

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.

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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.

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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	<i>Resigned on 2 November 2009</i>		
Mark Dodson	1 October 2005	<i>Resigned on 28 March 2010</i>		
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

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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	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.

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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