G///G
GUARDIAN MEDIA GROUP

ANNUAL REPORT AND ACCOUNTS 2007

theguardian

The Observer

Guardian Unlimited

Manchester Evening News

real RADIO smooth RADIO

Auto Trader

"a moral as well as a material existence"

A Hundred Years *by CP Scott*

Contents

Guardian Media Group plc is one of the UK's leading multimedia businesses, with a diverse portfolio including national and regional newspapers, websites, magazines and radio stations. Our flagship brand is the Guardian newspaper and website.

The Group is wholly owned by the Scott Trust, which was created in 1936 to secure the financial and editorial independence of the Guardian in perpetuity.

Under this unique form of media ownership the Group's profits are not used to enrich shareholders or a proprietor, but to sustain journalism that is free from political and commercial interference, and to uphold values of decency, honesty and public service in business. gmgplc.co.uk

Group structure

Guardian Media Group plc
operational structure

Guardian News & Media

Publishes the Group's national newspapers, the Guardian and Observer, and the Guardian Unlimited network of websites

Operates Guardian Professional, which provides services in the education, media and public sectors

GMG Regional Media

Publishes the Manchester Evening News and other newspapers throughout Greater Manchester, Cheshire, Lancashire, Surrey, Berkshire and Hampshire

Co-publishes Metro (Greater Manchester) with Associated Newspapers

Publishes manchesteronline.co.uk, manchestereveningnews.co.uk and websites relating to the other newspapers

Operates Channel M, a television station for Manchester broadcasting free to air, online and on digital, cable and satellite

Holds a share in fish4 (33.3%), a leading online classified advertising business

GMG Property Services Group

Operates Vebra, the leading software provider for independent estate agents, and thinkproperty.com, the consumer-facing property portal

Commenced June 2007

Trader Media Group

Publishes a range of leading classified advertising titles and websites. The flagship brands are the Auto Trader magazine and autotrader.co.uk website

Other print titles include Top Marques, Bike Trader, Truck and Plant Trader, Motorhome and Caravan Trader and Farmers Trader

Other websites include adtrader.co.uk, carzone.ie, boatshop24.co.uk and sites for most other UK print titles

Operates other businesses and services including 2ndByte, Contact Advantage, Trader Data Systems and Vehicle Check

Owns subsidiaries in the Netherlands, Italy and South Africa

Operates printers including Apple Web Offset, Acorn Web Offset and Wiltshire

GMG Radio

Operates regional radio stations under the following brands: Real Radio (in south Wales, south and west Yorkshire and central Scotland); Smooth Radio (in north-west England, west and east Midlands, Glasgow and London); Century FM (in the north-west and north-east); and Rock Radio (in Scotland)

Owns a share in MXR (24.3%), a company that holds regional digital multiplex licences

Other interests

Seven Publishing (42.8%)
Publishes consumer and customer magazines (delicious., Sainsbury's) and puzzle titles

Trafford Park Printers (50%)
Prints the Guardian, the Observer, the Daily Telegraph and the Sunday Telegraph

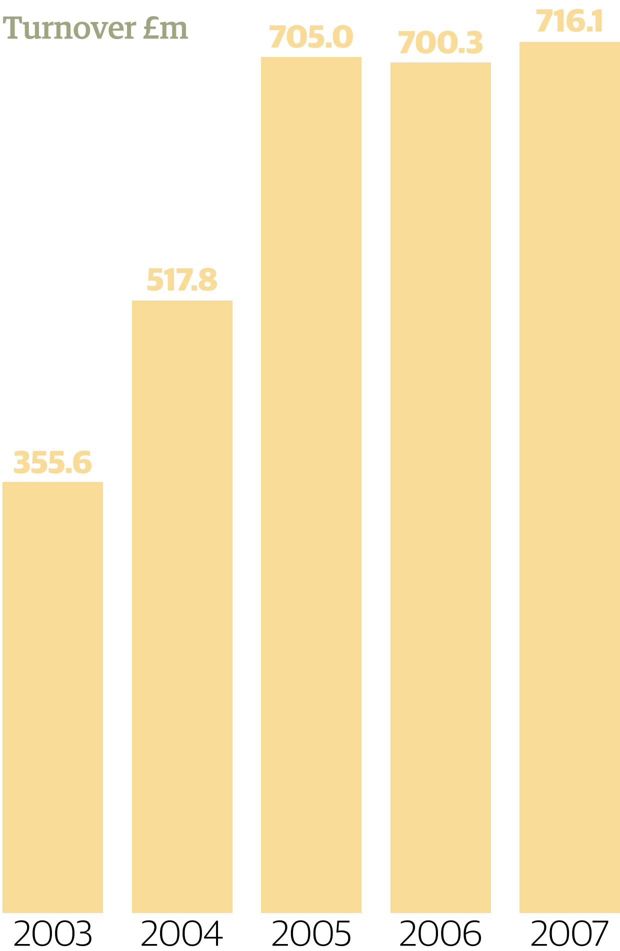
Paper Purchase & Management (50%)
Provides newsprint and magazine paper for GMG's national and regional titles, Trader Media Group, the Daily Telegraph and the Sunday Telegraph

www.gmgplc.co.uk

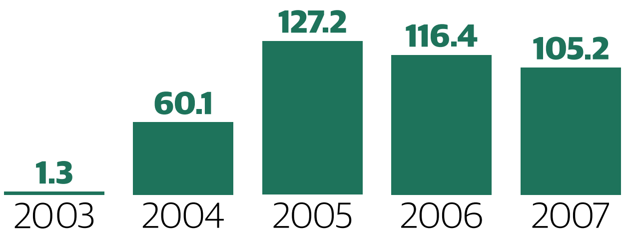
Financial highlights

The financial highlights for 2007, 2006 and 2005 have been drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. For 2004 and 2003 the figures shown are as originally reported under UK GAAP. The principal adjustments to restate these figures to comply with IFRS comprise goodwill amortisation and defined benefit pension fund liabilities.

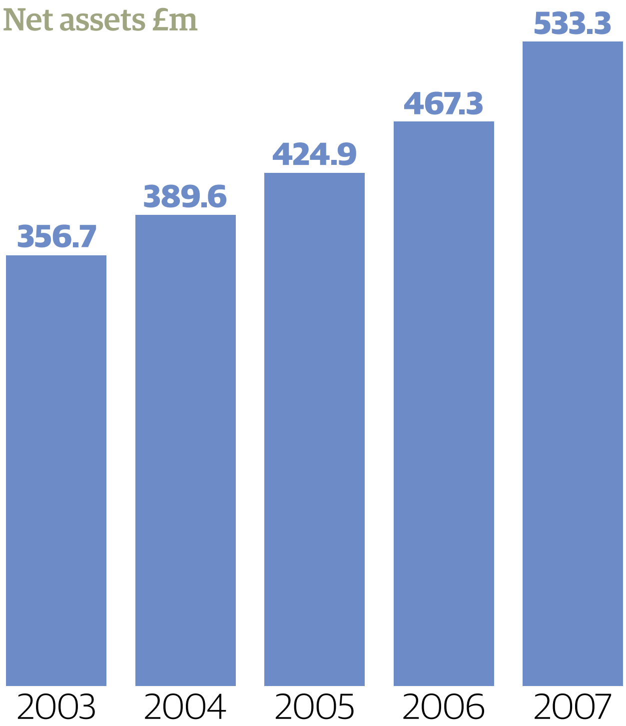
Turnover £m



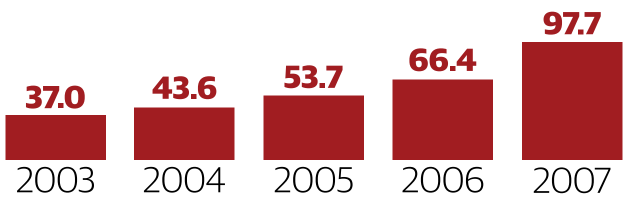
Operating profit before exceptional items £m



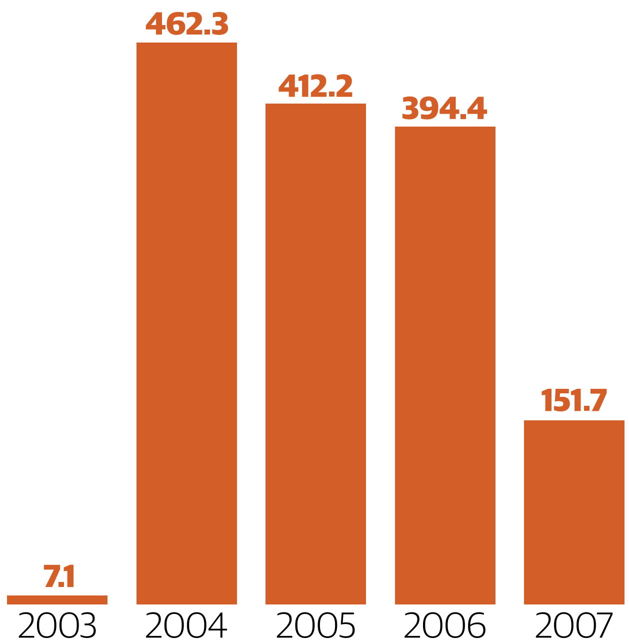
Net assets £m



Profit before taxation £m

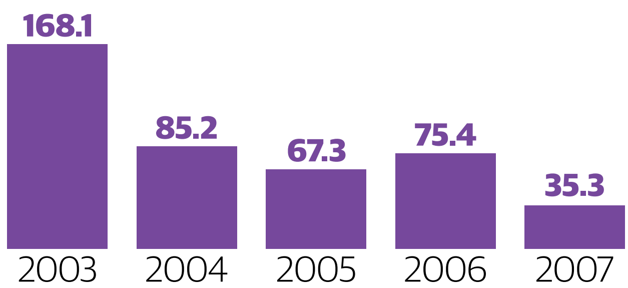


Debt (net of issue costs) £m



In 2007, £335.6 million of debt has been included within liabilities held for sale

Cash and cash equivalents £m



Statement from the chair

In a difficult operating environment characterised by increasing evidence of structural change in UK media markets, Guardian Media Group has delivered a solid financial performance in line with our expectations for the year.

There is no doubt that the basis of successful competition is shifting fundamentally. The barriers to entry that helped media companies deliver strong returns in the past are becoming less relevant, and the old economic model that supported many of our businesses is being seriously challenged as a result.

However, as we have shown with Trader Media Group's profitable transition from print to online, we are in a strong position to face such challenges and to be successful in this new environment.

In the year ended 1 April 2007, turnover from continuing operations was £716.1 million (2006 £700.3 million), while profit before taxation from continuing operations increased to £97.7 million (2006 £66.4 million). Operating profit for the year excluding exceptional items was £105.2 million compared to £116.4 million last year.

Net interest payable reduced to £14.8 million (2006 £17.7 million). Interest payable increased, reflecting the finance cost of investment in acquisitions and a full year's finance lease interest cost. However, there was a large increase in interest receivable and similar income arising from fair value gains on forward exchange contracts.

Statutory profit after taxation and exceptional items was £64.2 million (2006 £45.9 million).

This is a very sound set of results and one that demonstrates our resilience as a Group in the face of substantial and complex challenges to many of our businesses. Despite these difficulties, as the chief executive reports, it has been a year of significant growth and development across the portfolio.

Guardian News & Media has continued to benefit from the new Berliner format for the Guardian and Observer, while Guardian Unlimited has cemented its position as one of the leading websites in the world, with a truly global audience.

GMG Regional Media has unveiled a number of ground-breaking initiatives, despite having to grapple with the most difficult trading environment in living memory. Trader Media Group has continued to deliver exceptional results and GMG Radio is now ranked among the leading commercial radio groups.

During the year the Group has committed to invest more than £180 million in acquisitions, and continued to support the expansion of our existing businesses and brands.

The sale of a minority shareholding in Trader Media Group, announced in March 2007, is the first step in rebalancing our portfolio and has delivered an excellent return. We intend to invest in both organic growth and further business acquisitions as good opportunities are identified.

The year has seen a number of changes on the Board of Guardian Media Group.

Sir Robert Phillis retired as chief executive in July 2006. The Group owes much of its present success to Sir Robert's leadership and vision. The Board would like to thank him for all he has done over the last nine years.

We would also like to thank Andrew Karney and Richard Eyre for their contributions to the GMG Board. Both left the Board during the year, having served as independent directors from 1997 and 2004 respectively.

In addition, the Board thanks Jerry Fowden, who stepped down as chief executive of Trader Media Group in April 2007. Jerry has done a great deal of work over the last two years to transform the business and manage a successful migration from print to online.

We have been delighted to welcome Carolyn McCall as the new chief executive of Guardian Media Group. There are few people who better understand the role and values of the Group. Her energy, insight and leadership have already had a positive effect throughout the business.

The Board has also gained new members. Tim Brooks joined the Group as managing director of Guardian News & Media, bringing with him a wealth of expertise and experience acquired at IPC and Emap.

Brent Hoberman, the co-founder of lastminute.com, became a non-executive Board director, as did Nick Backhouse and Amelia Fawcett. Nick is the chief financial officer of NCP Services, and has held the same position at The Laurel Pub Company and Freeserve. Amelia was vice chair of Morgan Stanley's European operations, and has spent her career in law and investment banking. They bring important and relevant skills to the Board. We look forward to working with them.

Despite the revolution occurring in the consumption and distribution of media, and the challenges this brings, the Group is on a more stable financial footing than at any point in its history.

Protecting and developing the value in the Group's business will require the best management we can secure as we compete with others for opportunities. We would do the Group a disservice and weaken our capacity to deliver to our mission if we did not ensure that we had secured and rewarded appropriately the best available business leadership.

There is no room for complacency. Our businesses will need to reshape themselves on an ongoing basis if they are to continue to thrive. In some cases the scale of necessary change will be significant.

To ensure that the Guardian is able to realise its vision of becoming the world's leading liberal voice, GMG's financial performance will be underpinned by a more diverse set of revenue streams than in the past. We will achieve this primarily by wisely and carefully reinvesting the proceeds of the Trader Media Group sale. We will also grow non-advertising revenues from our current businesses.

We are investing in building even closer relationships with our customers to ensure we meet their changing needs. We will also share lessons from around the Group and beyond to gain greater insight into what it takes to win in the new media landscape. And finally we will develop our capabilities – as a Group and as individuals – to ensure we are equipped for the future.

