

TELEWEST
COMMUNICATIONS
ANNUAL REPORT 1998

ONE CONNECTION



THE OPPORTUNITY FOR CABLE is to become the natural connection to the world, for homes and businesses. This is the opportunity Telewest is exploiting and momentum in our customer and financial growth is plain to see. 1999 will be the year of continued focus on the basics to steadily turn Telewest into a benchmark company for customer service, sales, marketing and delivery of new products.

ONE CONNECTION TO DELIVER TELEPHONY, TELEVISION, MULTI-MEDIA, DATA, INTERNET AND E-COMMERCE, ALL INTERACTIVELY, ALL FUTURE PROOFED



| | | REVENUE | £m |
|------|--|---------|----|
| 1998 | | 539 | |
| 1997 | | 387 | |
| 1996 | | 290 | |

| | | EBITDA | £m |
|------|--|--------|----|
| 1998 | | 146 | |
| 1997 | | 50 | |
| 1996 | | 0.5 | |

| | | EBITDA MARGIN | % |
|------|--|---------------|---|
| 1998 | | 27 | |
| 1997 | | 13 | |
| 1996 | | 0.2 | |

- 1.4 MILLION HOUSEHOLDS CONNECTED AND 34% PENETRATION
- 58% OF HOUSEHOLDS CONNECTED TAKE BOTH TELEVISION AND TELEPHONE SERVICES
- 42,000 BUSINESS CUSTOMERS TAKING 215,000 LINES

THE **NEW** TELEWEST IS A COMPANY WHICH IS BETTER ABLE
TO DELIVER ON THE PROMISE OF CABLE

AFTER THE ACQUISITION of General Cable and the outstanding interest in Birmingham Cable, Telewest became the largest provider of residential cable services in the UK and a growing force in business communications. We believe the Company is well positioned in key growth markets and will benefit from the growing demand for voice, video, data and Internet services.

ONE TELEWEST

We now have greater scale and greater scope.

ONE CONNECTION

One broadband connection for voice, video, data and Internet.

ONE BUSINESS DIVISION

A growing force in the supply of communications solutions to business customers.

ONE CUSTOMER FOCUS

A common vision to deliver the very best in cable unique products and customer service.

| | CUSTOMERS 000's RESIDENTIAL | LINES 000's BUSINESS |
|------|--------------------------------|-------------------------|
| 1998 | 1,370 | 215 |
| 1997 | 945 | 101 |
| 1996 | 769 | 68 |

| | TELEPHONY MARGIN % |
|------|--------------------|
| 1998 | 74 |
| 1997 | 76 |
| 1996 | 67 |

| | TELEVISION MARGIN % |
|------|---------------------|
| 1998 | 49 |
| 1997 | 42 |
| 1996 | 42 |

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

1998 was a year of considerable achievement. Telewest delivered strong customer and financial growth and momentum built up during the year. Through our acquisitions of General Cable and Birmingham Cable, we achieved greater scale and a marriage of complementary skills, which will enhance our ability to create value for customers and shareholders alike. Following the acquisitions, Telewest entered the UK FTSE 100 list of companies. Telewest has announced its digital platform and plans to introduce digital services before the year end, offering greater opportunity for the development of differentiated products and exploitation of the full potential of interactive, broadband cable.

GARY AMES AND TONY ILLSLEY



BACKGROUND

Since 1992, Telewest has managed a major network design and build programme to install a broadband infrastructure able to connect each of the homes and businesses in our franchises. This is now more than 75% complete and passes 4.2 million homes. We have also built a national network connecting all of our franchises.

As our networks are substantially complete, we have been able to cut back our rate of construction. Consequently, we are benefiting from a significantly lower level of capital expenditure and the ability to focus more single-mindedly on customer service, sales, marketing and delivery of new products so as to exploit the powerful asset we have created.

A YEAR OF GROWTH

During the year we built momentum in the existing Telewest franchises and substantially increased the customer base as a result of the merger with General Cable and the acquisition of Birmingham Cable. We ended 1998 with 1.4 million residential and business customers, an actual increase in our installed base of nearly 442,000 customers. On a pro forma basis (assuming a full year of General Cable and Birmingham Cable), cable television customers increased by 112,000 over the previous year.

Furthermore, cable television penetration in the original Telewest franchises increased by 3 percentage points, which was particularly encouraging given a 70% reduction in the number of new homes released to market in 1998 in those franchises, compared to the previous year.

Revenues grew by 40%, reflecting a 21% growth in the original Telewest franchises and £73 million of revenues from the new acquisitions. EBITDA increased by 194% compared to the previous year, to £146 million.

A NEW TELEWEST

The increasing scale and scope of our business has enhanced our negotiating leverage and will increasingly attract the imaginative creation of new content and services. This has been achieved both by organic growth and by our acquisition of General Cable, which completed in September last year, followed, in October, by our acquisition of the outstanding interest in Birmingham Cable.

Together, these acquisitions added over 1.6 million homes and 105,000 businesses and an additional 358,000 residential and 13,000 business customers. They also brought all our franchise areas, with the exception of Cable London, under our management control. This enables us to manage the Group and plan our service, systems and marketing development more effectively.

We reached agreement with Comcast and NTL in August 1998 regarding our interests in Cable London and have agreed terms under which, at our option, we will either purchase their interest or sell them ours before the end of September 1999.

As a company, we serve two broad markets: residential and business. The acquisitions of General Cable and Birmingham Cable have added not just scale, but complementary skills and resources.

Historically, General Cable placed more focus on the business market and achieved significantly greater revenues per customer than Telewest. This included the provision of enhanced voice and advanced data services, for which demand is growing rapidly.

Conversely, Telewest had achieved significantly greater penetration of the residential market, both television and telephony, than had General Cable.

The opportunity is to add to our growth momentum by applying General Cable's business market expertise across the whole Group and Telewest's residential expertise across General Cable franchises.

The integration of General Cable and Birmingham Cable with Telewest has proceeded well and the business services division is now fully integrated. From May this year, Telewest's Millennium and Front Row products will be marketed across the General Cable franchises and the whole Group will increasingly operate under a common brand, product, service, marketing and sales approach.

INVESTMENT BASE

The acquisition of General Cable was financed by a combination of new Telewest shares and cash, with the cash being provided through a pre-emptive share issue underwritten by three of Telewest's corporate shareholders. Following the acquisition, all of the Telewest convertible preference shares were converted into

Telewest ordinary shares. Subsequently, three of Telewest's corporate shareholders, Cox Communications, SBC Communications and Vivendi, disposed of their Telewest shares.

The result has been a large increase in Telewest's listed share capital, a simplification of the capital structure, an increase to 49% in the free float available to investors and our entry into the FTSE 100 index of UK companies. Together with our excellent operational and financial performance, substantial new investor interest has been attracted and our investor base has diversified.

