Guardian Media Group

# Annual Report and Accounts 2010

## A strong portfolio to support our journalism

# Contents



# Financial highlights

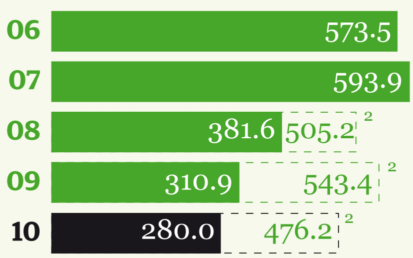
## 2009/10 performance

**Turnover for the continuing GMG wholly owned businesses fell by £30.9 million to £280 million as a result of the difficult market conditions caused by the recession. This was substantially due to a fall in advertising and new media revenues.**

**EBITA before exceptionals (including share of Trader Media Group and Emap) of £37.7 million was higher than in the previous year, reflecting substantial cost reductions within the wholly owned businesses.**

**The pre-tax loss is heavily influenced by two factors: the presence of large, one-off, non-cash adjustments, which**

### Turnover (£m)[1]



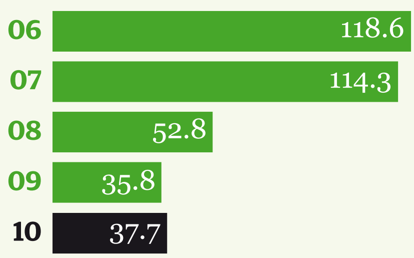

Turnover for the continuing GMG businesses (excluding share of joint ventures Trader Media Group and Emap) was £280.0 million, a decrease of 9.9% (2009 £310.9 million). This was substantially due to a fall in advertising and new media revenues of £31.6 million (16.8% year-on-year) to £156.0 million. Circulation revenues decreased marginally by £0.2 million (0.2% year-on-year) to £94.7 million and other revenues increased by £0.9 million (3.2% year-on-year) to £29.3 million.

[1] Turnover for 2006-2009 has been restated to exclude GMG Regional Media which became a discontinued activity in 2010.

[2] The dotted lines in 2008 depict Group turnover including share of joint venture company Trader Media Group. In 2009 and 2010, the dotted lines depict Group turnover including share of joint venture companies Trader Media Group and Emap.

### EBITA before exceptionals (£m)[3]

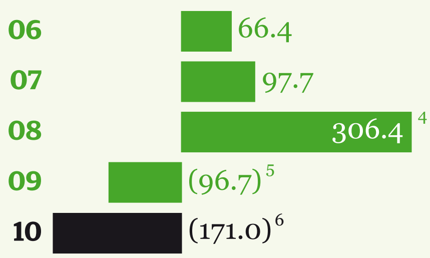
(including share of Trader Media Group and Emap)




Despite the fall in revenues caused by the recession, management action on costs meant that EBITA before exceptionals (including GMG's share of joint venture Trader Media Group and Emap) was higher than in the previous year.

[3] EBITA is defined as operating profit before exceptional items and amortisation of intangible assets.

### Profit/(loss) before taxation (£m)




The pre-tax loss of £171.0 million (2009 £96.7 million) includes an operating loss before exceptional items of £53.9 million (2009 £65.2 million).

[4] Includes an exceptional gain of £335.2 million broadly in respect of the profit on disposal of 49.9% of Trader Media Group in June 2007.

[5] Includes £24.4 million of fair value losses on forward exchange contracts, £27.2 million of joint venture fair value losses on interest rate swaps and debt, and £26.4 million of subsidiary and associate company impairment of goodwill and intangibles.

[6] Includes £160.4 million of subsidiary and joint venture company impairment of goodwill and intangibles, £5.4 million of fair value gains on forward exchange contracts, and £5.1 million of joint venture fair value losses on interest rate swaps and debt.

# Introduction

## A strong portfolio to support our journalism

**Guardian Media Group (GMG) is wholly owned by the Scott Trust, which exists to secure the ongoing financial and editorial independence of the Guardian.**

**The Group fulfils this purpose through the management of a range of media businesses and other investments.**

**This strong portfolio ensures we have sufficient resources to meet the immediate funding requirements of our journalism, to invest in its development, and to provide it with long-term financial security.**

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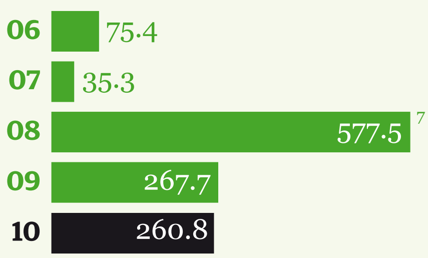
**have the effect of significantly inflating the 2009/10 pre-tax loss; and the fact that we have exchanged short-term profitability for longer-term financial security through our investment in two large-scale joint ventures from which we do not take an immediate return (Emap and Trader Media Group).**

## Assets, cash and investment fund

**Combined cash balance and investment fund declined by less than 3%. Given the extreme economic environment, this was a positive result.**

**Net assets fell due primarily to non-cash impairments in Emap and GMG Radio reflecting trading in the current challenging economic climate.**

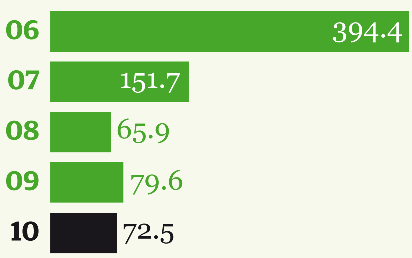
### Cash and investment fund (£m)




The Group continues to have significant available resources to fund the cost of Guardian journalism. GMG's combined cash and investment fund totalled £260.8 million (2009 £267.7 million) – a decline of £6.9 million, less than 3% year-on-year.

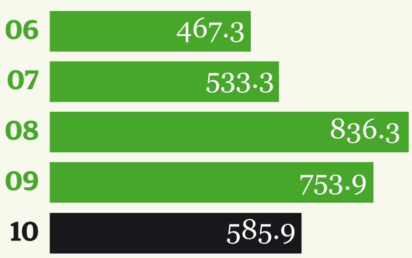
[7] Group cash balance at 30 March 2008, reflecting the proceeds of the sale of 49.9% of Trader Media Group in June 2007. In early 2008/09, deferred consideration in respect of the Emap transaction of £209.0 million was paid.

### Debt (net of issue costs) (£m)




Leasing facilities totalling £72.5 million are in place, the majority of which relate to the Guardian News & Media printing presses. All leases have a fixed interest rate for their entire life with the exception of one which totals £1.4 million and has a variable rate.

### Net assets (£m)




The Group had net assets of £585.9 million as at 28 March 2010 (2009 £753.9 million). The decrease of £168.0 million is primarily due to non-cash impairments in Emap and GMG Radio.

# Group structure

## Wholly owned businesses

### Guardian News & Media

**Turnover £221.0m**

Publishes the Guardian and Observer newspapers and guardian.co.uk website, providing content in print and online, through audio and video, to worldwide audiences.

Operates Guardian Business and Professional, which offers services in the education, media and public sectors, and ContentNext Media, the digital media publishing and events company.

theguardian
TheObserver
guardian.co.uk

### GMG Radio

**Turnover £50.1m**

Operates radio stations under the following brands: Real Radio (in North West and North East England, South and West Yorkshire, South Wales and Central Scotland); Smooth Radio (in North West and North East England, West and East Midlands, Glasgow and London); and Rock Radio (in Scotland and Manchester).

Owns a share in MXR (24.3%) which holds regional digital multiplex licences.

### GMG Property Services

**Turnover £8.9m**

Provides services to the UK property sector. The portfolio includes market-leading software companies (Vebra, Core Systems and CFP Software) and consumer/business-to-business property websites vebra.com and livelets.com.

## Joint ventures

### Trader Media Group

**Turnover £125.7m (GMG share)**

Publishes a range of leading classified advertising titles and websites. The flagship brand is the Auto Trader website and magazine.

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

Jointly owned with Apax Partners and accounted for as a joint venture.

### Emap

**Turnover £70.5m (GMG share)**

Operates a broad portfolio of business-to-business media brands: magazines; information and data products; and exhibitions and events.

Key brands include WGSN, Spring Fair, Cannes Lions, CAP, MEED, Health Service Journal, Nursing Times, Retail Week and Broadcast.

Jointly owned with Apax Partners and accounted for as a joint venture.

## Other resources

### Cash and investment fund

GMG retains cash in its balance sheet and has £223.8 million in an externally managed investment fund.

## Other interests

### Seven Publishing

**Turnover £11.2m (GMG share)**

Publishes customer and consumer magazines (Sainsbury's and other titles).

# Statement from the chair

**"We have the necessary resources to underwrite the long-term security of the Guardian, provided that we continue to manage our operations with appropriate care."**
**Amelia Fawcett, chair**

**The Group remains well positioned in terms of overall resources and general financial health, and has delivered a satisfactory performance in the most challenging of years.**

Thanks to our unique purpose and ownership structure, Guardian Media Group (GMG) is able to operate to a different set of financial priorities to most businesses.

While institutional shareholders and conventional proprietors focus on annual profit and loss, and what that means for their share value and dividend, the Scott Trust expects GMG to provide something else: long-term financial security and support for the Guardian's journalism.

This leads us to focus on our overall resources (cash balance, investment fund and other assets and investments), rather than short-term profitability. The two questions we ask ourselves are: "Do we have sufficient resources in the short-term to meet the funding requirements of our journalism?"; and "Do we have investments that will deliver enough cash in the future to do the same?" GMG has constructed its portfolio to ensure that the answer to both those questions is "Yes".

During 2009/10, despite economic turmoil and continued upheaval in the creative industries, GMG's combined cash balance and investment fund declined by less than 3%, from £267.7 million to £260.8 million.

This strong performance was driven by growth in our investment fund, which increased in value by £39.3 million, largely offsetting the operational cash outflow of £46.2 million from trading losses.

Our investment in Trader Media Group (TMG) is expected to deliver a significant cash return in the coming years. In addition, Emap is a valuable medium – to long-term investment within the portfolio.

Projections based on current funds, future cash requirements, asset values and likely future returns from investments show we have the necessary resources to underwrite the long-term security of the Guardian, provided that we continue to manage our operations with appropriate care.

We anticipated a period of loss for GMG from the moment we began diversifying the portfolio through the partial sale of TMG in 2007. In essence, we exchanged short-term operating profit for longer-term capital value and financial security. We continue to believe that a portfolio of assets enhances the long-term financial security of the Group. Nonetheless, due to recessionary pressures, accounting conventions have required us to impair the carrying value of our investment in Emap and the radio division.

In 2009/10, GMG made an operating loss of £53.9 million before exceptional items (2009 £65.2 million). Turnover was £280.0 million (2009 £310.9 million).

## **Statement from the chair** continued

> **"Despite the fall in revenues caused by the recession, management action on costs meant that the operating loss was lower than in the previous year."**

Despite the fall in revenues caused by the recession, management action on costs meant that the operating loss was lower than in the previous year.

The pre-tax loss was £171.0 million (2009 £96.7 million). This was driven by large, one-off, predominantly non-cash adjustments such as asset impairments, not cash outflow. The most significant factors were the impairment of GMG's investment in Emap (£96.5 million), and the impairment of the radio division (£63.9 million). In addition, the loss on the sale of the regional media division is reported under discontinued activities within these accounts.

One of the most significant events during the year was the sale of GMG Regional Media to Trinity Mirror plc. The historic connection between the Manchester Evening News and the Guardian, and the financial support the regional business has in the past provided to the national title, meant that this was not an easy decision for the Board, regardless of the strategic logic. It is clear that GMG's long-term financial position has improved as a result of the sale.

Following the disposal, Mark Dodson stepped down as a member of the Board. Mark was a major part of our success over many years, led his business with great determination and creativity, and departed with the Board's sincere thanks and good wishes.

There were other changes to the make-up of the Board during 2009/10.

In November 2009 Neil Berkett joined the Board as a non-executive director. Neil, who is chief executive of Virgin Media, already has made an insightful and important contribution to our work. Since the year-end, the Board has also welcomed another new non-executive director: HMV Group's chief executive, Simon Fox. We are delighted that an already first-rate group of non-executive directors has been further strengthened by the addition of two such accomplished business leaders.

Nick Castro retired as group finance director during November 2009 after 11 highly successful years with GMG. His successor, Andrew Miller, has already made a very positive impact as group chief financial officer.

In March 2010 we announced that Carolyn McCall was to step down as chief executive to take up the same role at easyJet. Carolyn has been with the Group for 24 years, during which time she has played a leading role in our biggest successes, from the launch of the Guardian's internationally renowned website to the sale of 49.9% of TMG for more than £700 million. She has been an inspirational and utterly committed leader of both GMG and GNM, and the Board is very grateful for everything she has done for the Group. She leaves with our very best wishes for the future.

Upon Carolyn's departure at the end of June, Andrew Miller will become interim chief executive. Andrew has been group chief financial officer since he joined in August 2009 from TMG. As chief financial officer of TMG for over seven years, he played a leading role in determining its highly successful strategy – including Auto Trader's online transition. In the interim role he will have the authority and responsibility of the chief executive. I know the entire GMG family will give him our full support as he takes GMG forward.

In the meantime a special nominations sub-committee of the Board is leading the process to find a new chief executive. The sub-committee is chaired by me and includes Dame Liz Forgan, chair of the Scott Trust, and independent GMG board directors John Bartle and Neil Berkett. We have appointed Spencer Stuart, executive search consultants, to assist with the identification and appointment of a new chief executive, and we will consider internal and external candidates.

Led by Carolyn, GMG's executive management team has done an excellent job during the year – under often intense pressure. To its great credit, the team has consistently been rigorous in its assessment of the needs of the portfolio and its constituent businesses, unafraid to consider unpopular and controversial actions, and ready to take the most difficult decisions. They have done all this with one thing in mind: the long-term security of the Guardian. The successful repositioning of the portfolio and the creation of a more sustainable cost base at GNM are major achievements, especially in such a challenging economic environment.

The Board also would like to recognise and applaud the commitment and achievements of all staff across the Group in what has been another difficult year for many. GMG employees continue to have the benefit of good terms and conditions, and pay levels that compare favourably to industry norms, but they have also had to face significant numbers of redundancies, continued large-scale change and, above all, a degree of uncertainty about the future. Throughout this they have shown great professionalism and understanding. We thank them for that, and we remain committed to our long-standing policy of open communication with all of them. They are, of course, vital to our success.

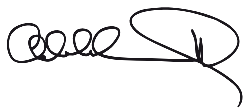
**"There is every reason to be confident about the future of the Group and, most importantly, its ongoing ability to support the Guardian's journalism."**

The events of the last year have brought home to us all the critical importance of having the very best people – people with an unswerving commitment and dedication to GMG. Particularly in such challenging times in our industry, we cannot succeed without them. Attracting and retaining such people is always a challenge and requires a compensation framework and philosophy that is both competitive and aligned to our values.

During the year we undertook a thorough review of our executive compensation strategy, including commissioning an independent review by the Institute of Employment Studies. In light of that report, and developments in our business and the market, we made some important changes. These changes were discussed with, and supported by, the Scott Trust. Further detail is provided in the directors' remuneration report on page 34.

The end of 2009 brought the sad news of the untimely death of former GMG chief executive, Sir Robert Phillis. Bob was an exceptionally talented leader, he was much-loved by everyone who worked with him, and he will be hugely missed by all his friends and colleagues across GMG.

As Carolyn says in her review, the immediate outlook for all media businesses remains uncertain. That said, due to the strategic approach taken by the Group and its sole shareholder, the long-term value of our portfolio of assets and investments, and improving economic conditions, there is every reason to be confident about the future of the Group and, most importantly, its ongoing ability to support the Guardian's journalism.



Amelia Fawcett CBE
Chair, Guardian Media Group

# CEO's review of operations

**"The recession has been a real test for all our businesses."**
**Carolyn McCall, CEO**

**GMG's constant aim is to provide long-term security for the Guardian and its journalism. Our strategy has been to surround our core publishing business, GNM, with a strong portfolio of companies and investments to support its finances, provide funding for its journalistic development, and deliver long-term financial stability.**

The recession has driven steep declines in advertising revenues across the media industry, and has been a real test for all our businesses. These unprecedented and very challenging market conditions have gone hand-in-hand with continued structural change, in particular the ongoing transition of readers and advertisers from print to online media. This made 2009/10 a tough year for GMG and many of its businesses.

However, the steps taken to reposition the portfolio in the years before the downturn, and our actions over the last year in response to the economic crisis, meant that GMG ended 2009/10 in good shape.

There was only a marginal net reduction in our combined cash balance and investment fund, despite a large pre-tax loss resulting primarily from non-cash charges (impairment, amortisation and depreciation). At the same time, the Guardian's journalism continued to flourish and to expand its reach and influence.

## Guardian News & Media


GNM, publisher of the Guardian, Observer and guardian.co.uk, delivered savings of £26.2 million as it brought its cost base to a more sustainable level.

The primary focus during the year was to get our businesses and portfolio into the right shape in light of recession and structural change, and to conserve and protect our resources. The three most important elements of this work were creating a sustainable cost base for GNM, selling GMG Regional Media, and reorganising Emap's financing structure.

A comprehensive strategic review at GNM was followed by major restructuring and cost savings of £26.2 million during the year. Regrettably, this process involved 203 redundancies during the year from across the different functions of the company. There remains further work to do, but following these changes GNM's cost base has been substantially reduced.

In the year ended 28 March 2010 GNM's revenue fell by £32.6 million. Management action on costs held its operating loss before exceptional items and excluding non-statutory exceptional costs of £3.4 million in respect of bad debts to £34.4 million (2009 £33.7 million). Statutory operating loss before exceptional items was £37.8 million (2009 £33.7 million). We anticipate that the ongoing cost reduction programme will reduce GNM's operating loss in the current financial year (2010/11), provided that revenues are stabilised.

In the years since 2007, we have restructured and diversified our portfolio so that it is less reliant on traditional media businesses and revenues. In March 2010 we continued this process with the sale of GMG Regional Media - a very important and profitable part of the Group for many years, but more recently a loss-making business within a deeply structurally challenged sector.

The performance of GMG's regional media division has reflected the struggles of the wider local and regional press, with profits declining each year since 2005. The recession has accelerated that decline, and in the last year GMG Regional Media incurred an operating loss of £0.1 million (2009 £0.5 million profit).

Success in this sector now increasingly depends on scale, and with less than 4% of the market, GMG was not in a position to develop its regional business. We did not, therefore, anticipate a return to significant levels of profit for the division under our ownership. There were also major liabilities associated with continued ownership, including the fixed costs of a long-term printing contract with Trinity Mirror.

The business was therefore sold to Trinity Mirror for a total consideration of £44.8 million, which comprises the release of a print liability valued at £37.4 million and £7.4 million in cash.

The sale left GMG's portfolio better positioned for the long term. In addition, Trinity Mirror's scale means that it is in a better position to develop the business and return it to profitability.

**GMG Regional Media**


GMG Regional Media, publisher of the Manchester Evening News and its weekly sister titles, was sold to Trinity Mirror plc for a total consideration of £44.8 million.

**Emap**


Emap delivered a strong profit performance, while the shareholders agreed to reduce the level of debt in the business to allow headroom for growth.

# **CEO's review of operations** continued

Emap delivered a total operating profit before exceptional items and amortisation of intangibles of £78.3 million (2009 £98.2 million). The 2010 figure includes £11.8 million of restructuring costs not treated as exceptional. Despite significant economic pressures, action to reduce the company's cost base helped to offset revenue declines and operating margins decreased by only 1.7% to 32.8%.

This was a strong performance given the recession, but profitability was at a lower level than originally targeted by the shareholders (GMG and Apax Partners). A consequence is that the lower profit level required an impairment of our investment of £96.5 million.