We are confident in our ability to fulfil the remit given to us by our owner, the Scott Trust: to uphold values of decency and public service in business, and to sustain the independent, liberal journalism of the Guardian.

Paul Myners
Chair, Guardian Media Group

Chief executive's review of operations

Even by the standards of today's media industry, the past year has been one of profound change in every part of Guardian Media Group.

Our core national division (Guardian News & Media) has built on the success of the Guardian and Observer Berliner relaunches, while continuing to develop its world-class online presence in Guardian Unlimited. It is also implementing a wide-ranging process of organisational change in advance of the move to a new home in King's Cross.

The regional division (GMG Regional Media) has moved to new offices in the centre of Manchester, which has facilitated the creation of a fully converged newsroom. It has also pioneered a ground-breaking part-paid, part-free distribution model for the Manchester Evening News.

Trader Media Group has continued successfully to manage the transition from print to multimedia, as both the Auto Trader magazine and website reinforced their leading positions in the UK automotive classified sector.

GMG Radio has expanded to become one of the leading players in UK commercial radio following the acquisition of Century FM and Saga Radio, investment in the relaunch of Smooth FM, and the award by Ofcom of the new Manchester radio licence.

These achievements must be seen in the context of a media industry that is shifting fundamentally and at a faster rate than at any time in history. Because of the pace of this transformation, for some areas of our business this has been a challenging year. We are fortunate, however, to have at Guardian Media Group a culture that is open to change, and people who see the opportunities as well as the challenges this brings.

Underpinning this is the one constant: our absolute commitment to securing the financial and editorial independence of the Guardian in perpetuity.

Guardian News & Media

The national newspaper market remains fiercely competitive. The digital revolution has presented our traditional print businesses with new challenges, and new opportunities for growth, on an almost daily basis.

This has inevitably meant a year of significant change for our national newspaper division, renamed Guardian News & Media (GNM) to reflect the breadth of its operations and status as a multimedia publisher. We also welcomed a new managing director to the division, Tim Brooks, in September 2006.

GNM reduced its operating loss before exceptional items to £15.9 million (2006 £19.3 million) while continuing to invest in the business, on turnover of £245.7 million (2006 £237.4 million).

GNM's challenge has been to continue to invest in the printed versions of the Guardian and the Observer while ensuring new investment and innovation in its online activities.

It has succeeded in both. The Guardian and Observer have continued to reap the rewards, and awards, resulting from the successful move to the Berliner format.

Circulation revenue has grown by more than 10% year-on-year. Print display revenue has also grown, which in a depressed market has been no small achievement. While print recruitment revenues have continued to fall across the newspaper industry, GNM's digital revenues, from both display and recruitment advertisers, have grown rapidly (49% year-on-year). The Guardian won the coveted Newspaper of the Year Award in March 2006, and the Observer followed suit 12 months later.

More importantly, the excellence of GNM's journalism has been recognised by the public as well as the industry. As a result of the success of the Guardian Unlimited network of websites the Guardian's journalism is being consumed by far more people than ever before, many of them outside the UK, and this has brought a new goal within reach. The Guardian's ambition is clear: to be the world's leading liberal voice.

In January 2007 Guardian Unlimited (GU) celebrated record traffic figures (independently audited by the ABC) of more than 15.7 million unique visitors. This is an increase of 19.7% year-on-year, confirming GU's position as the UK's leading quality newspaper website.

GNM has led the way among newspaper publishers by consistently embracing the Web. In the summer of 2006 the Guardian became the first British newspaper to put its international and business news online before it went into the paper. The Comment is Free site has raised the level and increased the breadth of debate in the UK, and is now Britain's biggest blog. Along with many other awards, during the year Guardian Unlimited won the Webby (an online Oscar) for Best Newspaper on the Web for the second year running, a feat it repeated for a third time in April 2007.

To position itself for the future, GNM is implementing a major programme of organisational change. This will involve reshaping the company to ensure it has the structures, processes and skills it needs to become a global news publisher, publishing 24 hours a day, seven days a week. In some areas this will certainly mean fewer jobs, but in the past year GNM has taken on nearly 50 new staff to work in its digital businesses and intends to take on over 100 more in the year ahead, reflecting the company's changing skills base.

GNM has also created a new business, Guardian Professional, to serve the communities that have grown up around the Guardian's coverage of education, media and the public sector, and to supply them with publications and research, conferences and events, and digital content.

Finally, GNM has begun planning a major change to its working environment. The business will move from 23 floors in five buildings in the Farringdon Road area of London to three floors in newly built offices in King's Cross, where GNM will be the anchor tenant in the new Kings Place complex.

This will allow GNM to create a flexible and future-facing workplace, with full multimedia facilities. The move, which will start in autumn 2008, will not just be a change of address – it will be the catalyst for better ways of working to ensure GNM's long-term success.

GMG Regional Media

Our regional media business has had to contend with the extremely challenging advertising market conditions seen across the regional press and the issue of digital disruption to its revenue base.

Faced with this, the division has done well to mitigate the impact on its financial performance.

Operating profit before exceptional items for the division was £19.4 million (2006 £21.6 million), on turnover of £122.2 million (2006 £126.8 million).

Classified advertising revenues came under pressure, declining by 11% year-on-year. This was driven by recruitment, which fell by 16.3%, and motors, which was down 20.2%.

On a more positive note, display revenues out-performed the market, increasing by 1.4%, while digital revenues showed strong growth of 18.3% year-on-year.

Advertising revenues at the Surrey & Berkshire operation recovered during the year to be broadly in line with the previous year's performance.

Despite the challenges, the year has also seen real progress in a number of areas. As with the national business, the regional newspaper division

was given a new name to reflect the broader scope of its activities. The division became GMG Regional Media, and the businesses within that were renamed MEN Media and Surrey & Berkshire Media.

During the year MEN Media led the way in the regional press with the launch of the 'hybrid' Manchester Evening News. This landmark initiative, based on a part-paid, part-free distribution model, was designed to address the issue of falling paid-for circulation.

The result has been a reversal of years of circulation decline and a substantial increase (19% since 2005) in overall readership, now at its highest level for many years. The Manchester Evening News has now regained its position as the UK's biggest (in circulation terms) and most widely read regional newspaper.

The new distribution model coincided with a wholesale redesign of the paper, and a £21.2 million investment in new press equipment. Production of the Manchester Evening News switched to state-of-the-art presses in Oldham operated by Trinity Mirror.

The move to a new building in the centre of Manchester in September 2006 has also been significant for the business. The open-plan office space provides staff with a much-improved working environment and has supported a wider shift in the company's structure and strategy.

In order better to serve its readers and advertisers, who increasingly expect to be offered content and advertising solutions across a range of platforms, GMG Regional Media has begun to accelerate its transition from a traditional print-based publisher to a true multimedia business.

MEN Media in particular has focused on developing its non-print activities alongside its core newspaper brands, with continued investment in its online properties and city TV station Channel M.

There has also been innovation in the news-gathering and distribution process. Journalists from each part of the business – the Manchester Evening News, the Greater Manchester weekly titles, the Manchester Online website and Channel M – now work together on a 'converged' newsdesk. This ensures that content is distributed at the time and through the medium most suited to readers, users and viewers – whether through print, the Web or local TV news.

The excellence of MEN Media's operations was reflected in a raft of awards for the business during the year. MEN Media Sales was named Sales House of the Year at the Newspaper Society Awards, the Manchester Evening News won Publishing Innovation of the Year at the Regional Press Awards, and Channel M won the RTS award for Outstanding Achievement in Technology/Online for its website.

To meet the challenges of the current market and to position itself for the future, the regional division has continued to reshape its business, which has included a reduction in headcount in parts of the company.

We do not expect the pace of change in this sector to diminish, and the division will need to review its operational structure on an ongoing basis to stay ahead of developments in its markets.

GMG Regional Media remains profitable, has extremely strong brands and continues to enjoy a market-leading position in Greater Manchester. Despite a difficult trading environment it is well placed for future development.

Trader Media Group

It has been another good year for Trader Media Group, which continued to deliver high levels of profitability for GMG.

Operating profit was £104.6 million (2006 £119.5 million) on turnover up 3% at £312.5 million (2006 £303.3 million). The decline in profit reflects the costs related to new acquisitions, start-ups and business restructuring.

The flagship Auto Trader magazine and website – the division's core profit drivers – remain by far the leading automotive classified brands in the UK and Ireland, with up to 375,000 vehicles, 8 million unique users per month and 1.68 million readers every week.

Auto Trader also reached a major milestone as its digital business contributed more profit than the magazine for the first time. While profit from the print titles continued to fall, profit from autotrader.co.uk increased by 30% year-on-year. There was also significant growth in site traffic, dealer revenues and market share. At the close of the year nearly 10,000 dealers were doing business online, up 1,600 from the previous year. Combining print and online, some 63% of UK dealers now use the Auto Trader brand.

These outstanding results have been achieved against the backdrop of changing market conditions as readers and revenues continue to migrate from print to online. Strong web brands are joining Trader Media Group's traditional publishing competitors, offering different options both for consumers and advertising customers.

In addition, the UK car market has been weak, with private new car sales – a key barometer of overall activity in the auto sector – down nearly 4% year-on-year and used car sales flat.

The demands of key customers are also changing. Private advertisers are increasingly buying packages across multiple magazines and digital platforms. Trade customers are interacting with the business in new ways, driven by the growth in large, multi-site branded dealer chains and car supermarkets – often at the expense of the small local dealer.

As a result of these various challenges, the division has needed rapidly to evolve its organisation and processes. Given this context the continued growth of Trader Media Group is a tremendous achievement.

Like Auto Trader, the division's other brands faced difficult market conditions. Despite this, there was strong performance from Truck and Plant Trader, Farmers Trader and Motorhome and Caravan Trader.

Ad Trader had a challenging year with declines in circulation and profit. Continued product innovation is planned for the title and the business has begun the roll-out of Wooo.co.uk, a free local classified advertising site powered by Ad Trader.

There was a marginal decline in revenue from the overseas divisions in Holland, South Africa and Italy, mainly due to the faster rate of digital migration in Italy and South Africa, compounded by weak exchange rates.

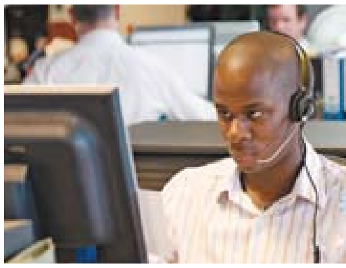
The print division performed well in a difficult sector, with revenues dipping only slightly. This relatively strong performance was largely the result of tight cost management and winning new third-party business.

During the year Trader Media Group continued its drive into the marketplace for front-end dealer systems and services with the expansion of Dealer Edit (upload and inventory management software) and the introduction of new services like SPi (dealer intelligence) and point of sale support.

It also completed three acquisitions in the dealer services space (CVI, Contact Advantage and 2ndByte), with the latter in particular already delivering better-than-expected financial results in the year.

In addition, the business entered the property advertising vertical through the purchase of Vebra, the leading provider of software to independent estate agents and operator of thinkproperty.com, the consumer-facing portal. Vebra and thinkproperty.com were not included in the sale of a minority stake in Trader Media Group. They are now part of a new, wholly-owned division within Guardian Media Group: GMG Property Services Group.

Despite huge changes in its markets Trader Media Group has continued to perform strongly, delivering substantial profits and increasing market share in print and online. The partnership arising from the sale of 49.9% of the division to Apax Partners, announced in March 2007, will be the platform for continued development and growth in the business. This transaction valued 100% of Trader Media Group at £1.35 billion.



GMG Radio

This has been a landmark year for GMG's radio division. The achievements of the past 12 months have taken the business to a new level.

Launched just eight years ago, GMG Radio is now one of the leading commercial radio groups in the UK. Its stated objective of becoming the third largest radio group by listening hours is expected to be reached by the end of 2007.

Conditions have been difficult for many competitors in the sector, but on a like-for-like basis the radio division has significantly out-performed the market, with growth well ahead of the industry.

Operating profit for the division excluding amortisation of acquired intangibles was £3.5 million (2006 £2.7 million). The statutory operating profit for the division was £1.9 million (2006 £2.7 million), on turnover of £35.7 million (2006 £27.9 million).

This strong revenue growth (28% year-on-year) has been delivered through a combination of successful brands and a focused local and regional sales operation that supports the division's national sales objectives. Profit growth was offset, however, by the amortisation of intangible assets acquired during the year.

GMG Radio's audience has also continued to grow on a like-for-like basis, delivering some 29 million listening hours per week. Taking into account acquisitions, total hours for the division at the beginning of April 2007 were 46 million per week.

Given the complex and time-consuming task of purchasing and integrating stations during the year, the continued strong performance of the existing brands has been impressive. The quality of service delivered to advertising customers was reflected not only in revenue, but also in the fact that GMG Radio Sales was voted the Radio Sales Team of the Year for the third successive year by its regional agency clients.

The acquisitions of the Century and Saga radio networks and QFM in Scotland, announced during 2006, reflect our belief that the radio division will deliver long-term value for the Group.

Together with the new Manchester radio licence awarded by Ofcom, these investments have taken the number of stations in the radio portfolio from five to 13 in just six months. The division now broadcasts to all of the major conurbations, and has the potential to reach 62% of the UK population on analogue. This figure rises to around 80% when digital platforms such as DAB, Sky and Freeview are included.

The Saga and Smooth FM stations have now been relaunched under the Smooth Radio national brand with a new format and formula. We anticipate that the Smooth network – launched simultaneously in five different UK regions – will play a key role in the division's future success.

Real Radio has continued to be the division's key financial driver, with powerful brands in each of its regions, and sustaining this performance will be critical.

Rock Radio in Scotland (previously QFM) was launched during the year. This will be the blueprint for the launch strategy for the new Manchester licence in March 2008.

The Century stations have seen substantial changes to their output, in particular in the north-west, designed to stabilise audience levels in the year ahead. There has also been significant investment in marketing for Century, which is expected to deliver improved performance by the end of 2007.

The radio centre in Scotland now houses three brands (Real, Smooth and Rock), a set-up mirrored in the north-west. The division expects to deliver significant synergies from this co-housing of complementary brands.

Other key areas of focus will be the ongoing integration of recent acquisitions, the development of the Century stations, the relocation of Century North East into a new building and the launch of new stations in the north-east and Manchester (Smooth Radio and Rock Radio respectively).

There will also be further investment in the division's web-based activities. The aim is to deliver market-leading sites that will allow GMG Radio to capitalise on the opportunities presented by online growth and consumer demand.

