125.6**
Net book value at 2 April 2006	**315.9**
Net book value at 3 April 2005	298.4

Details of the principal operating subsidiaries which are either wholly owned by the Company or its subsidiaries are shown in the Group section of this report on page 65.

5. Joint ventures

Cost	Shares £m	Loans £m	Total £m
At 2 April 2006 and 4 April 2005	**14.6**	**1.5**	**16.1**
Amounts written off			
At 2 April 2006 and 4 April 2005	**6.6**	**–**	**6.6**
Net book value			
At 2 April 2006 and 3 April 2005	**8.0**	**1.5**	**9.5**

Details of the principal joint ventures are shown in the Group section of this report on page 65.

6. Associates

	Unlisted shares £m	Loan stock £m	Total £m
Cost			
At 4 April 2005	–	–	–
Transfer from subsidiary	5.2	2.0	7.2
At 2 April 2006	**5.2**	**2.0**	**7.2**
Amounts written off			
At 4 April 2005	–	–	–
Charge for period	3.3	–	3.3
Transfer from subsidiary	1.2	–	1.2
At 2 April 2006	**4.5**	**–**	**4.5**
Net book value at 2 April 2006	**0.7**	**2.0**	**2.7**
Net book value at 3 April 2005	–	–	–

Details of the principal associates are shown in the Group section of this report on page 65.

7. Other investments

	Unlisted shares £m	Term deposits/ loans £m	Total £m
At 4 April 2005	0.2	1.6	1.8
Additions at cost	–	0.3	0.3
Impairment charge	–	(1.0)	(1.0)
At 2 April 2006	**0.2**	**0.9**	**1.1**

8. Debtors

	2006 **£m**	2005 restated (see note 14) £m
Amounts owed by subsidiaries	**17.0**	53.0
Amounts owed by joint ventures and associates	**1.8**	1.5
Corporation tax	**2.6**	0.9
Deferred tax	**0.4**	2.3
Prepayments and accrued income	**0.1**	0.1
	21.9	57.8

9. Creditors: due within one year

	2006 **£m**	2005 £m
Trade creditors	**0.3**	0.1
Amounts owed to subsidiaries	**90.4**	90.8
Taxation and social security	**0.5**	5.2
Other creditors	**0.1**	0.1
Accruals and deferred income	**1.9**	9.1
	93.2	105.3

10. Creditors: due after more than one year

	2006 **£m**	2005 restated (see note 14) £m
Accruals and deferred income	**0.7**	–
Preference shares	**0.1**	0.1
	0.8	0.1

Preference share capital	**2006** **£m**	2005 £m
Authorised, issued, called up and fully paid:-		
100,000 4% cumulative preference shares of £1 each	**0.1**	0.1

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

11. Share capital

	2006 **£m**	2005 restated (see note 14) £m
Authorised, issued, called up and fully paid:-		
900,000 ordinary shares of £1 each	**0.9**	0.9

12. Retained earnings

	£m
The movement on retained profits is analysed below:-	
At 4 April 2005	293.3
Restatement (note 14)	0.1
Retained loss for the period	0.3
Statement of recognised income and expense	0.2
At 2 April 2006	**293.9**

A separate profit and loss account dealing with the results of the Company has not been presented as permitted by Section 230 (4) of the Companies Act 1985.

13. Pensions

The Company operates two pension schemes.

Defined contribution scheme
The G and MEN Lifestyle Plan is a defined contribution scheme. The scheme's assets are held in a separately administered fund. Contributions are paid into the scheme by the Company and some of its subsidiaries.

Defined benefit scheme
Guardian Media Group plc operates one defined benefit pension scheme, the GMG Supplementary Pension Scheme, contributions being charged to the profit and loss account so as to spread the cost of pensions over the working lives of employees in the scheme. The pension charge to the profit and loss account for the period was £0.5 million (2005 £nil).

The scheme's assets are held in a separate trustee administered, professionally managed, fund. The scheme is now closed to new entrants who are offered membership of the Company's defined contribution scheme. The last formal actuarial review was completed at 31 March 2004. The market value of the scheme's assets at that date were £5.7 million and the value of the benefits accruing to the scheme's members at that date were £3.4 million. The ratio of the schemes assets to liabilities was therefore 168%. Following the valuation, the Company decided to make no contributions into the scheme at that time. Since the last full actuarial review no contributions have been paid into the scheme by the Company, and all remaining active members have been settled.

The following information is provided to comply with FRS 17, 'Retirement benefits'.

As the scheme is closed, the average age of membership is likely to increase at future valuations. A full actuarial review was carried out at 31 March 2004 and updated to 2 April 2006 by a qualified independent actuary.
No contributions were paid into the scheme for the year ended 2 April 2006.