The acquisition of the 27.47% interest in Birmingham Cable, previously owned by Comcast UK Cable Partners, was financed by a \$350 million issue of Senior Notes, at 11.25% in October 1998.

In the current year, we have completed our first offering of sterling denominated Senior Convertible Notes, raising some £300 million at 5.25%. We also intend to re-arrange, into one facility, what had been separate bank finance facilities for Telewest, General Cable and Birmingham Cable. As a precursor to this, we have announced our intention to offer Senior Notes to raise up to approximately £300 million. Whilst leaving the total of our debt facilities unaltered, the rearrangement will improve our overall financing terms and flexibility, as well as further diversifying our investor base.

BOARD AND MANAGEMENT

Following the General Cable acquisition and subsequent disposal by corporate shareholders of their Telewest shares, there have been several changes in our Board and senior management. The changes, including our own positions as Chairman and Chief Executive, are fully described in the Report of the Directors.

We would like to make particular mention of Fred Vierra, Stephen Davidson and David Van Valkenburg. Fred retired in

June 1998 as non-executive Chairman of Telewest. He had chaired Telewest since its flotation in 1994 and had seen it grow from the start of our operations to the announcement of the General Cable merger. He left with our warmest appreciation for his efforts and achievements. Stephen, who had been Chief Executive of Telewest since 1996 and, prior to that, Finance Director since 1993 and whose energy and skills made a substantial contribution to the Company, resigned in April 1998. David, who joined the Company in June 1997 as Group Operations Director and an Executive Director and returned to MediaOne in February 1999, made a significant contribution to Telewest.

Victoria Hull joined the Board in September 1998 as an Executive Director. She is our Company Secretary and General Counsel and has been with Telewest since 1994. Victoria's appointment is proper recognition of her expertise and achievements. We also welcomed Miranda Curtis and Graham Hollis, representing Liberty Media, and Stephen Boyd, representing MediaOne, to the Board.

OUR PEOPLE

In a year of considerable change and considerable achievement, our primary asset is our 6,350 people. It is their efforts that are reflected in this Report and it is they, working as one team, who will deliver the potential of Telewest. We are deeply appreciative of all their efforts.

OUTLOOK

We view the future with confidence. Our residential services have benefited greatly from the introduction of the Millennium packaging and our business services division has been strengthened by the addition of General Cable's product range and expertise. We have announced the digital platform upon which we will launch future services and placed orders for set-top boxes and related equipment. The opportunity exists for us to increasingly develop innovative and cable unique products. Telewest has a platform of scale and momentum and a clear strategy and direction. There remain many challenges still ahead for Telewest, but we are excited about the potential we have created and our ability to realise this potential.

We believe our results for 1998 have provided a solid foundation for the year ahead. We have made a good start to 1999 and are pursuing strategies to build upon this progress.



One Telewest

WE CAPITALISED ON MERGER AND ACQUISITION OPPORTUNITIES during 1998 and dramatically increased the number of potential consumers of our products and services. The Company now has the opportunity to access 33% of all UK franchised homes and over 400,000 businesses. The scale advantage is enhanced by the synergy of the skills and products we acquired through our acquisitions.

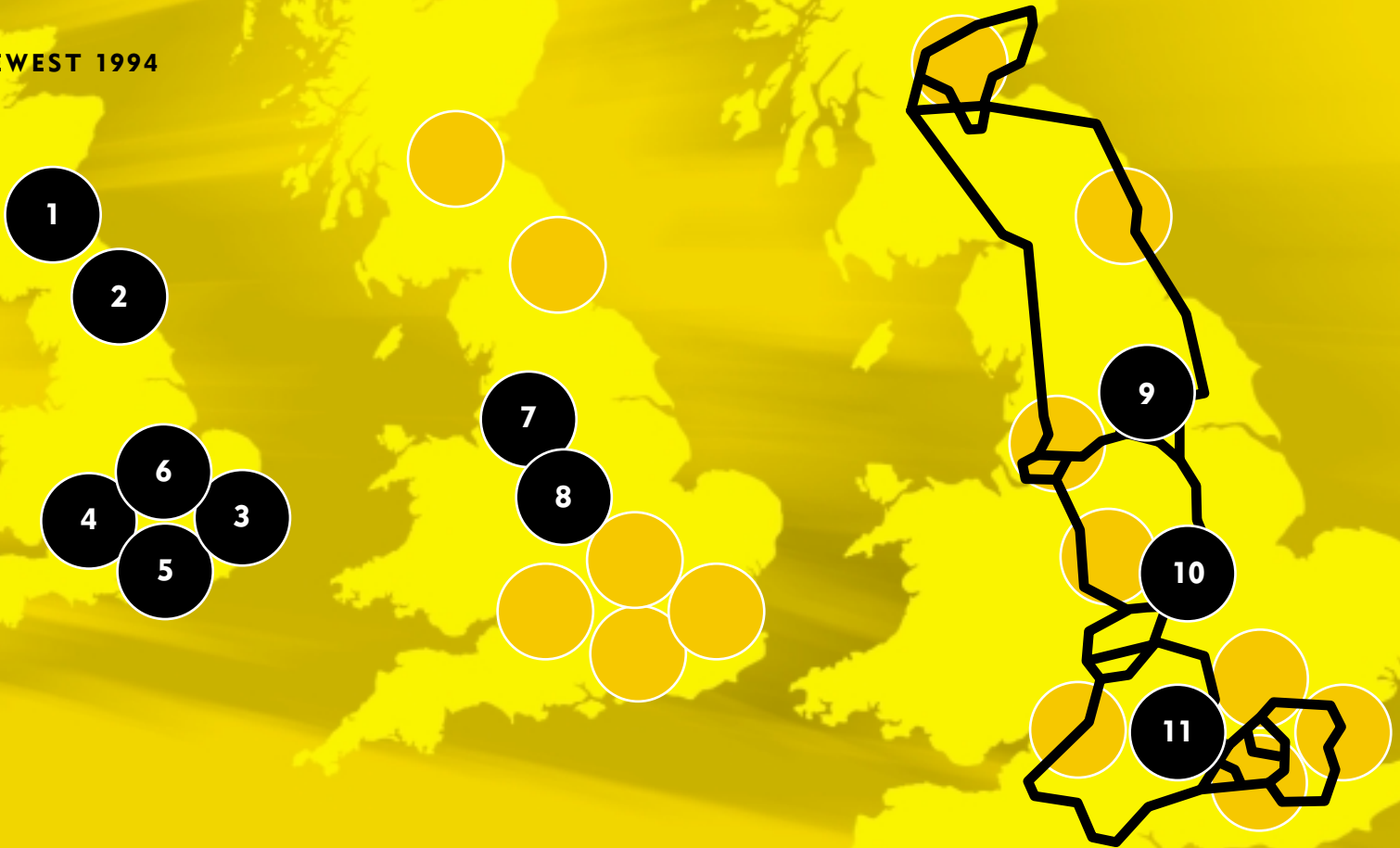
LEVERAGING OUR NEW SCALE AND **SYNERGIES**