Group outlook

The pace of change in our industry will only increase, and the shifts we are seeing are overwhelmingly structural in nature, with an element of cyclical. In common with all UK media businesses we face a challenging time.

However, Guardian Media Group has a huge advantage over its peers in the form of a proprietor with a clear purpose and a consistent vision. Ownership by the Scott Trust gives us the security and the confidence to take the long-term view on investment decisions.

Today we have two world-class websites in Guardian Unlimited and autotrader.co.uk, precisely because we continued to invest in digital when others, mindful of the short-term interests of shareholders, lost their nerve. The Guardian and Observer are flourishing because we invested in the right format, not the easiest or cheapest. The strength of these core brands gives us great confidence in the future.

Financially, GMG is in a healthy condition. The sale of a 49.9% minority stake in Trader Media Group to Apax Partners, announced in March 2007, has allowed us to rebalance our portfolio of assets by reducing our exposure to classified advertising. We have retained a majority interest in the business, and will continue to benefit from its exceptional performance.

We have selected a strong partner with the intention of working with them to develop the business, and have adopted a debt structure that will ensure we have the finance to fund growth.

We intend to invest the proceeds in developing our existing businesses and to pursue acquisitions where we have the opportunity to be majority owners of operating companies.

The disposal will result in a reduction in underlying overall GMG profit in the coming year, but the proceeds will provide security for the Group over the years and decades to come. As shown in the pro forma results set out in the Financial review on page 29, Group operating profit will fall significantly. Indicatively Group profit before taxation would fall from £97.7 million to £75.2 million.

GMG's share of profit from its remaining 50.1% holding in Trader Media Group will, from completion of the transaction, be disclosed within profit from joint ventures. Until proceeds from the disposal are reinvested in trading assets, which is the Group's intention once suitable investments are identified, Group interest income will increase substantially. Interest returns will be lower than those we would expect to earn from business investment once suitable opportunities have been identified and actioned.

Looking ahead, our priority will be to support the Guardian's ambition to become the world's leading liberal voice. We will need to diversify our revenue streams, both through careful investment in acquisitions and by continuing to transform our existing businesses. At the same time, we will constantly seek to develop our capabilities, improve our relationships with our customers and deepen our understanding of the markets in which we operate.

Increasingly we will work across divisions, using our scale to drive new revenues, share knowledge and cross-promote our brands. We expect to see the benefits of this approach in areas such as digital development, customer insight and classified advertising, particularly property.

The combination of our ownership structure, our superb people and our diverse portfolio of businesses and brands means we are well placed to succeed in this uncertain and complex media world.

Carolyn McCall
Chief executive, Guardian Media Group

Board of directors

Paul Myners*+^

Chair

Joined the Group in 2000. He is chair of the remuneration and nominations committees. He is also chair of Land Securities Group PLC, the Low Pay Commission and the Trustees of Tate, and a member of the Court of the Bank of England

Carolyn McCall

Chief executive

Appointed chief executive in August 2006. She was first appointed to the Board in 2000, having served on the Guardian Newspapers board since 1995, becoming its chief executive in 2000. She is chair of Opportunity Now and a non-executive director of Tesco PLC

Nick Castro

Group finance director

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

Alan Rusbridger

Editor, the Guardian

Joined the Board in 1999. He joined the Guardian as a reporter in 1979, became deputy editor in 1993 and was appointed to the Guardian Newspapers board in 1994. He 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, visiting professor of history at Queen Mary's London and chair of the National Youth Orchestra

Phil Boardman

Company secretary

Joined the Group and was appointed company secretary in 2001. He was previously group financial controller of Hickson International PLC and Fenner PLC

Tim Brooks

Managing director, Guardian News & Media

Joined the Group and Board in September 2006. He was previously on the board of IPC Media Limited and has worked at Emap plc in a variety of senior management roles

Giles Coode-Adams OBE DL *^

Senior independent director

Joined the Board in 1999. He is chair of the audit committee. He was formerly a managing director of and then senior adviser to Lehman Brothers. From 1991 to 1997 he was chief executive of the Royal Botanic Garden, Kew, Foundation. He is a non-executive director of Rathbone Brothers plc

Brent Hoberman+^

Independent

Joined the Board in January 2007. He is the co-founder and former CEO of lastminute.com. He has worked for LineOne, Mars & Co and Spectrum Strategy Consultants and was a founder member of QXL, an online auction company. He is also a governor of University of the Arts, London

Mark Dodson

Chief executive, GMG Regional Media

Joined the Group in 1988 and was appointed to the Board in 2005. He became chief executive of Greater Manchester Weekly Newspapers in 1998. He is also on the board of the Newspaper Society and fish4 Limited, and is chief executive of Channel M, the city TV station for Manchester

John Bartle CBE+^

Independent

Joined the Board in 2002. He is the co-founder and former joint CEO of the advertising agency BBH. He also co-founded TBWA London and has worked for Cadbury Schweppes. He has a number of non-executive and advisory appointments in the communications and charity sectors

John Myers

Chief executive, GMG Radio

Joined the Group in 1999 and was appointed to the Board in January 2006. He is chair of the Radio Academy, sits on the board of the Radio Centre and is a board member of the Sony Radio Awards. He was awarded a fellowship for his contribution to radio in 2002

Amelia Fawcett CBE^

Independent

Joined the Board in June 2007. She was vice chair of Morgan Stanley's European operations. She is currently chair of a new capital markets company based in London, and a non-executive director of State Street Corporation in Boston. She is a member of the Court of the Bank of England and the Council of the University of London, deputy chair of the National Portrait Gallery, and chair of the London International Festival of Theatre

Nick Backhouse*^

Independent

Joined the Board in April 2007. He is the chief financial officer of NCP Services, the UK's leading traffic management business. He was previously group finance director of National Car Parks and chief financial officer of the Laurel Pub Company and Freeserve, the internet service provider

* Audit committee
\+ Remuneration committee
^ Nominations committee

"to secure the financial and editorial independence of the Guardian"

The Scott Trust core purpose

The Scott Trust

The job of the Trust is to keep its eye on the big picture – the long-term security of the Guardian and the commitment to courageous and independent journalism which the Trust was set up to protect.

The specific meaning of that charge changes every year as the communications revolution transforms the very basis of journalism in the age of Web 2.0 and the blogosphere.

During the year, therefore, Trustees debated their own stewardship of the values of liberal journalism in the modern communications age and began consideration of ways in which all employees might be offered more information about the origins and meaning of Trust ownership. The Scott Trust Foundation has continued to support editorial freedom and the training of journalists in the UK and abroad.

Ian Mayes retired after 10 years as the Guardian's readers' editor, to be succeeded by Siobhain Butterworth, previously head of the paper's legal team. Ian's combination of Rottweiler persistence, utter integrity and a pen of consummate gracefulness gave the role a very special status both in British journalism and further afield, recognised when he was elected president of the Organisation of News Ombudsmen. He was trusted by both readers and journalists, readers read his corrections as much for pleasure as for vengeance and his work contributed much to our claim to be guided by the values CP Scott laid down.

Outstanding performance

One of those values was excellence, and awards for outstanding performance have this year been won by journalists, photographers, designers and commercial departments all around the Group. These achievements culminated in Polly Toynbee, Tom Jenkins and Patrick Wintour being named Columnist, Sports Photographer and Political Journalist of the Year respectively and the Observer being crowned Newspaper of the Year at the British Press Awards.

In all our media outlets, the burgeoning life of the internet and the burst of energy and invention that has come from user-generated content have brought with them fierce arguments about the nature of authority, the purpose of journalism and the identity of trusted brands. This is causing every professional journalist to rethink their role. It is requiring everyone to learn new skills, sometimes after a lifetime of experience. It has set up violent antipathies. And it raises profound issues for a Trust with the duty to safeguard established values and ambitious professional standards.

Knowledge, training and aptitude

"There are people who think you can run a newspaper about as easily as you can poke a fire," wrote our founding mentor, CP Scott. "And that knowledge, training and aptitude are superfluous endowments. There have even been experiments on this assumption, and they have not met with success."

But CP was no resister of change. He wrote of journalism: "How multiform, how responsive to every need and every incident of life! ... And then the developments. Every year, almost every day, may see growth and fresh accomplishments, and with a paper that is really alive, it not only may, but does."

Fundamental change

This year the most fundamental change since the move from Manchester to London was marked when the Guardian went officially web-first in its foreign and city desks and subsequently when Guardian News & Media as a whole announced its intention to move to an integrated, 24/7 journalistic operation that would bring print, audio, video and web together as readers, listeners and users of information also converged in their use of media.

All over the Group, in business departments as well as editorial, in radio, regional media and in Trader Media Group, change has been evident: a radical new distribution plan for the Manchester Evening News, the local television experiment at Channel M, a complete technical refit of Guardian Unlimited, the addition of Saga, Century and the Manchester franchise to the radio division and the disposal of almost half of TMG to rebalance the Group portfolio.

Conscience and conviction

The fundamental requirements, however, stay the same: financial security to assure the future of the Guardian in perpetuity, high standards of journalism everywhere and in all our operations values of decency and integrity on which readers, listeners, viewers, business partners and the society in which we operate can rely.

CP wrote: "As [an] organisation grows personality may tend to disappear … It is possible to exaggerate the danger, for the public is not undiscerning. It recognises the authentic voices of conscience and conviction when it finds them, and it has a shrewd intuition of what to accept and what to discount."

Our warm thanks go to Sir Robert Phillis, who was a dedicated and influential Trustee during his whole tenure as Group chief executive. We are delighted to welcome in his place his successor, Carolyn McCall.

I am grateful to all my fellow Trustees for their continuing commitment to the maintenance and development of the "authentic voices".

Dame Liz Forgan DBE
Chair, Scott Trust

The Scott Trustees

Dame Liz Forgan DBE

Chair of the Scott Trust

Has chaired the Scott Trust since 2003. She was formerly an independent director of Guardian Media Group plc, director of programmes at Channel 4 Television, managing director of BBC Network Radio and a Guardian journalist. She is chair of the Heritage Lottery Fund

Paul Myners

Joined the Trust and Group in 2000. He is chair of Guardian Media Group plc, Land Securities Group PLC and the Low Pay Commission, and a member of the Court of the Bank of England. He is also chair of the Trustees of Tate

Larry Elliott

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

Jonathan Scott

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

Carolyn McCall

Joined the Trust in 2006. Appointed Guardian Media Group plc chief executive in August 2006. She was first appointed to the Board in 2000, having served on the Guardian Newspapers board since 1995, becoming its chief executive in 2000. She is chair of Opportunity Now and a non-executive director of Tesco PLC

Andrew Graham

Joined the Trust in March 2005. He is the master of Balliol College, Oxford, chair 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 to the leader of the Labour Party, John Smith, 1988-94. From 1998 to 2005, he was a non-executive director of Channel 4 Television

Will Hutton

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 and editor-in-chief of the Observer and remains a columnist for both newspapers

Martin Scott

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

Alan Rusbridger

Joined the Trust in 1997 and the Board in 1999. He joined the Guardian as a reporter in 1979, became deputy editor in 1993, was appointed to the 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, visiting professor of history at Queen Mary's London and chair of the National Youth Orchestra

Geraldine Proudler

Joined the Trust in 2002. She is a solicitor specialising in media law and is a partner at the 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

Phil Boardman

Secretary

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

"a sense of duty
to the reader
and the community"

A Hundred Years *by CP Scott*

Corporate responsibility

Guardian Media Group has always taken seriously its responsibilities to the many communities it serves.

Our biggest influence is through the high-quality, independent journalism we provide to our audience of many millions, both in the UK and throughout the world.

We match this with an enthusiasm to ensure we manage our companies to high social, ethical and environmental standards.

Guardian News & Media continues to win numerous awards for its annual social audit. This is an independently audited, self-critical examination of all company operations, ranging from editorial coverage and advertising to environmental management and supplier relationships.
guardian.co.uk/socialaudit

Last year, GMG Radio also produced an independently verified social audit, the first radio network to do so. Auditor Richard Evans commended the business for its approach, which he concluded "provided ample evidence that it takes its responsibilities to its local communities and to society seriously".

From 2007/08, all of GMG's divisions will report annually on their social, ethical and environmental impacts.

Sustainability

One of the most pressing issues facing companies is how to respond to the challenges resulting from climate change.

Guardian journalists Larry Elliott and David Adam made the need for action abundantly clear when they reported on the conclusions of the Stern report:

"It had a simple and apocalyptic message: climate change is fundamentally altering the planet. The risks of inaction are high and time is running out. The scientific evidence points to increasing risks of serious, irreversible impacts from climate change associated with business-as-usual paths for emissions."

GMG is responding to this challenge in a number of ways.

One of our biggest impacts is through the hundreds of thousands of tonnes of paper needed every year to produce our newspapers and magazines. A newly created Group paper purchasing policy will ensure that we:

- actively audit where our newsprint comes from
- set annual targets to ensure we maximise the use of recycled paper and increase the proportion of virgin paper that comes from certified sources.

While GMG is developing a sustainability policy to set standards across the business, individually the divisions are already taking part in numerous activities to foster sustainability.

GNM has formed a partnership with the sustainability charity Forum for the Future to create a vision and strategy to make it the world's leading sustainable media business. The division has already taken the first step: next year GNM will move to King's Cross, into one of the most environmentally friendly new office buildings in London.

GMG Regional Media has recently moved into a new building that will help reduce emissions.

Trader Media Group has concentrated on its print sites, installing a number of hi-tech, energy-saving devices. These include a regenerative thermal oxidiser at Apple Web, which alone has reduced carbon emissions by 900 tonnes per annum. TMG aims to become an industry leader by going carbon neutral, and has already signed a contract to switch to green electricity.

GMG Radio has created 'environment champions' at the majority of its stations, with the rest to follow in 2007/08. The champions make sure that recycling policies are being followed and that the station is being as environmentally efficient as possible. To lower CO_2 emissions, GMG Radio has also switched from petrol to diesel for its car fleet.

Community

An enduring part of GMG's history is the effort put into supporting the communities in which our businesses are based, as well as an emphasis on global issues such as press freedom and social justice.

Scott Trust Foundation

The Scott Trust Foundation is the umbrella organisation for all the charitable activities that take place under the direction of the Scott Trust. The Foundation's remit reflects one of the Trust's key objectives: "promoting the causes of freedom of the press and liberal journalism both in Britain and elsewhere".