During the year the shareholders decided to recapitalise Emap by buying back some of its debt from the lending banks. GMG's joint venture partner has financed the majority of this buy-back. This resolved a bank covenant issue and has given Emap sufficient headroom to invest in growing the business, including - potentially - through acquisition.

As a result of these three key actions, GMG's portfolio is more resilient than before, and well placed to continue to fulfil its core purpose.

Despite its challenges, the year saw successes across the Group.

GMG's investment fund, which was established in 2008, performed particularly strongly, both carrying out its function of spreading risk and delivering an excellent return. The increase in its value during the year largely offset cash outflow.

Our journalism went from strength to strength. The Guardian was again at the forefront of the technological and journalistic trends that define our media age. One of the year's major news events was the death of Ian Tomlinson at the G20 protests, the truth behind which was exposed by a combination of traditional newspaper reporting and engagement with the public through social media. This example of what GNM editor-in-chief Alan Rusbridger describes as the "mutualisation of news" resulted in Guardian journalist Paul Lewis being named Reporter of the Year at the British Press Awards.

The Guardian also harnessed the power of social media to champion open justice and reporting. In one notable case, discussions on Twitter defeated an attempt at censorship via "super injunction" by Trafigura, a London-based company whose toxic waste was dumped in Ivory Coast.

And the determined investigation into corruption at BAE by David Leigh and Rob Evans, after which the British arms firm agreed to pay penalties in the US and the UK totalling several hundred million dollars, is just one of countless examples of the Guardian's continued excellence in traditional investigative journalism.

**Investment fund**

GMG's investment fund performed strongly during the year. Its gains largely offset the fall in GMG's cash balance.

**Global reach**


Guardian.co.uk continued to grow its audience, reaching a record 37 million unique users.

"GMG's investment fund, which was established in 2008, performed particularly strongly."

Guardian.co.uk continued to grow its reach and influence, attracting nearly 37 million unique users in December 2009 - a 62% year-on-year increase. The site was also named best online newspaper at the Webbys for the fourth time in five years.

Innovations during the year included the launch of a new Environment site, which quickly became one of the world's leading "green" sites, and the Guardian Local experiment, with dedicated "beatbloggers" in Leeds, Cardiff and Edinburgh.

The launch of the Guardian's paid-for iPhone app was a huge success, attracting more than 100,000 downloads in the first three months, and the sponsored "Eyewitness" photography app for the iPad is set to achieve similar success.

Despite the economic downturn GNM's digital revenues - the majority of which derive from advertising, declined only marginally. We expect to see a return to growth in the coming year.

During 2009/10 GNM examined various models for charging for access to content on guardian.co.uk. Its conclusion was that, at present, a general paywall does not represent a sufficiently attractive commercial opportunity, especially given the impact it would have on the reach and influence of our journalism.

However, as Alan Rusbridger made clear when delivering the Cudlipp Lecture in January 2010, this is not an entrenched position, and the company will keep it under review. GNM will continue to explore emerging digital business models.

## Mutualisation

The defeat of a "super injunction" taken out by Trafigura, whose toxic waste was dumped in Ivory Coast, was one of the most high-profile examples of a "mutualised" approach to journalism.

# **CEO's review of operations** continued

Following a review of GNM's weekend publishing model, a new-look Observer launched successfully in February 2010, consisting of four improved and redesigned sections. The launch was supported by an exclusive serialisation of Andrew Rawnsley's book about the Labour government, which dominated the national news agenda. The early signs are that the excellent new Observer package has been well received by readers.

Auto Trader, the core brand of TMG (which like Emap is jointly owned by GMG and Apax Partners), has long been recognised as one of the most successful and profitable examples of print-to-online transition in the world. During 2009/10 it cemented this reputation, with profit contribution from digital approaching 90%, compared to 70% two years ago.

In the face of recession and a severe slowdown in the automotive sector in the UK and Ireland, TMG strengthened its market-leading position. Total operating profit before exceptional items was £104.8 million (2009 £110.8 million).

TMG continued to invest and innovate, launching a new Auto Trader website and mobile platform. The new site attracted between 9 and 10 million unique users per month, while the mobile channel – with 500,000 monthly uniques in March 2010 – resulted in some 3,000 dealers signing mobile contracts. This mobile success was reinforced by the launch in March 2010 of the Auto Trader iPhone app, which achieved over 300,000 downloads in its first month, making it the UK's most popular lifestyle download.

TMG consolidated its clear leadership of the UK automotive classified sector, with over 90% of car retailers doing business with the company. This was underpinned by the launch of a range of new products and services for the trade, including intelligence products and the building and hosting of over 5,000 websites for dealers.

GMG's radio and property services divisions performed well in their markets. Despite the recession, GMG Radio delivered an excellent team performance, growing its share of revenues and posting an operating profit before exceptional items and amortisation of intangibles of £0.6 million (2009 £6.6 million loss). However, an impairment of £63.9 million has been made on the radio assets, reflecting the impact of the recession on growth projections in the short term. GMG Property Services delivered an operating loss before exceptional items and amortisation of intangibles of £0.5 million (2009 £1.8 million).

**Observer relaunch**


Following GNM's review of weekend publishing, the Observer relaunched with a new design and four re-vamped sections.

The environment for news organisations will remain challenging due to economic and structural pressures. However, while we continuously monitor the situation, we believe we have positioned the portfolio well to deal with these pressures.

Also, as the economy emerges from recession we are seeing the beginning of a recovery in advertising revenues, with year-on-year declines slowing, and we expect this improving trend to continue.

While major restructuring within our portfolio and non-cash adjustments inflated the headline pre-tax loss for the year, the net reduction in our combined cash balance and investment fund was less than £7 million - largely due to strong investment fund performance, but also favourable phasing of restructuring costs. In one of the toughest years for the media industry in living memory, this is a positive outcome.

As GMG's pre-tax loss in 2009/10 was driven by large, one-off charges, we anticipate a substantial reduction in the pre-tax loss in the current financial year. We also expect an improvement in GNM's performance due to the changes made during 2009/10, which will impact positively on GMG's results.

The media industry faces continued uncertainty, and there remains a great deal of work to do in terms of managing down costs, reorganising our businesses and driving new revenue streams. Nonetheless, current economic conditions and the strength of our portfolio mean we can look ahead with cautious optimism, and with confidence in the long-term future of the Guardian.

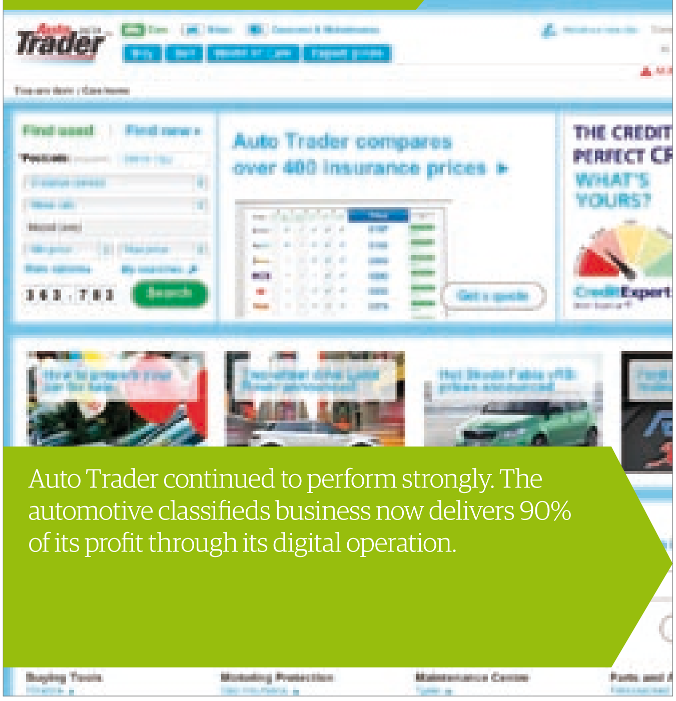
This is my final set of results as chief executive. I would like to place on record my sincere gratitude to the Board, to the Scott Trust, and to everyone I have worked with at GMG over the last 24 years - for their support, their inspiration and their commitment. This is a unique and wonderful organisation, it has many years of continued success ahead of it, and I will miss it very much.

Carolyn McCall OBE
Chief executive, Guardian Media Group

**iPhone app**

The Guardian's paid-for iPhone app proved a great success, achieving more than 100,000 downloads in the first three months after launch.

**Auto Trader**




Auto Trader continued to perform strongly. The automotive classifieds business now delivers 90% of its profit through its digital operation.

# GMG board of directors

## Amelia Fawcett CBE*+^#

### Chair

Joined the Board in June 2007 as an independent, appointed as chair in April 2009. She was vice chair of Morgan Stanley's European operations. She is chair of financial services firm Pensions First, based in London, and a non-executive director of State Street Corporation in Boston, Mass. USA. She is deputy chair of the National Portrait Gallery and a governor of the London Business School.

## Carolyn McCall OBE#

### Chief executive

Appointed chief executive in August 2006. She was first appointed to the Board in 2000, having served on the board of Guardian News & Media since 1995, becoming its chief executive in 2000. She is a board member of Business in the Community. In 2008 she was named Veuve Clicquot business woman of the year, and awarded the OBE for services to women in business.

## John Bartle CBE*+^

### Senior independent director

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 now has a number of non-executive and advisory appointments in the communications and charity sectors.

## Nick Backhouse*^#

### Independent

Joined the Board in April 2007. He is chair of the audit committee. He is also the managing director of the David Lloyd Leisure Group. He has previously been chief financial officer of National Car Parks, the Laurel Pub Company and Freeserve, the internet service provider.

## Judy Gibbons+^

### Independent

Joined the Board in December 2008. She is venture partner at Accel Partners. Before joining Accel she set up Microsoft's MSN business in the UK and went on to manage the business across 35 markets as corporate vice president of MSN Global Sales & Marketing. She has over 25 years of experience in software and internet technologies and previously held senior positions at Apple Computer and Hewlett Packard, working in Silicon Valley.

## 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, QXL, Mars & Co and Spectrum Strategy Consultants. He is the founder and executive chair of mydeco.com, chair and co-founder of made.com, a member of the board of TalkTalk, and he co-founded PROfounders Capital, an early stage venture firm.

## Alan Rusbridger

### Editor-in-chief, Guardian News & Media

Joined the Board in 1999. Joined the Guardian as a reporter in 1979, became deputy editor in 1993 and was appointed to the Guardian News & Media board in 1994. He became editor in 1995 and joined the Scott Trust in 1997. He is a visiting fellow at Nuffield College, visiting professor of history at Queen Mary's London and chair of the National Youth Orchestra.

## Andrew Miller#

### Group chief financial officer

Joined the Group and was appointed to the Board in 2009. Andrew was previously group chief financial officer of Trader Media Group, which is jointly owned by GMG and Apax Partners. He has also worked at Pepsico, Bass plc and Procter & Gamble.

## Stuart Taylor

### Chief executive, GMG Radio

Joined the Group in 1988 and was appointed to the Board in 2009. He was on the board of Guardian News & Media for six years until 2007 before joining GMG Radio. He sits on the board of the RadioCentre and Digital Radio UK. He also sits on the Radio Council.

## Neil Berkett*^

### Independent

Joined the Board in November 2009. Neil is CEO of Virgin Media. He joined ntl, Virgin Media's predecessor, as chief operating officer in September 2005 and has also worked for Lloyds TSB plc (UK), Prudential Assurance Company Ltd UK, St George Bank, Eastwest Airlines Australia and ICL Australia. He also chairs the Corporate Development Board and sits on the National Development Board for the NSPCC.

## 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 worked at Emap plc in a variety of senior management roles. He is a director of the Audit Bureau of Circulations.

## Simon Fox*^

### Independent

Joined the Board in May 2010. Simon is CEO and managing director, UK and Ireland, for HMV Group plc. He has also worked for Kesa Electricals plc, Kingfisher plc, Sandhurst Marketing plc and Boston Consulting Group. He is the founder and former managing director of Office World.

## Phil Boardman#

### Company secretary

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

* Audit committee
\+ Remuneration committee
^ Nominations committee
\# Investment committee

# Statement from the chair of the Scott Trust

**"The Guardian is pursuing a bold global ambition to take CP Scott's vision to lengths he could never have envisaged."**
**Dame Liz Forgan, chair, Scott Trust**

**Recession alone would have made this a challenging year for all our businesses but, in addition, systemic change sweeps ever faster through every aspect of media.**

Nowhere was that more evident than in the historic decision to sell GMG's regional media division, including the Manchester Evening News (MEN), to Trinity Mirror plc.

For most of the Guardian's existence, the MEN and the other North West papers have been its lifeline and its stalwart financial support. The decision to sever the relationship was a hard one for all concerned. We owe a huge debt to the journalists and other staff of the local and regional papers down the years and we wish them a prosperous future under their new owners. The Trust would particularly like to thank Paul Horrocks, who left the MEN after 12 years as editor and 30 with the paper.

Digital technology is changing not only newspaper production and distribution but also the very nature of journalism and the relationship between us and our readers. The Guardian, under the visionary leadership of Alan Rusbridger, has been in the vanguard of these developments and is pursuing a bold global ambition to take CP Scott's vision to lengths he could never have envisaged.

Where others have sought ways of erecting universal paywalls around their information, GNM has declared support for the concept of an open digital highway, embracing mutuality and collaboration as essential to the journalism of the 21st century. Much work remains to be done to devise new business models and revenue streams. But the spirit of the web is free and open and it chimes well with the traditions of our journalism.

Our newspapers too have seen change. The Observer has responded to new patterns of Sunday readership and refocused on its historic strengths in analysis, comment, culture and passionate and committed journalism. Its elegant redesign has been a significant milestone in John Mulholland's editorship.

Landmark pieces of investigative journalism in both the Observer and the Guardian, a stream of awards for our staff in every department, and the most authoritative writing on the banking crisis by Will Hutton and Larry Elliott have reminded us of the purpose for which the Scott Trust exists, whatever form its journalism takes, analogue or digital, linear or interactive, ink on paper or clicks on screen.

Hard times have forced some hard decisions and there will be more to come, but Trust ownership brings with it both financial support and the ability to take the long view. Both are of great value at a time of bewildering change as we live resolutely by the standards of our print journalism while investing all we can in digital innovation.

In company with other media businesses, GMG needs to ensure that its pay and reward framework enables it to attract and keep high quality talent at every level. The Trust has worked with the Board of GMG to ensure that our pay policies match with Scott Trust values of fairness and openness and as part of the wider remuneration review, further details of which can be found in the directors' remuneration report on page 34, has produced its own statement of the features it will continue to look for in the Board's remuneration decisions. They include fairness both in respect of internal and external criteria, proportionality, transparency and greater focus on the longer term.

The Scott Trust Foundation continues its charitable activities in the UK and abroad. Through the Guardian Foundation it is currently supporting journalism projects in Colombia, Bangladesh, Nigeria, Egypt, China, the Balkans and South Africa. In addition, the Scott Trust Foundation has funded ten UK post-graduate diversity bursary places for the academic year 2009. These have included six print/online journalism, two broadcast journalism and two software development bursaries. As part of the bursary programme each student is provided with several weeks' work experience across GMG and a number of trainees have been retained.

The education centre has continued to evolve at Kings Place and is working to full capacity hosting full-day workshops for schools, as well as Q&A journalist sessions for university students. The GNM archive has been used extensively and considerable work has been undertaken to improve catalogue descriptions in readiness for the launch of a new online catalogue. In addition, the Scott Trust Charitable Fund has supported a number of community projects. More information can be found on the Scott Trust website: gmgplc.co.uk/scotttrust.

As the year came to an end Carolyn McCall, chief executive of GMG and a Scott Trustee for four years, announced her resignation to take up a new post. No one better understood the values for which the Trust stands or better exemplified them in the 24 years for which she worked for the Company. We thank her for a tremendous contribution and wish her well for the future.

Liz Forgan

Dame Liz Forgan DBE
Chair, Scott Trust

# Scott Trust board of directors

## 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 Arts Council England.

## Will Hutton

Joined the Scott Trust in 2004. He is executive vice chair of the Work Foundation and is a governor of the London School of Economics. He was formerly on the board of Guardian News & Media and editor-in-chief of the Observer, and remains a columnist for both newspapers.

## Carolyn McCall OBE

Joined the Scott 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 board of Guardian News & Media since 1995, becoming its chief executive in 2000. She is a board member of Business in the Community. In 2008 she was named Veuve Clicquot business woman of the year, and awarded the OBE for services to women in business.

## Maleiha Malik

Joined the Scott Trust in 2007. She is Reader in Law at the School of Law, King's College London. A former member of the independent human rights organisation the Council of Liberty, her main teaching, research interests and publications are in political and legal philosophy, feminist theory and discrimination law.

## Anthony Salz

Joined the Scott Trust in 2009. He is an executive vice chairman of Rothschild. For most of his career he worked as a corporate lawyer with Freshfields, becoming senior partner in 1996. He was vice chairman of the Board of Governors of the BBC from 2004 until the end of 2006. He is, among other things, chair of the Eden Trust, co-chair of the Education and Employers Taskforce and a trustee of the Royal Opera House, the Tate Foundation, the Media Standards Trust and the Paul Hamlyn Foundation.

## Larry Elliott

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

## Andrew Graham

Joined the Scott 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.

## Geraldine Proudler

Joined the Scott 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 successfully defending the action brought by cabinet minister Jonathan Aitken, and recently the claim by Tesco PLC.

## Alan Rusbridger

Joined the Scott Trust in 1997 and the Board in 1999. Joined the Guardian as a reporter in 1979, became deputy editor in 1993 and was appointed to the Guardian News & Media board in 1994. He became editor in 1995. He is editor-in-chief of Guardian News & Media, a visiting fellow at Nuffield College, visiting professor of history at Queen Mary's London and chair of the National Youth Orchestra.

## Jonathan Scott

Joined the Scott Trust in 1988. He is currently a non-executive director of Ambac Assurance UK. He was previously a director of KPMG Corporate Finance and SBC Warburg.

## Phil Boardman

### Secretary

Appointed secretary of the Scott 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.

# Sustainability

## 2015 sustainability vision

“The Power of 10”

GMG has launched a new sustainability vision and strategy, “The Power of 10”, to address issues ranging from climate change to ethical procurement and community engagement.

**At Guardian Media Group an awareness of the wider responsibilities of business has always been at the heart of what we do. The Manchester Guardian was created to support reform in the early 19th century, and the ethos of public service has been part of the Group's DNA ever since.**

The great Manchester Guardian editor CP Scott encapsulated this in his 1921 article marking the centenary of the paper, in which he asserted that newspapers have "a moral as well as material existence".

He also listed the essential attributes he believed should form the character of a newspaper. GMG's owner, the Scott Trust, adopted these values as its own, and they continue to inform the way in which we run our business: operating GMG as a commercial enterprise while always seeking to adhere to principles of decency and public service.

The Scott Trust values are: honesty; cleanness (now interpreted as integrity); courage; fairness; a sense of duty to the reader and the community.

Few areas of corporate responsibility are more pressing than a company's approach to sustainability. In recognition of this, during the year GMG agreed and began to implement a new sustainability strategy.

"The Power of 10" is a vision and strategy running to 2015 to address issues ranging from climate change to ethical procurement. It recognises that the Group can have a positive impact by influencing its millions of readers, web users and radio listeners, as well as staff and suppliers, through an integrated approach to sustainability.

All businesses and joint ventures within the Group – Guardian News & Media, GMG Radio, GMG Property Services, Emap and Trader Media Group – have committed to ten areas of change.

Reducing emissions and highlighting the dangers of climate change are key aims of the strategy.

GMG works in partnership with its local communities across the UK.

# **Sustainability** continued

(The power of)^10
Sustainability multiplied

We commit to play our part as a leading media organisation in creating a fair society that lives within the means of our planet. Driven by our unique ownership structure and values - honesty, integrity, courage, fairness and duty to our readers and communities - we will enable our audiences, customers, employees, advertisers and suppliers to build a more sustainable future.