TELEWEST 1998

Red line indicates national network

TELEWEST 1995

TELEWEST 1994



| | TELEWEST 1994 | | TELEWEST 1995 | | TELEWEST 1998 | |
|---------------------------|---------------|----------------|---------------|----------------|----------------|------------------|
| 1. SCOTLAND | 2,200 | 84,146 | 4,988 | 96,350 | 17,846 | 190,542 |
| 2. NORTH EAST | 542 | 24,826 | 1,349 | 34,163 | 5,999 | 86,614 |
| 3. SOUTH EAST | 24 | 9,481 | 1,203 | 25,021 | 7,503 | 99,596 |
| 4. SOUTH WEST | 4,067 | 80,913 | 8,244 | 84,824 | 25,475 | 142,148 |
| 5. LONDON SOUTH | 8,727 | 108,261 | 13,616 | 98,858 | 27,424 | 114,285 |
| 7. NORTH WEST | - | - | 6,808 | 137,065 | 25,220 | 204,713 |
| 8. MIDLANDS | - | - | 3,813 | 97,126 | 21,618 | 173,516 |
| 9. YORKSHIRE CABLE | - | - | - | - | 31,649 | 117,828 |
| 10. BIRMINGHAM CABLE | - | - | - | - | 23,465 | 161,098 |
| 11. CABLE CORPORATION | - | - | - | - | 29,150 | 78,857 |
| WHOLLY OWNED TOTAL | 15,560 | 307,627 | 40,021 | 573,407 | 215,349 | 1,369,197 |
| 6. CABLE LONDON† | 4,941 | 74,032 | 6,757 | 71,460 | 18,412 | 130,861 |
| EQUITY TOTAL | 18,031 | 344,643 | 43,400 | 609,137 | 224,555 | 1,434,628 |

*1994 Residential is CATV+REL
 †Equity interest 50%

BUSINESS LINES

RESIDENTIAL CUSTOMERS*

BUSINESS LINES

RESIDENTIAL CUSTOMERS

BUSINESS LINES

RESIDENTIAL CUSTOMERS

One connection

TELEWEST'S BROADBAND NETWORK ALREADY DELIVERS SERVICES TO 1.4 MILLION UK HOUSEHOLDS. We aim to increase our market share through the introduction of highly targeted products and by supporting them with great service. We intend to generate additional revenue from existing customers through better marketing of our range of products.

DELIVERING THE WORLD WITH CABLE **UNIQUE** PRODUCTS

PAY-PER-VIEW

Front Row has quickly become a successful pay-per-view service with 30% of all television customers having purchased one or more movies since its launch.

DIGITAL SERVICES

Digital will be the cable industry's home ground – our network has the capacity for the greatest range of products and is designed to provide instant and effective interactivity for a new range of cable unique services. Telewest's initial digital product range will be launched at the end of 1999.



MILLENNIUM

In the old Telewest franchises Millennium has added three full percentage points to television penetration and increased dual television and telephony customers from 51% of the customer base to 58%.



SECOND LINES

The number of telephony customers taking an additional phone line from Telewest has increased significantly from 3% to 6%.

One business division

TELEWEST'S BUSINESS SERVICES DIVISION has established itself as a major supplier of telecommunications and data solutions in its franchise areas. The Small & Medium Enterprises (SME) market has been, and remains, a core focus. Our customers benefit from a flexible approach, a broad range of products and strong local account management. With high capacity local networks and our national backbone network, we are well placed to capture the anticipated surge in demand for data services.

A **LEADER** IN SELECTED BUSINESS MARKETS

BRANN

The marketing and communications company **BRANN** chose Bristol as the location for a large new call centre to support Sainsbury's home shopping service. Efficient information management was a key factor in Brann's planning and prompted Telewest to recommend a solution that included the UK's first Gigabit link to handle the huge volume of data expected to be generated by the home shopping service.

The **BONHAM HOTEL IN EDINBURGH**

is the first to offer its guests a 'virtual office' in each of the 48 bedrooms. Using Telewest's high-speed data connections, the hotel is able to give its guests personal access to the Internet, email and PC applications such as word processing through the standard TV sets in each room.

THE BONHAM

Telewest is working with **KNOWSLEY BOROUGH COUNCIL** and the systems integrator Satelcom to develop the largest public access network in Europe. Due for completion in 2000, the multi-media network will link over 160 council sites and give more than 155,000 Merseyside residents instant, on-line access to council services.



BRITISH AIRWAYS



The World's Favourite Airline, **BRITISH AIRWAYS**, chose Telewest to provide them with a host of national and international voice and data services via the new Heathrow Fibre Ring and the Telewest National Network.

The **SCOTSMAN NEWSPAPER GROUP** has outsourced its entire voice and data requirements to Telewest. All fixed line and mobile communications for the group will be managed by Telewest, including a high capacity network it has recently installed to link six of the newspaper's operational sites in Scotland. Telewest is providing the managed communications services, as well as a Business TV service, all at a fixed annual cost, the first deal of its kind in Europe.

THE SCOTSMAN

One

customer focus

SINGLE-MINDED FOCUS on dramatically improving the marketing of our products and the service we provide to our customers. At Telewest, we're concentrating on developing that focus – everyone and everything devoted to enabling our frontline employees to deliver.

WORKING TO CREATE A NEW BENCHMARK IN SERVICE

A NEW BENCHMARK

To deliver the service improvements our customers deserve, we have implemented a three-phase programme to stabilise, evolve and innovate. We want to establish a new benchmark for service delivery.

PEOPLE

Training and staff development are high on our agenda to ensure we can deliver on our promises.

Y2K

Telewest's Year 2000 project team are on track with a programme designed to make our critical systems compliant with the British Standards Institute standard DISC PD2000-1:1998.



FOCUS

We have instigated a Company-wide programme to focus on the customer and it is delivering results.



SYSTEMS

During 1998 and into 1999 we invested heavily in hardware and software to support our rapidly growing customer base. We are currently constructing a new service centre in Sheffield and by the first quarter of 2000 all of Telewest's customer support centres will be using a common platform.



GROWTH

After an exceptional year for Telewest, in terms of penetration, growth and merger and acquisition activity, we have become the largest supplier of residential cable services in the UK. We now provide one, or more usually two or three, cable services to a total of 1.4 million households. Multi-channel television penetration stands at 25% in the original Telewest franchises, reflecting, primarily, improved marketing performance and the roll out of Millennium. In the enlarged Group, penetration stands at 23.8% as a result of lower penetration in the General Cable franchises, offset by penetration of 28% in Birmingham Cable. 30.5% of our available homes are now connected to Telewest's telephony services. Importantly, second telephone line penetration increased significantly from 3.2% to 6.2%, primarily as a result of increased requirement for Internet access. Dual residential telephony and cable television customers increased to 58.3%, up from 50.6% a year ago and household penetration reached 34.3%. Due to intense competitor activity, telephony churn for the year increased marginally to 21.1%, up 1.1 percentage points. For multi-channel television the figure dropped considerably from 34.0% at the end of 1997, to 29.0% for the end of 1998.