It has three separate arms:

- the Guardian Foundation
- the Newsroom archive
- the Scott Trust Charitable Fund

The Guardian Foundation is the Scott Trust's overseas training arm, supporting the creation and operation of editorially independent newspapers. Having traditionally focused on eastern Europe, it is now extending its reach to other countries from Lebanon to Zimbabwe.

The archive and visitor centre in London, known as the Newsroom, runs a popular programme of free education workshops. Always booked up well in advance, the workshops offer school groups, further education students, adult learners and families the opportunity to work with two full-time education officers. Using the day's news, visitors can create a newspaper front page or a mini news website.

The Newsroom also holds a series of one-off educational events, including talks and conferences, some of which link to the rolling programme of exhibitions in the adjoining gallery. There is also an archive, to preserve the heritage of our newspapers.

Around 10,000 educational visitors benefit from the centre's activities each year. guardian.co.uk/newsroom

The Scott Trust Charitable Fund was created in 2005. Its £100,000 annual budget supports projects associated with independent journalism, journalist ethics, media literacy and journalist training, in the UK and abroad. The Fund supports initiatives such as the Media Trust, which provides media training and skills for the voluntary sector, as well as the development of community radio journalism skills at Radio Regen in Manchester.

Guardian News & Media

GNM supports schools and charities by channelling volunteers, funding and expertise into long-term partnerships. Around 140 employees (9%) volunteered for projects in the past year.

Education is a key component of the Guardian's editorial coverage, and it forms the heart of the division's volunteering programme, with seven partner schools in London and Manchester. One of last year's main initiatives was the rebranding of Elizabeth Garrett Anderson, a large inner-city girls' school in Islington, London.

GNM also supports education initiatives in Africa, including the redevelopment of a primary and secondary school in Nambuna, Malawi.

The Guardian and Observer Christmas appeals raised hundreds of thousands of pounds last year. The money was used to support communities in Africa and Latin America already suffering from the impacts of climate change, as well as a number of UK mental health charities.

And in 2006 GNM became one of the more progressive companies in the country by introducing a policy that entitles staff to take up to two paid working days a year to support a community organisation of their choice.

GMG Regional Media

In Manchester, the community focus was predominantly on sport as the division looked ahead to the 2012 Olympics.

GMG Regional Media developed a strategic partnership with Greater Sport, which aims to improve participation by children in a range of sports throughout Greater Manchester. A year-long programme of sporting activities culminated in the staging of the annual Greater Manchester Youth Games, in which 3,000 young people took part in 19 different events across four sites.

The division also developed an initiative with Manchester City Council, whose leisure services department runs a range of events in the Manchester local authority area. The aim is to target under-privileged groups through a range of sports and health activities.

Through its support for the Kirsty Appeal, the Manchester Evening News helped the Rainbow Family Trust reach its £5 million target. This secured the future of Francis House Children's Hospice in perpetuity. Following this success, the paper shifted its focus to the New Children's Hospital Appeal. This is a charity set up to raise £20 million for Manchester's newest 'super hospital'. The goal is to make this hospital the best facility in the UK for children and families.

The southern part of the division was also busy. The Reading Evening Post launched a charity

called the Royal Families with the WAGs (wives and girlfriends) of Reading FC's Premiership players. This initiative has already raised more than £100,000 for disadvantaged families in Reading.

Staff also helped set up the Reading Initiative for Tsunami Action (RITA) after the disaster in south-east Asia. They have 'adopted' the Beruwela region in Sri Lanka and raised enough money to build 10 houses and a mortuary.

Trader Media Group

TMG concentrated its resources on supporting the Samaritans through a corporate donation as well as by matching staff donations. Along with fundraising, each centre was encouraged to work with the Samaritans branch in their local area. As a result four members of staff are training to become Samaritan volunteers.

Beyond this, TMG helps the Samaritans promote their aims through its publications, website and marketing events. For example, TMG put a Samaritans flyer in each of its 10,000 promotional bags at the 2006 Motor Show.

The division also supports Fix-It UK Limited. This Wigan-based charity helps disadvantaged young people gain qualifications and get back into mainstream education. Students at Fix-It UK repair damaged vehicles, and TMG gives free advertising to sell them. TMG also contributed £5,000 to the programme during the last financial year.

TMG has an ongoing relationship with the Outward Bound Patron's Company Bursary Fund. This fund pays for 25 young people to take part in a challenging residential course, in an effort to raise their aspirations by strengthening their confidence and self-belief.

GMG Radio

GMG Radio's flagship annual fundraising campaign is Bring A Pound To Work day. The campaign, launched four years ago, is close to reaching its £1 million target. The Sheffield Children's Hospital, the Noah's Ark Appeal in Wales, NCH Scotland, Beat Bullying in London and MedEquip4Kids in the north-west are all causes that have benefited from the campaign.

Each station in the division has worked individually within its region to partner good causes and promote activity that benefits the local community. Work includes:

- Real Radio Wales' partnership with NCH, which highlighted homelessness with a 'bed down' event
- Real Radio Scotland's backing for Macmillan Cancer Support's World's Biggest Coffee Morning

The three Real Radio stations broadcast community features called Real Action. Throughout the week, each station highlights the initiative, appeal or project of a local or community organisation. Real Action helps around 150 causes each year, including the Wales Blood Service, the Meningitis Trust and Yorkshire Air Ambulance.

“a principle of vitality and growth”

***A Hundred Years** by CP Scott*

Financial review

This review covers the 52 weeks to 1 April 2007 and provides an overview of the Group's financial performance and position.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Turnover

Turnover from continuing operations for the year was £716.1 million, up 2.3% on 2006 (£700.3 million).

Growth was achieved in new media revenues which increased by 67.3% to £110.4 million and in circulation revenues which increased by 4.1% to £132.5 million and which helped to offset a fall in advertising revenues of 6.7% to £410.1 million.

Profits

The Group achieved an operating profit from continuing operations before exceptional items of £105.2 million (2006 £116.4 million).

Exceptional items were £8.1 million credit (2006 £31.8 million charge) and relate to the release of a prior year provision and lease incentives (in the prior year, the exceptional items related to printing project costs).

Net interest payable totalled £14.8 million (2006 £17.7 million) and share of post tax losses of joint ventures and associates amounted to £0.9 million (2006 £0.8 million).

Group profit before tax for the year was £97.7 million, £31.3 million ahead of 2006 (£66.4 million).

Taxation

The tax charge for the year is £33.5 million (2006 £20.5 million), representing an effective tax rate on continuing operations of 34.3% (2006 30.9%). Non-allowable items were higher than last year, with increased amortisation and impairment charges. There is a deferred tax liability recognised in the balance sheet of £30.5 million (2006 £1.5 million asset), which includes a liability of £36.0 million arising on new acquisitions made by the Group during the year. These have been recognised in accordance with IAS 12. The deferred tax asset not recognised has reduced from £5.3 million last year to £1.9 million as losses previously unutilised have been offset against income arising in the year, or are expected to be utilised in the future. Current and deferred tax balances in respect of Trader Media Group have been disclosed separately in the Group balance sheet, within items 'held for sale'.

Capital structure and liquidity management

The Group had net assets of £533.3 million as at 1 April 2007 (2006 £467.3 million), an increase of £66 million.

The net debt of the Group totalled £116.4 million (2006 £319.0 million), a decrease on the previous year primarily due to the reclassification of TMI debt to liabilities held for sale.

The net debt (reclassified as 'liabilities held for sale') in TMI totalled £335.6 million at 1 April 2007, an increase of £1.4 million on the previous year. All financial covenants attached to the TMI loan facility have been met.

Leasing facilities totalling £71.1 million are in place for the Guardian News & Media and GMG Regional Media printing projects. The leases have a fixed interest rate for the entire life of the leases.

During the year a short-term £100 million bank loan facility was arranged to fund acquisitions within the Group. At the year-end £79 million of this facility had been drawn-down. This loan was repaid in full on 8 June 2007.

At 1 April 2007, the Group had at its disposal £126.7 million of undrawn borrowing facilities.

On 23 March 2007, Group subsidiaries Trader Media Corporation Limited and Trader Media Corporation (2003) Limited entered into a £835 million Senior Facilities Agreement in connection with the intended sale by the Group of 49.9% of its equity interest in TMI. No amounts were drawn at the balance sheet date. Following completion of the transaction on 8 June 2007 drawdown of these facilities took place.

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.

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 Group 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. This instrument will be closed out as part of the refinancing on the disposal of 49.9% of TMI.

Whilst Trader Media Group 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.

Cash flow

The Group consumed £40.1 million cash in the year (2006 generated £8.1 million).

Net cash inflow generated from operating activities was £111.7 million, £1.1 million higher than the prior year (2006 £110.6 million). Higher operating profits and lower expenditure on fixed assets have been offset by higher cash outflows to make new acquisitions in the year.

Other cash outflows include net interest payable of £16.2 million (2006 £16.3 million), tax £15.4 million (2006 £21.7 million) and net cash used in investing activities of £197.0 million (2006 £41.0 million), which included the acquistion of 100% of the ordinary share capital of Century FM, Saga Radio, Vebra, 2ndByte and other smaller acquisitions which are detailed in note 10 on page 55.

Post balance sheet events

On 8 June 2007 the Group sold, to Apax Partners Europe, 49.9% of its interest in Trader Media Investments Limited ("TMI"), a wholly-owned subsidiary of Trader Media Group Limited. This transaction valued 100% of TMI at £1.35 billion. Accordingly, TMI has been reclassified as "held for sale" in the balance sheet at 1 April 2007 (see note 9). This is in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and reflects the transition of TMI from a wholly-owned subsidiary in 2006/07 to a 50.1% equity accounted joint venture post disposal in 2007/08.

The reclassification of the remaining investment in TMI as a joint venture is likely to have a significant effect on the Group's financial performance in future years, until the Group has reinvested the proceeds in trading businesses which have a superior return to interest earned on cash balances. The pro forma profit and loss account set out below explains how the 2006/07 Group results would have been affected if the disposal had taken place on 3 April 2006. For the purposes of the pro forma it has been assumed that the proceeds of disposal were reinvested at an interest rate of 5.5% per annum and borrowings could have been arranged at 8.25% per annum for the 2006/07 financial year. We will make a significant profit on disposal which has been excluded from the pro forma below:

	Actual TMI accounted for as a 100% subsidiary 2007 £m	Pro forma TMI accounted for as a 50.1% joint venture 2007 £m
Turnover	716.1	411.0
Operating costs	(602.8)	(401.7)
Operating profit	113.3	9.3
Income from other financial assets	0.1	0.1
Interest payable and similar charges	(27.0)	(4.5)
Interest receivable and similar income	12.2	47.0
Share of post tax profits/(losses) of joint ventures	(0.3)	24.0
Share of post tax losses of associates	(0.6)	(0.7)
Profit before taxation	97.7	75.2
Taxation	(33.5)	(25.6)
Profit attributable to equity shareholders	64.2	49.6

Further details of this post balance sheet event are given in note 35 on page 70.

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 June 2006. The Board has also taken into account the Group's 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. All trustees receive copies of management accounts and Board minutes. This results in a closer relationship between management and shareholder than envisaged in the Combined Code.

The Board

The Guardian Media Group Board currently comprises a chair, six executive directors and five independent directors. The Board is headed by a chair whose role is distinct and separate from that of the chief executive. The division of responsibilities between the chair 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 judgment. They each meet the independent criteria set out in the Combined Code. The chair is not judged to be an independent director by virtue of his position as chair.

The Board continues to view Giles Coode-Adams as independent notwithstanding his term as a non-executive director of Trader Media Group Limited.

Details of all the directors and the company secretary, set out on pages 16 and 17, indicate the directors' wide range of business and other relevant 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 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 chair, the independent directors, excluding any executive directors, met formally during the year. The senior independent director also led a meeting of independent directors, without the chair present, which appraised the chair's performance.

On appointment to the Board, directors receive appropriate briefings on the Group and its activities and follow a tailored induction programme. They 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. The Board intends to undertake biennial 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, the group director of digital strategy and development, the Guardian News & Media director of corporate affairs 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 of the Group. At present two trustees, Carolyn McCall and Alan Rusbridger, fall into that category, while Paul Myners is chair 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.

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	Chair	Chair
Nick Backhouse (appointed 2 April 2007)	Member		Member
John Bartle		Member	Member
Giles Coode-Adams	Chair		Member
Amelia Fawcett (appointed 1 June 2007)			Member
Richard Eyre (resigned 27 March 2007)	Member		Member
Brent Hoberman (appointed 1 January 2007)		Member	Member
Andrew Karney (resigned 30 November 2006)	Member	Member	Member
Frequency of meetings per financial year	4	7	As and when necessary

The number of meetings of the Board and committees held in the financial year ended 1 April 2007 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	11	1	7	5
Carolyn McCall	10	2*	3*	3*
Tim Brooks (appointed 28 September 2006)	7			
Nick Castro	11	4*		
Mark Dodson	11			
Jerry Fowden (resigned 13 April 2007)	10			
John Myers	11			
Sir Robert Phillis (resigned 31 December 2006)	6	1*	2*	
Alan Rusbridger	10			
John Bartle	10		7	5
Giles Coode-Adams	11	4		5
Richard Eyre (resigned 27 March 2007)	10	4		4
Brent Hoberman (appointed 1 January 2007)	4			1
Andrew Karney (resigned 30 November 2006)	7	3	5	3
Number of meetings held	11	4	7	5

* in attendance

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. gmgplc.co.uk

Audit committee

The audit committee, which consists of the chair and two 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 chair 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, which includes meeting in turn with the divisional chief executive and divisional finance director of each of the main divisions.

The committee's proceedings are minuted and circulated to all Board members by the company secretary. The audit committee chair formally reports on the outcome of audit committee meetings to the Board.

During the financial year ended 1 April 2007 the activities of the audit committee included:

- monitoring the integrity of the Group's financial statements and reviewing the significant and financial reporting judgments they contained
- review of the external audit strategy and subsequent report by the external auditors
- receipt and review of periodic reports from the controller of internal audit
- review of the committee's terms of reference
- the biennial review of the effectiveness of the committee. As a result of the review, the committee instigated a project to review and refresh risk management processes across the Group and to ensure, following Andrew Karney's retirement, that a new member appointed to the committee had recent and relevant financial experience, satisfied by the appointment of Nick Backhouse in April 2007
- 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 main divisions, other than Trader Media Group, 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 chair provides the Board with a summary report of the remuneration committee meeting.

Details of Board remuneration are set out on page 39.

