

**Guardian Media Group plc
Corporate Governance Code**

Approved by the Board 10 July 2013

Introduction and background

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. As a group we espouse the highest standards of corporate governance.

Whilst as an unquoted plc we were under no obligation to do so, until the January 2013 GMG Board meeting, we sought to comply voluntarily with the UK Code of Corporate Governance (UKCGC). The UKCGC is focused on promoting 'better interaction between the boards of listed companies and their shareholders' as part of an effective regime of corporate governance (see Preface to UKCGC). However, Guardian Media Group is an unquoted plc and is unusual in that it has only one shareholder, The Scott Trust Limited (STL). STL is unusual in that its shareholders do not derive any personal economic benefit from share ownership. Because of the close relationship between the boards of GMG and STL the issue of engagement between the two does not arise.

Following a review of our corporate governance regime, undertaken with the assistance and support of PwC, the GMG Board decided in January 2013 that for the year 2012/13 and subsequently we will move away from adherence to the UKCGC and adopt our own governance code - the Guardian Media Group plc Corporate Governance Code (GMG Code). This reflects, in part, a decision to cease to publish a listed company-style annual report and the Board's view that the core messages which we wish to express can be delivered more effectively and at lower cost through our website or other channels rather than through the medium of a listed-company style annual report as envisaged or required by the UKCGC.

The GMG Code draws on the main and supporting principles of the UKCGC (leadership, effectiveness, accountability, remuneration and relations with shareholders) but is adapted to reflect Guardian Media Group's particular circumstances as outlined above. We will therefore continue to be openly accountable and transparent – this is at the core of Guardian values – and we will comply with Companies Act requirements and applicable accounting standards and practice in regard to the preparation of our annual accounts. However, the new GMG Code more closely reflects the size and situation of our group and the nature of the relationship between GMG and STL.

We will continue to follow the 'comply or explain' approach envisaged by the UKCGC – that is, if in any respect we do not comply with the GMG Code we will explain the non-compliance.

Philip Tranter
July 2013

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1. Leadership

(a) *The Role of the Board*

The Company should be headed by an effective board which is collectively responsible for the long-term success of the Company.

- The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.
- All directors must act in what they consider to be the best interests of the company, consistent with their statutory duties
- The Board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report or website should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.
- The annual report or website should identify the Chair, the deputy Chair (where there is one), the Chief Executive Officer, the Senior Independent Director and the chairs and members of the Board committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.
- The Company should arrange appropriate insurance cover in respect of legal action against its directors and officers.

(b) *Division of Responsibilities*

There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

- The roles of Chair and Chief Executive Officer should not be exercised by the same individual. The division of responsibilities between the Chair and Chief Executive Officer should be clearly established, set out in writing and agreed by the Board.

(c) *The Chair*

The Chair is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

- The Chair is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chair should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.

- The Chair is responsible for ensuring that the directors receive accurate, timely and clear information.
- The Chair should ensure effective communication with The Scott Trust Limited and its board of directors.
- The Chair should on appointment meet the independence criteria set out in section 2(b) below.

(d) *Non-executive Directors*

Non-executive directors should constructively challenge and help develop proposals on strategy.

- Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning (subject to applicable protocols agreed with The Scott Trust Limited).
- The Board should appoint one of the non-executive directors to be the Senior Independent Director to provide a sounding board for the Chair and to serve as an intermediary for the other directors when necessary. The Senior Independent Director should be available to The Scott Trust Limited and its directors if they have concerns which contact through the normal channels of Chair, Chief Executive or other executive directors has failed to resolve or for which such contact is inappropriate.
- The Chair should hold meetings with the non-executive directors without the executives present.
- Led by the Senior Independent Director, the non-executive directors should meet without the Chair present at least annually to appraise the Chair's performance and on such other occasions as are deemed appropriate.
- Where directors have concerns which cannot be resolved about the running of the Company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the Chair, for circulation to the Board, if they have any such concerns.

2. Effectiveness

(a) *Composition of the Board*

The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

- The Board should be of sufficient size that the requirements of the business can be met and that changes to the Board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.
- The Board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.
- The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.
- No one other than the committee chairs and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.

(b) *Independence requirements*

The board should identify in the annual report or website each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- has been an employee of the Company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship;
- has received or receives additional remuneration from the Company apart from a director's fee, or participates in any incentive arrangements, or is a member of any group pension scheme;
- has close family ties with any of the Company's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents The Scott Trust Limited (being the Company's sole shareholder);
- has served on the board for more than nine years from first being appointed.

Given that the Company is a smaller company, there should be at least two non-executive directors determined by the board to be independent, and the board should have as its aim that at least half of the board (excluding the Chair) should comprise independent non-executive directors.

(c) *Appointments to the Board*

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

- The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.
- The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.
- There should be a nomination committee which should lead the process for Board appointments and make recommendations to the Board. A majority of members of the nomination committee should be independent non-executive directors. The Chair or an independent non-executive director should chair the committee, but the Chair should not chair the nomination committee when it is dealing with the appointment of his or her successor. The nomination committee should make available its terms of reference on the Company website, explaining its role and the authority delegated to it by the Board.
- The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- Non-executive directors should be appointed for terms of three years which may be renewed with the approval of the nomination committee, subject any resolution of the Board to the contrary and subject to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.
- The work of the nomination committee, including the process it has used in relation to board appointments, should be described in a separate section of the annual report or on the website. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of the Chair or a non-executive director. Where an external search consultancy has been used, it should be identified in the annual report or on the website and a statement made as to whether it has any other connection with the Company.