Sustainability has many interlinked strands but the dangers of climate change are so great and immediate that we will pay particular attention to highlighting its hazards and exploring ways of combating it.

While all our businesses share this common goal, we recognise that each has its own specific contribution to make.

### Audiences and customers
We will educate, influence and inspire our audiences and customers to live in a way that does not compromise the ability of future generations to meet their needs. Our businesses will be recognised as an authority on the implications and opportunities that sustainability presents and will also, wherever possible, give our audiences a platform to explore and debate these issues for themselves.

### Governance
Each of our businesses will have its own sustainability strategy and action plan and an effective governance structure to ensure it is implemented.

### Products and services
We will seek a competitive advantage through promoting and developing products and services that support a more sustainable way of life.

### Advertising
We will share our vision with key clients as well as encouraging advertising from organisations that are playing their part in creating a more sustainable future.

### Environmental management
The passion we have for inspiring our audiences and customers will be matched by our commitment to operating our offices, print sites and digital platforms to high environmental standards, including minimising waste and maximising both efficiency and recycling.

### Carbon management
We will measure and publicly report on our carbon footprint and set challenging targets to lower our emissions.

### Procurement
We will team up with our suppliers to minimise impacts along our value chain, sourcing more sustainable products and services where possible, with a particular emphasis on carbon reduction.

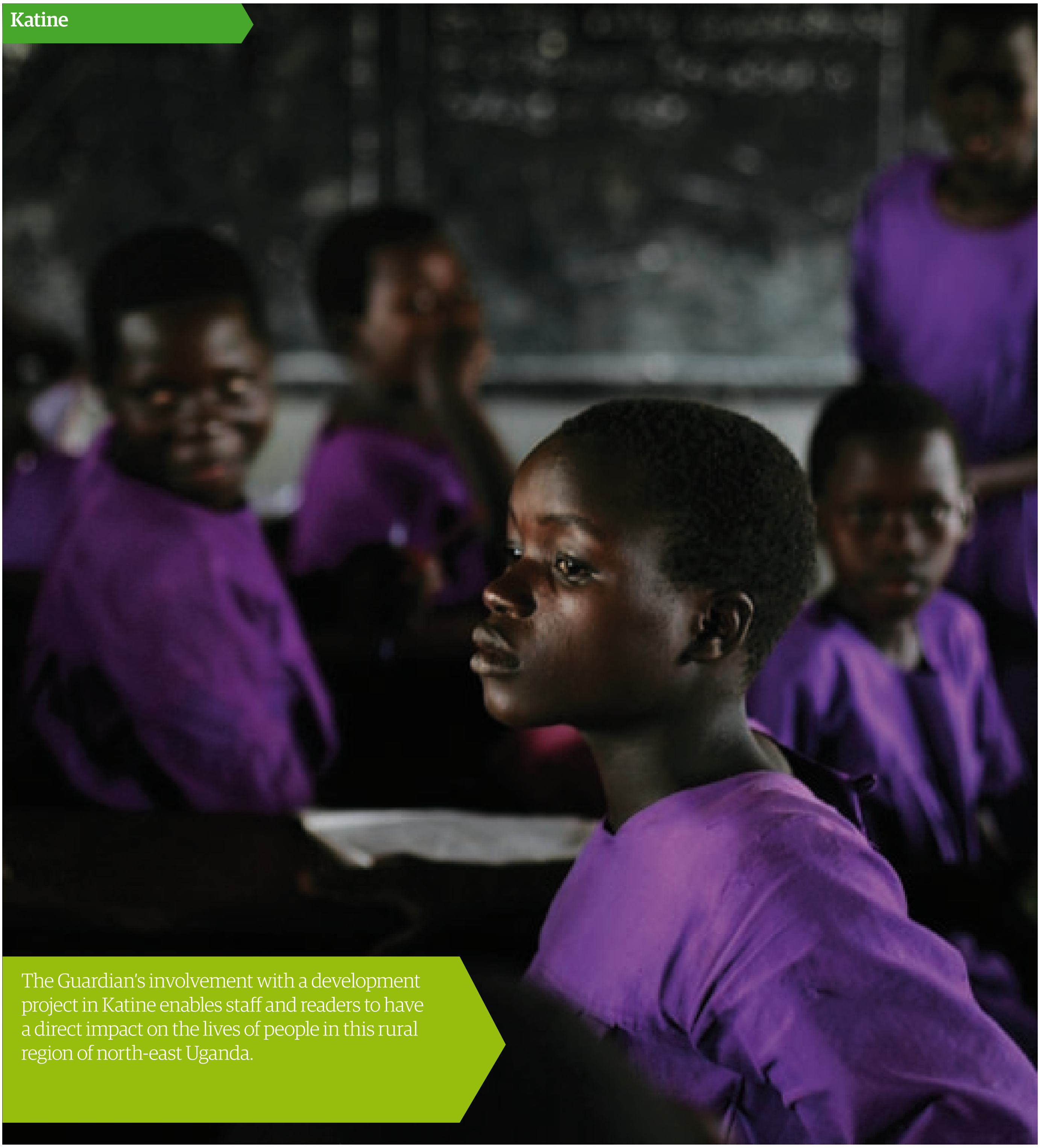
### Employee engagement
We will give our employees information to increase their awareness of the impact of their actions on the planet both at work and at home.

### Embedding sustainability into the workplace
Each of our employees will understand how to interpret our priorities on sustainability for their specific roles and have the support necessary to implement change. Successes will be celebrated and shared across the Group.

### Community
We will work in partnership with our local and business communities in ways that meet their environmental, economic and social needs and have positive effects for our businesses.

**For further details about "The Power of 10", visit www.gmgplc.co.uk/responsibility.**

## Katine



The Guardian's involvement with a development project in Katine enables staff and readers to have a direct impact on the lives of people in this rural region of north-east Uganda.

# Financial review

This review covers the year to 28 March 2010 and provides an overview of the Group's financial performance and position and incorporates joint ventures, associates and the investment fund.

The financial statements on pages 41 to 72 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In recent years, the structure of the Group has been transformed. Significant investments are now held in the form of joint ventures – Trader Media Group (50.1% interest) and Emap (32.9% interest) – and an externally managed investment fund has been established.

Set out below is further analysis and explanation of the Group results including further commentary on the performance of the joint ventures and investment fund.

### Financial highlights

The financial highlights on page 1 and 2 detail total turnover and earnings before interest, tax and amortisation of intangibles (EBITA) and exceptional items for the Group, including the Group's share of its joint venture interests – Trader Media Group (TMG) and Emap. This non-statutory disclosure has been expanded in the tables below and provides the scale of Group operations and the EBITA before exceptional items and contribution from the significant joint venture interests.

Turnover for the continuing GMG businesses was £280.0 million, a decrease of 9.9% (2009 £310.9 million). This was substantially due to a fall in advertising and new media revenues of £31.6 million (16.8% year-on-year) to £156.0 million. Circulation revenues decreased marginally by £0.2 million (0.2% year-on-year) to £94.7 million and other revenues increased by £0.9 million (3.2% year-on-year) to £29.3 million.

| **2010** | **GMG* £m** | **Share of TMG £m** | **Share of Emap £m** | **Total £m** |
|---|---|---|---|---|
| Group turnover | **280.0** | **125.7** | **70.5** | **476.2** |
| EBITA (before exceptional items) | **(37.9)** | **52.5** | **23.1** | **37.7** |

| 2009 | GMG* £m | Share of TMG £m | Share of Emap £m | Total £m |
|---|---|---|---|---|
| Group turnover | 310.9 | 148.3 | 84.2 | 543.4 |
| EBITA (before exceptional items) | (48.7) | 55.5 | 29.0 | 35.8 |

* Excludes discontinued activities.

The Group continues to have significant available resources to fund the cost of Guardian journalism. As detailed in the financial highlights and set out below, GMG's combined cash and investment fund totalled £260.8 million (2009 £267.7 million).

| | **2010 £m** | 2009 £m | Increase/ (decrease) £m |
|---|---|---|---|
| Cash | **37.0** | 83.2 | (46.2) |
| Investment fund (note 10) | **223.8** | 184.5 | 39.3 |
| | **260.8** | 267.7 | (6.9) |

# **Financial review** continued

### (a) Loss before taxation

In the table below, the information in the income statement on page 41 has been presented in an alternative format to show the total element of GMG's results attributable to TMG, Emap and the investment fund.

| | 2010 £m | 2009 £m |
|---|---|---|
| Operating loss before exceptional items and amortisation of intangibles | (37.9) | (48.7) |
| Amortisation of intangibles | (16.0) | (16.5) |
| Group operating loss before exceptional items | (53.9) | (65.2) |
| Operating exceptional items | (81.4) | (31.3) |
| **Operating loss after exceptional items** | **(135.3)** | **(96.5)** |
| Income from other financial assets | 0.1 | 0.2 |
| Interest payable and similar charges (excluding fair value loss on forward exchange contracts) | (2.6) | (4.8) |
| Interest receivable and similar income (excluding TMG and Emap) | 1.3 | 11.3 |
| TMG (see below) | 35.2 | 40.2 |
| Emap (see page 25) | (76.5) | (23.9) |
| Share of post-tax (loss)/profit of other joint ventures and associates (including exceptional items) | – | (2.8) |
| Investment fund (see page 25) | 6.8 | (20.4) |
| **Loss before taxation** | **(171.0)** | **(96.7)** |

The continuing GMG businesses made an operating loss before exceptional items of £53.9 million in the year (2009 loss £65.2 million). The reduction in loss of £11.3 million year-on-year largely reflects a reduction in overall revenues of £30.9 million offset by cost savings amounting to £42.2 million.

### Operating exceptional items

The operating exceptional item of £81.4 million charged in the year relates to the impairment of goodwill and intangibles of the radio assets (£63.9 million), restructuring costs (£12.9 million) and onerous lease provision (£4.6 million). These items have been separately disclosed in the notes to the financial statements due to their size and non-recurring nature.

### (b) TMG

The income statement extract set out below compares 2009/10 share of results with 2008/09. Interest receivable and similar income due to GMG is then included to show in total the element of TMG's results attributable to GMG.

| | 2010 £m | 2009 £m |
|---|---|---|
| **Share of:** | | |
| Turnover | 125.7 | 148.3 |
| Operating profit before exceptional items, restructuring costs and amortisation of intangible assets | 52.5 | 55.5 |
| Operating profit after exceptional items, restructuring costs and amortisation of intangible assets | 50.3 | 48.9 |
| Net interest payable and similar charges (excluding gain on debt buy-back) | (72.5) | (84.7) |
| Gain on debt buy-back and profit on disposal of subsidiary | 5.6 | 19.6 |
| Loss before taxation | (16.6) | (16.2) |
| Taxation | 1.8 | 7.0 |
| Loss after taxation (see note 14(a)) | (14.8) | (9.2) |
| Interest receivable and similar income by GMG | 50.0 | 49.4 |
| Element of TMG's result attributable to GMG (see above) | 35.2 | 40.2 |

# **Financial review** continued

### (c) Emap

The income statement extract set out below compares 2009/10 share of results with 2008/09. Interest receivable and similar income due to GMG is then included to show in total the element of Emap's results attributable to GMG.

| | 2010 £m | 2009 £m |
|---|---|---|
| **Share of:** | | |
| Turnover | **70.5** | 84.2 |
| Operating profit before exceptional items, restructuring costs and amortisation of intangible assets | **23.1** | 29.0 |
| Operating profit after exceptional items, restructuring costs and amortisation of intangible assets | **10.8** | 9.9 |
| Other non-recurring credits | **–** | 1.0 |
| Net interest payable and similar charges | **(38.7)** | (39.5) |
| Fair value gain/(loss) on interest rate swap and debt | **2.3** | (29.5) |
| Loss before taxation | **(25.6)** | (58.1) |
| Taxation | **7.8** | (0.4) |
| Loss after taxation (see note 14(a)) | **(17.8)** | (58.5) |
| Interest receivable and similar income by GMG | **37.8** | 34.6 |
| Element of Emap's result attributable to GMG before impairment charge | **20.0** | (23.9) |
| Impairment charge | **(96.5)** | – |
| Element of Emap's result attributable to GMG (see page 24) | **(76.5)** | (23.9) |

Emap made a contribution of £20.0 million (2009 loss £23.9 million) before impairment charges of £96.5 million (2009 £nil).

### (d) Investment fund

The income statement, statement of comprehensive income and balance sheet extracts set out below show 2009/10 information for the investment fund with comparatives for the previous year.

| | 2010 £m | 2009 £m |
|---|---|---|
| **Income statement:** | | |
| Net gain on disposals | **1.4** | 4.0 |
| Fair value gain/(loss) on forward exchange contracts | **5.4** | (24.4) |
| Investment fund profit/(loss) reported (see page 24) | **6.8** | (20.4) |
| Statement of comprehensive income: | | |
| Net fair value gain/(loss) on investments | **34.7** | (0.5) |
| | **41.5** | (20.9) |

| **Balance sheet – current and non-current other financial assets** | |
|---|---|
| At 30 March 2009 | 184.5 |
| Additions at cost | 42.1 |
| Disposals at fair value | (38.9) |
| Net gain on disposals – income statement | 1.4 |
| Net fair value gain – statement of comprehensive income | 34.7 |
| At 28 March 2010 (note 10) | 223.8 |

The portfolio of assets comprising the investment fund is designed to spread Group asset risk over a wider base than GMG's historical UK media sector focus.

Investments are in a diversified range of assets, which are managed by a number of specialist fund managers, including global and emerging market equity, fixed income, real assets and hedge funds. The investments are denominated in Sterling and overseas currencies, principally the US Dollar.

The Board has approved a currency hedging policy for the investment fund which is reviewed on a regular basis and takes account of the investment performance of the portfolio. During 2009/10 a fair value gain of £5.4 million arose on forward foreign exchange contracts. The hedging policy was refined to currency hedge 60% in value of the hedge fund component of the portfolio.

### Loss before tax

Group loss before tax for the year was £171.0 million (2009 £96.7 million). This includes non-cash impairment charges of £160.4 million, restructuring costs of £12.9 million and an onerous lease provision of £4.6 million (2009 operating exceptional items £34.6 million).

# **Financial review** continued

### Taxation
The tax charge for the year on the profit before exceptional items of £6.9 million is £2.3 million (excluding prior year adjustments) (2009 credit £13.0 million). The effective rate of tax on this profit of 33.3% (2009 20.9%) represents a higher tax charge than the standard rate of 28% would produce (2009 lower credit than the standard rate of 28%).

The deferred tax asset in the balance sheet of £0.3 million (2009 liability £11.4 million) includes an asset of £4.0 million relating to cumulative foreign exchange losses arising on the investment fund. No acquisitions were made by the Group during the year (2009 liability of £2.2 million arising on acquisitions). The deferred tax asset not recognised has increased from £6.1 million to £14.0 million and represents unrelieved trading losses carried forward at the year end. TMG and Emap are accounted for as joint ventures and therefore their post-taxation results are included in the income statement.

### Cash flow
The Group consumed cash of £46.2 million in the year (2009 £494.3 million). In 2009 this included deferred consideration in respect of the acquisition of Emap of £209.0 million and the gross investment of £212.6 million into a long-term investment fund (see note 10). Cash used by operations was £36.7 million (2009 £45.0 million). Details of other inflows and outflows are detailed in the cash flow statement on page 43.

### Capital structure and liquidity management
The Group had net assets of £585.9 million as at 28 March 2010 (2009 £753.9 million), a decrease of £168.0 million.

Leasing facilities totalling £72.5 million are in place, the majority of which relate to the Guardian News & Media printing presses. All leases have a fixed interest rate for their entire life with the exception of one which totals £1.4 million and has a variable rate.

The Group maintains a mixture of assets, liquid in both the short and medium term and largely represented by cash and the investment fund. The Group can draw on this pool of assets to fund both current and future strategies as required.

The Group does not currently have any other debt.

### Tax strategy policy
The Board believes it is the Group's corporate and social responsibility to pay the appropriate amount of taxes in accordance with UK and overseas tax legislation. The Board also believes that it has a commercial responsibility to manage the Group's affairs in a tax efficient manner within those rules as well as to manage the Group's exposure to tax.

The Group adopts a conservative tax strategy and is transparent in its dealings with tax authorities, providing information when required, in a clear and open style and on a timely basis. HMRC have deemed the Group to be low risk.

### 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.

### Prompt payment policy
The Group has committed to the Prompt Payment Code. The Group's policy on the payment of its suppliers is to agree terms of payment in advance and, provided a supplier fulfils the agreement, to pay promptly in accordance with those terms.

# 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 Limited (STL). Two STL directors are also directors of the Group, and the chair of the STL also attends all Board meetings and is a member of the nominations committee. There is also a reciprocal arrangement whereby the chair of the Board is invited to attend all the STL meetings. All STL directors receive copies of monthly financial reports and Board approved 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, five executive directors and six 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.

Amelia Fawcett was appointed chair on 22 April 2009. On appointment she met the Combined Code independence criteria. John Bartle 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 independence criteria set out in the Combined Code. The chair on appointment met the independence criteria, but thereafter the test of independence is not appropriate by virtue of her position as chair.

Details of all the directors and the company secretary, set out on pages 13 and 14, indicate the directors' wide range of business and other relevant experience.

All directors are subject to election by the STL 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. Board meetings are minuted and circulated to all Board members by the company secretary.

Led by Amelia Fawcett, the independent directors, excluding any executive directors, meet formally during each year.

John Bartle will hold a meeting of independent directors, without the chair present, to review the chair's performance. The views of executive directors will be taken into account at the meeting.

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 has moved from biennial to annual performance appraisals of all Board members and reviews of the effectiveness of the Board and its committees during 2009/10.

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, Carolyn McCall, the executive committee comprises the divisional chief executives of the Group's wholly owned divisions, the group chief financial officer, the group HR director, the group director of digital strategy and development 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.

# **Corporate governance** continued

## The Scott Trust Limited (STL)

STL acquired all the ordinary share capital of Guardian Media Group in October 2008 from the Scott Trust which was subsequently wound up. All trustees of the Scott Trust became directors of STL. All shares in STL are held in equal shares by five of the STL directors.

STL chooses to ensure that only a minority of its members are executive directors of the Group. At present two STL directors, Carolyn McCall and Alan Rusbridger, fall into that category.

One place on the STL Board is reserved for a Guardian journalist, at present Larry Elliott, who is chosen by the other STL directors in consultation with the body of Guardian journalists.

The journalist-director serves for seven years. The normal tenure of other non-family STL directors, except those in executive positions, is limited to ten years, with the possibility of extension for another five years by unanimous vote of the STL Board.

## 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 | Investment committee |
|---|---|---|---|---|
| Amelia Fawcett | Member[1] | Member | Chair[1] | Chair[1] |
| Nick Backhouse | Chair | Member[2] | Member | Member |
| John Bartle | Member[3] | Chair[2] | Member | |
| Neil Berkett (appointed 3 November 2009) | Member | Member[2] | Member | |
| Judy Gibbons | | Member[2] | Member | |
| Simon Fox (appointed 1 May 2010) | Member | | Member | |
| Brent Hoberman | | Member | Member | Member |
| Frequency of meetings per financial year | 4 | 3 | 2 | As and when required |

1 Amelia Fawcett was appointed chair of GMG on 22 April 2009 and became chair of the remuneration, nominations and investment committees and a member of the audit committee. In keeping with the Combined Code, Amelia stepped down as chair of the remuneration committee and was replaced by John Bartle on 25 June 2009.

2 As a result of restructuring assignments, Nick Backhouse and Judy Gibbons became members of the remuneration committee on 25 June 2009. Neil Berkett and Nick Backhouse resigned as members of the remuneration committee on 21 April 2010.