NEW SERVICES

At the start of 1998 we introduced our Millennium range of low-cost bundled television and telephony services across the original Telewest franchises. It immediately confirmed to us that consumers were attracted to the increase in choice and flexibility offered by Millennium, as penetration increased and churn declined. The average monthly revenue per cable television customer decreased, reflecting the sale of lower priced packages, but increased for cable telephony customers due to higher call volumes and pricing in the General Cable franchises and sales of additional services.

We successfully launched our Front Row movie service in May 1998. Customer response has been encouraging, with 30% of all television customers having purchased one or more movies since

its launch. As a result of this success, Front Row recently signed contracts with two more Hollywood studios – MGM and Universal. This additional content will provide more choice for the customer and enable us to expand the service to eight channels from four.

SERVICE

In the last Annual Report we stated our determination to change the focus of the business and to deliver real improvements to the service we provide. It will take time for perceptions to alter, to implement new systems and procedures and to reap the benefit of investment in training. Although we still have some way to go, we are already seeing the changes. Those changes are starting to be seen in the reduction of television churn rates achieved during the past year. We believe there will be a continuation of that trend throughout 1999.

DIGITAL

Although our competitors launched their digital services towards the end of 1998, we have not seen any decline in demand for our analogue services. Indeed, we saw strong growth in demand for our analogue services during the final quarter of 1998 when the satellite and digital terrestrial platforms were promoting their digital services heavily. We have now placed orders for digital equipment, both hardware and software. The digital television service will be followed by the launch of our high-speed Internet service delivered via cable modem technology. We believe this service has the potential to transform home Internet use in the UK just as it has in the US.

THE FUTURE

The variety of service options – telephone, Internet, broadcast and enhanced television, pay-per-view movies and events, near video on demand, information and transaction channels – is what will set us apart from our competitors. Only the cable industry can provide a single connection capable of delivering all of the customer's voice, video, data and Internet requirements.

GROWTH

The growth in Telewest's business services' revenues in 1998 was well above the Company's overall growth rate. Revenues of £84.2 million represent an increase of 92% over the previous year, which includes a 35% growth in the old Telewest business unit and revenues of £25.1 million from General Cable and Birmingham Cable. The growth in old Telewest was generated through a 15% increase in customers and an 18% increase in revenue per customer.

The now enlarged Telewest business services division ranks as a leading provider of voice and data services to the UK business community. We serve a total of over 42,000 business customers, who take over 215,000 lines, with services ranging from simple analogue telephony to sophisticated data communications solutions. With an average of 5.1 lines per customer, up from 4.0 at the end of 1997, each customer produced an average of £220 per month, an increase of 38.9%. The acquisitions of General Cable and Birmingham Cable further strengthened our range of products and services and provided additional skills. This improved our ability to provide comprehensive communications solutions to the Small to Medium Enterprises (SME) market, a sector which constitutes almost 70% of UK business telecommunications spend, and provides us with the opportunity to service selected additional markets.

The past year saw continuing success in familiar market sectors and an example of our knowledge and experience in providing sophisticated communications solutions was demonstrated by a significant contract completed in December. Telewest is working with Knowsley Metropolitan Borough Council and Satelcom (IT integrator) to link its 163 council sites, including schools and libraries. Telewest's expertise in the communications field was key to winning the contract (total value £8.5 million) ahead of several major competitors.

NEW MARKETS

The provision of data services to the travel sector has been a great success for the Imminus subsidiary of General Cable. Product development to address new markets, such as travel, will be a key focus during 1999, particularly to ensure that we are ready for the demand expected to arise from Internet-based electronic commerce.

An example of our developing expertise in electronic commerce is the contract to supply and manage an Internet Banking service to the Co-operative Bank. This service enables the bank's customers to review their accounts and to securely process transactions as if they were in the High Street. This dramatically reduces the bank's overheads. As a result of this service the Co-operative Bank is now widely acknowledged to be at the forefront of Internet Banking.

We will take maximum advantage of our key assets – our broadband local and national networks – through a focused range of innovative products, in addition to excellent service and a clearly defined strategy.

INTEGRATION

We have worked hard to integrate the three former company business services units and to develop a single unified strategy to take the enlarged Group forward. The three historically separate, regionally based business divisions of old Telewest, General Cable and Birmingham Cable have now been entirely integrated into a single, functionally based business, with both local and national focus. We aim to make 1999 a year of solid growth for Telewest's business services.

FINANCIAL REVIEW

Telewest Communications plc prepares financial statements under UK and US generally accepted accounting principles ("GAAP") both of which are included in this report. Financial statements prepared under UK GAAP can be found on pages 26 to 60; financial statements prepared under US GAAP can be found on pages 61 to 81.

In the discussion of the financial results that follows, unless specifically noted, all references to figures are identical under UK and US GAAP.

SUMMARY OF OPERATIONS YEARS ENDED 31 DECEMBER 1998 AND 1997

The General Cable Merger and the Birmingham Cable Acquisitions have all been accounted for under the acquisition method of accounting. As a result, our consolidated financial statements for the year ended 31 December 1998 include the results of General Cable and Birmingham Cable from 1 September 1998.

Revenue

The Group's consolidated revenue increased by £152.7 million or 39.5% from £386.5 million in 1997 to £539.2 million in 1998. The increase was attributable to the impact of the General Cable Merger and Birmingham Cable Acquisitions, the larger customer base created by our continuing network construction and an increase in the penetration of our residential and business services in our built-out franchise areas.

Cable television revenue

Cable television revenue increased by £42.0 million or 26.2% from £159.9 million in 1997 to £201.9 million in 1998. The increase was primarily attributable to a 31.2% increase (from 562,343 to 737,753) in the average number of customers in the year ended 31 December 1998, compared to the corresponding period in 1997. The increase in the average number of customers results from an increase in the number of homes passed and marketed (from 2,760,184 at 31 December 1997 to 3,993,972 at 31 December 1998, including 692,099 and 415,333 homes attributable to General Cable and Birmingham Cable, respectively) and from improved penetration in the Telewest Franchises.

Penetration increased from 22.0% as at 31 December 1997 to 23.8% as at 31 December 1998 compared to a reduction from 22.6% as at 31 December 1996 to 22.0% as at 31 December 1997. The increase in penetration resulted primarily from improved remarketing performance and the roll out of the Millennium packages offset in part by lower penetration in the General Cable Franchises. Churn improved from 34.0% in the 12-month period ended

31 December 1997 to 29.0% in the 12-month period ended 31 December 1998, due to the introduction of lower-priced Millennium packages which improved penetration in remarketed areas and improvements in customer service.