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 chair 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 appointing Carolyn McCall as chief executive. JCA Group assisted in the appointment of Tim Brooks, Brent Hoberman, Nick Backhouse and Amelia Fawcett.

The committee's proceedings are minuted by the company secretary and the outcome of the meetings is formally reported to the Board by the chair of the nominations committee.

A review of the effectiveness of the committee is planned for 2007/08.

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. The risk management process is being reviewed and refreshed
- 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 (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 and 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 Combined 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, with the following exceptions:

- A majority of non-executive directors, excluding the chair, were not, as defined by the Combined Code, independent. Given the close relationship between management and the Group's shareholder, the Scott Trust, as described above, the Board has no current plans to increase to a majority the independent director representation on the Board. The Scott Trustees have considered and approved the composition of the Board.

- The chair also chairs the remuneration committee. In the Board's view, the presence of Dame Liz Forgan, chair of the Scott Trust, at all remuneration committee meetings ensures the Combined Code objective is met.

- Appraisal of Board members and review of effectiveness of the Board and its committees will take place on a biennial 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 biennial review outlined above to be effective.

- Biennial reviews of the effectiveness of the Board and nominations committee did not take place during the year. There have been a number of key changes in membership of the Board, including the appointment of a new Group chief executive, a new managing director of Guardian News & Media and three new non-executive directors. These changes have provided the opportunity to develop new ways of working for the Board. In the circumstances it was considered too early in 2006/07 to undertake a biennial effectiveness review of the Board and certain committees and these reviews are scheduled for 2007/08.

- 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.

- During the 2006/07 financial year none of the members of the audit committee had recent and relevant financial experience as defined by the Combined Code. This has been addressed by the appointment of Nick Backhouse in April 2007.

Report of the directors

The directors present their report and audited financial statements of the Group for the year ended 1 April 2007.

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 42. A review of the Group's performance, future prospects and financial risks are contained in the Statement from the chair on pages 8 to 9, the Chief executive's review of operations on pages 10 to 15 and the financial instruments accounting policy on pages 48 to 49. The Company has paid a preference dividend of 4.0p (2006 4.0p) per share amounting to £4,000 (2006 £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 £17.2 million greater than its balance sheet value of £30.0 million.

Employee involvement

There is regular contact between management and employees' representatives 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 25 days (2006 30 days).

Donations

Charitable donations amounted to £503,731 (2006 £351,261). 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 are listed on pages 16 and 17.

Sir Robert Phillis, who was a director on 3 April 2006, retired on 31 December 2006. Jerry Fowden, who was a director on 3 April 2006, resigned on 13 April 2007. Andrew Karney and Richard Eyre, who were independent directors on 3 April 2006, resigned on 30 November 2006 and 27 March 2007 respectively. Tim Brooks was appointed as a director on 28 September 2006. Brent Hoberman, Nick Backhouse and Amelia Fawcett were appointed as independent directors on 1 January 2007, 2 April 2007 and 1 June 2007 respectively. All other directors served throughout the year.

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 1 April 2007 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 risk management

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

On 8 June 2007 the Group sold to Apax Partners Europe, 49.9% of its interest in Trader Media Investments Limited (TMI), a wholly-owned subsidiary of Trader Media Group Limited. TMI has been reclassified as "held for sale" in the balance sheet at 1 April 2007.

Post-disposal, the Group will treat TMI as a joint venture and equity account for its 50.1% holding in the business.

Further details of this and other post balance sheet events are given in note 35 on page 70.

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
26 June 2007

Directors' remuneration report

The remuneration committee 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 Brent Hoberman, 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, personal, 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**
Carolyn McCall	65%	35%
Tim Brooks	60%	40%
Nick Castro	65%	35%
Mark Dodson	70%	30%
Jerry Fowden	75%	25% but total bonus cannot exceed 75% of salary
John Myers	70%	30%

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

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 him a bonus in recognition of his leading role in the 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, who retired from the Company on 2 December 2005, 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 in the latest actuarial valuation report as at 31 March 2004. This scheme commenced formal wind-up with effect from 6 November 2006.

Service contracts

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

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

Independent directors have letters of appointment that allow for three 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	2 years	–	None
Carolyn McCall	1 August 2006	12 months rolling	12 months	Notice period (with mitigation clause)
Tim Brooks	14 August 2006	12 month rolling	12 months	Notice period (with mitigation clause)
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	*Resigned as a director on 13 April 2007*			
John Myers	31 January 2006	12 month rolling	12 months	Notice period
Alan Rusbridger	20 April 2007	12 month rolling	12 months	Notice period
Independent directors				
Nick Backhouse	2 April 2007	3 years	–	None
John Bartle	31 March 2006	9 months	–	None
Giles Coode-Adams	31 March 2006	1 year 1 month	–	None
Richard Eyre	*Resigned as an independent director on 27 March 2007*			
Amelia Fawcett	1 June 2007	3 years	–	None
Brent Hoberman	1 January 2007	2 years 9 months	–	None
Andrew Karney	*Retired as an independent director on 30 November 2006*			
Sir Robert Phillis	*Retired as chief executive on 31 July 2006, retired as a non-executive director on 31 December 2006*			

Directors' emoluments

	Salary/ fees £000	Performance related bonus £000	Benefits in kind £000	**Total 2007 £000**	Total 2006 £000	Employer's contribution to money purchase pension schemes **2007 £000**	2006 £000
Paul Myners	50	–	–	**50**	50	**–**	–
Carolyn McCall	353	305	12	**670**	495	**108**	85
Ian Ashcroft (* to 2 December 2005)	–	–	–	–	222	**–**	36
Tim Brooks[1] (* from 28 September 2006)	122	70	–	**192**	–	**82**	–
Nick Castro	239	185	5	**429**	392	**83**	69
Mark Dodson (* from 3 October 2005)	198	79	18	**295**	147	**63**	28
Jerry Fowden[2]	392	–	29	**421**	569	**325**	141
John Myers (* from 31 January 2006)	206	188	–	**394**	51	**17**	3
Sir Robert Phillis[3] (* to 31 December 2006)	174	65	35	**274**	721	**104**	135
Alan Rusbridger	338	–	17	**355**	329	**117**	284
Independent directors							
John Bartle	32	–	–	**32**	30	**–**	–
Giles Coode-Adams	57	–	–	**57**	55	**–**	–
Richard Eyre (* to 27 March 2007)	32	–	–	**32**	30	**–**	–
Brent Hoberman (* from 1 January 2007)	8	–	–	**8**	–	**–**	–
Andrew Karney (* to 30 November 2006)	21	–	–	**21**	30	**–**	–
	2,222	892	116	**3,230**	3,121	**899**	781
Compensation for loss of office[2]				**1,313**			
				4,543			

* Date of appointment, resignation or other changes to directorships

1 Tim Brooks received a payment of £30,000 on joining the Group in compensation for loss of earnings from his previous employer. This is included in his bonus total. Tim Brooks elected to take half of his performance bonus as an additional pension contribution.

2 Jerry Fowden elected to take all his performance bonus as an additional pension contribution.

Following the sale of a minority shareholding in Trader Media Group, announced in March 2007, Jerry Fowden stepped down as chief executive of Trader Media Group.

3 Sir Robert Phillis retired as chief executive on 31 July 2006 and as a non-executive director on 31 December 2006. On retirement, Sir Robert acquired his company car at a discount to its market value. The discount of £23,000 is included in his benefits in kind. 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 in December 2010.

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

Carolyn McCall is a non-executive director of Tesco PLC and earned fees in their year ended 24 February 2007 of £63,000 (2006 £53,000).

Sir Robert Phillis is non-executive chair of All3Media Group Limited and earned fees of £50,000 in their year ended 31 August 2006 (2005 £50,000). He is a non-executive director of ITV plc and earned fees of £50,000 in their year ended 31 December 2006 (2005 £46,000).

Jerry Fowden is a non-executive director of Chesapeake Corporation and earned fees of US$ 66,000 in their year ended 31 December 2006 (2005 US$ 66,200).

Remuneration policy for the chair and independent directors

Remuneration for the chair and independent directors comprises fees for their services in connection with the Board and Board committees. The chair 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 2006/07 the independent directors were paid a basic fee of £32,000 with further fees payable for additional responsibilities such as being chair of a committee. For 2007/08 the basic fee has been increased to £34,000 and henceforth the fee review will take place on a biennial basis.

Giles Coode-Adams received an additional fee as senior independent director, being chair of the Audit Committee and a non-executive director of Trader Media Group Limited up to 8 June 2007.

Paul Myners
Chair of the remuneration committee
26 June 2007

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 1 April 2007 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 1 April 2007.

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

In addition, we report to you if, in our opinion, 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 Statement from the chair, the Chief executive's review of operations, the Scott Trust report, the Corporate 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 1 April 2007 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
26 June 2007

Profit and loss account

For the year ended 1 April 2007

	Note	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m	2006 Before exceptional items £m	2006 Exceptional items £m	2006 Total £m
Continuing operations							
Turnover	2, 3	**716.1**	**–**	**716.1**	700.3	–	700.3
Operating costs	4	**(610.9)**	**8.1**	**(602.8)**	(583.9)	(31.8)	(615.7)
Operating profit		**105.2**	**8.1**	**113.3**	116.4	(31.8)	84.6
Income from other financial assets	6	**0.1**	**–**	**0.1**	0.3	–	0.3
Interest payable and similar charges	7	**(27.0)**	**–**	**(27.0)**	(24.2)	–	(24.2)
Interest receivable and similar income	7	**12.2**	**–**	**12.2**	6.5	–	6.5
Share of post tax profits/(losses) of joint ventures	13(a)	**(0.3)**	**–**	**(0.3)**	0.4	–	0.4
Share of post tax losses of associates	13(b)	**(0.6)**	**–**	**(0.6)**	(1.2)	–	(1.2)
Profit before taxation	4	**89.6**	**8.1**	**97.7**	98.2	(31.8)	66.4
Taxation	8	**(32.3)**	**(1.2)**	**(33.5)**	(30.1)	9.6	(20.5)
Profit attributable to equity shareholders		**57.3**	**6.9**	**64.2**	68.1	(22.2)	45.9

The notes on pages 45 to 71 form part of these financial statements.

Statement of recognised income and expense

For the year ended 1 April 2007

	Note	2007 £m	2006 £m
Profit attributable to equity shareholders		**64.2**	45.9
Actuarial losses	30	**(0.2)**	(3.7)
Deferred taxation on actuarial losses		**–**	0.5
Joint venture – actuarial gains	13(a)	**0.6**	0.8
Joint venture – deferred taxation	13(a)	**(0.2)**	(0.3)
Fair value gains/(losses) – interest rate swap		**2.4**	(1.3)
Currency translation differences on foreign currency net investments		**(0.8)**	0.5
Net income/(expense) not recognised in the profit and loss account		**1.8**	(3.5)
Total recognised income for the year		**66.0**	42.4

Balance sheet

As at 1 April 2007	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Goodwill	10	**135.3**	645.7
Intangible assets	11	**119.7**	9.3
Property, plant and equipment	12(a)	**113.2**	146.4
Investments accounted for using the equity method	13(a), 13(b)	**12.2**	13.2
Other financial assets	13(c)	**1.5**	4.5
Deferred tax assets	23	**–**	1.5
		381.9	820.6
Current assets			
Inventories	14	**1.0**	3.0
Trade and other receivables	15	**82.8**	125.6
Cash and cash equivalents	17	**35.3**	75.4
Assets held for sale	9	**708.2**	–
		827.3	204.0
Liabilities			
Current liabilities			
Financial liabilities			
– Borrowings	18	**86.4**	40.2
– Financial instruments	19	**–**	0.2
Trade and other payables	20	**60.4**	103.1
Current tax liabilities	16	**13.2**	7.5
Provisions	22	**2.3**	33.0
Liabilities held for sale	9	**397.1**	–
		559.4	184.0
Net current assets		**267.9**	20.0
Non-current liabilities			
Financial liabilities	18	**65.3**	354.2
Retirement benefit liabilities	30	**3.4**	3.3
Other non-current liabilities	21	**2.1**	0.9
Deferred tax liabilities	23	**30.5**	–
Provisions	22	**15.2**	14.9
		116.5	373.3
Net assets		**533.3**	467.3
Shareholders' equity			
Share capital	24	**0.9**	0.9
Retained earnings	25	**532.4**	466.4
Total shareholders' equity		**533.3**	467.3

These financial statements were approved by the Board of directors on 26 June 2007 and signed on its behalf by:

Paul Myners
Chair

Nick Castro
Finance director

The notes on pages 45 to 71 form part of these financial statements.

Cash flow statement

For the year ended 1 April 2007

	Note	**2007** **£m**	2006 £m
Cash flow from operating activities			
Cash generated from operations	28	**111.7**	110.6
Interest received		**7.0**	7.0
Interest paid		**(23.2)**	(23.3)
Tax paid		**(15.4)**	(21.7)
Net cash from operating activities		**80.1**	72.6
Cash flow from investing activities			
Acquisition of subsidiaries (net of cash acquired)	10	**(166.8)**	(2.5)
Disposal of trade and assets		**–**	3.0
Loans repaid by joint ventures	13(a)	**0.5**	–
Acquisition of shares in associates	13(b)	**(0.4)**	(1.0)
Proceeds of disposal of shares in associates		**–**	1.0
Loans made to associates		**–**	(2.9)
Loans repaid by associates		**–**	0.7
Proceeds from sale of intangibles		**–**	0.5
Purchase of intangibles	11	**(9.5)**	(1.2)
Proceeds from sale of property, plant and equipment		**1.6**	13.6
Purchase of property, plant and equipment	12	**(22.6)**	(52.3)
Other loans advanced		**–**	(0.3)
Dividends received		**0.2**	0.4
Net cash used in investing activities		**(197.0)**	(41.0)
Cash flow from financing activities			
Finance lease principal payments		**(6.9)**	(6.2)
Increase in finance lease debt		**17.9**	53.2
Proceeds from borrowings		**78.0**	–
Repayment of borrowings		**(8.4)**	(71.0)
Net cash generated/(used) in financing activities		**80.6**	(24.0)
Non-cash – financing		**4.9**	0.5
Reclassifications – asset held for sale		**(8.7)**	–
Net (decrease)/increase in cash and cash equivalents		**(40.1)**	8.1
Cash and cash equivalents at beginning of the period		**75.4**	67.3
Cash and cash equivalents at end of the period	17	**35.3**	75.4

Notes relating to the financial statements

1. Accounting policies

Accounting policies for the year ended 1 April 2007

The principal accounting policies adopted in the preparation 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 42 to 71 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. The critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year relates to goodwill. The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated on page 47. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. The calculations require the use of estimates for cash flow projections based on financial budgets approved by management.