3 John Bartle stepped down from being a member of the audit committee on the appointment of Neil Berkett.

The number of meetings of the Board and committees held in the financial year ended 28 March 2010 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 |
|---|---|---|---|---|
| Amelia Fawcett | 10 | 2 | 6 | 2 |
| Carolyn McCall | 11 | 4* | 4* | 2* |
| Tim Brooks | 11 | | | |
| Nick Castro (resigned 2 November 2009) | 6 | 2* | | |
| Mark Dodson (resigned 28 March 2010) | 8 | | | |
| Andrew Miller (appointed 2 November 2009) | 5 | 4* | 1* | |
| Alan Rusbridger | 11 | | | |
| Stuart Taylor | 11 | | | |
| Nick Backhouse | 11 | 5 | 6 | 2 |
| John Bartle | 9 | 3 | 6 | |
| Neil Berkett (appointed 3 November 2009) | 4 | 2 | 2 | 1 |
| Judy Gibbons | 9 | | 2 | 2 |
| Brent Hoberman | 11 | | 6 | 2 |
| Number of meetings held | 11 | 5 | 6 | 2 |

* In attendance.

Details of the purpose of the committees are set out on page 29 and 30. All the committees have written terms of reference, which are subject to annual review and which are available on request from the company secretary and can be accessed on the Group website www.gmgplc.co.uk

# **Corporate governance** continued

## Audit committee

The audit committee, which consists of the chair and three independent directors, is chaired by Nick Backhouse. The chief executive, group chief financial officer, 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 and/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 divisions wholly owned by the Group.

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 28 March 2010 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
- meeting with the divisional chief executive and divisional finance director of the divisions, wholly owned by the Group, to discuss:
  - issues arising from recessionary trading conditions
  - working capital management
  - internal and external audit issues
  - timetable adherence
  - resources
  - assistance from the Group
- an effectiveness review of the committee.

## Remuneration committee

The remuneration committee, which consists of the chair and three independent directors, is chaired by John Bartle. 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 the Group's compensation framework and for determining the remuneration packages of the executive directors and members of the executive committee. It retains the right to scrutinise and, if necessary, veto proposals for individuals outside this group. It advises on executive remuneration policy issues. The committee has access to professional advice where necessary. PricewaterhouseCoopers LLP, who are also the Group auditors, and Towers Watson 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 verbally updates the Board on the outcome of remuneration committee meetings.

A review of the effectiveness of the committee was undertaken during the year.

Details of Board remuneration are set out on page 38.

# **Corporate governance** continued

### Nominations committee

Amelia Fawcett is chair of the committee. The committee consists of all the independent directors and Dame Liz Forgan, chair of the STL. Executive directors attend by invitation.

The committee 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 and monitors senior leadership development.

STL approval is required for the appointment of the chair of the Board, group chief executive and editor-in-chief of the Guardian.

External search consultants assisted in the appointment of Andrew Miller, Neil Berkett and Simon Fox as directors, and Amelia Fawcett as chair.

A job specification was prepared for the appointment of the chair, which included an assessment of the time commitment expected. The chair's other significant commitments were disclosed before the appointment was made.

The committee's proceedings are minuted by either the company secretary or the group HR director 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 was undertaken during the year.

### Investment committee

An investment committee was created as a sub-committee of the Board to oversee the investment fund. The committee defines the financial objectives of the investment fund, sets asset class risk/reward parameters, reviews the fund allocation over a range of asset classes and makes recommendations to the Board on the level of funding and allocation. The committee appoints/dismisses advisers to the investment fund and appoints/dismisses managers in respect of each asset class selected. The committee monitors the performance of the investment fund and reports to the Board accordingly.

The committee is chaired by Amelia Fawcett, and consists of two independent directors, the chief executive, the group chief financial officer and the company secretary. The group head of corporate finance normally attends the committee's meetings together with the investment advisers, Cambridge Associates.

The committee's proceedings are minuted by the company secretary and circulated to all committee members. The investment committee chair provides the Board with a summary report of recent investment committee meetings.

Quarterly reporting on the investment fund performance by the investment fund advisers has been subsumed into GMG Board meetings.

### Internal control

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

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

The key features of the internal control system are:

- a clear organisation structure with defined levels of responsibility delegated to operational management
- maintenance of risk registers at both operational and Group level, which identify and evaluate risks and document control procedures and monitoring arrangements. Regular review and update of risk registers is embedded in operational reporting procedures
- certain key Group functions including taxation, treasury, insurance and day-to-day administration of the investment fund are handled centrally with regular reports to the Board through the group chief financial officer. 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. 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
- the internal audit function delivers independent review and assurance on the management of key business risks and that governance processes and systems of internal control operate effectively at divisional and Group-wide levels
- 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 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, with the following exceptions:

- during the year, at least half of the Board, excluding the chair, were not, as defined by the Combined Code, independent. Following the resignation of Mark Dodson on 28 March 2010, and the appointment of Simon Fox as an independent director, on 1 May 2010, the balance of the Board changed and at least half of the Board are now independent. The close relationship between management and the Group's shareholder, STL, as described above, is noted
- not all current executive directors' contracts contain details of compensation commitments should there be an early termination of the contract. The remuneration committee intends to include appropriate compensation commitments clauses in the contracts of new executive directors.

# Report of the directors

The directors present their report and audited financial statements of the Group for the year ended 28 March 2010.

## 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 income statement on page 41. A review of the Group's performance, future prospects and financial risks are contained in the statement from the chair on pages 4 to 6, the chief executive's review of operations on pages 7 to 12, the financial review on pages 23 to 26, and the financial instruments accounting policy on pages 47 to 48.

On 3 March 2010, the Board declared a dividend of 22.2p (2009 11.1p) per share on the ordinary share capital amounting to £200,000 (2009 £100,000) which was paid to The Scott Trust Limited on 3 March 2010.

## Land and buildings

The market value of land and buildings owned by the Group is estimated by the directors to be approximately £1.6 million greater than its balance sheet value of £11.0 million.

## Employee involvement

There is regular contact between management and staff, and with 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 Payment Code. The creditor days figure for the Group at the year end was 25 days (2009 27 days).

## Donations

Charitable donations during the year totalled £371,776 (2009 £472,468), of which £328,641 (2009 £329,573) was paid to national charities, £30,604 (2009 £46,578) to local charities and £12,531 (2009 £96,317) to overseas charities. There were no contributions to political organisations during the year (2009 £nil).

## Ownership

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

## Directors

The directors are listed on pages 13 and 14.

Nick Castro and Mark Dodson, who were directors on 29 March 2009, resigned on 2 November 2009 and 28 March 2010 respectively. Andrew Miller was appointed as a director on 2 November 2009. Neil Berkett and Simon Fox were appointed as independent directors on 3 November 2009 and 1 May 2010 respectively. All other directors served throughout the year.

# Report of the directors continued

## Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm they have complied with the above requirements in preparing these financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Disclosure of information to auditors

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken 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.

This statement is given and should be interpreted in accordance with the provision of S418 of the Companies Act 2006.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the chief executive's report on pages 7 to 12 The financial position of the Group, its cash flows, liquidity position and borrowing facility are described in the financial review on pages 23 to 26.

In addition, note 2 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Financial risk management

The financial risk management objectives and policies of the Group are detailed in note 2 of the notes relating to the financial statements.

## Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

## Post balance sheet events

Details of post balance sheet events are given in note 27 on page 68.

By Order of the Board

Phil Boardman
Secretary
9 June 2010

**Guardian Media Group plc**
**Registered in England and Wales No 94531**

# Directors' remuneration report

## Governance

The Group's executive remuneration policy is determined by the remuneration committee, which consists of independent Board directors. Over the past 12 months the committee has been chaired by John Bartle and the other members have been Amelia Fawcett, Nick Backhouse, Neil Berkett, Judy Gibbons and Brent Hoberman. Over the year the committee met six times to set and review performance targets and determine the remuneration structure and amounts for the Group's executives.

## Remuneration approach

People are, of course, critical to GMG's success. We value diversity and recognise the benefits of employing the most talented people from a wide range of backgrounds. We are committed to ensuring that all employees are treated equitably and that they are appropriately rewarded.

Developing the Group's businesses requires high quality employees and an appropriate reward package to attract, retain, and motivate them to achieve our business strategy. GMG operates a remuneration framework that is flexible and aims to strike the right balance between external market forces and internal relativities, fairness, equity and our values. We reward and recognise individual and corporate performance.

When setting the Group's total compensation levels we take account of the median of comparator groups of general companies of similar size and sector competitors. Our remuneration reflects the market but is not driven by it.

We need to retain and appropriately incentivise the most talented leaders to drive the Group's financial and strategic priorities, particularly during what is a critical period for GMG. Our executive remuneration is therefore linked to both annual and longer-term achievement. There is additional flexibility to reward executives who exceed the demanding performance standards set.

We have robust mechanisms in place to monitor adherence to this approach and rigorously set and assess standards of performance.

## Executive remuneration policy

The Group aims to operate a total compensation framework for executives that appropriately balances considerations of external market competitiveness with internal equities and reflects the values of the Group. Our overall aim is to pay our executive team at the market median for total compensation provided they meet the rigorous performance targets set.

Base salary is reviewed annually by the remuneration committee. Base salary and total compensation levels are set at the median of a comparator group of similar sized companies in various sectors and direct business and labour market competitors. A base pay freeze was announced in February 2009 and this applied to all executives during 2009/10.

A core principle of the approach is to reward and recognise both individual and corporate performance. There is flexibility in base pay and through incentive plans to reward executives who exceed the demanding performance targets that are set and a significant portion of their remuneration is dependent on performance. This "variable compensation" element is based on performance against stretching objectives approved by the remuneration committee. These objectives are both financial (60/70%) and personal (30/40%).

In 2009/10 the variable compensation plan for executives was suspended with the proviso that it would be revisited at the discretion of the remuneration committee, and depending on factors including the financial performance of the Group and wider economic circumstances. While no variable compensation was paid out on financial performance since financial targets were not achieved, the remuneration committee decided to pay a portion of variable compensation for personal objectives in light of the achievement of stretching personal targets in a difficult environment. In addition, a discretionary payment on financial results was made to some senior members of the radio business, as their financial targets were exceeded (returning the business to profit in a difficult year).

Even with these payments in 2009/10, the net result of our performance-based compensation approach for our senior executives has been that total compensation for this group of executives has decreased by more than 20% over the last two years, whilst compensation for the majority of employees in GMG has been maintained at a flat rate over the same period.

Note that total compensation equals the sum of base pay plus any additional variable compensation elements and long term incentives (if applicable). If any of these elements are removed or reduced, the total value of the package will fall proportionally below the market median. The variable elements reward both personal and Group performance.

# **Directors' remuneration report** continued

## Review of remuneration strategy

During the last year, the remuneration committee has undertaken a detailed review of our executive remuneration strategy as part of a process that is carried out periodically.

One aspect was a review of our executive pay. This involved conducting an external benchmarking exercise, using general industry data from organisations with revenue size comparable to GMG and media sector benchmarking with data sourced from the PwC Monks UK survey-based database. This holds information from over 600 companies.

A further aspect was a review of GMG's executive remuneration arrangements conducted by the Institute of Employment Studies (IES). The IES is an independent and apolitical external body that is an international centre of research and consultancy in public employment policy and HR and reward issues, with extensive experience of remuneration issues in public, private and charity sectors. Its review involved both external market comparisons and analysis of internal relativities. The IES review supported the existing principles underpinning GMG's approach to remuneration, as outlined above, while recommending some modifications to how executives' remuneration is structured.

The IES review concluded that there is no inherent conflict between the values of GMG and the Trust and executive remuneration levels and practices. Research quoted indicated that fair pay does not mean equal pay and that employees and executives expect there to be some relationship between pay and performance. At the time the IES report was produced (Summer 2009) the highest paid executive in GMG was paid 24 times the average pay in the organisation, mid-way between the median and lower quartile ratios amongst FTSE 250 companies.

The IES review raised some concerns that senior executives had no Long Term Incentive Plan. This has been remedied for a few key executives who have a direct influence on the long-term sustainability of GMG. The review also recommended that GMG looks to introduce job evaluation and this is being addressed as part of our commitment to equitable treatment of our people.

The overall output of the work is a more robust compensation framework and philosophy than we have had previously. As part of this, GMG has reviewed the balance between fixed and variable compensation for executives. The variable element of executives' remuneration will now be capped at 50% of salary throughout the Group, regardless of seniority. For GMG executive Board directors this involved changing the mix of their remuneration by reducing maximum variable compensation from 100% to 50% of base salary, and adding a one-time 30% increment (which is not pensionable) to base salary. This framework has the support of the Scott Trust. It will continue to be important that we maintain a high level of fairness and transparency in this area, consistent with our values.

A regular review of remuneration will continue to be an integral part of our normal business process, and we will be alert to the need to have in place remuneration structures that reflect our values and ownership structure, as well as compensating people fairly in relation to external remuneration levels, in line with the principles of equal pay for work of equal value. Opinion surveys in all Group businesses reinforce the need for gender equality and transparency in the area of compensation and we will ensure that progress in these areas is monitored and reported widely to Group employees.

## Benefits

Executive directors are provided with a company car or cash alternative and private medical cover. They accrue retirement benefits under money purchase pension schemes, and Group contributions to these schemes are shown in the table of directors' emoluments. Life insurance is provided through the pension schemes.

# Directors' remuneration report continued

## Annual performance-related incentives

The Group operates a Senior Executive Incentive Scheme, with any payments dependent on the levels of achievement against annual, pre-determined, Group and business performance targets, as well as key personal objectives.

The maximum award for executive directors is up to 50% of base salary for truly outstanding results (effective 1 April 2010 – previously 100%).

| | % based on financial performance related targets | % based on personal objectives |
|---|---|---|
| Carolyn McCall | 70% | 30% |
| Tim Brooks | 60% | 40% |
| Nick Castro | 70% | 30% |
| Mark Dodson | 70% | 30% |
| Andrew Miller | 70% | 30% |
| Stuart Taylor | 70% | 30% |

Similar arrangements apply to senior executives in the businesses.

## Group Long Term Incentive Plan

As referenced previously, the IES remuneration strategy review also raised concerns that senior executives had no Long Term Incentive Plan. In order to better reinforce the medium- and long-term strategic objectives and transformation plan of the Group, and also to support the retention of key executives, a new Long Term Incentive Plan (LTIP) has been developed and introduced. The performance period for the initial award is the three years to March 2012. Consideration will be given to making additional awards in future years.

Membership of the LTIP comprises executive directors and a small number of other senior executives. Under the plan, eligible executives are made a notional award, equivalent to 100% of salary for executive directors and 80% for the other participants. This amount will be earned if the stretching financial targets set by the committee are achieved. These targets relate to the level of Group profits as at March 2012 and the cumulative free cash flow generated over the three-year period to that date.

Given the importance of the Group's wider strategy, the committee may also adjust any award generated according to the level of performance against a set of pre-determined non-financial targets clearly linked to the Group's strategic plan. The core award based on the financial criteria can be adjusted according to these other dimensions of performance, with the adjustment operating in a range from 0.5 to 1.5 times the amount of the core award.

The value of any actual payments for executive directors earned under the LTIP will be shown in future years in the table of directors' emoluments.

# **Directors' remuneration report** continued

## 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 needs to be given by the Company, or where appropriate, The Scott Trust Limited.

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/contract renewal date | Contract unexpired term at 28 March 2010 | Notice period | Contractual termination payments |
|---|---|---|---|---|
| Amelia Fawcett | 22 April 2009 | 2 years | – | None |
| Carolyn McCall | 1 August 2006 | 12 month 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 | *Resigned on 2 November 2009* | | |
| Mark Dodson | 1 October 2005 | *Resigned on 28 March 2010* | | |
| Andrew Miller | 10 February 2009 | 12 month rolling | 12 months | Notice period (with mitigation clause) |
| Alan Rusbridger | 20 April 2007 | 12 month rolling | 12 months | Notice period |
| Stuart Taylor | 1 April 2009 | 12 month rolling | 12 months | Notice period (with mitigation clause) |
| **Independent directors** | | | | |
| Nick Backhouse | 2 April 2010 | 3 years | – | None |
| John Bartle | 26 June 2008 | 9 months | – | None |
| Simon Fox | 1 May 2010 | 3 years | – | None |
| Neil Berkett | 3 November 2009 | 2 years 7 months | – | None |
| Brent Hoberman | 1 January 2010 | 2 years 9 months | – | None |
| Judy Gibbons | 1 December 2008 | 1 year 8 months | – | None |

# **Directors' remuneration report** continued

## Directors' emoluments

| | Base salary/ fees £000 | Performance related variable compensation £000 | Benefits in kind £000 | **Total 2010 £000** | Total 2009 £000 | Employer's contribution to money purchase pension scheme **2010 £000** | Employer's contribution to money purchase pension scheme 2009 £000 |
|---|---|---|---|---|---|---|---|
| Amelia Fawcett | 115 | – | – | **115** | 34 | **–** | – |
| Paul Myners (*to 3 October 2008) | – | – | – | **–** | 25 | **–** | – |
| Carolyn McCall | 495 | 143 | 20 | **658** | 498 | **152** | 145 |
| Tim Brooks | 265 | 64 | 1 | **330** | 256 | **80** | 77 |
| Nick Castro (*to 2 November 2009) | 227 | – | – | **227** | 385 | **64** | 108 |
| Mark Dodson[1] (*to 28 March 2010) | 251 | – | 27 | **278** | 309 | **76** | 75 |
| Andrew Miller[2] (*from 2 November 2009) | 170 | – | – | **170** | – | **22** | – |
| Alan Rusbridger[3] | 395 | – | 16 | **411** | 445 | **154** | 156 |
| Stuart Taylor (*from 2 March 2009) | 245 | 90 | 1 | **336** | 23 | **74** | 4 |
| **Independent directors** | | | | | | | |
| Nick Backhouse | 39 | – | – | **39** | 39 | **–** | – |
| John Bartle | 34 | – | – | **34** | 34 | **–** | – |
| Neil Berkett (*from 3 November 2009) | 14 | – | – | **14** | – | **–** | – |
| Giles Coode-Adams (*to 1 May 2008) | – | – | – | **–** | 3 | **–** | – |
| Judy Gibbons (*from 1 December 2008) | 34 | – | – | **34** | 11 | **–** | – |
| Brent Hoberman | 34 | – | – | **34** | 34 | **–** | – |
| **Former directors** | | | | | | | |
| Jerry Fowden[4] (*to 13 April 2007) | – | – | – | **–** | – | **10** | 33 |
| John Myers[5] (*to 27 February 2009) | 50 | 233 | – | **283** | 545 | **–** | 23 |
| Sir Robert Phillis[6] (*to 31 December 2006) | – | – | 1 | **1** | 1 | **126** | 168 |
| | 2,368 | 530 | 66 | **2,964** | 2,642 | **758** | 789 |
| Compensation for loss of office[1] | | | | **444** | | | |
| | | | | **3,408** | | | |

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

1 Mark Dodson (who resigned on 28 March 2010 following the sale of GMG Regional Media) was provided with a one-off long-term incentive plan which was based on pre-determined financial targets for the period April 2008 to March 2011. Mark Dodson was able to earn an additional one-off payment of a maximum of 100% of basic salary as at 1 April 2008, should performance targets be achieved. No benefits accrued to Mark under this scheme.

2 Andrew Miller waived any entitlement to a bonus based on achievement of personal objectives.

3 Alan Rusbridger volunteered to forego 10% of his salary for the 2009/10 financial year.

4 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 and resigned as a director of Guardian Media Group on 13 April 2007. In accordance with the terms of the Employer Financed Retirement Benefit Scheme (EFRBS) £10,288 was credited to Jerry Fowden's EFRBS account with the Company in the year ended 28 March 2010.

