

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

The Guardian logo, featuring the word "guardian" in a white, lowercase, serif font on a red, tilted rectangular background. The logo is slightly blurred and appears to be part of a larger graphic.

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 word "pictures" in a dark, lowercase, serif font, positioned below the Guardian logo. It is also slightly blurred and appears to be part of a larger graphic.

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.

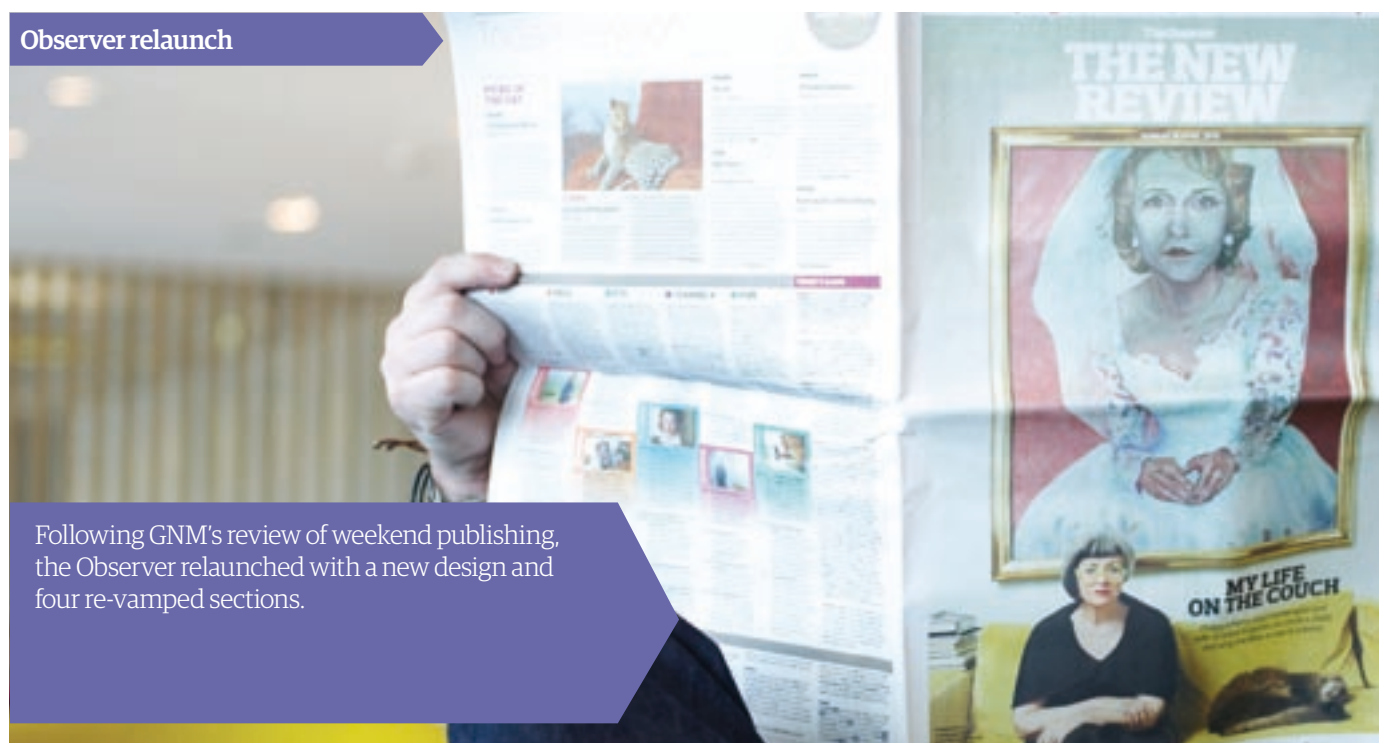
In the face of recession and a severe slowdown in the automotive sector in the UK and Ireland, TMG strengthened its market-leading position. Total operating profit before exceptional items was £104.8 million (2009 £110.8 million).

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.

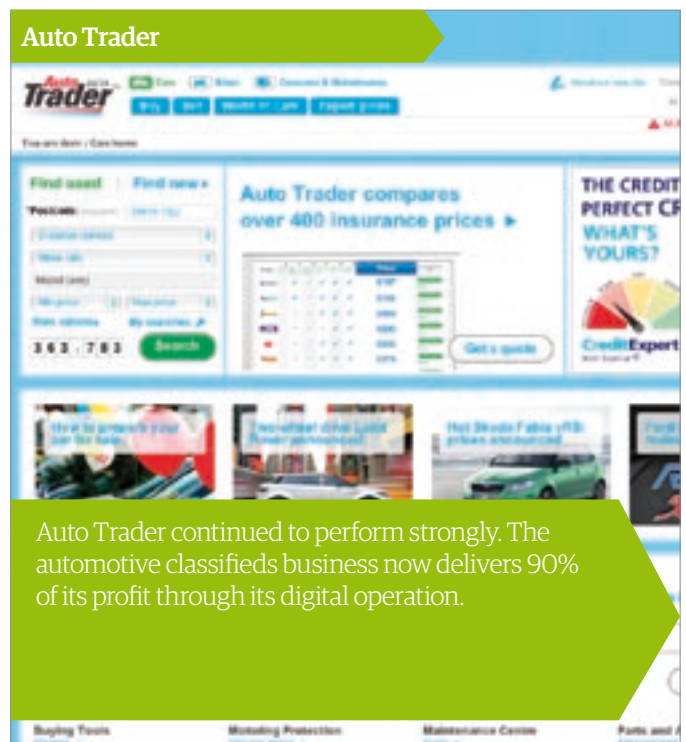
Carolyn McCall OBE
Chief executive, Guardian Media Group

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.