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 2007. The Group has 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 1 April 2007, with the exception of Guardian Media Group Jersey Limited and the companies within the GMG Radio Division which are made up to 31 March 2007.

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.

Investments in joint ventures and associates are accounted for using 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 equals or exceeds 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.

The principal annual rates used for depreciation are:

Plant and vehicles	6.7% - 33%
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 IFRS 3 'Business combinations' is not amortised.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested for impairment annually on 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.

(b) Computer software

Computer software licences are capitalised at cost (including the cost to bring to use). 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 five 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.

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.

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 75% 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 closed 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 schemes' 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 two years and are measured at the amount expected to be paid when they are settled.

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 pages 4 and 5 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 and Seven Publishing Group Limited and the costs associated with the head office.

For the year ended 1 April 2007	Guardian News & Media £m	GMG Regional Media £m	Trader Media Group £m	GMG Radio £m	Other Group activities £m	Total £m
Continuing operations						
Turnover	245.7	122.2	312.5	35.7	–	**716.1**
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	(15.9)	19.4	108.2	3.5	(4.8)	**110.4**
Operating profit/(loss) before exceptional items	(15.9)	19.4	104.6	1.9	(4.8)	**105.2**
Operating profit/(loss)	(12.4)	24.0	104.6	1.9	(4.8)	**113.3**
Income from other financial assets	–	–	–	–	0.1	**0.1**
Interest expense	(2.1)	(1.1)	(22.6)	(1.1)	(0.1)	**(27.0)**
Interest income	0.2	–	0.3	–	11.7	**12.2**
Post tax results joint ventures and associates	–	(0.2)	0.1	–	(0.8)	**(0.9)**
Profit before tax	(14.3)	22.7	82.4	0.8	6.1	**97.7**
Taxation						**(33.5)**
Profit for the year from continuing operations						**64.2**
Segment assets	115.5	67.6	732.7	240.9	40.3	**1,197.0**
Investment in equity accounted joint ventures and associates	–	0.6	–	0.2	11.4	**12.2**
Total assets	115.5	68.2	732.7	241.1	51.7	**1,209.2**
Segment liabilities	(83.3)	(61.1)	(403.8)	(114.1)	(13.6)	**(675.9)**
Other segment items:						
Capital expenditure	1.2	12.7	6.5	1.9	0.3	**22.6**
Depreciation	7.7	3.9	9.4	0.9	0.1	**22.0**
Amortisation of intangible assets	1.7	0.5	5.3	1.6	–	**9.1**
Impairment of trade receivables	–	0.6	1.0	0.1	–	**1.7**

3. Segmental information (continued)

For the year ended 2 April 2006	Guardian News & Media £m	GMG Regional Media £m	Trader Media Group £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	0.2	–	–	–	0.1	0.3
Interest expense	(1.2)	(0.7)	(22.3)	–	–	(24.2)
Interest income	0.1	–	0.5	–	5.9	6.5
Post tax results joint ventures and associates	–	(0.5)	0.1	–	(0.4)	(0.8)
Profit before tax	(50.8)	19.2	97.8	2.7	(2.5)	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

4. Operating profit before taxation

	2007	2006
	£m	£m
Raw materials and consumables	**87.8**	88.6
Other external charges	**67.9**	82.9
Staff costs (see note 5)	**234.1**	219.1
Depreciation of tangible fixed assets:		
– Owned assets	**16.3**	17.7
– Under finance leases	**5.7**	3.2
Other expenses	**191.0**	204.2
	602.8	615.7

Exceptional items were £8.1 million credit (2006 £31.8 million charge) and relate to the release of a prior year provision and lease incentives (in the prior year, the exceptional items related to printing project costs).

	2007	2006
The following items have been included in arriving at operating profit:	£m	£m
Amortisation of intangibles	**9.1**	2.2
Profit on sale of intangible assets	**–**	(0.5)
Profit on sale of property, plant and equipment	**(0.2)**	(0.3)
Loss on sale of trade and assets	**–**	0.8
Impairment of other financial assets	**–**	1.3
Other operating lease rentals payable:		
– Plant and machinery	**9.2**	9.1
– Property	**7.9**	6.7
Repairs and maintenance expenditure on property, plant and equipment	**4.3**	4.1
Trade receivables impairment	**1.7**	3.0

Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditors as detailed below:

	2007	2006
	£m	£m
Statutory audit	**0.1**	–
Audit of subsidiaries	**0.5**	0.5
Further assurance services	**2.5**	0.4
Tax services:		
– Compliance services	**0.1**	0.2
– Advisory services	**0.3**	0.3
Other services not covered above	**0.3**	0.1
	3.8	1.5

5. Employees and directors

	2007 £m	2006 £m
Staff costs for the Group during the period including executive directors		
Wages and salaries	**203.1**	189.6
Employer's social security costs	**20.9**	19.6
Employer's pension costs	**10.1**	9.9
	234.1	219.1

	No.	No.
Average monthly number of persons employed including executive directors		
Production	**2,677**	2,850
Selling and distribution	**2,639**	2,535
Administration	**1,680**	1,722
	6,996	7,107

Key management compensation	**£m**	£m
Salaries and short-term employee benefits	**9.3**	10.2
Post employment benefits	**1.5**	1.3
Termination benefits	**2.3**	0.2
	13.1	11.7

Directors' remuneration information required for the financial statements is shown on page 39.

6. Income from other financial assets

	2007 £m	2006 £m
Dividends from unlisted investments	**0.1**	0.3

7. Finance costs – net

	2007 £m	2006 £m
Interest expense		
Interest payable on bank and other borrowings	**(20.8)**	(20.7)
Interest payable on hedging instruments	**(1.1)**	(1.1)
Debt issue costs amortised	**(1.9)**	(0.5)
Interest payable on finance leases	**(3.2)**	(1.9)
Interest payable and similar charges	**(27.0)**	(24.2)
Interest income		
Interest receivable on cash and cash equivalents	**6.5**	6.5
Fair value gains on forward exchange contracts	**5.7**	–
Interest receivable and similar income	**12.2**	6.5
Finance costs – net	**(14.8)**	(17.7)

8. Taxation

	2007 £m	2006 £m
Analysis of charge in the year		
Current tax		
Continuing operations	**35.5**	19.6
Deferred taxation		
Continuing operations	**(2.0)**	0.9
Taxation	**33.5**	20.5

	2007 £m	2006 £m
Tax on items charged to the statement of recognised income and expense		
Deferred tax credit on actuarial losses	**–**	0.5

Factors affecting tax charge for the year

The tax for the period is higher (2006 higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2007 £m	2006 £m
Profit before taxation	**97.7**	66.4
Profit before taxation multiplied by standard rate of corporation tax of 30%	**29.3**	19.9
Effects of:		
Expenses not deductible for tax purposes	**7.3**	3.0
Income not taxable	**(0.1)**	(0.5)
Current year movement on deferred tax	**0.6**	(0.2)
Foreign taxes	**0.3**	0.7
Utilisation of tax losses not previously recognised	**(1.8)**	(0.9)
Deferred tax asset not previously recognised	**(2.1)**	–
Adjustment to tax charge in respect of joint ventures and associates	**0.4**	0.4
Adjustment to tax charge in respect of previous periods	**(0.4)**	(1.9)
Total taxation (continuing operations)	**33.5**	20.5

9. Assets and liabilities held for sale

On 8 June 2007, the Group sold, to Apax Partners Europe, 49.9% of its interest in Trader Media Investments Limited, a wholly-owned subsidiary of Trader Media Group Limited. Further information is given in the Financial review on page 29 and in note 35 Post balance sheet events. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the gross assets and gross liabilities have been reclassified in the balance sheet.

10. Goodwill

	£m
Cost	
At 3 April 2006	669.7
Acquisitions – through business combinations	92.1
Reclassification – assets held for sale	(617.4)
At 1 April 2007	144.4
Accumulated impairment	
At 3 April 2006	24.0
Reclassification – assets held for sale	(14.9)
At 1 April 2007	9.1
Net book value	
At 1 April 2007	135.3

Goodwill relates principally to the GMG Radio Division.

At 1 April 2007 £602.5 million of goodwill in respect of Trader Media Group was reclassified as 'assets held for sale'.

During the year ended 1 April 2007, 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 completed the following acquisitions for a total consideration of £180.7 million:

On 12 April 2006 the Group acquired 100% of the ordinary share capital of 2nd Byte Limited and Faxpress Limited.

On 9 August 2006 the Group acquired 100% of the ordinary share capital of Vebra Investments Limited.

On 18 October 2006 the Group acquired 100% of the ordinary share capital of Century Radio Limited and Century Radio 105 Limited.

On 1 February 2007 the Group acquired 100% of the ordinary share capital of Saga Radio Limited, Saga Radio (North East) Limited, Saga Radio (Scotland) Limited and Saga Regional Digital Radio Limited.

Other non-material acquisitions made by the Group during the year were:
- the acquisition of 100% of the ordinary share capital of Contact Advantage Group Limited
- the acquisition of the trade and assets of Sicit, a publishing company incorporated in Italy
- the acquisition of 100% of the ordinary share capital of Boatshop 24 Software GmbH, a company incorporated in Germany
- the acquisition of the remaining 50% of the ordinary share capital of Hurst Italia srl not already owned by the Group
- the acquisition of 100% of the ordinary share capital of 96.3 QFM Limited
- the acquisition of 30% of the ordinary share capital of Autofocus (UK) Limited, trading as CVi.

10. Goodwill (continued)

Goodwill of £92.1 million resulted on acquisition as follows:

	Carrying values pre-acquisition £m	Fair value adjustments £m	Fair value acquired £m
Net assets acquired			
Non-current assets			
Property, plant and equipment	4.0	–	4.0
Intangible assets	–	120.4	120.4
	4.0	120.4	124.4
Current assets	9.8	0.2	10.0
Current liabilities	(7.6)	–	(7.6)
Deferred taxation	–	(36.0)	(36.0)
Net current assets	2.2	(35.8)	(33.6)
Total assets less current liabilities	6.2	84.6	90.8
Non-current liabilities	(1.6)	–	(1.6)
Provision for liabilities and charges	(0.6)	–	(0.6)
Fair value of net assets acquired	4.0	84.6	88.6
Purchase consideration			
– cash			166.8
– loan notes			11.6
– deferred consideration			2.3
Total consideration			180.7
Goodwill			(92.1)

The fair values set out above contain certain provisional amounts which will be finalised no later than one year after the date of acquisition. Goodwill represents the synergies, assembled workforce, and future growth potential of the businesses acquired.

	£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 and acquisitions within GMG Radio Division.

During the year ended 2 April 2006, goodwill was tested for impairment in accordance with IAS 36 'Impairment of assets' and was found not to be impaired.

During November 2005, the Group acquired 100% of the ordinary share capital of Webzone Limited, a company incorporated in the Republic of Ireland.

During January 2006, the Group sold the trade and assets of its Enterprise music activities, part of Smooth FM (London) Limited.

11. Intangible assets

	£m
Cost	
At 3 April 2006	23.0
Acquisitions – through business combinations	120.4
Additions at cost	9.5
Reclassifications – assets held for sale	(21.0)
Disposals	(1.8)
At 1 April 2007	130.1
Accumulated amortisation	
At 3 April 2006	13.7
Reclassifications – assets held for sale	(10.6)
Disposals	(1.8)
Charge for period	9.1
At 1 April 2007	10.4
Net book value	
At 1 April 2007	119.7

Intangible assets mainly comprises radio licences and 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.

	£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	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	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

12. (a) Property, plant and equipment

	Land and buildings £m	Plant and vehicles £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
At 3 April 2006	47.4	189.2	20.0	17.4	274.0
Additions at cost	1.2	9.0	1.3	11.1	22.6
Acquisitions – through business combinations	2.0	3.4	0.4	–	5.8
Reclassifications – assets held for sale	(16.9)	(75.2)	(3.3)	(0.9)	(96.3)
Reclassifications	3.4	21.6	1.7	(26.7)	–
Disposals	–	(10.3)	(0.7)	(0.4)	(11.4)
At 1 April 2007	**37.1**	**137.7**	**19.4**	**0.5**	**194.7**
Accumulated depreciation					
At 3 April 2006	10.6	104.3	12.7	–	127.6
Charge for the period	2.0	17.2	2.8	–	22.0
Acquisitions – through business combinations	–	1.8	–	–	1.8
Reclassifications – assets held for sale	(5.3)	(52.2)	(2.4)	–	(59.9)
Reclassifications	(0.2)	–	0.2	–	–
Disposals	–	(9.3)	(0.7)	–	(10.0)
At 1 April 2007	**7.1**	**61.8**	**12.6**	**–**	**81.5**
Net book value					
At 1 April 2007	**30.0**	**75.9**	**6.8**	**0.5**	**113.2**

	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	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	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**

Details of material finance lease arrangements are given in note 18.

Assets under construction relate to new printing facilities. During 2005/06 certain assets under construction at 4 April 2005 were transferred to a joint venture company at cost. These transfers were 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 Guardian News & Media Division has been performed in accordance with IAS 36.

12. (b) Property, plant and equipment

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

	2007 £m	2006 £m
Cost	**91.0**	71.0
Accumulated depreciation	**(20.2)**	(14.8)
Net book value	**70.8**	56.2

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

	2007 £m	2006 £m
Freehold	**8.0**	16.6
Long leasehold	**3.5**	7.5
Short leasehold	**18.5**	12.7
	30.0	36.8

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

	2007 £m	2006 £m
(a) Interests in joint ventures		
At 3 April 2006		
– Net assets	**6.4**	5.5
– Loans	**1.5**	1.5
	7.9	7.0
Repayment of loans	**(0.5)**	–
Profit and loss account – continuing	**(0.3)**	0.4
Actuarial losses net of deferred tax credit – statement of recognised income and expense	**0.4**	0.5
At 1 April 2007		
– Net assets	**6.5**	6.4
– Loans	**1.0**	1.5
	7.5	7.9

The Group's share of amounts relating to joint ventures, assets, liabilities, income and expenses are shown below:

	2007 £m	2006 £m
Non-current assets	**30.8**	32.6
Current assets	**10.5**	14.4
Current liabilities	**(9.8)**	(14.0)
Non-current liabilities	**(25.0)**	(26.6)
	6.5	6.4
Income	**85.6**	83.9
Expenses	**(86.1)**	(83.4)
Profit before taxation	**(0.5)**	0.5
Taxation	**0.2**	(0.1)
Share of post tax results from joint ventures	**(0.3)**	0.4

Details of the Group's joint ventures' contingent liabilities are included in note 15 on page 82.
The Group's share of joint ventures' capital commitments are included in note 32 on page 69.