5 John Myers was provided with an annual loyalty bonus arrangement running to 1 April 2010. The loyalty bonus was to be paid in equal instalments on 1 April 2008, 1 April 2009 and 1 April 2010 provided John Myers was in employment with the Group on the date of payment. A loyalty bonus was paid in April 2008. John subsequently notified the Group that he intended to retire at the end of the 2009/10 financial year and was offered and accepted a consulting role with GMG Radio for the final year of his loyalty scheme until 1 April 2010 at a rate of £50,000 per annum. A reduced final loyalty bonus was paid in June 2009.

6 Sir Robert Phillis retired as chief executive on 31 July 2006 and as a non-executive director on 31 December 2006. The Company undertook 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 until his 65th birthday in December 2010. Payments ceased on the untimely death of Sir Robert in December 2009.

# Directors' remuneration report continued

Carolyn McCall was a non-executive director of Tesco PLC and earned and retained fees in their year ended 28 February 2009 of £10,000. She resigned as a director on 10 April 2008. Carolyn was appointed as a non-executive director of Lloyds Banking Group plc on 1 October 2008 and earned and retained fees in their year ended 31 December 2009 of £79,090 (2008 £16,250). She resigned as a director on 31 December 2009. Carolyn was appointed as a non-executive director of New Look Group on 27 January 2010 and earned and retained fees of £5,000 in the year ended 28 March 2010.

### Remuneration policy for 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 biennially and approved by the Board. In 2009/10 the independent directors were paid a basic fee of £34,000 with further fees payable for additional responsibilities such as being chair of a committee. At the 2009/10 review date it was agreed not to increase the fees, which have not increased since April 2007 and are next due for review in 2011/12.

Nick Backhouse received an additional £5,000 for chairing the audit committee.

John Bartle
Chair of the remuneration committee
9 June 2010

# 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 28 March 2010 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes relating to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 March 2010 and of its loss and cash flows for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the Parent Company financial statements of Guardian Media Group plc for the year ended 28 March 2010.

John Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 June 2010

# Income statement

**For the year ended 28 March 2010**

| | Note | 2010 Before exceptional items £m | 2010 Exceptional items £m | 2010 Total £m | 2009 Before exceptional items £m | 2009 Exceptional items £m | 2009 Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Turnover | 3 | **280.0** | **–** | **280.0** | 310.9 | – | 310.9 |
| Operating costs | 4 | **(333.9)** | **(81.4)** | **(415.3)** | (376.1) | (31.3) | (407.4) |
| **Operating loss** | 4 | **(53.9)** | **(81.4)** | **(135.3)** | (65.2) | (31.3) | (96.5) |
| Income from other financial assets | 6 | **1.5** | **–** | **1.5** | 4.2 | – | 4.2 |
| Interest payable and similar charges | 7(a) | **(2.6)** | **–** | **(2.6)** | (4.8) | – | (4.8) |
| Other financing income/(expenses) | 7(b) | **5.4** | **–** | **5.4** | (24.4) | – | (24.4) |
| Interest receivable and similar income | 7(a) | **89.1** | **–** | **89.1** | 95.3 | – | 95.3 |
| Share of post-tax losses of joint ventures | 14(a) | **(32.6)** | **(96.5)** | **(129.1)** | (67.3) | – | (67.3) |
| Share of post-tax profit/(losses) of associates | 14(b) | **–** | **–** | **–** | 0.1 | (3.3) | (3.2) |
| **Profit/(loss) before taxation** | | **6.9** | **(177.9)** | **(171.0)** | (62.1) | (34.6) | (96.7) |
| Taxation | 8 | **(0.5)** | **11.0** | **10.5** | 14.2 | 5.3 | 19.5 |
| **Profit/(loss) from continuing operations** | | **6.4** | **(166.9)** | **(160.5)** | (47.9) | (29.3) | (77.2) |
| **Discontinued activities** | | | | | | | |
| Profit/(loss) for year from discontinued activities | 9 | **3.1** | **(47.0)** | **(43.9)** | (2.0) | 5.2 | 3.2 |
| **Profit/(loss) attributable to equity shareholders** | | **9.5** | **(213.9)** | **(204.4)** | (49.9) | (24.1) | (74.0) |

The notes on pages 44 to 72 form part of these financial statements.

# Statement of comprehensive income

**For the year ended 28 March 2010**

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| Loss attributable to equity shareholders | | **(204.4)** | (74.0) |
| Actuarial (loss)/gain | 28 | **(1.6)** | 0.5 |
| Deferred taxation credit/(charge) on actuarial (loss)/gain | | **0.4** | (0.1) |
| Net fair value gain/(loss) - non-current other financial assets | 10 | **34.7** | (0.5) |
| Joint venture - share of: | | | |
| - Actuarial loss | 14(a) | **–** | (0.5) |
| - Deferred taxation credit on actuarial loss | 14(a) | **–** | 0.1 |
| - Fair value gain/(loss) - interest rate swap | 14(a) | **3.9** | (4.7) |
| - Currency translation differences on foreign currency net investments | 14(a) | **(0.8)** | 0.3 |
| Acquisition of joint venture | | | |
| - Reversal of joint venture profits | | **–** | (4.1) |
| - Revaluation of previous interest | | **–** | 0.7 |
| Net income/(expense) not recognised in the income statement | | **36.6** | (8.3) |
| **Total expense for the year** | | **(167.8)** | (82.3) |

# Balance sheet

**As at 28 March 2010**

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 11 | **63.0** | 105.4 |
| Intangible assets | 12 | **95.9** | 130.5 |
| Property, plant and equipment | 13(a) | **44.3** | 84.1 |
| Investments accounted for using the equity method | 14(a), 14(b) | **247.7** | 275.2 |
| Deferred tax assets | 23 | **0.3** | – |
| Other financial assets – available for sale | 10 | **173.8** | 184.5 |
| Other financial assets | 14(c) | **1.6** | 1.5 |
| | | **626.6** | 781.2 |
| **Current assets** | | | |
| Inventories | 15 | **1.3** | 1.9 |
| Trade and other receivables | 16 | **57.9** | 76.7 |
| Other financial assets – available for sale | 10 | **50.0** | – |
| Cash and cash equivalents | 18 | **37.0** | 83.2 |
| | | **146.2** | 161.8 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 19 | **7.6** | 7.3 |
| Derivative financial instruments | 10 | **3.3** | 5.4 |
| Trade and other payables | 20 | **60.6** | 61.0 |
| Current tax liabilities | 17 | **2.3** | 8.8 |
| Provisions | 22 | **22.8** | 9.1 |
| | | **96.6** | 91.6 |
| **Net current assets** | | **49.6** | 70.2 |
| **Non-current liabilities** | | | |
| Financial liabilities | 19 | **64.9** | 72.3 |
| Retirement benefit liabilities | 28 | **2.0** | 1.9 |
| Other non-current liabilities | 21 | **9.2** | 5.0 |
| Deferred tax liabilities | 23 | **–** | 11.4 |
| Provisions | 22 | **14.2** | 6.9 |
| | | **90.3** | 97.5 |
| **Net assets** | | **585.9** | 753.9 |
| **Shareholders' equity** | | | |
| Share capital | 24 | **0.9** | 0.9 |
| Reserves | | **585.0** | 753.0 |
| **Total shareholders' equity** | | **585.9** | 753.9 |

These financial statements were approved by the Board of directors on 9 June 2010 and signed on its behalf by:

Amelia Fawcett
Chair

Andrew Miller
Group chief financial officer

The notes on pages 44 to 72 form part of these financial statements.

# Statement of changes in equity

### For the year ended 28 March 2010

| | Share capital £m | Revaluation reserve £m | Non distributable reserve £m | Profit and loss reserve £m | Total reserves £m |
|---|---|---|---|---|---|
| At 30 March 2008 | 0.9 | – | – | 835.4 | 836.3 |
| Repayment of 4% cumulative preference shares | – | – | 0.1 | (0.1) | – |
| Dividend paid | – | – | – | (0.1) | (0.1) |
| Loss for the year | – | – | – | (74.0) | (74.0) |
| Profit/(loss) recognised directly in equity | – | 0.7 | – | (9.0) | (8.3) |
| At 29 March 2009 | 0.9 | 0.7 | 0.1 | 752.2 | 753.9 |
| Dividend paid | – | – | – | (0.2) | (0.2) |
| Loss for the year | – | – | – | (204.4) | (204.4) |
| Profit recognised directly in equity | – | – | – | 36.6 | 36.6 |
| **At 28 March 2010** | **0.9** | **0.7** | **0.1** | **584.2** | **585.9** |

# Cash flow statement

### For the year ended 28 March 2010

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash used in operations | 26(a) | **(36.7)** | (45.0) |
| Interest received | | **0.5** | 11.2 |
| Interest paid | | **(3.3)** | (3.3) |
| Tax (paid)/received | | **(3.5)** | 4.5 |
| Net cash used in operating activities | | **(43.0)** | (32.6) |
| **Cash flow from investing activities** | | | |
| Acquisition of subsidiaries (net of cash acquired) | | **–** | (5.0) |
| Disposal of trade and assets | 9 | **7.4** | – |
| Deferred consideration paid | | **–** | (209.0) |
| Purchase of intangibles | 12 | **(4.2)** | (9.1) |
| Purchase of other non-current financial assets | 10 | **(42.1)** | (212.6) |
| Sale of other non-current financial assets | 10 | **38.9** | 31.6 |
| Proceeds from sale of property, plant and equipment | | **2.7** | 0.4 |
| Purchase of property, plant and equipment | 13(a) | **(1.9)** | (31.0) |
| Purchase of available for sale investment | | **–** | (49.9) |
| Sale of available for sale investment | | **–** | 50.0 |
| Other loans advanced | | **(0.1)** | (0.2) |
| Dividend received | | **0.1** | 0.1 |
| Net cash generated/(used) in investing activities | | **0.8** | (434.7) |
| **Cash flow from financing activities** | | | |
| Finance lease principal payments | | **(6.9)** | (8.1) |
| Exchange gain/(loss) on settlement of forward contracts | | **3.1** | (18.8) |
| Dividends paid | | **(0.2)** | (0.1) |
| Net cash used in financing activities | | **(4.0)** | (27.0) |
| **Net decrease in cash and cash equivalents** | | **(46.2)** | (494.3) |
| Cash and cash equivalents at beginning of the year | | **83.2** | 577.5 |
| **Cash and cash equivalents at end of the year** | 18 | **37.0** | 83.2 |

Details of discontinued cash flows are shown in note 26(b).

# Notes relating to the financial statements

## 1. Accounting policies

### Accounting policies for the year ended 28 March 2010
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 41 to 72 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 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through the income statement. 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 relate to goodwill and intangible assets. The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated on page 46. 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.

In accordance with section 408 of the Companies Act 2006, the Company is exempt from presenting its income statement.

### New accounting standards and IFRIC interpretations
Changes in accounting policy and disclosures
(a) New and amended standards adopted by the Group
The Group has adopted the following new and amended IFRSs as of 30 March 2009:

- IAS 1 (revised), "Presentation of financial statements", effective 1 January 2009. The Group has elected to present two performance statements (the income statement and the statement of comprehensive income). In addition IAS 1 (revised) requires the statement of changes in equity to be presented as a primary statement. The other revisions to IAS 1 have not had significant impact.
- IFRS 8, "Operating segments", effective 1 January 2009. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The impact for the Group is presentational only.
- IFRS 7 (amendment), "Financial instruments: disclosures", effective 1 January 2009. The amendment requires enhanced disclosure about fair value measurement and liquidity risk.

In addition the following new and amended IFRSs are effective as of 30 March 2009 but do not have a significant impact on the Group:

- IFRS 1 (revised) "First time adoption of IFRS"
- IFRS 2 (amendment), "Share-based payment transactions"
- IAS 23 (revised), "Borrowing costs"
- IAS 32 (amendment), "Financial instruments: presentation", and consequential amendments to IAS 1, "Presentation of financial statements"
- IAS 39 (amendment), "Eligible hedged items"
- IFRIC 12, "Service concession arrangements"
- IFRIC 15, "Agreements for construction of real estates"
- Annual improvements to IFRSs, effective for annual periods beginning on or after 1 January 2009. This standard improves existing standards and amends 20 standards, basis of conclusions and guidance. The improvements include changes in presentation, recognition and measurement plus terminology.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.
The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting period beginning on 29 March 2010 or later periods, but the Group has not early adopted them and currently does not anticipate a significant impact on the Group:

- IFRS 2 (amendments), "Group cash-settled share-based payment transactions"
- IFRS 3 (revised), "Business combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates" and IAS 31, "Interests in joint ventures"
- IFRS 5 "Disclosures required in respect of non current assets (or disposal groups) classified as held for sale or discontinued operations"
- IFRS 9 "Financial instruments"
- IFRIC 16 "Hedges of a net investment in a foreign operation"
- IFRIC 17 "Distributions of non-cash assets to owners"
- IFRIC 18 "Transfer of assets from customers"
- IFRIC 19 "Extinguishing financial liabilities with equity instruments"
- Annual improvements 2009. This is a collection of amendments to 12 standards as part of the IASB program of annual improvements.

# Notes relating to the financial statements continued

### Basis of consolidation

The Group accounts consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 28 March 2010, with the exception of the companies within the GMG Radio division which are made up to 31 March 2010.

Subsidiaries are those entities in which the Group has the ability to exercise control, which means it has the 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 income statement 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 but not control 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 investments are accounted for as joint ventures from the date at which joint control is established. 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 income statement. 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 income statement. The Group has a year from the date of acquisition to determine final fair values.

### Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker (CODM). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

As Group activities are predominantly UK-based, segmental reporting is provided on the basis of business segment only.

### Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of VAT, trade discounts and anticipated returns after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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.

### Interest receivable and similar 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 shareholder's right to receive payment is established.

# Notes relating to the financial statements continued

### 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 50 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 cash-generating unit. Impairment amounts are charged to the income statement.

### 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 income statement, 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 income statement.

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 income statement.

### 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 is tested for impairment annually at the year end, 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 income statement.

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

#### (b) Computer software
Computer software licences are capitalised at cost (including the cost to bring to use). Amortisation is calculated using the straight-line method to allocate the cost over the lower of estimated useful life or five years. Computer software has a finite useful life and is carried at cost less accumulated amortisation.

#### (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 income statement in the period in which it is incurred.

# Notes relating to the financial statements continued

## 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 or substantively 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.

The Group's deferred tax assets and liabilities are calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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.

No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries and joint ventures where the Group is able to control the timing of the reversal of the temporary differences which will not reverse in the foreseeable future.

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

## Financial assets
The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and other financial assets. The classification depends on the nature and purpose of the financial assets. The classification of financial assets is determined at initial recognition.

### (a) Financial assets at fair value through profit and loss
Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

### (b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

### (c) Other financial assets – available-for-sale
Other financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless there is the intention to dispose of the investment within 12 months of the balance sheet date.

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

The assets are initially recognised at fair value plus transaction costs. Gains or losses arising from changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the financial asset is either sold or becomes impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. This assessment involves considering whether there has been a significant or prolonged decline in the fair value of the asset below its cost, reviewing current financial circumstances and future prospects. If an impairment loss has been incurred, the cumulative loss measured as the difference between the acquisition cost and current fair value is removed from equity and recognised in the income statement.

# Notes relating to the financial statements continued

### Fair value estimation

Effective 1 April 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### Derivative financial instruments and hedge accounting

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 income statement 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.

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 income statement. Amounts accumulated in equity are recycled in the income statement 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 income statement. 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 income statement. During the year the Group has not applied hedge accounting.

### Trade receivables

Trade receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy are considered to be indicators that a trade receivable is impaired. All provisions are reviewed periodically and at the year end are adjusted to reflect the best current estimate.

### 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.

### 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 income statement at a constant rate using the effective interest rate method 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.

### Trade payables

Trade and other payables are recognised at original cost.

# Notes relating to the financial statements continued

### 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.

### 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 income statement 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 income statement over the period of the lease agreement.

### Employee benefit costs

#### (a) Defined contribution schemes

All of the Group's employees are eligible for membership of defined contribution pension schemes and of those eligible more than 99% are members of such schemes. The costs in respect of these schemes are charged to the income statement as incurred.

#### (b) Defined benefit schemes

The Group contributes to a small number of closed defined benefit pension schemes. The operating and financing costs of such schemes are recognised separately in the income statement. Service costs and financing costs are recognised in the periods in which they arise. Finance costs are included in operating costs. Actuarial gains or losses in respect of these schemes are shown in the statement of comprehensive income.

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 corporate bonds, which have terms approximating the terms of the related liability.

The charge to the income statement 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 comprehensive income.

#### (c) Bonus plans

Liabilities for bonus plans are expected to be settled within three years and are measured at the amount expected to be paid when they are settled.

## 2. Financial risk management

(a) Financial risk factors
The Group's activities may expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk strategy seeks to minimise potential adverse effects on the Group's performance.

### Market risk

(i) Foreign exchange risk
The Group has investments in hedge funds in US Dollars and in funds which in turn invest in overseas assets and as a result is exposed to a degree of foreign exchange risk. The Group's policy is to hedge 60% (2009 75%) of the exposure to the US Dollars relating to the investments in hedge funds.

If the US Dollar had weakened/strengthened by 5% with all other variables held constant, the investments in hedge funds would have been approximately £4.8 million lower/higher; however, as the Group's policy is to hedge 60% (2009 75%) of the exposure, the risk would be reduced to £1.9 million.

(ii) Price risk
The Group is exposed to equity securities price risk because of the investments held by the Group. To manage the price risk arising from the investments, the Group has a diverse portfolio.

The table below details whether the gains or losses on the investments would have been higher/lower if the actual returns had been 5% higher/lower, with all other variables held constant.

Statement of comprehensive income movement

| Investment category | £m |
|---|---|
| Global equity | +/- 0.9 |
| Real assets | +/- 1.1 |
| Fixed income | +/- 1.9 |
| Emerging markets | +/- 0.7 |
| Hedge funds | +/- 3.6 |

(iii) Interest rate risk
The Group has interest-bearing assets, primarily cash, which are at risk of fluctuations in interest rates. These are monitored by the Group treasury function to ensure risks are minimised. Fluctuations in interest rates are unlikely to have a detrimental impact on the Group's operations and therefore the risk is not considered to be significant. If interest rates had been 1% more or less during the year, interest receivable would have increased/decreased by £0.5 million.

### Credit risk
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.

Credit risk arises from deposits with banks and financial institutions. Only banks and financial institutions with a Moody's Investors Service minimum rating of Aa3 (2009 A) are accepted.

### Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient funds available to meet its liabilities when due, under both normal and difficult trading conditions, and without incurring unacceptable losses or risking damage to the Group's reputation. This is achieved through careful cash management including the production and review of regular cash flow forecasts and the optimisation of cash returns on funds held by the Group.

(b) Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern. Due to the nature of the Group's structure, the Group does not make changes to its equity structure. Debt is managed in line with the Group's 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.

(c) Fair value estimations
The fair value of financial instruments traded in active markets are based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market are using fund managers statements which are based on broker pricing or their own valuation techniques.

## 3. Segmental information

As Group activities are predominantly UK-based, segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 28 March 2010. Segmental reporting has been amended in accordance with IFRS 8 and comparative figures restated. The products and services provided by each business segment are disclosed on page 3 in the Guardian Media Group plc Group structure. Other Group activities principally include the Group's share of its joint ventures and associates, Trader Media Group, Emap and Seven Publishing, further information about which can be found in note 14, and the costs associated with the head office.

