

# 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

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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.

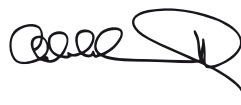
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The events of the last year have brought home to us all the critical importance of having the very best people - people with an unswerving commitment and dedication to GMG. Particularly in such challenging times in our industry, we cannot succeed without 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