(b) Interests in associates

	2007	2006
At 3 April 2006	£m	£m
– Net assets excluding goodwill	4.1	2.7
– Goodwill	1.2	1.3
	5.3	4.0
Additions		
– Net assets (transfer from amounts owed by related parties)	0.4	0.4
– Net assets	0.4	2.6
– Goodwill	–	0.9
Disposals		
– Net assets (reclassification – assets held for sale)	(0.4)	–
– Net assets (reclassification – subsidiary)	(0.2)	–
Impairment of goodwill	(0.5)	(1.0)
Share of retained loss	(0.2)	(1.5)
Dividends	(0.1)	(0.1)
At 1 April 2007		
– Net assets excluding goodwill	4.0	4.1
– Goodwill	0.7	1.2
	4.7	5.3

The Group's share of amounts relating to associates	2007	2006
	£m	£m
Total assets	6.7	7.6
Total liabilities	(2.7)	(3.5)
Revenue	12.4	11.6
Trading loss	(0.2)	(1.5)
Profit on disposal of associates	0.1	1.3

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.

(c) Other financial assets

	2007	2006
	£m	£m
At 3 April 2006	4.5	5.9
Additions at cost	–	0.3
Transfer to associates	–	(0.4)
Impairment	–	(1.3)
Disposals	(3.0)	–
At 1 April 2007	1.5	4.5

	2007	2006
Other financial assets include the following:		
Unlisted shares	0.3	3.3
Term deposits/loans	1.2	1.2
	1.5	4.5

14. Inventories

	2007 £m	2006 £m
Raw materials and consumables	**1.0**	3.0

The Group consumed £87.8 million (2006 £88.6 million) of inventories during the year (note 4).

15. Trade and other receivables

	2007 £m	2006 £m
Amounts falling due within one year:		
Trade debtors	**68.4**	99.3
Less: Provision for impairment of receivables	**(1.0)**	(3.7)
Trade debtors – net	**67.4**	95.6
Amounts owed by related parties	**3.1**	3.0
Other debtors	**1.7**	2.5
Prepayments and accrued income	**10.6**	24.5
	82.8	125.6

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

	2007 £m	2006 £m
Current tax liability	**13.2**	7.5

17. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	**35.3**	59.9
Short-term bank deposits	**–**	15.5
	35.3	75.4

The effective interest rate on short-term money market deposits was 4.77% (2006 4.58%) and these deposits had an average maturity of 13 days.

18. Financial liabilities – borrowings

Current	2007 £m	2006 £m
Bank loan and overdrafts due within one year or on demand:		
Bank loan	**79.0**	30.0
Unsecured – loan notes	**–**	2.2
Finance lease obligations	**7.4**	5.7
	86.4	37.9
Fair value of hedge instrument	**–**	1.3
Redeemable preference shares	**–**	1.0
	86.4	40.2

The bank loan was subject to interest at LIBOR plus rates between 0.6% and 1%. This loan was repaid in full on 8 June 2007.

Non-current	**2007 £m**	2006 £m
Bank loans:		
Secured – syndicated bank loans	**–**	299.1
Finance lease obligations	**65.2**	56.7
	65.2	355.8
Redeemable preference shares	**–**	2.1
Preference shares	**0.1**	0.1
Debt issue and finance costs	**–**	(3.8)
	65.3	354.2

The total value of obligations under syndicated bank loans and finance leases repayable by instalments:		
– between one to two years	**3.5**	33.1
– between two to five years	**17.1**	286.6
– over five years	**44.6**	36.1
	65.2	355.8

Redeemable preference shares

	2007 £m	2006 £m
Current – 1,500,000 non-voting redeemable preference shares of 1 euro	**–**	1.0
Non-current – 3,000,000 non-voting redeemable preference shares of 1 euro	**–**	2.1

Preference share capital

	2007 £m	2006 £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

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

	2007 £m	2006 £m
Forward foreign currency contracts – liability	**–**	0.2

20. Trade and other payables – current

	2007 £m	2006 £m
Trade creditors	**19.8**	21.5
Taxation and social security	**7.1**	16.0
Other creditors	**2.7**	3.6
Accruals and deferred income	**30.8**	62.0
	60.4	103.1

21. Other non-current liabilities

	2007 £m	2006 £m
Accruals	**1.1**	0.7
Preference shares	**1.0**	–
Deferred income	**–**	0.2
	2.1	0.9

22. Provisions

	£m
At 3 April 2006	47.9
Charged to profit and loss account	8.0
Acquisitions – through business combinations	0.6
Reclassifications – liabilities held for sale	(6.5)
Reclassifications – creditors	0.5
Utilised in year	(33.0)
At 1 April 2007	**17.5**

Provisions have been analysed between current and non-current as follows:

Current	2.3
Non-current	15.2
	17.5

The provisions at 2 April 2006 relate primarily to the Group's decision to invest in new printing facilities during the year ended 3 April 2005 and the relocation to new premises in Manchester.

	£m
At 4 April 2005	37.5
Charged to profit and loss account	10.8
Utilised in year	(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

23. Deferred taxation

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 30% (2006 30%).

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

	2007	2006
	£m	£m
At 3 April 2006	**1.5**	2.2
Profit and loss credit/(charge)	**2.0**	(0.9)
Acquisitions through business combinations	**(36.0)**	(0.3)
Reclassification – assets held for sale	**2.0**	–
Statement of recognised income and expense credit	**–**	0.5
At 1 April 2007	**(30.5)**	1.5

	Accelerated capital allowances on fixed assets	Tax losses carried forward	Short-term and other timing differences	Other[1]	Total
	£m	£m	£m	£m	£m
Deferred taxation liabilities					
At 3 April 2006	(3.5)	–	–	(0.4)	(3.9)
Profit and loss credit	1.8	–	–	–	1.8
Acquisitions through business combinations	–	–	–	(36.0)	(36.0)
At 1 April 2007	**(1.7)**	**–**	**–**	**(36.4)**	**(38.1)**
Deferred taxation assets					
At 3 April 2006	0.9	1.3	3.2	–	5.4
Profit and loss credit/(charge)	–	1.4	(1.2)	–	0.2
Reclassification – assets/(liabilities) held for sale	2.8	(0.1)	(0.7)	–	2.0
At 1 April 2007	**3.7**	**2.6**	**1.3**	**–**	**7.6**
Net deferred tax liability at 1 April 2007					**(30.5)**
Net deferred tax asset at 2 April 2006					1.5

[1] Other comprises capital gains/revaluations and deferred tax on acquired intangible assets.

Deferred tax assets have not been recognised where they relate to losses in companies where their future utilisation against profits cannot be reasonably foreseen. There is an unrecognised deferred tax asset at the balance sheet date of £1.9 million (2006 £5.3 million).

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 reinvested by the Group and no tax is expected to be payable on them in the foreseeable future. Since acquisition, subsidiaries have made profits of £4.4 million which have not been remitted to the UK.

24. Share capital

	2007 £m	2006 £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

The movement on retained profits is analysed below:

	£m
At 3 April 2005	424.0
Retained profit for the year	45.9
Losses recognised directly in equity	(3.5)
At 2 April 2006	466.4
Retained profit for the year	64.2
Profits recognised directly in equity	1.8
At 1 April 2007	**532.4**

Cumulative goodwill written off directly to Group reserves £58.4 million (2006 £58.4 million).

26. Preference dividends paid

Preference dividends paid during the year amounted to £4,000 (2006 £4,000).

27. Statement of changes in equity

	£m
At 3 April 2005	424.9
Retained profit for the year	45.9
Losses recognised directly in equity	(3.5)
At 2 April 2006	467.3
Retained profit for the year	64.2
Profits recognised directly in equity	1.8
At 1 April 2007	**533.3**

28. Cash flow from operating activities

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

Cash generated from continuing operations	**2007**	2006
	£m	£m
Net profit	**64.2**	45.9
Adjustments for:		
Tax	**33.5**	20.5
Depreciation	**22.0**	20.9
Loss on sale of trade and assets	**–**	0.8
Profit on sale of associates	**(0.1)**	(1.4)
Profit on disposal of property, plant and equipment	**(0.2)**	(0.3)
Profit on disposal of intangibles	**–**	(0.5)
Amortisation of intangibles	**9.1**	2.2
Impairment of associates	**0.5**	1.0
Impairment of non-current financial assets	**–**	1.3
Income from non-current financial assets	**(0.1)**	(0.3)
Interest income	**(12.2)**	(6.5)
Interest expense	**27.0**	24.2
Pensions	**(1.0)**	(5.3)
Share of results of joint ventures after taxation	**0.3**	(0.4)
Share of results of associates after taxation	**0.1**	0.2
Changes in working capital (excluding effects of reclassifications, acquisitions and disposals of subsidiaries):		
Decrease/(increase) in inventories	**0.5**	(0.8)
Increase in trade and other receivables	**(3.5)**	(5.2)
(Decrease)/increase in trade and other payables	**(4.5)**	3.9
(Decrease)/increase in provisions	**(23.9)**	10.4
Cash generated from continuing operations	**111.7**	110.6

29. Acquisitions and disposals

Details of acquisitions during the period are shown in note 10.

30. Pension commitments

Defined contribution schemes

More than 75% of the Group's employees are members of defined contribution pension schemes operated by the Group. Pension schemes' assets are held in separate trustee-administered funds.

Pension costs for defined contribution schemes are as follows:

	2007	2006
	£m	£m
Defined contribution schemes	**10.1**	9.8

30. Pension commitments (continued)

Defined benefit schemes

The Group has four (2006 four) defined benefit pension schemes, all of which have been accounted for in accordance with IAS 19 'Employee benefits'.

At the year-end the Rochdale Observer Executive Pension Plan and the GMG Supplementary Pension Scheme (which has commenced formal wind-up with effect from 6 November 2006) had no active members. These schemes are not material to the Group and as such full IAS 19 disclosures have not been made.

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 31 March 2006 and 30 April 2006 respectively.

The Wiltshire (Bristol) Ltd Retirement Benefit Scheme surplus of £0.6m has not been shown in the balance sheet and no further disclosures under IAS 19 are included below.

The most recent actuarial valuation of The Surrey Advertiser Newspaper Holdings Ltd Pension & Life Assurance Scheme was performed on 5 April 2006 and updated to 1 April 2007 by a qualified independent actuary. The main assumptions made by the actuary were:

	2007	2006
Rate of increase in pensionable salaries	**–**	3.80% pa
Rate of increase for pensions in payment	**3.10% pa**	2.80% pa
Rate of increase in deferred pensions	**3.10% pa**	2.80% pa
Discount rate	**5.20% pa**	4.75% pa
Inflation assumption	**3.10% pa**	2.80% pa
Expected return on plan assets:		
Equities	**6.40% pa**	6.00% pa
Bonds/gilts	**4.60% pa**	4.58% pa
Cash	**5.00% pa**	4.50% 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 65 will live on average a further 23 years after retirement if they are male and a further 26 years after retirement if they are female. A current pensioner aged 70 will live on average a further 17 years if they are male and a further 20 years if they are female.

The amounts recognised in the balance sheet are determined as follows:	**2007 £m**	2006 £m
Present value of funded obligations – all fully or partly funded	**(16.0)**	(28.2)
Fair value of plan assets	**13.3**	24.9
	(2.7)	(3.3)
Plan liabilities not disclosed[1]	**(0.7)**	–
Net liability recognised in the balance sheet	**(3.4)**	(3.3)

[1]An amount of £0.7m is shown in the balance sheet as a liability. As the Star Newspapers Staff Benefits Plan is in the process of being wound up and has been fully provided for on a solvency valuation basis no further disclosures have been made in these accounts.

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

	2007	2006
	£m	£m
Current service cost	**0.1**	0.5
Interest cost	**0.7**	1.4
Expected return on plan assets	**(0.6)**	(1.3)
Effect of curtailments or settlements	**–**	(0.5)
Total pension cost recognised in the profit and loss account	**0.2**	0.1

These charges are included in operating costs.

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

	2007	2006
	£m	£m
Actuarial losses immediately recognised	**(0.2)**	(3.7)

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

	2007	2006
	£m	£m
Defined benefit obligation at the beginning of the year	**(28.2)**	(27.5)
Reclassification – held for sale	**12.5**	–
Current service cost	**(0.1)**	(0.5)
Interest cost	**(0.8)**	(1.4)
Actuarial losses	**(0.1)**	(6.1)
Contributions paid	**–**	(0.2)
Curtailments	**–**	1.4
Settlements	**–**	5.1
Benefits paid	**0.7**	1.0
Defined benefit obligation at the end of the year	**(16.0)**	(28.2)

Changes in the fair value of the schemes' assets are as follows:

	2007	2006
	£m	£m
Schemes' assets at beginning of the year	**24.9**	23.8
Reclassification – held for sale	**(12.4)**	–
Employer contributions	**1.0**	6.3
Member contributions	**–**	0.2
Expected return on assets	**0.6**	1.3
Actuarial (loss)/gain	**(0.1)**	2.3
Settlements	**–**	(8.0)
Benefits paid	**(0.7)**	(1.0)
Schemes' assets at the end of the year	**13.3**	24.9

The actual return on plan assets was £0.5 million.

The Group expects to contribute £1.0 million to the defined benefit pension scheme during the year ending 30 March 2008.

The major categories of schemes' assets are as follows:

	2007 £m	2006 £m
Equities	**5.3**	11.1
Bonds/gilts	**8.0**	9.7
Cash	**–**	4.1
	13.3	24.9

Analysis of the movement in the balance sheet liability:

	2007 £m	2006 £m
At 3 April 2006	**(3.3)**	(5.8)
Total expense recognised in the profit and loss account	**(0.2)**	(0.1)
Contributions	**1.0**	6.3
Net actuarial loss recognised in the year	**(0.2)**	(3.7)
At 1 April 2007	**(2.7)**	(3.3)

Cumulative actuarial gains and losses recognised in equity:

	2007 £m	2006 £m
At 3 April 2006	**(10.3)**	(6.6)
Reclassification – held for sale	**5.5**	–
Net actuarial loss recognised in the year	**(0.2)**	(3.7)
At 1 April 2007	**(5.0)**	(10.3)

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.