(d) *Commitment*

All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

- For the appointment of the Chair, the nomination committee should prepare a job specification, including an assessment of the time commitment expected,

recognising the need for availability in the event of crises. A Chair's other significant commitments should be disclosed to the board before appointment and included in the annual report or on the website. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report or on the website.

- The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.
- The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

(e) *Development*

All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

- The Chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board committees.
- The Company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.
- To function effectively all directors need appropriate knowledge of the Company and access to its operations and staff.
- The Chair should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet The Scott Trust Limited (as the Company's sole shareholder).
- The Chair should regularly review and agree with each director their training and development needs.

(f) *Information and support*

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

- The Chair is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.
- Under the direction of the Chair, the Company Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

- The Company Secretary should be responsible for advising the Board through the Chair on all governance matters.
- All directors should have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the Company Secretary should be a matter for the board as a whole.
- The Board should ensure that directors, especially non-executive directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

(g) *Evaluation*

At intervals not exceeding two years, the Board should undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors.

Evaluation of the Board should consider the balance of skills, experience, independence and knowledge of the company on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.

The Chair should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of directors.

Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties).

The Board should state in the annual report or on the website how performance evaluation of the Board, its committees and its individual directors has been conducted.

The non-executive directors, led by the Senior Independent Director, should be responsible for performance evaluation of the Chair, taking into account the views of executive directors.

(h) *Re-election*

All directors should be subject to retirement by rotation in accordance with the provisions of the Company's articles of association.

3. Accountability

(a) *Financial and business reporting*

The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

(Subject to applicable requirements of the Companies Acts and/or accounting practice) information may be presented via the Company's annual report and accounts and/or the Company's website as the Board and Board committees determine to be most appropriate.

(b) *Risk management and internal control*

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The Board should, at least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems. The review should cover all material controls, including financial, operational and compliance controls.

(c) *Audit committee and auditors*

The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The Board should establish an audit committee of at least two independent non-executive directors. The Chair may be a member of, but not chair, the committee provided the Chair was considered independent on appointment. The Board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

The main role and responsibilities of the audit committee should be set out in written terms of reference and such role and responsibilities should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the Company's internal financial controls and to review the Company's internal control and risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- to report to the Board on how it has discharged its responsibilities.

The audit committee should also review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The terms of reference of the audit committee, including its role and the authority delegated to it by the Board, should be made available on the Company's website.

Where requested by the Board, the audit committee should provide advice on whether the annual report and accounts and relevant information published on the Company's website, taken as a whole, is fair, balanced and understandable and provides the information necessary for The Scott Trust Limited (as the Company's shareholder) to assess the Company's performance, business model and strategy.

A separate section of the annual report or website should describe the work of the committee in discharging its responsibilities. This should include:

- the significant issues that the committee considered in relation to the financial statements of the Company, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

4. Remuneration

(a) Level and components of remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully, but the Company should avoid paying more than is necessary for this purpose. Where appropriate, a proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

- The performance-related elements of executive directors' remuneration should be stretching and designed to promote the long-term success of the Company.
- The remuneration committee should judge where to position the company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance.
- They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

- In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in the Appendix to this Code.
- Where an executive director is released to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.
- Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role and should not include performance-related elements.
- The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.
- Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

(b) *Procedure*

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The Board should establish a remuneration committee of at least two independent non-executive directors. The Chair may be a member of, but not chair, the committee if the Chair was considered independent on appointment. The role and responsibilities of the committee should be set out in written terms of reference, which should be made available via the website. Where remuneration consultants are engaged by the committee, they should be identified either in the annual report or on the website and a statement made as to whether they have any other connection with the Company.

- The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the Chair, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the Board but should normally include the first layer of management below board level.
- The remuneration committee should consult the Chair and/or Chief Executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care should be taken to recognise and avoid conflicts of interest.
- The Board itself should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles,

the board may however delegate this responsibility to a committee, which might include the Chief Executive.

- The Chair should ensure that the Company maintains contact, as required, with The Scott Trust Limited about remuneration and that a report on executive remuneration is presented to The Scott Trust Limited at least annually.

5. Relations with The Scott Trust Limited

There should be a dialogue with The Scott Trust Limited based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue takes place.

The Chair and Chief Executive will normally be the principal interface with The Scott Trust Limited (via the Chair of The Scott Trust Limited) for discussion of governance and strategy, but the Board should keep in touch with opinion of The Scott Trust Limited in whatever ways are most practical and efficient.

The Chair should ensure that the views of The Scott Trust Limited are communicated to the Board as a whole.

Non-executive directors should be offered the opportunity to attend scheduled meetings with The Scott Trust Limited and should expect to attend meetings if requested by The Scott Trust Limited.

Appendix

Design of performance-related remuneration for executive directors

The remuneration committee should consider whether the directors should be eligible for annual bonuses or to participate in other incentive arrangements. If so, performance conditions should be relevant, stretching and designed to promote the long-term success of the company. Upper limits should be set and disclosed.

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.