The major assumptions used for the actuarial valuation were:-

	2006	2005	2004
Rate of increase in salaries	**2.80%**	2.90%	2.80%
Rate of increase of pensions in payment	**2.80%**	2.90%	2.80%
Rate of increase of pensions in deferment	**2.80%**	2.90%	2.80%
Discount rate	**4.75%**	5.50%	5.50%
Inflation assumption	**2.80%**	2.90%	2.80%

13. Pensions (continued)

The fair value of the assets in the scheme, the actuarial value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:-

	2006	**2006 £m**	2005	2005 £m	2004	2004 £m
Bonds	–	–	5.00%	5.8	4.90%	5.7
Total market value of assets		–		5.8		5.7
Actuarial value of liability		**(0.1)**		(3.8)		(3.4)
Total (deficit)/surplus in the schemes		**(0.1)**		2.0		2.3
Effect of surplus cap		–		(1.7)		–
Recoverable (deficit)/surplus in the schemes		**(0.1)**		0.3		2.3
Related deferred tax asset/(liability)		–		–		–
Net pension (liability)/asset		**(0.1)**		0.3		2.3

Net assets	**2006 £m**	2005 £m
Net assets excluding pension (liability)/asset	**294.9**	294.1
Pension (liability)/asset	**(0.1)**	0.2
Net assets including pension (liability)/asset	**294.8**	294.3

Reserves	**2006 £m**	2005 £m
Retained earnings excluding pension (liability)/asset	**294.0**	293.2
Pension reserve	**(0.1)**	0.2
Retained earnings including pension (liability)/asset	**293.9**	293.4

Analysis of the amount charged to operating profit

	2006 £m	2005 £m
Current service cost	**0.1**	0.1
Settlement	**0.4**	–
Total operating charge	**0.5**	0.1

Analysis of net return on pension scheme

	2006 £m	2005 £m
Expected return on pension scheme assets	**0.1**	0.3
Interest on pension liabilities	**(0.1)**	(0.2)
Net return	–	0.1
Other finance income	–	0.1

13. Pensions (continued)

Analysis of amount recognised in statement of total recognised gains and losses

	2006 £m	2005 £m
Actual return less expected return on assets	0.1	–
Experience gains and losses on liabilities	–	(0.2)
Changes in assumptions	–	(0.1)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	0.1	(0.3)
Adjustment due to surplus cap	–	(1.7)
Net gain/(loss) recognised	0.1	(2.0)

Movement in (deficit)/surplus during the year

	2006 £m	2005 £m
Surplus in scheme at beginning of year	2.0	2.3
Adjustment due to surplus cap in 2005	(1.7)	–
Movement in year:-		
Current service cost	(0.1)	(0.1)
Settlements	(0.4)	–
Other finance income	–	0.1
Actuarial gain/(loss)	0.1	(0.3)
(Deficit)/surplus in scheme at end of year	(0.1)	2.0

The actuarial review at 2 April 2006 showed a reduction in the surplus from £2.0 million (of which only £260,000 was recognised in 2005 due to the surplus cap) to a deficit of £67,000. The Company did not pay any contributions to the scheme during the year. Future contributions have not yet been agreed.

History of experience gains and losses

	2006	2005	2004
Difference between expected and actual return on scheme assets:-			
amount (£m)	0.1	–	0.3
percentage of scheme assets	–	–	6%
Experience gains and losses on scheme liabilities:-			
amount (£m)	–	(0.2)	(0.2)
percentage of scheme liabilities	–	-5%	-5%
Total amount recognised in statement of total recognised gains and losses:-			
amount (£m)	0.1	(2.0)	–
percentage of scheme liabilities	160%	-53%	–

14. Prior year adjustment

As a result of the adoption of FRS 17, 'Retirement benefits' and FRS 25, 'Reclassification of Preference Shares,' the comparative figures have been restated as follows:-

	2005 as reported £m	Effect of FRS 17 £m	Effect of FRS 25 £m	2005 as restated £m
Defined benefit pension fund surplus/(deficit)	–	0.2	–	0.2
Deferred tax	2.4	(0.1)	–	2.3
Preference shares	–	–	(0.1)	(0.1)
	2.4	0.1	(0.1)	2.4
Net assets	294.3	0.1	(0.1)	294.3

15. Operating lease and similar commitments

There are no material operating leases or similar commitments.

16. Contingent liabilities and financial commitments

In the normal course of business the Company 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 overdrafts of certain of its subsidiary companies.

(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 Surrey and Berkshire Newspapers Limited amounting to £28.8 million (2005 £8.5 million).

(c) The Company has given a guarantee to Lloyds Bank PLC in respect of certain leasing obligations of certain subsidiary companies amounting to £71.1 million (2005 £nil).

17. Capital commitments authorised

There are no contracts for capital expenditure and investments for the Company (2005 £30,869).

18. Preference dividends paid

Preference dividends paid during the year amounted to £4,000 (2005 £4,000).

19. Related party transactions

Transactions between subsidiary members of the Guardian Media Group plc are not required to be disclosed as these transactions are fully eliminated on consolidation.

During the year the Guardian Media Group plc paid £96,279 (2005 £79,302) to seven (2005 seven) members of the Scott Trust in relation to their duties as trustees. A further £137,646 (2005 £143,496) was paid to two (2005 two) of the trustees, neither of whom are directors of the Group, for services rendered to Guardian Newspapers Limited and paid on a normal arms length basis. No members of the Board received additional remuneration for services as a trustee (2005 £nil).

20. Ultimate controlling party

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

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