Average monthly revenue per cable television customer decreased slightly from £23.40 in 1997 to £22.39 in 1998 due to the introduction of lower priced packages in the Telewest Franchises and slightly lower levels of revenues per customer in General Cable and Birmingham Cable, offset partially by revenue derived from pay-per-view events, a reduction in promotional discounts offered in the Telewest Franchises and the full year effect of price increases implemented in the Telewest Franchises from 1 November 1997.

Telephony revenue

Telephony revenue increased by £106.2 million or 50.5% from £210.5 million in 1997 to £316.7 million in 1998.

Residential telephony revenue increased by £65.9 million or 39.5% from £166.6 million in 1997 to £232.5 million in 1998. Business telephony revenue increased by £40.3 million or 92.0% from £43.9 million in 1997 to £84.2 million in 1998.

The increase in residential telephony revenue in 1998 was primarily due to a 39.0% increase (from 732,487 to 1,018,138) in the average number of residential lines, and a slight increase in average monthly revenue per residential line from £19.19 in 1997 to £19.29 in 1998. The increase in the average number of residential lines results primarily from an increase in the number of homes passed and marketed (from 2,725,154 at 31 December 1997 to 3,975,462 at 31 December 1998, including 692,099 and 415,333 homes attributable to General Cable and Birmingham Cable, respectively) and increased penetration. The increase in the average monthly revenue per line was attributable primarily to the impact of General Cable's generally higher pricing as well as increased call volumes and sales of value-added services such as call waiting and voice messaging in the Telewest Franchises and was partly offset by price reductions in per-minute call charges in response to price-cutting by BT, our main competitor in residential telephony. We intend to continue reducing per-minute call tariffs and expect the revenue impact of these reductions to be offset in part through higher line rental fees, increased call volumes and sales of value-added services.

Residential telephony penetration increased from 29.7% at 31 December 1997 to 30.5% in 1998 and from 27.5% at 31 December 1996 to 29.7% in 1997. Churn increased from 20.0% in the 12-month period ended 31 December 1997 to 21.1% in the twelve months ended 31 December 1998.

FINANCIAL REVIEW

The increase in business telephony revenue in 1998 over 1997 was primarily attributable to a 75.7% increase (from 83,552 to 146,785) in the average number of business telephony lines in 1998. Average monthly revenue per business line increased by 8.4% from £43.62 in 1997 to £47.30 in 1998. The increase in the average number of business telephony lines was attributable to a 62.7% increase in the number of business premises passed and marketed (from 126,770 at 31 December 1997 to 206,235 at 31 December 1998, including 46,917 and 23,857 businesses attributable to General Cable and Birmingham Cable, respectively), and an increased focus on marketing services to larger businesses in the Telewest Franchises.

Other revenue

Other revenue increased by 28.1% from £16.1 million in 1997 to £20.6 million in 1998 and is derived primarily from management services provided to affiliated companies, Internet sales, cable publications and network management services provided to other operators, and advertising sales.

Operating costs and expenses

The Group's consolidated operating costs and expenses (which include direct costs of programming and interconnection; selling, general and administrative expenses; depreciation expense and amortisation expense) increased by 22.7% from £514.3 million in 1997 to £631.0 million in 1998 (20.8% under US GAAP from £540.7 million in 1997 to £652.9 million in 1998), primarily as a result of the inclusion of General Cable and Birmingham Cable.

Programming fees are the largest component of our operating costs in providing cable television services. We obtain most of our programming under contracts or industry rate cards which provide for payments based upon the number of subscribers. As a percentage of cable television revenues, programming costs decreased from 58.4% in 1997 to 51.0% in 1998, resulting from the negotiation of more favourable contract terms and a change in the mix of cable programme services purchased by our customers as more of our customers subscribe for Millennium packages.

Interconnection charges are the largest component of our telephony operating costs. As a percentage of telephony revenue, telephony operating costs increased from 23.8% in 1997 to 26.0% in 1998. Whilst telephony operating costs were impacted favourably by continuing reductions in the interconnection charges in the UK market generally and a growing percentage of interconnections completed entirely within our network (involving no interconnection charges), this favourable impact was offset by lower margins resulting from increased competition with BT and an increased percentage of certain types of lower margin calls, and a lower level of interconnect credits resulting primarily from modified rate structures that more accurately estimate prepaid interconnection costs received during 1998 and relating to prior periods, based on the final agreed rates applicable for those periods.

Selling, general and administrative expenses, which include, among other items, salary and marketing costs, decreased

as a percentage of revenue from 50.0% in 1997 to 38.6% in 1998. The improvement was largely due to the growth in revenues and continued reduction in support costs per customer as we benefit from the economies of scale resulting from our enlarged operations. We expect that our selling, general and administrative expenses will continue to decline as a percentage of revenue, as revenues increase and we continue to benefit from economies of scale resulting from our enlarged operations.

Total labour and overhead costs capitalised in connection with new subscriber installations and network build for the year ended 31 December 1998 were £79.8 million compared to £76.9 million for the corresponding period in 1997. The level of capitalised overheads increased as a result of new subscribers, offset in part by a reduction in network construction.

Depreciation expense increased 26.1% from £177.3 million in 1997 to £223.6 million in 1998. The increase of £46.3 million was principally attributable to capital expenditure associated with the Group's continuing construction activities and the impact of the General Cable Merger.

Under US GAAP, amortisation expense increased in the years ended 31 December 1997 and 1998 from £26.4 million to £36.2 million, primarily as a result of the goodwill arising from the General Cable Merger. Under UK GAAP, goodwill arising on acquisitions was previously written off directly to reserves. Under FRS 10, goodwill arising from the General Cable Merger and Birmingham Cable Acquisition is recorded as an intangible asset and amortised over 20 years. £14.2 million has been charged as amortisation expense in 1998 (Nil in 1997).

Other income/(expense)

The Group's share of the net losses of its affiliated companies accounted for under the equity method of accounting, principally Birmingham Cable (prior to the General Cable Merger) and Cable London, was £18.7 million and £21.3 million in 1998 and 1997, respectively under UK GAAP (£18.7 million and £21.7 million for the years ended 31 December 1998 and 1997, respectively under US GAAP).

Financial expenses, net under UK GAAP, consist primarily of interest expense of £227.5 million in 1998 (£154.7 million in 1997) and net foreign exchange losses of £6.9 million in 1998 (£31.0 million in 1997) offset in part by interest income earned on short-term investments and loans to affiliated companies of £19.1 million in 1998 (£14.7 million in 1997). Under US GAAP, financial expenses, net, consist primarily of interest expense of £206.1 million in 1998 (£141.7 million in 1997), and foreign exchange losses of £11.9 million in 1998 (£23.5 million in 1997) offset in part by interest income earned on short-term investments and loans to affiliated companies of £15.1 million in 1998 (£8.0 million in 1997).

