

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)

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(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

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(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).

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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.