For the year ended 28 March 2010

| | Guardian News & Media £m | GMG Radio £m | GMG Property Services £m | Investment Fund £m | Other Group activities £m | Total £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Turnover | 221.0 | 50.1 | 8.9 | – | – | **280.0** |
| Operating (loss)/profit before exceptional items and amortisation of intangibles | (30.9) | 0.6 | (0.5) | – | (7.1) | **(37.9)** |
| Operating loss before exceptional items | (37.8)[1] | (4.7) | (3.9) | – | (7.5) | **(53.9)** |
| Operating loss | (55.3)[2] | (68.6)[3] | (3.9)[4] | – | (7.5) | **(135.3)** |
| Income from other financial assets | – | – | – | 1.4 | 0.1 | **1.5** |
| Interest payable and similar charges | (2.6) | – | – | – | – | **(2.6)** |
| Other financing income | – | – | – | 5.4 | – | **5.4** |
| Interest receivable and similar income | – | – | – | – | 89.1 | **89.1** |
| Post-tax results of joint ventures and associates | – | – | – | – | (129.1) | **(129.1)** |
| (Loss)/profit before tax | (57.9) | (68.6) | (3.9) | 6.8 | (47.4) | **(171.0)** |
| Taxation | | | | | | **10.5** |
| **Loss for the year from continuing operations** | | | | | | **(160.5)** |
| Loss for year from discontinued activities | | | | | | **(43.9)** |
| **Loss attributable to equity shareholders** | | | | | | **(204.4)** |
| Segment assets | 110.6 | 115.3 | 24.9 | 223.8 | 50.5 | **525.1** |
| Investment in equity accounted joint ventures and associates | – | 0.3 | – | – | 247.4 | **247.7** |
| **Total assets** | 110.6 | 115.6 | 24.9 | 223.8 | 297.9 | **772.8** |
| **Segment liabilities** | (110.3) | (10.3) | (4.0) | – | (62.3) | **(186.9)** |
| **Net assets** | | | | | | **585.9** |
| Other segment items: | | | | | | |
| Capital expenditure | 0.6 | 0.6 | 0.2 | – | 0.5 | **1.9** |
| Intangible expenditure | 3.8 | – | – | – | 0.4 | **4.2** |
| Depreciation | 7.6 | 1.5 | 0.3 | – | 1.5 | **10.9** |
| Amortisation of intangible assets | 6.9 | 5.3 | 3.4 | – | 0.4 | **16.0** |
| Impairment of trade receivables | 3.4 | 0.3 | 0.3 | – | – | **4.0** |

1 Guardian News & Media operating loss before exceptionals includes non-statutory exceptional costs of £3.4 million in respect of bad debts.

2 Guardian News & Media operating loss of £55.3 million includes restructuring costs £12.9 million, onerous lease provision £4.6 million and amortisation of intangibles of £6.9 million.

3 GMG Radio operating loss of £68.6 million includes the impairment of goodwill and intangibles of £63.9 million and amortisation of intangibles of £5.3 million.

4 GMG Property Services operating loss of £3.9 million includes the amortisation of intangibles of £3.4 million.

# Notes relating to the financial statements continued

## 3. Segmental information continued

For the year ended 29 March 2009

| | Guardian News & Media £m | GMG Radio £m | GMG Property Services £m | Investment Fund £m | Other Group activities £m | Total £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Turnover | 253.6 | 46.6 | 10.7 | – | – | 310.9 |
| Operating loss before exceptional items and amortisation of intangibles | (26.4) | (6.6) | (1.8) | – | (13.9) | (48.7) |
| Operating loss before exceptional items | (33.7) | (11.9) | (5.7) | – | (13.9) | (65.2) |
| Operating loss | (59.1)[1] | (14.8)[2] | (11.6)[3] | – | (11.0)[4] | (96.5) |
| Income from other financial assets | – | – | – | 4.0 | 0.2 | 4.2 |
| Interest payable and similar charges | (2.4) | – | – | – | (2.4) | (4.8) |
| Other financing expenses | – | – | – | (24.4) | – | (24.4) |
| Interest receivable and similar income | 0.3 | – | – | – | 95.0 | 95.3 |
| Post-tax results of joint ventures and associates | – | – | – | – | (70.5) | (70.5) |
| (Loss)/profit before tax | (61.2) | (14.8) | (11.6) | (20.4) | 11.3 | (96.7) |
| Taxation | | | | | | 19.5 |
| **Loss for the year from continuing operations** | | | | | | (77.2) |
| Loss for the year from discontinued activities | | | | | | 3.2 |
| **Loss attributable to equity shareholders** | | | | | | (74.0) |
| Segment assets | 106.4 | 203.5 | 33.4 | 184.5 | 88.5 | 616.3 |
| Investment in equity accounted joint ventures and associates | – | 0.2 | – | – | 275.0 | 275.2 |
| **Total assets** | 106.4 | 203.7 | 33.4 | 184.5 | 363.5 | 891.5 |
| **Segment liabilities** | (88.2) | (37.0) | (7.0) | – | (14.5) | (146.7) |
| Discontinued activities | | | | | | 9.1 |
| **Net assets** | | | | | | 753.9 |
| Other segment items: | | | | | | |
| Capital expenditure | 27.2 | 1.8 | 0.6 | – | – | 29.6 |
| Intangible expenditure | 8.3 | – | – | – | – | 8.3 |
| Depreciation | 5.6 | 1.5 | 0.5 | – | 0.2 | 7.8 |
| Amortisation of intangible assets | 7.3 | 5.3 | 3.9 | – | – | 16.5 |
| Impairment of trade receivables | 0.1 | 0.2 | 0.4 | – | – | 0.7 |

1 Guardian News & Media operating loss of £59.1 million includes the impairment of goodwill and intangibles of £14.3 million, restructuring costs of £3.1 million, the costs associated with Guardian News & Media's move to Kings Place of £8.0 million and amortisation of intangibles of £7.3 million.

2 GMG Radio operating loss of £14.8 million includes the impairment of goodwill of £2.9 million and amortisation of intangibles of £5.3 million.

3 GMG Property Services operating loss of £11.6 million includes the impairment of goodwill of £5.9 million and amortisation of intangibles of £3.9 million.

4 Other Group activities operating loss includes a credit of £2.9 million in respect of negative goodwill on acquisitions.

# Notes relating to the financial statements continued

## 4. Operating loss

| | 2010 £m | 2009 £m |
|---|---|---|
| Raw materials and consumables | **34.4** | 45.5 |
| Other external charges | **17.5** | 23.6 |
| Staff costs (see note 5) | **140.3** | 135.1 |
| Depreciation and impairment of tangible fixed assets: | | |
| - Owned assets | **4.2** | 6.7 |
| - Under finance leases | **2.5** | 1.2 |
| Other expenses | **216.4** | 195.3 |
| | **415.3** | 407.4 |

Exceptional items totalling £81.4 million charge (2009 £31.3 million) relate to the impairment of goodwill and intangibles £63.9 million, Guardian News & Media restructuring costs of £12.9 million and onerous lease provision £4.6 million. In the prior year, the exceptional items related to impairment of goodwill and intangibles of £23.1 million, costs associated with Guardian News & Media's move to Kings Place of £8.0 million and restructuring costs of £3.1 million, less a £2.9 million credit in respect of negative goodwill on acquisitions.

The following items have been included in arriving at operating loss:

| | 2010 £m | 2009 £m |
|---|---|---|
| Amortisation of intangibles | **16.0** | 16.8 |
| Impairment of intangibles | **21.8** | 6.2 |
| Impairment of goodwill | **42.1** | 16.9 |
| Impairment of property, plant and equipment | **20.2** | 0.5 |
| Profit on sale of property, plant and equipment | **(0.5)** | (0.3) |
| Other operating lease rentals payable: | | |
| - Plant and machinery | **5.5** | 6.1 |
| - Property | **11.6** | 12.0 |
| Repairs and maintenance expenditure on property, plant and equipment | **1.9** | 2.3 |
| Trade receivables impairment | **3.7** | 0.7 |

### Services provided by the Group's auditors

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Fees payable to Company's auditors for the audit of Parent Company and consolidated financial statements | **0.1** | 0.1 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| - The audit of Company's subsidiaries pursuant to legislation | **0.2** | 0.2 |
| Tax services: | | |
| - Compliance services | **–** | 0.1 |
| - Advisory services | **0.2** | 0.4 |
| Other services not covered above | **0.1** | 0.1 |
| | **0.6** | 0.9 |

# Notes relating to the financial statements continued

## 5. Employees and directors

| Staff costs for the Group during the period including executive and non-executive directors | 2010 £m | 2009 £m |
|---|---|---|
| Wages and salaries | 119.4 | 113.6 |
| Employer's social security costs | 11.6 | 12.0 |
| Employer's pension costs | 9.3 | 9.5 |
| | 140.3 | 135.1 |

| Average monthly number of persons employed including executive and non-executive directors | No. | No. |
|---|---|---|
| Production | 1,032 | 1,119 |
| Selling and distribution | 796 | 861 |
| Administration | 483 | 627 |
| | 2,311 | 2,607 |

| Key management compensation | £m | £m |
|---|---|---|
| Salaries and short-term employee benefits | 6.0 | 5.9 |
| Post employment benefits | 1.1 | 1.1 |
| Termination benefits | 1.5 | 0.3 |
| | 8.6 | 7.3 |

Key management comprises directors and certain other senior management of the Group.

Directors' remuneration information required for the financial statements is shown on page 38.

## 6. Income from other financial assets

| | 2010 £m | 2009 £m |
|---|---|---|
| Profit on disposal of other financial assets: | | |
| - Non-current | 1.4 | 4.0 |
| - Current | 0.1 | 0.2 |
| | 1.5 | 4.2 |

## 7(a). Finance income and expenses

| | 2010 £m | 2009 £m |
|---|---|---|
| **Interest expense** | | |
| Other interest payable | – | (2.5) |
| Interest payable on finance leases | (2.6) | (2.3) |
| **Interest payable and similar charges** | (2.6) | (4.8) |
| **Interest income** | | |
| Interest receivable on cash and cash equivalents | 0.2 | 9.1 |
| Interest receivable and similar income from joint ventures | 87.8 | 84.0 |
| Other interest receivable | 1.1 | 2.2 |
| **Interest receivable and similar income** | 89.1 | 95.3 |
| **Finance income – net** | 86.5 | 90.5 |

## 7(b). Other financing income/(expenses)

| | 2010 £m | 2009 £m |
|---|---|---|
| Fair value gain/(loss) on forward exchange contracts | 5.4 | (24.4) |

# Notes relating to the financial statements continued

## 8. Taxation

### Analysis of credit in year

| | 2010 £m | 2009 £m |
|---|---|---|
| **Current tax** | | |
| Continuing operations for the period | – | (5.1) |
| Adjustments in respect of prior periods | (0.5) | (2.3) |
| | (0.5) | (7.4) |
| **Deferred taxation** | | |
| Continuing operations (note 23) | (10.0) | (12.1) |
| **Taxation** | (10.5) | (19.5) |

| | | |
|---|---|---|
| **Tax on items charged to the statement of comprehensive income** | | |
| Deferred tax (credit)/charge on actuarial (loss)/gain | (0.4) | 0.1 |

### Factors affecting tax credit for the year

The tax for the period is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%).

The differences are explained below:

| | | |
|---|---|---|
| Loss before tax | (171.0) | (96.7) |
| Loss before taxation multiplied by standard rate of corporation tax of 28% (2009 28%) | (47.9) | (27.1) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 5.0 | 5.6 |
| Income not taxable | (21.8) | (24.1) |
| Current year movement on deferred tax | – | 0.4 |
| Foreign taxes | (0.1) | 0.1 |
| Utilisation of tax losses not previously recognised | (0.1) | (0.2) |
| Deferred tax asset not previously recognised | – | (0.4) |
| Impairment of subsidiary goodwill and joint venture company | 38.8 | 4.4 |
| Adjustment to tax charge in respect of joint ventures and associates | 9.1 | 19.0 |
| Adjustment to tax charge in respect of previous periods | (1.8) | (1.2) |
| Current year losses not recognised | 7.0 | 4.0 |
| Chargeable gains | 1.3 | – |
| **Total taxation (continuing operations)** | (10.5) | (19.5) |

### Factors that may affect future tax charges

There are no significant factors known at 28 March 2010 which may affect future tax charges (2009 no significant factors).

## 9. Discontinued activities

The analysis of the results of discontinued operations is as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Revenue | 75.1 | 94.5 |
| Expenses | (75.2) | (94.0) |
| Operating (loss)/profit | (0.1) | 0.5 |
| Interest payable and similar charges | (0.6) | (0.8) |
| Loss before tax | (0.7) | (0.3) |
| Taxation | 3.8 | (1.7) |
| Profit/(loss) after taxation | 3.1 | (2.0) |
| Loss on disposal of discontinued activities | (47.0) | – |
| Exceptional item | – | 5.2 |
| **(Loss)/profit for discontinued activities** | (43.9) | 3.2 |

### 9. **Discontinued activities** continued

On 28 March 2010, the Group disposed of the trade and certain assets of its GMG Regional Media division to Trinity Mirror plc for a total consideration of £44.8 million before working capital adjustments. Total consideration comprises the release by Trinity Mirror plc of a 12 year GMG print liability, valued at £37.4 million, and £7.4 million in cash. A further amount is due in respect of working capital adjustments which will be finalised in line with the Sale Agreement during 2010/11.

Details of discontinued cash flows are shown in note 26(b).

### 10. Other financial assets – available for sale

| | **2010 £m** | 2009 £m |
|---|---|---|
| At 30 March 2009 | **184.5** | – |
| Additions at cost | **42.1** | 212.6 |
| Disposals at fair value | **(38.9)** | (31.6) |
| | **187.7** | 181.0 |
| Net gain on disposals – income statement | **1.4** | 4.0 |
| Net fair value gain/(loss) – statement of comprehensive income | **34.7** | (0.5) |
| At 28 March 2010 | **223.8** | 184.5 |

| | | |
|---|---|---|
| Other financial assets include the following: | | |
| Hedge funds | **96.0** | 100.9 |
| Managed funds | **102.8** | 74.0 |
| | **198.8** | 174.9 |
| Short-term funds held for reinvestment | **25.0** | 9.6 |
| | **223.8** | 184.5 |

The following table presents the Group's assets and liabilities that are measured at fair value at the year end; descriptions of each level are included on page 48.

| | Level 1 £m | Level 2 £m | Level 3 £m | **Total £m** |
|---|---|---|---|---|
| Financial assets – available for sale – asset | 78.4 | 118.6 | 1.8 | **198.8** |
| Deriative financial instruments – liability | – | (3.3) | – | **(3.3)** |

The following table shows a summary of the changes in the fair value of the Group's Level 3 instruments during the year:

| | £m |
|---|---|
| At 30 March 2009 | 4.7 |
| Disposals | (2.9) |
| Transfers in to Level 3 | 0.2 |
| Transfers out of Level 3 | (0.6) |
| Net gain – statement of comprehensive income | 0.4 |
| As 28 March 2010 | **1.8** |

The fair value of fund assets is based on their current bid prices in an active market.

| Other financial assets are denominated in the following currencies: | **2010 £m** | 2009 £m |
|---|---|---|
| Sterling | **118.1** | 76.3 |
| US Dollar | **105.7** | 108.2 |
| | **223.8** | 184.5 |

The fair value of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets are determined using fund manager statements which are based on broker pricing or their own valuation techniques. None of these assets are considered to be impaired.

| Other financial assets – available for sale have been analysed between current and non-current as follows: | **2010 £m** | 2009 £m |
|---|---|---|
| Current | **50.0** | – |
| Non-current | **173.8** | 184.5 |
| | **223.8** | 184.5 |

## 11. Goodwill

| | £m |
|---|---|
| **Cost** | |
| At 30 March 2009 | 156.3 |
| Disposals | (0.6) |
| At 28 March 2010 | **155.7** |
| **Accumulated impairment** | |
| At 30 March 2009 | 50.9 |
| Impairment | 42.1 |
| Disposals | (0.3) |
| At 28 March 2010 | **92.7** |
| **Net book value at 28 March 2010** | **63.0** |

Goodwill relates principally to the GMG Radio division.

During the year ended 28 March 2010, certain assets were tested for impairment in accordance with IAS 36 "Impairment of assets" and were found to be impaired. The recoverable amount of a CGU was determined based on a value-in-use calculation or market value. The value-in-use calculation used pre-tax cash flow projections based on the financial budgets approved by the Board for 2010/11 and formal business plans for a further two years. Cash flows beyond the three-year period were extrapolated using estimated growth rates. Management determine budgets and business plans based on past performance and its expectations of market development. The discount rates used were pre-tax and reflected specific risks relevant to the industry. Discount rates used ranged between 10.5% and 13.0% and were also benchmarked against comparable peers. An impairment charge of £42.1 million arose from these calculations.

| | £m |
|---|---|
| **Cost** | |
| At 31 March 2008 | 154.1 |
| Acquisition – through business combination | 3.9 |
| Disposals | (1.7) |
| At 29 March 2009 | **156.3** |
| **Accumulated impairment** | |
| At 31 March 2008 | 35.7 |
| Impairment | 16.9 |
| Disposals | (1.7) |
| At 29 March 2009 | **50.9** |
| **Net book value at 29 March 2009** | **105.4** |

Goodwill relates principally to the GMG Radio division.

During the year ended 29 March 2009, certain assets were tested for impairment in accordance with IAS 36 "Impairment of assets" and were found to be impaired. The recoverable amount of a CGU was determined based on a value-in-use calculation or market value. The value-in-use calculation used pre-tax cash flow projections based on the financial budgets approved by the Board for 2009/10 and formal business plans for a further two years. Cash flows beyond the three-year period were extrapolated using estimated growth rates. Management determine budgets and business plans based on past performance and its expectations of market development. The discount rates used were pre-tax and reflected specific risks relevant to the industry. Discount rates used ranged between 8.5% and 12% and were also benchmarked against comparable peers. An impairment charge of £16.9 million arose from these calculations.

During the year the Group completed the following non-material acquisitions:
- the acquisition of 100% of the ordinary share capital of ContentNext Media Inc.
- the acquisition of the remaining 50% of the ordinary share capital of Trafford Park Printers Limited.