Interest expense increased by £72.8 million in 1998 (£64.4 million under US GAAP) primarily as a result of the interest expense on higher outstanding borrowings relating to the Senior Secured Facility (as defined on page 52)

FINANCIAL REVIEW

entered into in May 1996, higher accrued interest expense on the Senior Discount Debentures (as defined on page 52) issued by the Group in October 1995, the inclusion of General Cable and Birmingham Cable interest expense from 1 September 1998 and interest expense incurred on the 1998 Senior Notes issued in November 1998. The foreign exchange losses under UK GAAP in 1998 primarily relate to the amortisation of the foreign currency option premium which hedges the Senior Discount Debentures and the amortisation of exchange losses arising on the translation of the debentures to Pounds Sterling using the contracted exchange rate of the option. The foreign exchange gains and losses under US GAAP arise principally from the re-translation of the US dollar denominated debentures to pounds sterling using the 31 December 1998 exchange rate and marking certain derivative instruments to their market value at 31 December 1998.

SUMMARY OF OPERATIONS

YEARS ENDED 31 DECEMBER 1997 AND 1996

The Group's consolidated revenue increased by £96.2 million or 33% from £290.3 million in 1996 to £386.5 million in 1997. The increase was attributable to the larger customer base created by our continuing network construction and penetration and price increases in certain segments of our business.

Cable television revenue

Cable television revenue increased by 32% from £121.2 million in 1996 to £159.9 million in 1997. The increase was primarily attributable to a 28% increase (from 440,212 to 562,343) in the average number of customers in 1997 over 1996. The increase in the average number of customers is a result of an increase in the number of homes passed and marketed (from 2,335,953 at 31 December 1996 to 2,760,184 at 31 December 1997).

Average monthly revenue per cable television customer increased 2% from £22.95 in 1996 to £23.40 in 1997. This was due to the increase in the number of pay-per-view events, a decrease in promotional discounts offered by us and price increases implemented from 1 November 1997.

Telephony revenue

Telephony revenue increased by 32% from £159.6 million in 1996 to £210.5 million in 1997.

Residential telephony revenue increased by 33% from £125.0 million in 1996 to £166.6 million in 1997. Business telephony revenue increased by 27% from £34.6 million in 1996 to £43.9 million in 1997.

The increase in residential telephony in 1997 over 1996 was primarily due to a 42% increase (from 514,156 to 732,487) in the average number of residential lines. This resulted from an increase in the number of homes passed and marketed (from 2,254,734 at 31 December 1996 to 2,725,154 at 31 December 1997) and an increase in penetration of the total base of homes passed of 2.2 percentage points. The revenue increase from the growth in the average number of residential lines was partially offset by a 5% decrease in the average monthly revenue per residential line, from £20.26

in 1996 to £19.19 in 1997. This decrease was mainly attributable to price reductions in per-minute call charges in response to price-cutting by BT.

The increase in business telephony revenue in 1997 over 1996 was primarily attributable to a 58% increase (from 52,849 to 83,552) in the average number of business telephony lines in 1997, which was partially offset by a 20% decrease in the average monthly revenue per business line, from £54.50 in 1996 to £43.62 in 1997. This decrease was mainly attributable to price reductions in per-minute call charges and increased volume discounts, together with increased sales of Centrex, a business telecommunications product which provides more lines to customers but has a lower average monthly revenue per line.

Other revenue

Other revenue increased by 70% from £9.5 million in 1996 to £16.1 million in 1997. Other revenue is derived primarily from management services provided to affiliated companies, Internet sales, cable publications and network management services provided to other operators and advertising sales.

Operating costs and expenses

The Group's consolidated operating costs and expenses increased by 21% from £445.7 million in 1996 to £540.7 million in 1997.

Programming fees are the largest component of our operating costs in providing cable television services. We obtain most of our programming under contracts which provide for payments based upon the number of subscribers. As a percentage of cable television revenues, programming costs remained stable at 58% in both 1996 and 1997.

Interconnection charges are the largest component of operating costs in providing telephony services. As a percentage of telephony revenue, telephony operating costs decreased from 33% in 1996 to 24% in 1997 due to the continuing reduction in interconnection charges in the UK telephony market, a growing percentage of calls handled within our network and by credits relating to interconnection charges from earlier periods, which were recalculated based on the final agreed rates applicable for that period.

Selling, general and administrative expenses, which include, among other items, salary and marketing costs, decreased as a percentage of revenue from 58% in 1996 to 50% in 1997. The improvement was largely due to the growth in revenues and continued reduction in support costs per customer as we benefited from the economies of scale resulting from our enlarged operations. Total labour and overhead costs capitalised in 1997 were £76.9 million, compared to £54.0 million in 1996.

Depreciation expense increased 37% from £129.7 million in 1996 to £177.3 million in 1997. The increase of £47.6 million was principally attributable to capital expenditure associated with our continuing construction activities (£37.2 million) and a reclassification of certain network assets in 1997 (£10.4 million). Amortisation expense increased slightly from £26.1 million in 1996 to £26.4 million in 1997.

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Other income/(expense)

The Group's share of the net losses of its affiliated companies accounted for under the equity method, principally Birmingham Cable Corporation Limited and Cable London plc, was £21.3 million and £15.2 million in 1997 and 1996, respectively, under UK GAAP (£21.7 million and £16.0 million in 1997 and 1996, respectively, under US GAAP due to a difference in the classification of tax expense).

Financial expenses, net, under UK GAAP consist primarily of interest expense of £139.0 million in 1997 (£96.8 million in 1996), and foreign exchange losses of £31.0 million in 1997 (£25.9 million in 1996) offset in part by interest income earned on short-term investments and loans to affiliated companies of £9.1 million in 1997 (£17.2 million in 1996). Under US GAAP, financial expenses consist primarily of interest expense of £141.7 million in 1997 (£105.2 million in 1996), and foreign exchange losses of £23.5 million in 1997 (£2.8 million in 1996) offset in part by interest income earned on short-term investments and loans to affiliated companies of £8.0 million in 1997 (£16.7 million in 1996).

Interest expense increased by £42.2 million in 1997 (£36.5 million under US GAAP) primarily as a result of the interest expense on higher outstanding borrowings relating to the Senior Secured Facility and the higher accrued interest expense on the Senior Discount Debentures issued by the Group in October 1995. The foreign exchange losses under UK GAAP in 1997 primarily relate to the amortisation of the foreign currency option premium, which hedges the Senior Discount Debentures and the amortisation of exchange losses arising on the translation of the debentures to Pounds Sterling using the contracted exchange rate of the option. The foreign exchange losses under US GAAP in 1997 arose principally from the re-translation of the US Dollar denominated debentures to Pounds Sterling, using the 31 December 1997 exchange rate, and marking the associated hedging instruments to their market value at 31 December 1997.