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	
	2007 £m	2006 £m	2007 £m	2006 £m
Expiring within one year	**5.7**	3.8	**8.2**	6.9
Expiring between two and five years inclusive	**34.3**	29.5	**33.9**	29.5
Expiring in over five years	**146.6**	137.5	**47.2**	54.0
	186.6	170.8	**89.3**	90.4

32. Capital commitments authorised

Contracts entered into, but not provided for, for property, plant and equipment for the Group amounted to approximately £10.8 million (2006 £11.4 million).

33. Related party transactions

Transactions between subsidiary members of 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 arm's 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:

	2007	2006
	£m	£m
Sales	**0.2**	0.2
Purchases	**86.7**	89.2
Loans made	**0.4**	2.0
Interest on loans	**0.6**	0.3

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

During the year Guardian Media Group plc paid £105,000 (2006 £96,279) to seven (2006 seven) members of the Scott Trust in relation to their duties as trustees. A further £154,070 (2006 £137,646) was paid to two (2006 two) of the trustees, neither of whom are directors of the Group, for services rendered to Guardian News & Media Limited in the normal course of business and paid on a normal arm's length basis. In addition, the Group paid £392,000 (2006 £1,205,000) to a law firm of which a further member of the Scott Trust is a partner.

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

(a) On 8 June 2007 the Group sold, to Apax Partners Europe, 49.9% of its interest in its wholly owned subsidiary Trader Media Investments Limited ("TMI"), a wholly-owned subsidiary of Trader Media Group Limited, in a transaction that valued 100% of TMI at £1.35 billion.

On 23 March 2007, Group subsidiaries Trader Media Corporation Limited and Trader Media Corporation (2003) Limited entered into an £835 million Senior Facilities Agreement in connection with the intended sale by the Group of 49.9% of its equity interest in TMI. No amounts were drawn at the balance sheet date. Following completion of the transaction on 8 June 2007 drawdown of these facilities took place.

In 2006/07 TMI and its subsidiaries accounted for 44% of the consolidated turnover, 92% of the operating profit and 61% of the net assets of the Group. From 8 June 2007, the Group will treat TMI as a joint venture and equity account for its 50.1% holding in the business.

(b) In March 2007, the UK government announced that the full rate of corporation tax will be reduced from 30% to 28%, with effect from 1 April 2008. In accordance with the provisions within IAS 12, the current rate of 30% is still used as a basis for the calculation of the deferred taxes stated. Under utilisation of the new corporate tax rate, deferred tax liabilities as at 1 April 2007 would fall by £0.6 million. The actual decrease in the deferred tax liability that will be recognised will depend on the enactment of the tax rate, the determination of taxable income and the tax result in the underlying period.

(c) On 25 June 2007, Guardian News & Media Limited exchanged contracts for the sale of 119 Farringdon Road, London for a total consideration of £37.4 million. This transaction forms part of the project to move GNM staff to Kings Place starting in autumn 2008. GNM staff will continue to be based at 119 Farringdon Road until Kings Place is ready for occupation.

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
Guardian News & Media		
Guardian News & Media Limited^	£1 ordinary shares	100%
Learnthings Limited^	£1 ordinary shares	100%
GMG Regional Media		
MEN Media Limited^	£1 ordinary shares	100%
Surrey and Berkshire Media Limited^	£1 ordinary shares	100%
	£1 deferred shares	100%
Channel M Television Limited^	£1 ordinary shares	100%
GMG Radio		
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%
Century Radio Limited^	£1 ordinary shares	100%
Century Radio 105 Limited^	£1 ordinary shares	100%
Smooth Radio Midlands Limited^	£1 ordinary shares	100%
Smooth Radio Scotland Limited^–	£1 ordinary shares	100%
Smooth Digital Radio Limited^	£1 ordinary shares	100%
Trader Media Group		
Trader Media Group Limited^	10p ordinary shares	100%
GMG Property Services Group		
Vebra Solutions Limited^	£1 ordinary shares	100%
Real Estate Technology Limited^	£1 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 Group Limited	1,694,922 "A" ordinary shares/550,000 "B" ordinary shares	42.8%
Fish4 Limited^	56,967,272 £1 ordinary shares	33.3%
MXR Holdings Limited^	750,000 £1 ordinary shares	24.3%

^ Investments not held directly by Guardian Media Group plc

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

Group five year review

The numbers for 2007, 2006 and 2005 have been drawn up in accordance with International Financial Reporting Standards. For 2004 and 2003 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 1 April 2007 £m	Year to 2 April 2006 £m	Year to 3 April 2005 £m	Year to 28 March 2004 £m	Year to 30 March 2003 £m
Turnover	**716.1**	700.3	705.0	517.8	355.6
Operating costs excluding exceptional items	**(610.9)**	(583.9)	(577.8)	(457.7)	(354.3)
Operating profit before exceptional items	**105.2**	116.4	127.2	60.1	1.3
Exceptional items	**8.1**	(31.8)	(40.3)	(22.4)	(8.6)
Operating profit/(loss) after exceptional items	**113.3**	84.6	86.9	37.7	(7.3)
Income from other financial assets	**0.1**	0.3	0.9	0.4	1.2
Net interest (payable)/receivable	**(14.8)**	(17.7)	(30.9)	(18.9)	6.0
Share of profits/(losses) of joint ventures and associates	**(0.9)**	(0.8)	(3.2)	24.4	37.1
Profit before taxation	**97.7**	66.4	53.7	43.6	37.0
Taxation	**(33.5)**	(20.5)	(19.8)	(10.9)	(13.3)
Profit for the year from continuing operations	**64.2**	45.9	33.9	32.7	23.7
Profit/(loss) for the year from discontinued operations	**–**	–	10.2	–	(0.1)
Profit attributable to equity shareholders	**64.2**	45.9	44.1	32.7	23.6

	Year to 1 April 2007 £m	Year to 2 April 2006 £m	Year to 3 April 2005 £m	Year to 28 March 2004 £m	Year to 30 March 2003 £m
Assets employed					
Intangible assets (including goodwill)	**255.0**	655.0	650.5	643.5	66.1
Tangible assets	**113.2**	146.4	130.4	82.8	45.1
Investments	**13.7**	17.7	16.9	26.9	77.9
Cash and cash equivalents	**35.3**	75.4	67.3	85.2	168.1
Net assets held for sale	**311.1**	–	–	–	–
Other net liabilities	**(195.0)**	(427.2)	(440.2)	(448.8)	(0.5)
Net assets	**533.3**	467.3	424.9	389.6	356.7

Guardian Media Group plc

2007 Separate financial statements in accordance with UK accounting standards

Report of the directors

The directors present their report and the audited financial statements of the Company for the year ended 1 April 2007.

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 £6.6 million (2006 £0.3 million). The Company has paid a preference dividend of 4.0p (2006 4.0p) per share amounting to £4,000 (2006 £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 on pages 16, 17 and 35.

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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 1 April 2007 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
26 June 2007

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 1 April 2007 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 1 April 2007.

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 information given in the Report of the directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 Statement from the chair, the Chief executive's review of operations, the Scott Trust report, the Corporate 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 judgments 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 1 April 2007
- 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
26 June 2007

Company balance sheet

As at 1 April 2007

	Note	**2007 £m**	2006 £m
Assets			
Fixed assets			
Tangible assets	3	**0.4**	0.2
Investments			
Subsidiary undertakings	4	**325.9**	315.9
Joint ventures	5	**9.0**	9.5
Associates	6	**3.1**	2.7
Other investments	7	**1.1**	1.1
		339.5	329.4
Current assets			
Debtors	8	**84.6**	21.9
Cash at bank and in hand		**30.6**	37.6
		115.2	59.5
Current liabilities			
Creditors: due within one year	9	**152.7**	93.2
Net current liabilities		**(37.5)**	(33.7)
Creditors: due after more than one year	10	**0.6**	0.8
Defined benefit pension fund	13	**–**	0.1
Net assets		**301.4**	294.8
Capital and reserves			
Share capital	11	**0.9**	0.9
Retained earnings	12	**300.5**	293.9
Total shareholders' funds		**301.4**	294.8

These financial statements were approved by the Board of directors on 26 June 2007 and signed on its behalf by:

Paul Myners
Chair

Nick Castro
Finance director

The notes on pages 78 to 82 form part of these financial statements.

Notes relating to the financial statements

1. Accounting policies

Accounting basis

The financial statements on pages 77 to 82 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 accounting policies, which have been applied consistently. The financial statements have been prepared on the historical cost basis.

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 and vehicles	10%–33%
Fixtures and fittings	10%

Freehold and long leasehold buildings are written off over their expected useful lives or 50 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 scheme
The majority of the Company's employees are members of a defined contribution pension scheme.

(b) Defined benefit scheme
The Company has a defined benefit pension scheme which commenced formal wind-up with effect from 6 November 2006.

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) Staff costs during the period including executive directors

	2007	2006
	£m	£m
Wages and salaries	**3.2**	3.0
Employer's social security costs	**0.4**	0.4
Employer's pension costs	**0.4**	0.4
	4.0	3.8

(b) Average monthly number of persons employed including executive directors

	2007	2006
	No.	No.
Administration	**36**	34

(c) Auditors' remuneration

	2007	2006
	£m	£m
Audit services	**0.1**	–
Other services	**0.4**	0.4

3. Tangible assets

	Plant and vehicles £m	**Fixtures and fittings £m**	**Total £m**
Cost			
At 3 April 2006	0.3	0.1	0.4
Additions at cost	–	0.3	0.3
Disposals	–	(0.1)	(0.1)
At 1 April 2007	**0.3**	**0.3**	**0.6**
Accumulated depreciation			
At 3 April 2006	0.1	0.1	0.2
Charge for the period	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
At 1 April 2007	**0.1**	**0.1**	**0.2**
Net book value			
At 1 April 2007	**0.2**	**0.2**	**0.4**
Net book value			
At 2 April 2006	0.2	–	0.2

4. Subsidiary undertakings

	Unlisted shares £m
Cost	
At 3 April 2006	441.5
Additions	10.0
At 1 April 2007	451.5
Amounts written off	
At 1 April 2007 and 3 April 2006	125.6
Net book value at 1 April 2007	**325.9**
Net book value at 2 April 2006	315.9

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 71.

5. Joint ventures

Cost	Shares £m	Loans £m	Total £m
At 3 April 2006	14.6	1.5	16.1
Repayment of loans	–	(0.5)	(0.5)
At 1 April 2007	14.6	1.0	15.6
Amounts written off			
At 1 April 2007 and 3 April 2006	6.6	–	6.6
Net book value at 1 April 2007	**8.0**	**1.0**	**9.0**
Net book value at 2 April 2006	8.0	1.5	9.5

Details of the principal joint ventures are shown in the Group section of this report on page 71.

6. Associates

	Unlisted shares £m	Loan stock £m	Total £m
Cost			
At 3 April 2006	5.2	2.0	7.2
Additions	–	0.4	0.4
At 1 April 2007	5.2	2.4	7.6
Amounts written off			
At 1 April 2007 and 3 April 2006	4.5	–	4.5
Net book value at 1 April 2007	**0.7**	**2.4**	**3.1**
Net book value at 2 April 2006	0.7	2.0	2.7

Details of the principal associates are shown in the Group section of this report on page 71.

7. Other investments

	Unlisted shares £m	Term deposits/ loans £m	Total £m
At 1 April 2007 and 2 April 2006	0.2	0.9	1.1

8. Debtors

	2007 £m	2006 £m
Amounts owed by subsidiaries	**82.2**	17.0
Amounts owed by joint ventures and associates	**2.0**	1.8
Corporation tax	**–**	2.6
Deferred tax	**0.3**	0.4
Prepayments and accrued income	**0.1**	0.1
	84.6	21.9

9. Creditors: due within one year

	2007 £m	2006 £m
Trade creditors	**0.1**	0.3
Amounts owed to subsidiaries	**146.5**	90.4
Taxation and social security	**0.3**	0.5
Corporation tax	**3.5**	–
Other creditors	**0.5**	0.1
Accruals and deferred income	**1.8**	1.9
	152.7	93.2

10. Creditors: due after more than one year

	2007 £m	2006 £m
Accruals and deferred income	**0.5**	0.7
Preference shares	**0.1**	0.1
	0.6	0.8

Preference share capital	2007 £m	2006 £m
Authorised, issued, called up and fully paid:		
100,000 4% cumulative preference shares of £1 each	**0.1**	0.1

11. Share capital

	2007 £m	2006 £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 3 April 2006	293.9
Retained profit for the period	6.6
At 1 April 2007	300.5

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
The GMG Supplementary Pension Scheme had no active members remaining at year-end. This scheme is not material to the company and as such full FRS 17 disclosures have not been made. This scheme commenced formal wind-up with effect from 6 November 2006.

14. Operating lease and similar commitments
There are no material operating leases and similar annual commitments.

15. 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 & Berkshire Media Limited amounting to £25.9 million (2006 £28.8 million).

(c) The Company has given a guarantee to Lloyds Bank PLC in respect of certain leasing obligations of certain subsidiary companies and of Trafford Park Printers Limited amounting to £71.1 million (2006 £71.1 million).

16. Capital commitments authorised
There are no contracts for capital expenditure and investments for the Company (2006 £nil).

17. Preference dividends paid
Preference dividends paid during the year amounted to £4,000 (2006 £4,000).

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

During the year Guardian Media Group plc paid £105,000 (2006 £96,279) to seven (2006 seven) members of the Scott Trust in relation to their duties as trustees. A further £154,070 (2006 £137,646) was paid to two (2006 two) of the trustees, neither of whom are directors of the Group, for services rendered to Guardian News & Media Limited in the normal course of business and paid on a normal arm's length basis. In addition, the Group paid £392,000 (2006 £1,205,000) to a law firm of which a further member of the Scott Trust is a partner.

19. 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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Produced by Guardian Professional
guardian.co.uk/professional

Photography by Kitty Gale and GMG staff

Printed by Dayfold on environmentally friendly Revive Silk. The paper is 75% made from 100% de-inked post-consumer waste, the remaining 25% being mill broke and virgin fibres. Recycled papers used in its production are a combination of Totally Chlorine Free (TCF) and Elemental Chlorine Free (ECF). It is recyclable and biodegradable and is an NAPM and Eugropa approved recycled grade.

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