# Notes relating to the financial statements continued

## 12. Intangible assets

| | Radio licences £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 30 March 2009 | 107.1 | 67.1 | 174.2 |
| Additions at cost | – | 4.2 | 4.2 |
| Disposals | – | (3.3) | (3.3) |
| At 28 March 2010 | **107.1** | **68.0** | **175.1** |
| **Accumulated amortisation** | | | |
| At 30 March 2009 | 12.3 | 31.4 | 43.7 |
| Disposals | – | (2.3) | (2.3) |
| Impairment in period | 21.8 | – | 21.8 |
| Charge for period | 5.3 | 10.7 | 16.0 |
| At 28 March 2010 | **39.4** | **39.8** | **79.2** |
| **Net book value at 28 March 2010** | **67.7** | **28.2** | **95.9** |

Other intangible assets mainly comprises computer software which is amortised in accordance with the accounting policy shown in note 1. All amortisation charges in the year have been charged through operating costs in the income statement.

| | Radio licences £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2008 | 107.1 | 57.0 | 164.1 |
| Acquisitions - through business combinations | – | 2.1 | 2.1 |
| Additions at cost | – | 9.1 | 9.1 |
| Transfer to property, plant and equipment | – | (0.5) | (0.5) |
| Disposals | – | (0.6) | (0.6) |
| At 29 March 2009 | **107.1** | **67.1** | **174.2** |
| **Accumulated amortisation** | | | |
| At 31 March 2008 | 7.0 | 14.2 | 21.2 |
| Disposals | – | (0.5) | (0.5) |
| Impairment in period | – | 6.2 | 6.2 |
| Charge for period | 5.3 | 11.5 | 16.8 |
| At 29 March 2009 | **12.3** | **31.4** | **43.7** |
| **Net book value at 29 March 2009** | **94.8** | **35.7** | **130.5** |

## 13(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 30 March 2009 | 36.3 | 118.7 | 35.0 | 0.6 | 190.6 |
| Additions at cost | – | 1.6 | 0.2 | 0.1 | 1.9 |
| Reclassification | – | – | 0.6 | (0.6) | – |
| Disposals | (6.8) | (26.2) | (2.3) | – | (35.3) |
| At 28 March 2010 | **29.5** | **94.1** | **33.5** | **0.1** | **157.2** |
| **Accumulated depreciation** | | | | | |
| At 30 March 2009 | 16.0 | 82.9 | 7.6 | – | 106.5 |
| Charge for the period | 0.9 | 7.4 | 2.6 | – | 10.9 |
| Impairment | 3.3 | 16.4 | 0.5 | – | 20.2 |
| Disposals | (1.7) | (21.1) | (1.9) | – | (24.7) |
| At 28 March 2010 | **18.5** | **85.6** | **8.8** | **–** | **112.9** |
| **Net book value at 28 March 2010** | **11.0** | **8.5** | **24.7** | **0.1** | **44.3** |

| | Land and buildings £m | Plant and vehicles £m | Fixtures and fittings £m | Assets under construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 31 March 2008 | 26.6 | 141.0 | 16.3 | 3.0 | 186.9 |
| Additions at cost | 1.4 | 8.3 | 22.4 | – | 32.1 |
| Acquisitions - through business combinations | 9.0 | 0.7 | – | – | 9.7 |
| Reclassifications and transfer from intangible assets | – | 0.3 | 2.6 | (2.4) | 0.5 |
| Disposals | (0.7) | (31.6) | (6.3) | – | (38.6) |
| At 29 March 2009 | **36.3** | **118.7** | **35.0** | **0.6** | **190.6** |
| **Accumulated depreciation** | | | | | |
| At 31 March 2008 | 15.6 | 104.8 | 11.6 | – | 132.0 |
| Charge for the period | 0.5 | 9.7 | 2.3 | – | 12.5 |
| Impairment | 0.5 | – | – | – | 0.5 |
| Disposals | (0.6) | (31.6) | (6.3) | – | (38.5) |
| At 29 March 2009 | **16.0** | **82.9** | **7.6** | **–** | **106.5** |
| **Net book value at 29 March 2009** | **20.3** | **35.8** | **27.4** | **0.6** | **84.1** |

# Notes relating to the financial statements continued

### 13(b). Property, plant and equipment

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Cost | **104.8** | 118.7 |
| Accumulated depreciation | **(89.3)** | (79.6) |
| **Net book value** | **15.5** | 39.1 |

Details of material finance lease arrangements are given in note 19.

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Freehold | **4.3** | 9.9 |
| Long leasehold | **6.7** | 8.1 |
| Short leasehold | **–** | 2.3 |
| | **11.0** | 20.3 |

All Group land and buildings with a net book value in excess of £20,000 were valued by independent third party valuers in accordance with IAS 36 'Impairment of assets' as at 31 December 2008 with the exception of one property which was valued at 28 March 2010 and was found to be impaired.

### 14. Investments

(a) Interests in joint ventures

| | Trader Media Group £m | Emap £m | Total £m |
|---|---|---|---|
| At 30 March 2009 | | | |
| - Net liabilities | (344.6) | (67.1) | (411.7) |
| - Goodwill | – | 8.4 | 8.4 |
| - Preference shares and accrued interest | 144.0 | 259.8 | 403.8 |
| - Loans and accrued interest | 188.2 | 82.3 | 270.5 |
| | **(12.4)** | **283.4** | **271.0** |
| Interest on loans and preference shares | 50.0 | 37.8 | 87.8 |
| Income statement - continuing operations | (14.8) | (17.8) | (32.6) |
| Statement of comprehensive income | 3.9 | (0.8) | 3.1 |
| Disposals | – | (0.1) | (0.1) |
| Loan commitment | – | 10.8 | 10.8 |
| Impairment | – | (96.5) | (96.5) |
| At 28 March 2010 | | | |
| - Net liabilities | (355.5) | – | (355.5) |
| - Preference shares and accrued interest | 172.3 | 111.9 | 284.2 |
| - Loans and accrued interest | 209.9 | 104.9 | 314.8 |
| | **26.7** | **216.8** | **243.5** |

# Notes relating to the financial statements continued

## 14. Investments continued

### (a) Interests in joint ventures continued

**The Group's share of amounts relating to joint ventures**

| | Trader Media Group £m | Emap £m | Total £m |
|---|---|---|---|
| Non-current assets | 494.6 | – | 494.6 |
| Current assets | 61.4 | – | 61.4 |
| Current liabilities | (41.0) | – | (41.0) |
| Non-current liabilities | (870.5) | – | (870.5) |
| **Net liabilities** | **(355.5)** | **–** | **(355.5)** |
| Turnover | 125.7 | 70.5 | 196.2 |
| Operating profit before exceptional items, restructuring costs and amortisation of intangible assets | 52.5 | 23.1 | 75.6 |
| Operating profit after exceptional items, restructuring costs and amortisation of intangible assets | 50.3 | 10.8 | 61.1 |
| Net interest payable and similar charges (excluding gain on debt buy-back) | (72.5) | (36.4) | (108.9) |
| Gain on debt buy-back and profit on disposal of subsidiary | 5.6 | – | 5.6 |
| **Loss before taxation** | **(16.6)** | **(25.6)** | **(42.2)** |
| Taxation | 1.8 | 7.8 | 9.6 |
| **Share of post-tax results from joint ventures** | **(14.8)** | **(17.8)** | **(32.6)** |

The Group's share of joint ventures capital commitments are included in note 30 on page 71.

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

| | Trader Media Group £m | Emap £m | Other £m | Total £m |
|---|---|---|---|---|
| At 31 March 2008 | | | | |
| - Net (liabilities)/assets | (331.6) | (8.0) | 8.0 | (331.6) |
| - Goodwill | – | 8.4 | – | 8.4 |
| - Preference shares and accrued interest | 119.6 | 235.4 | – | 355.0 |
| - Loans and accrued interest | 163.2 | 72.1 | – | 235.3 |
| | **(48.8)** | **307.9** | **8.0** | **267.1** |
| Transfer to subsidiary | – | – | (8.0) | (8.0) |
| Interest on loans and preference shares | 49.4 | 34.6 | – | 84.0 |
| Income statement - continuing operations | (9.2) | (58.5) | 0.4 | (67.3) |
| Statement of comprehensive income | (3.8) | (0.6) | (0.4) | (4.8) |
| At 29 March 2009 | | | | |
| - Net liabilities | (344.6) | (67.1) | – | (411.7) |
| - Goodwill | – | 8.4 | – | 8.4 |
| - Preference shares and accrued interest | 144.0 | 259.8 | – | 403.8 |
| - Loans and accrued interest | 188.2 | 82.3 | – | 270.5 |
| | **(12.4)** | **283.4** | **–** | **271.0** |

On 1 October 2008, the Group acquired the remaining 50% interest in Trafford Park Printers Limited for £1.6 million and, in accordance with IAS 27 "Consolidated and separate financial statements", the company is now accounted for as a subsidiary.

# Notes relating to the financial statements continued

## 14. Investments continued

(a) Interests in joint ventures continued

The Group's share of amounts relating to joint ventures (2008/09 continued)

| | Trader Media Group £m | Emap £m | Other £m | Total £m |
|---|---|---|---|---|
| Non-current assets | 489.1 | 311.1 | – | 800.2 |
| Current assets | 56.8 | 37.2 | – | 94.0 |
| Current liabilities | (49.5) | (157.5) | – | (207.0) |
| Non-current liabilities | (841.0) | (257.9) | – | (1,098.9) |
| **Net liabilities** | **(344.6)** | **(67.1)** | **–** | **(411.7)** |
| Turnover | 148.3 | 84.2 | 6.5 | 239.0 |
| Operating profit before exceptional items, restructuring costs and amortisation of intangible assets | 55.5 | 29.0 | 0.8 | 85.3 |
| Operating profit after exceptional items, restructuring costs and amortisation of intangible assets | 48.9 | 10.9 | 0.8 | 60.6 |
| Net interest payable and similar charges (excluding gain on debt buy-back) | (84.7) | (69.0) | (0.4) | (154.1) |
| Gain on debt buy-back and profit on disposal of subsidiary | 19.6 | – | – | 19.6 |
| **(Loss)/profit before taxation** | **(16.2)** | **(58.1)** | **0.4** | **(73.9)** |
| Taxation | 7.0 | (0.4) | – | 6.6 |
| **Share of post-tax results from joint ventures** | **(9.2)** | **(58.5)** | **0.4** | **(67.3)** |

Exceptional items totalling £19.6 million shown above includes the gain on debt buy-back and the profit on disposal of subsidiary at TMG.

The Group's share of joint ventures' capital commitments are included in note 30 on page 71.

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

# **Notes relating to the financial statements** continued

## **14. Investments** continued

### (b) Interests in associates

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | | |
| - Net assets excluding goodwill | **4.2** | 7.1 |
| - Goodwill | **–** | 0.3 |
| | **4.2** | 7.4 |
| Impairment of goodwill | | |
| - Net assets | **–** | (3.0) |
| - Goodwill | **–** | (0.3) |
| Share of retained profit | **–** | 0.1 |
| At 28 March 2010 | | |
| - Net assets excluding goodwill | **4.2** | 4.2 |

### The Group's share of amounts relating to associates

| | 2010 £m | 2009 £m |
|---|---|---|
| Total assets | **8.5** | 8.9 |
| Total liabilities | **(4.3)** | (4.7) |
| Turnover | **13.2** | 15.5 |
| Share of post-tax profit of associates before exceptional items | **–** | 0.1 |

A list of principal subsidiary undertakings, joint ventures and associates is given in note 33. The associates have no significant contingent liabilities to which the Group is exposed and nor has the Group significant contingent liabilities in relation to its interest in its associates. The associates have no significant capital commitments.

### (c) Other financial assets

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **1.5** | 1.8 |
| Additions at cost | **0.1** | 0.1 |
| Reclassification - debtors | **–** | (0.4) |
| At 28 March 2010 | **1.6** | 1.5 |

| | | |
|---|---|---|
| Other financial assets include the following: | | |
| Unlisted shares | **0.2** | 0.2 |
| Term deposits/loans | **1.4** | 1.3 |
| | **1.6** | 1.5 |

## 15. Inventories

| | 2010 £m | 2009 £m |
|---|---|---|
| Raw materials and consumables | **1.3** | 1.9 |

The Group consumed £34.4 million (2009 £45.5 million) of inventories during the year (note 4).

## 16. Trade and other receivables

| | 2010 £m | 2009 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables | **41.0** | 56.3 |
| Less: Provision for impairment of receivables | **(0.9)** | (1.1) |
| Trade receivables - net | **40.1** | 55.2 |
| Amounts owed by related parties | **0.1** | 2.9 |
| Other debtors | **4.5** | 2.9 |
| Prepayments and accrued income | **13.2** | 15.7 |
| | **57.9** | 76.7 |

As at 28 March 2010, trade receivables of £0.9 million (2009 £1.1 million) were impaired. The ageing of these receivables is as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Up to 3 months | **0.1** | 0.2 |
| 3 to 6 months | **0.2** | 0.2 |
| Over 6 months | **0.6** | 0.7 |
| | **0.9** | 1.1 |

As at 28 March 2010, trade receivables of £9.7 million (2009 £10.8 million) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Up to 3 months | **8.5** | 9.6 |
| 3 to 6 months | **1.1** | 1.0 |
| Over 6 months | **0.1** | 0.2 |
| | **9.7** | 10.8 |

Movements on the Group provision for impairment of trade receivables are as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **1.1** | 1.1 |
| Provision for receivables impairment | **4.0** | 0.9 |
| Receivables written off during the year as uncollectible | **(3.9)** | (0.7) |
| Unused amounts reversed | **(0.3)** | (0.2) |
| At 28 March 2010 | **0.9** | 1.1 |

The creation and release of provision for impaired receivables is included in operating costs in the income statement (note 4).

## 17. Current tax

| | 2010 £m | 2009 £m |
|---|---|---|
| Current tax liability | **2.3** | 8.8 |

## 18. Cash and cash equivalents

| | 2010 £m | 2009 £m |
|---|---|---|
| Cash at bank and in hand | **11.5** | 12.5 |
| Short-term bank deposits | **25.5** | 70.7 |
| | **37.0** | 83.2 |

# **Notes relating to the financial statements** continued

## 19. Financial liabilities – borrowings

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Current** | | |
| **Due within one year or on demand:** | | |
| Finance lease obligations | **7.6** | 7.3 |

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Non-current** | | |
| Finance lease obligations | **64.9** | 72.3 |

| | | |
|---|---|---|
| The total value of obligations under finance leases repayable by instalments: | | |
| – between one to two years | **6.1** | 7.5 |
| – between two to five years | **18.6** | 18.3 |
| – over five years | **40.2** | 46.5 |
| | **64.9** | 72.3 |

| | | |
|---|---|---|
| The present value of minimum lease payments are as follows: | | |
| – within one year | **10.5** | 10.5 |
| – greater than one year but less than five years | **31.6** | 36.0 |
| – after five years | **47.3** | 53.6 |
| Total minimum lease payments | **89.4** | 100.1 |
| Less future finance charges | **(16.9)** | (20.5) |
| Present value of minimum lease payments | **72.5** | 79.6 |

## 20. Trade and other payables – current

| | **2010 £m** | 2009 £m |
|---|---|---|
| Trade payables | **12.1** | 20.8 |
| Taxation and social security | **8.4** | 4.7 |
| Other creditors | **1.4** | 4.8 |
| Loan commitment to joint venture | **10.8** | – |
| Accruals and deferred income | **27.9** | 30.7 |
| | **60.6** | 61.0 |

## 21. Other non-current liabilities

| | **2010 £m** | 2009 £m |
|---|---|---|
| Other creditors | **9.1** | 4.8 |
| Accruals | **0.1** | 0.2 |
| | **9.2** | 5.0 |

## 22. Provisions

| | £m |
|---|---|
| At 30 March 2009 | 16.0 |
| Charged to income statement: | |
| - Additional provisions | 33.7 |
| - Unused amounts reversed | (1.4) |
| Utilised in year | (11.3) |
| At 28 March 2010 | **37.0** |

| | |
|---|---|
| Provisions have been analysed between current and non-current as follows: | |
| Current | 22.8 |
| Non-current | 14.2 |
| | **37.0** |

Provisions at 28 March 2010 relate primarily to onerous leases and restructuring costs. More than half is expected to be settled within one year, with the remainder being utilised over the longer term.

| | £m |
|---|---|
| At 31 March 2008 | 42.9 |
| Charged to income statement: | |
| - Additional provisions | 10.8 |
| - Unused amounts reversed | (9.2) |
| Utilised in year | (28.5) |
| At 29 March 2009 | **16.0** |

| | |
|---|---|
| Provisions have been analysed between current and non-current as follows: | |
| Current | 9.1 |
| Non-current | 6.9 |
| | **16.0** |

# Notes relating to the financial statements continued

## 23. Deferred taxation

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 28% (2009 28%).

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

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **11.4** | 21.7 |
| Income statement credit – continuing operations | **(10.0)** | (12.1) |
| Income statement credit – discontinued activity | **(1.3)** | (0.5) |
| Additions at cost | **–** | 2.2 |
| Statement of comprehensive income (credit)/charge | **(0.4)** | 0.1 |
| At 28 March 2010 | **(0.3)** | 11.4 |

| | Accelerated capital allowances on fixed assets £m | Tax losses carried forward £m | Short-term and other timing differences £m | Acquired intangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Deferred taxation liabilities** | | | | | |
| At 30 March 2009 | 0.2 | – | 0.4 | 31.7 | 32.3 |
| Reclassified from deferred tax assets | 0.2 | – | 1.6 | – | 1.8 |
| Income statement credit – continuing operations | – | – | (0.6) | (9.0) | (9.6) |
| Income statement credit – discontinued activity | (0.2) | – | (0.4) | – | (0.6) |
| At 28 March 2010 | **0.2** | **–** | **1.0** | **22.7** | **23.9** |
| **Deferred taxation assets** | | | | | |
| At 30 March 2009 | (4.3) | (0.5) | (16.1) | – | (20.9) |
| Reclassified as deferred tax liabilities | (0.2) | – | (1.6) | – | (1.8) |
| Income statement (credit)/charge – continuing operations | (3.6) | (0.6) | 3.8 | – | (0.4) |
| Income statement credit – discontinued activity | (0.6) | – | (0.1) | – | (0.7) |
| Statement of comprehensive income credit – continuing operations | – | – | (0.6) | – | (0.6) |
| Statement of comprehensive income charge – discontinued activity | – | – | 0.2 | – | 0.2 |
| At 28 March 2010 | **(8.7)** | **(1.1)** | **(14.4)** | **–** | **(24.2)** |
| **Net deferred tax asset at 28 March 2010** | | | | | **(0.3)** |
| Net deferred tax liability at 29 March 2009 | | | | | 11.4 |

Deferred tax assets have not been recognised where they relate to losses in companies where their future utilisation against profits cannot be reasonably foreseen. There is an unrecognised deferred tax asset at the balance sheet date of £14.0 million (2009 £6.1 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 has been provided for on unremitted earnings of Group companies overseas as these are considered permanently employed in the business of these companies and, in the case of joint ventures and associates, the taxes would not be material. The aggregate amount of temporary differences associated with interests in joint ventures for which deferred tax liabilities have not been recognised totalled approximately £3.2 million at 28 March 2010.

## 24. Share capital

| | 2010 £m | 2009 £m |
|---|---|---|
| Authorised, issued, called up and fully paid: | | |
| 900,000 ordinary shares of £1 each | **0.9** | 0.9 |

## 25. Dividends paid

Preference dividends paid during the year amounted to £nil (2009 £1,792).

On 3 March 2010, the Board declared a dividend of 22.2p (2009 11.1p) per share on the ordinary share capital amounting to £200,000 (2009 £100,000) which was paid to The Scott Trust Limited on 3 March 2010.

# Notes relating to the financial statements continued

## 26(a). Cash flow from operating activities

Reconciliation of loss after tax to net cash outflow from operating activities:

### Cash generated from operations

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| Net loss attributable to equity shareholders | | **(204.4)** | (74.0) |
| Adjustments for: | | | |
| Tax | | **(10.5)** | (15.8) |
| Depreciation | 13 | **10.9** | 12.5 |
| Impairment of property, plant and equipment | 13 | **20.2** | 0.5 |
| Loss on sale of trade and assets | 9 | **47.0** | – |
| Profit on disposal of property, plant and equipment | | **(0.5)** | (0.3) |
| Negative goodwill | 4 | **–** | (2.9) |
| Impairment of goodwill | 11 | **42.1** | 16.9 |
| Amortisation of intangibles | 12 | **16.0** | 16.8 |
| Impairment of intangibles | 12 | **21.8** | 6.2 |
| Impairment of associates | 14(b) | **–** | 3.3 |
| Income from non-current financial assets | | **(1.5)** | (4.2) |
| Interest receivable and similar income | 7(a) | **(89.1)** | (95.3) |
| Interest payable and similar charges | 7(a) | **2.6** | 5.6 |
| Other financing (income)/expense | 7(b) | **(5.4)** | 24.4 |
| Pensions | 28 | **(1.9)** | (1.6) |
| Share of results of joint ventures after taxation | | **129.1** | 67.3 |
| Share of results of associates after taxation | | **–** | (0.1) |
| Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries): | | | |
| Decrease/(increase) in inventories | | **0.2** | (0.1) |
| (Increase)/decrease in trade and other receivables | | **(42.1)** | 12.5 |
| Increase/(decrease) in trade and other payables | | **7.8** | (8.9) |
| Increase/(decrease) in provisions | | **21.0** | (7.8) |
| **Cash used in operations** | | **(36.7)** | (45.0) |

## 26(b). Cash flow from discontinued activities

Net cash flow attributable to:

| | 2010 £m | 2009 £m |
|---|---|---|
| Operating activities | **(6.8)** | 0.6 |
| Investing activities | **7.7** | (2.8) |
| Financing activities | **(2.1)** | (3.7) |
| | **(1.2)** | (5.9) |

## 27. Post balance sheet events

There have been no significant events between the balance sheet date and the date of approval of these accounts.