LIQUIDITY AND CAPITAL RESOURCES

Since our initial public offering in 1994, we have financed the capital costs of network construction, our operations and our investments in affiliated companies primarily with the proceeds of an initial public offering of our ordinary shares (£414.2 million, net of fees), borrowings under syndicated bank facilities (an aggregate of £1.1 billion outstanding as of 31 December 1998), the proceeds of the issuance in 1995 of \$300 million principal amount of the Senior Debentures and \$1,536 million principal amount at maturity (\$900 million gross proceeds) of the Senior Discount Debentures, a portion of the proceeds of the issuance in November 1998 of \$350 million principal amount of 1998 Senior Notes, the proceeds of issuance in February 1999 of £300 million principal amount of Convertible Notes and cash from operations. In addition, we raised an aggregate of £241.1 million through the Pre-emptive Issue in connection with the General Cable Merger and an aggregate of \$230 million through the issuance of the Bridge Notes to finance the Birmingham Comcast Acquisition. The Bridge Notes were repaid from a portion of the proceeds of the 1998 Senior Notes.

We incurred a net cash inflow from operating activities of £129.1 million, £68.6 million and £28.5 million in 1998, 1997 and 1996, respectively, under UK GAAP. On a US GAAP basis, net cash provided by operating activities was £20.4 million, £3.0 million and £18.1 million in 1998, 1997 and 1996, respectively. The difference between UK and US GAAP is principally due to a difference in the classification of interest in the cash flow statement. We incurred a net cash outflow from investing activities of £633.9 million, £438.6 million and £483.2 million in 1998, 1997 and 1996, respectively. Our principal investing activities historically have been construction of our local distribution networks and the National Network and the funding of affiliated companies. As a result of a reduction in the pace of network construction, capital expenditure on fixed assets was £266.1 million in 1998 compared to £440.6 million in 1997.

Cash provided to us by financing activities was £624.8 million, £386.2 million and £79.0 million in 1998, 1997 and 1996, respectively. Cash provided by financing activities was principally related to the drawdown of £206.1 million, £392.5 million and £100.4 million under the Senior Secured Facilities in 1998, 1997 and 1996, respectively, £241.1 million proceeds from the Pre-emptive Issue in the year ended 31 December 1998, and £210.3 million being proceeds from the issue of the 1998 Senior Notes.

We anticipate that our principal uses of cash in the future will be to fund capital expenditures and to service debt. We expect to continue to incur operating losses for the foreseeable future. However, we currently anticipate that our operating losses should begin to decline as we realise the benefits from anticipated increases in revenues and cost savings expected to arise following the General Cable Merger and the Birmingham Cable Acquisitions, from economies of scale in the areas of interconnection, programming and network operations, as well as from the elimination of duplicate overheads. We also expect to have significant capital needs in the future. Nevertheless, with much of our network construction complete, we expect our capital expenditures for network construction to continue at levels substantially lower than those incurred in recent years, offset in part by increased capital expenditures relating to set-top boxes and other equipment required for the introduction of digital and high speed data services.

We anticipate that our principal sources of funds in the future will be cash from operating activities, cash-in-hand and proceeds from existing or new bank facilities and debt or equity issuances. We cannot assure you that any additional financing we require in the future will be available on favourable terms or at all.

As of 31 December 1998, we had cash balances of £40.9 million (excluding £187.4 million that is restricted as to use to providing security to certain lessors of equipment to General Cable).

We continue to consider how best to optimise the potential economies of scale and other synergies that we may achieve as a result of the General Cable Merger and the

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Birmingham Acquisitions. This has resulted in, and will likely continue to result in, changes to the pre-existing strategies of certain of our borrowing groups and to their anticipated net funding requirements.

In response to these changes and in an effort to simplify our financing facilities and provide more flexibility, we have commenced discussions with our bank lenders with respect to refinancing our three existing separate facilities. On 9 March 1999, four of our existing lenders committed to underwrite a new £1.5 billion New Credit Facility to refinance these three facilities. The lenders' commitment to provide the facility is subject to various conditions, including the execution of mutually acceptable documentation and the satisfaction of conditions precedent thereunder, the accuracy and completeness of information provided to the lenders in connection with the New Credit Facility and the absence of circumstances which have or are reasonably likely to have a material adverse effect on the successful syndication of the facility. In addition, our ability to borrow under the New Credit Facility will be subject to our satisfaction of certain conditions precedent. There can be no assurance that the conditions will be satisfied or that the new facility will become available.

Subsequent to the approval of the Report of Directors, MediaOne announced on 22 March 1999 its proposed merger with Comcast Corporation. Depending on the ultimate structure of that transaction, as well as the extent of MediaOne and Liberty Media's shareholdings in the Company at the time of the merger and the arrangements between them with respect to their shareholdings at that time, it could constitute a change of control under our high yield debt and convertible notes. If so, and if it were followed by a specified rating decline within a certain period of time, then the Company could be required to offer to repurchase such securities. If those securities were trading above their offer price (as they are now), we would not expect holders to tender in the offer. If trading below, we may seek waivers or would need to arrange appropriate financing.

Whilst this potentially creates uncertainty for the Company, we believe that, ultimately, this situation will be managed successfully with our corporate shareholders.

CAPITAL EXPENDITURES

The capital expenditure requirements of Telewest, General Cable and Birmingham Cable have been primarily for the construction of local distribution networks and, in the case of Telewest, the National Network.

The following chart sets out the capital expenditures for Telewest, General Cable and Birmingham Cable for 1998, 1997 and 1996.

| | Year ended 31 December | | |
|------------------|------------------------|--------------|--------------|
| | 1998 £m | 1997 £m | 1996 £m |
| Telewest | 266.1 | 440.6 | 515.6 |
| General Cable | 44.9 | 134.1 | 85.4 |
| Birmingham Cable | 16.5 | 41.1 | 56.8 |
| Total | 327.5 | 615.7 | 657.8 |

As of 31 December 1998, our broadband network was capable of providing approximately 75% of the homes in the Owned and Operated Franchises with cable television services (and slightly fewer with cable telephony services). In 1997 and through 31 December 1998, approximately £49 million of Telewest's total capital expenditures related to construction of the National Network, which was completed in September 1998. In late 1997, with much of our network construction complete, we substantially reduced the pace of our network construction.

We expect our capital expenditure requirements to be approximately £350 to £450 million in each of 1999 and 2000, of which approximately 15% to 20% is expected to relate to the launch of our digital television and high-speed Internet services and the remainder is expected to relate to continued network construction. The capital expenditures for the launch of our digital service are primarily for digital set-top boxes and therefore will vary depending on subscription levels.