# Notes relating to the financial statements continued

## 28. Pension commitments

### Defined contribution schemes

All of the Group's employees are eligible for membership of defined contribution pension schemes and of those eligible more than 99% are members of such schemes. Pension schemes' assets are held in separate trustee-administered funds.

Pension costs for defined contribution schemes are as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Defined contribution schemes | **9.3** | 9.5 |

### Defined benefit schemes

The Group has two (2009 two) defined benefit pension schemes, both of which have been accounted for in accordance with IAS 19 "Employee benefits".

The Surrey Advertiser Newspaper Holdings Ltd Pension & Life Assurance Scheme was closed to future accrual with effect from 31 March 2006. The most recent actuarial valuation of this Scheme was performed as at 5 April 2009.

The Trafford Park Printers 1990 Pension Scheme was closed to future accrual with effect from 31 December 2006. The most recent actuarial valuation for this Scheme was performed as at 1 April 2007.

The valuations for each of the Schemes have been updated to 28 March 2010 by a qualified independent actuary. The main assumptions made by the actuary were:

| | 2010 | 2009 |
|---|---|---|
| Rate of increase for pensions in payment | **3.80% pa** | 3.50% pa |
| Rate of increase in deferred pensions | **3.80% pa** | 3.50% pa |
| Discount rate | **5.80% pa** | 6.80% pa |
| Inflation assumption | **3.80% pa** | 3.50% pa |
| Expected return on plan assets: | | |
| Equities | **6.60% pa** | 6.25% pa |
| Real estate | **6.60% pa** | 6.25% pa |
| Bonds | **5.80% pa** | 6.80% pa |
| Gilts | **4.60% pa** | 4.25% pa |
| Cash | **4.00% pa** | 4.00% 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 with a minimum future improvement of 1% per annum. The assumptions are that a non-pensioner who retires in 2030 at age 65 will live on average a further 24 years after retirement if they are male and a further 28 years after retirement if they are female. A current pensioner aged 65 will live on average a further 23 years if they are male and a further 26 years if they are female.

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

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|---|---|---|---|---|
| Present value of funded obligations – all fully or partly funded | **29.6** | 23.1 | 14.8 | 16.0 | 28.2 |
| Fair value of plan assets | **(27.6)** | (21.2) | (13.7) | (13.3) | (24.9) |
| | **2.0** | 1.9 | 1.1 | 2.7 | 3.3 |
| Plan liabilities not disclosed | **–** | – | 0.1 | 0.7 | – |
| Net liability recognised in the balance sheet | **2.0** | 1.9 | 1.2 | 3.4 | 3.3 |

The amounts recognised in the income statement are as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest cost | **1.5** | 1.3 |
| Expected return on plan assets | **(1.1)** | (1.0) |
| Total pension cost recognised in the income statement | **0.4** | 0.3 |

These charges are included in operating costs.

### 28. Pension commitments continued

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Actuarial (loss)/gain immediately recognised | **(1.6)** | 0.5 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **23.1** | 14.8 |
| Acquisitions – through business combinations | **–** | 12.2 |
| Interest cost | **1.5** | 1.3 |
| Actuarial loss/(gain) | **5.9** | (4.0) |
| Benefits paid | **(0.9)** | (1.2) |
| At 28 March 2010 | **29.6** | 23.1 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **(21.2)** | (13.7) |
| Acquisitions – through business combinations | **–** | (9.6) |
| Employer contributions | **(1.9)** | (1.6) |
| Expected return on assets | **(1.1)** | (1.0) |
| Actuarial (gain)/loss | **(4.3)** | 3.5 |
| Benefits paid | **0.9** | 1.2 |
| At 28 March 2010 | **(27.6)** | (21.2) |

The actual return on plan assets was a gain of £5.4 million.

The Group expects to contribute £1.9 million to the defined benefit pension schemes during the year ending 3 April 2011.

The major categories of schemes' assets are as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| Equities | **10.9** | 8.4 |
| Bonds | **4.1** | 3.1 |
| Gilts | **10.4** | 8.1 |
| Real estate | **0.7** | 0.7 |
| Cash | **1.5** | 0.9 |
| | **27.6** | 21.2 |

Analysis of the movement in the balance sheet liability:

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **1.9** | 1.1 |
| Total expense recognised in the income statement | **0.4** | 0.3 |
| Acquisitions – through business combinations | **–** | 2.6 |
| Contributions | **(1.9)** | (1.6) |
| Net actuarial loss/(gain) recognised in the year | **1.6** | (0.5) |
| At 28 March 2010 | **2.0** | 1.9 |

# Notes relating to the financial statements continued

## 28. Pension commitments continued

Cumulative actuarial losses recognised in equity:

| | 2010 £m | 2009 £m |
|---|---|---|
| At 30 March 2009 | **5.3** | 4.3 |
| Acquisitions – through business combinations | **–** | 1.5 |
| Net actuarial loss/(gain) recognised in the year | **1.6** | (0.5) |
| At 28 March 2010 | **6.9** | 5.3 |

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.

## 29. Operating lease and similar commitments

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

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Expiring within one year | **7.5** | 7.3 | **4.2** | 4.3 |
| Expiring between two and five years inclusive | **28.2** | 30.0 | **9.6** | 25.3 |
| Expiring in over five years | **96.7** | 112.5 | **1.4** | 37.8 |
| | **132.4** | 149.8 | **15.2** | 67.4 |

## 30. Capital commitments authorised

Contracts entered into, but not provided for, for property, plant and equipment for the Group amounted to approximately £1.5 million (2009 £1.0 million).

## 31. 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 Trader Media Group, Emap and Trafford Park Printers (until 1 October 2008 when it became a subsidiary). The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

| | 2010 £m | 2009 £m |
|---|---|---|
| Sales | **3.3** | 0.4 |
| Purchases | **6.0** | 13.1 |
| Loans made | **–** | 72.1 |
| Preference shares issued | **–** | 235.4 |
| Interest on loans and preference shares | **87.8** | 84.0 |

At year end, balances outstanding in relation to these transactions amounted to £777.7 million (2009 £674.7 million).

The Group paid £141,907 (2009 £83,509) to two directors of the Scott Trust Limited for services rendered to Guardian News & Media Limited in the normal course of business and paid on a normal arm's length basis. The Group also paid £378,938 (2009 £301,540) to a law firm of which a Scott Trust Limited director is a partner.

During 2009 Guardian Media Group plc paid £59,229 to eight members of the Scott Trust in relation to their duties as trustees. A further £71,299 was paid to 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 £1,406,404 including substantial disbursements to a law firm of which a further member of the Scott Trust is a partner.

## 32. Ultimate controlling party

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

# Notes relating to the financial statements continued

## 33. 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% |
| **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 Radio London Limited^ | £1 ordinary shares | 100% |
| Smooth Radio Limited^ | £1 ordinary shares | 100% |
| Real Radio (North East) Limited^ | £1 ordinary shares | 100% |
| Real Radio (North West) Limited^ | £1 ordinary shares | 100% |
| Smooth Radio Midlands Limited^ | £1 ordinary shares | 100% |
| Smooth Radio Scotland Limited^- | £1 ordinary shares | 100% |
| Smooth Radio NE Limited^ | £1 ordinary shares | 100% |
| Rock Radio Manchester Limited^ | £1 ordinary shares | 100% |
| **GMG Property Services** | | |
| Vebra Solutions Limited^ | £1 ordinary shares | 100% |
| Core Estates Limited^ | £1 ordinary shares | 100% |
| CFP Software Limited^ | £1 ordinary shares | 100% |

| (b) Joint venture companies | Description of total shares | Percentage holding |
|---|---|---|
| Trader Media Group Limited^ | 10p ordinary shares | 50.1% |
| Eden 2 & Cie SCA=+ | 30p ordinary shares | 32.9% |

| (c) Associates | Description of total shares | Percentage holding |
|---|---|---|
| Seven Publishing Group Limited | £0.01 ordinary shares | 41.9% |
| MXR Holdings Limited^ | £1 ordinary shares | 24.3% |

^ Investments not held directly by Guardian Media Group plc
- Registered in Scotland
= Registered in Luxembourg, ultimate holding company of Emap International Limited
+ Following completion of a restructuring during 2010/11 GMG will hold a 32.9% interest in Eden 2 & Cie SCA

All the above subsidiary undertakings, joint ventures and associate companies are incorporated in Great Britain and registered in England and Wales except where noted.

# Guardian Media Group plc

## 2010 Company financial statements

# Report of the directors

The directors present their report and the audited financial statements of the Company for the year ended 28 March 2010.

**Activities and review of the business**
The Company is the holding company for the Guardian Media Group plc.

**Business review and future developments**
The loss for the year was £315.6 million (2009 profit £507.1 million). On 3 March 2010, the Board declared a dividend of 22.2p (2009 11.1p) per share on the ordinary share capital amounting to £200,000 (2009 £100,000) which was paid to The Scott Trust Limited on 3 March 2010.

**Creditor payment policy**
The Company has implemented systems to ensure the prompt recognition of all identifiable liabilities to creditors. Payments are made to these creditors in line with the CBI's Prompt Payment Code. The creditor days figure for the Company for the year was 28 days.

**Directors and directors' interests**
This information is shown in the Group section of the annual report on pages 13, 14 and 32.

**Tax status**
The Company is a close company for tax purposes.

**Financial risk management**
This information is shown in the Group section of the annual report on page 50.

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm they have complied with the above requirements in preparing these financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditors**
The directors confirm that so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken 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.

This statement is given and should be interpreted in accordance with the provision of S418 of the Companies Act 2006.

**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
9 June 2010

# 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 28 March 2010 which comprise the Company balance sheet and the notes relating to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**Respective responsibilities of directors and auditors**
As explained more fully in the statement of directors' responsibilities set out on page 75, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

**Opinion on financial statements**
In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 March 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the directors' report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**
We have reported separately on the Group financial statements of Guardian Media Group plc for the year ended 28 March 2010.

John Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 June 2010

# Company balance sheet

**As at 28 March 2010**

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Assets** | | | |
| **Fixed assets** | | | |
| Tangible assets | 3 | – | 0.1 |
| Investment fund | 4 | **139.6** | 185.0 |
| **Investments** | | | |
| Subsidiary undertakings | 5 | **502.0** | 619.5 |
| Joint ventures | 6 | **206.0** | 342.6 |
| Associates | 7 | **3.1** | 3.1 |
| Other investments | 8 | **1.6** | 1.5 |
| | | **852.3** | 1,151.8 |
| **Current assets** | | | |
| Debtors | 9 | **135.0** | 136.1 |
| Investment fund | 4 | **50.0** | – |
| Cash at bank and in hand | | **22.5** | 72.8 |
| | | **207.5** | 208.9 |
| **Current liabilities** | | | |
| Creditors: due within one year | 10 | **144.5** | 129.6 |
| **Net current assets** | | **63.0** | 79.3 |
| Creditors: due after more than one year | 11 | – | 0.1 |
| Retirement benefit liabilities | | **0.3** | – |
| **Net assets** | | **915.0** | 1,231.0 |
| **Capital and reserves** | | | |
| Share capital | 12 | **0.9** | 0.9 |
| Non distributable reserve | 13 | **0.1** | 0.1 |
| Profit and loss reserve | 13 | **914.0** | 1,230.0 |
| **Total shareholders' funds** | | **915.0** | 1,231.0 |

These financial statements were approved by the Board of directors on 9 June 2010 and signed on its behalf by:

Amelia Fawcett
Chair

Andrew Miller
Group chief financial officer

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 on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 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.

A separate profit and loss account dealing with the results of the Company has not been presented as permitted by section 408 of the Companies Act 2006.

### 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% |

### 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.

### Pensions
The Company operates the GMG Lifestyle Plan which is a defined contribution scheme; all Company employees are eligible to be members of this scheme. Contributions are charged to the profit and loss account in the period in which they are payable.

The Company is complying with FRS 17, "Retirement Benefits".

### 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.

# Notes relating to the financial statements continued

## 2. (a) Staff costs during the period including executive and non-executive directors

| | **2010 £m** | 2009 £m |
|---|---|---|
| Wages and salaries | **3.8** | 3.7 |
| Employer's social security costs | **0.4** | 0.4 |
| Employer's pension costs | **0.6** | 0.5 |
| | **4.8** | 4.6 |

## (b) Average monthly number of persons employed including executive and non-executive directors

| | **2010 No.** | 2009 No. |
|---|---|---|
| Administration | **46** | 46 |

## (c) Auditors' remuneration

| | **2010 £m** | 2009 £m |
|---|---|---|
| Audit services | **0.1** | 0.1 |
| Other services | **0.2** | 0.2 |

## 3. Tangible assets

| | **Plant and vehicles £m** |
|---|---|
| **Cost** | |
| At 30 March 2009 | 0.2 |
| Disposals | (0.2) |
| At 28 March 2010 | – |
| **Accumulated depreciation** | |
| At 30 March 2009 | 0.1 |
| Disposals | (0.1) |
| At 28 March 2010 | – |
| **Net book value at 28 March 2010** | – |
| Net book value at 29 March 2009 | 0.1 |

## 4. Investment fund

| | **2010 £m** | 2009 £m |
|---|---|---|
| At 30 March 2009 | **185.0** | – |
| Additions at cost | **42.1** | 212.6 |
| Disposals | **(37.5)** | (27.6) |
| At 28 March 2010 | **189.6** | 185.0 |

Fixed asset investments comprise investments in hedge funds and other managed funds. The fair values of these investments are detailed in note 10 in the Group section of this report on page 56.

The financial risk objectives and policies of the Company and exposure to risk is shown in the Group section of this report on page 50.

The investment fund has been analysed between fixed assets and current assets as follow:

| | **2010 £m** | 2009 £m |
|---|---|---|
| Fixed assets | **139.6** | 185.0 |
| Current assets | **50.0** | – |
| | **189.6** | 185.0 |

# Notes relating to the financial statements continued

## 5. Subsidiary undertakings

| | Shares £m | Loans £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 30 March 2009 | 402.1 | 495.6 | 897.7 |
| Additions | 50.0 | 17.7 | 67.7 |
| At 28 March 2010 | **452.1** | **513.3** | **965.4** |
| **Amounts written off** | | | |
| At 30 March 2009 | 278.2 | – | 278.2 |
| Charge for the period | 111.4 | 73.8 | 185.2 |
| At 28 March 2010 | **389.6** | **73.8** | **463.4** |
| **Net book value at 28 March 2010** | **62.5** | **439.5** | **502.0** |
| Net book value at 29 March 2009 | 123.9 | 495.6 | 619.5 |

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 72.

## 6. Joint ventures

| | Ordinary shares £m | Loans and preference shares £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 30 March 2009 | 7.0 | 342.2 | 349.2 |
| Interest | – | 37.8 | 37.8 |
| At 28 March 2010 | **7.0** | **380.0** | **387.0** |
| **Amounts written off** | | | |
| At 30 March 2009 | 6.6 | – | 6.6 |
| Charge for the period | – | 174.4 | 174.4 |
| At 28 March 2010 | **6.6** | **174.4** | **181.0** |
| **Net book value at 28 March 2010** | **0.4** | **205.6** | **206.0** |
| Net book value at 29 March 2009 | 0.4 | 342.2 | 342.6 |

Details of the principal joint ventures are shown in the Group section of this report on page 72.

## 7. Associates

| | Unlisted shares £m |
|---|---|
| **Cost** | |
| At 28 March 2010 and 29 March 2009 | **10.8** |
| **Amounts written off** | |
| At 28 March 2010 and 29 March 2009 | **7.7** |
| **Net book value at 28 March 2010 and 29 March 2009** | **3.1** |

Details of the principal associates are shown in the Group section of this report on page 72.

# Notes relating to the financial statements continued

## 8. Other investments

| | Unlisted shares £m | Term deposits/ loans £m | Total £m |
|---|---|---|---|
| At 30 March 2009 | 0.2 | 1.3 | 1.5 |
| Additions | – | 0.1 | 0.1 |
| At 28 March 2010 | **0.2** | **1.4** | **1.6** |

## 9. Debtors

| | 2010 £m | 2009 £m |
|---|---|---|
| Amounts owed by subsidiaries | **128.0** | 124.4 |
| Corporation tax | **2.4** | 4.0 |
| Deferred tax | **4.2** | 6.4 |
| Other debtors | **0.1** | 1.0 |
| Prepayments and accrued income | **0.3** | 0.3 |
| | **135.0** | 136.1 |

Deferred tax assets have not been recognised where they relate to losses where their future utilisation against profits cannot be reasonably foreseen. There is an unrecognised deferred tax asset at the balance sheet date of £1.4 million (2009 £nil).

## 10. Creditors: due within one year

| | 2010 £m | 2009 £m |
|---|---|---|
| Trade creditors | **0.1** | 0.1 |
| Amounts owed to subsidiaries | **137.3** | 120.7 |
| Taxation and social security | **0.9** | 0.3 |
| Other creditors | **4.3** | 6.5 |
| Accruals and deferred income | **1.9** | 2.0 |
| | **144.5** | 129.6 |

## 11. Creditors: due after more than one year

| | 2010 £m | 2009 £m |
|---|---|---|
| Accruals and deferred income | **–** | 0.1 |

## 12. Share capital

| | 2010 £m | 2009 £m |
|---|---|---|
| Authorised, issued, called up and fully paid: | | |
| 900,000 ordinary shares of £1 each | **0.9** | 0.9 |

## 13. Reserves

| | Note | Non distributable reserve £m | Profit and loss reserve £m |
|---|---|---|---|
| At 30 March 2009 | | 0.1 | 1,230.0 |
| Dividend paid | 18 | – | (0.2) |
| Loss for the year | | – | (315.6) |
| Retirement benefit liability – transferred from fellow subsidiary | | – | (0.2) |
| At 28 March 2010 | | **0.1** | **914.0** |

A separate profit and loss account dealing with the results of the Company has not been presented as permitted by Section 408 of the Companies Act 2006.

# Notes relating to the financial statements continued

### 14. Pensions

Defined benefit scheme
Effective from 8 February 2010, the Company became principal employer of The Surrey Advertiser Newspaper Holdings Ltd Pension & Life Assurance Scheme. The liability has been included on the Company balance sheet at 28 March 2010. This scheme was closed to future accrual with effect from 31 March 2006. The most recent actuarial valuation of this Scheme was performed on 5 April 2009.

Further information in respect of defined benefit pension schemes is shown in the Group section of the annual report on pages 69 to 71.

Defined contribution scheme
The Company operates the GMG Lifestyle Plan which 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.

### 15. Operating lease and similar commitments

There are no material operating leases and similar annual commitments.

### 16. Contingent liabilities and financial commitments

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

These include:

(a) the Company has given a guarantee to The Royal Bank of Scotland plc to secure the overdrafts of certain of its subsidiary companies.

(b) the Company has given a guarantee to Lloyds Bank PLC in respect of certain leasing obligations of certain subsidiary companies amounting to £72.5 million (2009 £79.6 million).

### 17. Capital commitments authorised

There are no contracts for capital expenditure for the Company (2009 £nil).

### 18. Dividends paid

Preference dividends paid during the year amounted to £nil (2009 £1,792).

On 3 March 2010, the Board declared a dividend of 22.2p per share (2009 11.1p) on the ordinary share capital amounting to £200,000 (2009 £100,000) which was paid to The Scott Trust Limited on 3 March 2010.

### 19. Related party transactions

In accordance with FRS 8 "Related Party Disclosures", the company is exempt from disclosing transactions between subsidiary, joint venture and associate members of Guardian Media Group plc.

In 2008/09, for the six month period to 1 October 2008, when the Scott Trust was wound up, the Guardian Media Group plc paid £59,229 to eight members of the Scott Trust in relation to their duties as trustees.

### 20. Ultimate controlling party

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

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