MARKET RISK

The principal market risks (ie, risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- Interest rate changes on variable-rate long-term bank debt; and
- Foreign exchange rate changes, generating translation and transactional gains and losses on our non-sterling denominated debt instruments.

We use derivative financial instruments solely to hedge our exposure to these market risks, and we do not enter into these instruments for trading or speculative purposes.

Interest rate risk

Our outstanding long-term bank debt is denominated in Pounds Sterling and bears interest at variable rates. We seek to reduce our exposure to adverse interest rate fluctuations on borrowings under our current senior bank facilities principally through interest rate swaps.

Our interest rate swaps provide for payments by us at a fixed rate of interest (ranging from 7.175% to 7.910%) and the receipt of payments based on a variable rate of interest. The swaps have maturities ranging from 15 February 2000 to 31 March 2004.

The aggregate notional principal amount of these hedging arrangements is £1.2 billion. At 31 December 1998 the aggregate amount outstanding under these senior bank facilities was £1.1 billion.

You can find further information on the interest rate swaps in Note 4 to the US GAAP financial statements and Note 17 in the UK GAAP financial statements.

Foreign currency exchange risk

At 31 December 1998, our fixed rate debt instruments were denominated in US dollars. We have entered into certain derivative instruments to reduce our exposure to adverse changes in exchange rates. These hedge instruments

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comprise a foreign currency swap, a foreign currency option and a series of foreign exchange forward contracts. Our results may be materially influenced by future exchange rate movements, due to the requirement that the hedge instruments be marked to their market value at the end of the financial period and the US dollar-denominated 1995 Debentures and 1998 Senior Notes are re-translated to Pounds Sterling using the period-end exchange rate.

The foreign currency swap fully hedges against adverse exchange rate fluctuations on the principal amount of the Senior Debentures and the associated interest payments. The foreign currency option provides protection against exchange rate fluctuations on the Senior Discount Debentures below a rate of \$1.452:£1.00, and allows us to benefit from positive exchange rate movements. Both hedging instruments provide protection up to 1 October 2000, the early redemption date of the 1995 Debentures.

In addition, a series of foreign exchange forward contracts fully hedge the interest payments on the 1998 Senior Notes until 3 November 2003 and partly hedge the principal on the 1998 Senior Notes until 2 October 2000. You can find further information on the exchange rate instruments in Note 4 to the US GAAP financial statements and Note 17 in the UK GAAP financial statements.

EUROPEAN ECONOMIC AND MONETARY UNION

European Economic and Monetary Union commenced on 1 January 1999 in the eleven member states of the European Union which satisfy the convergence criteria set forth in the Maastricht Treaty and elected to participate at that stage (the "Member States"). As a result, on 1 January 1999, (1) exchange rates in the Member States became irrevocably fixed, (2) a single currency (the "euro") intended to replace the national currencies of the Member States was introduced, and (3) authority for conducting monetary policy for the Member States was transferred to the European Central Bank. Full implementation of European Economic and Monetary Union will occur over a three-year transitional period, during which time both the euro and the national denominations of the Member States will exist side by side. Although the UK Government has stated that the UK may wish to join the single currency at a later date, the UK Government has opted out from European Economic and Monetary Union at this stage. Accordingly, the UK was not a participant on 1 January 1999 and the Pound Sterling was unaffected on 1 January 1999.

As substantially all of our revenues and expenses are denominated in currencies of countries not currently participating in European Economic and Monetary Union, we do not anticipate a significant level of euro-denominated transactions in the period following 1 January 1999. In addition, because the Pound Sterling was unaffected by the implementation of the European Economic and Monetary Union on 1 January 1999, we will continue to record and report our business transactions in Pounds Sterling. We believe that the introduction of the European Economic and Monetary Union and the euro have not had, and are not expected to have, a material adverse effect on our

financial condition or results of operations. If and when the UK does participate in the euro, there can be no assurance that the cost of ensuring that our UK operations are euro compliant will not have an adverse effect on our financial condition and results of operations.

YEAR 2000 COMPLIANCE

In November 1997, we established a steering committee, supported by a dedicated project team, to establish and monitor procedures required to achieve Year 2000 compliance in the Telewest Franchises. In 1997, General Cable and Birmingham Cable established similar project teams for their franchises. The three Year 2000 project teams have now been integrated and are responsible for managing programs that review products, systems and services we use in our businesses to determine Year 2000 compliance. They rely on in-house testing and confirmation from relevant suppliers and manufacturers. Following a review of all our products, systems and services, the Year 2000 project teams identified approximately 4,300 items which were date dependent. Of those items, as of 31 December 1998, the project teams confirmed that 47% were Year 2000 compliant. Of the remaining 53%, as at that date, the project teams had identified 400 items that were non-compliant; the remainder were awaiting confirmation as to compliance.

The Year 2000 project teams work with suppliers and manufacturers to modify or upgrade products, systems and services that are non-compliant. In the event that modifications cannot be made or upgrades are not available, we intend to actively seek and secure alternative suppliers or develop contingency arrangements. The Year 2000 project teams are also working with those parties with whom our networks interconnect and from whom we otherwise receive services (eg, programme suppliers) to determine Year 2000 compliance. We cannot provide assurance that these parties will achieve Year 2000 compliance or that, even if achieved, there will be no disruptions in interconnection or other supply arrangements in the Year 2000.

The project objective is to ensure complete compliance in advance of the Year 2000. We believe that our relatively modern systems and systems upgrades planned for 1999 that incorporate external package solutions that are Year 2000 compliant, should help us achieve this objective. We estimate that the aggregate cost of achieving Year 2000 compliance will be approximately £4.0 million, of which we had spent approximately £2.5 million up until 31 December 1998. Although we believe that we will achieve Year 2000 compliance in advance of 1 January 2000, we cannot provide assurance that we will do so.

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SAFE HARBOR STATEMENT UNDER THE US PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

The discussion above and contained elsewhere in this report includes certain statements that are, or may be deemed to be, forward-looking statements within the meaning of US securities laws. These forward-looking statements relate to, among other things, our anticipated cost savings, revenue growth, operating efficiencies, future liquidity, introduction of services and our plans and objectives. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

There are a number of important factors that could cause our actual results and future development to differ materially from those expressed or implied by those forward-looking statements, including, but not limited to: the Group's ability to successfully integrate the General Cable Group business and to achieve cost savings and synergies we expect to arise from the General Cable Merger; the extent to which consumer demand for voice, video, data and Internet services increases; the extent to which consumer preference develops for cable television over other methods of providing in-home entertainment; the extent to which customers accept cable telephony as a viable alternative to telephony services provided by BT; the Group's ability to successfully introduce digital television services in a timely manner; the Group's ability to penetrate markets and respond to changes or increases in competition, including the introduction of digital satellite services by BSkyB or other digital satellite operators, and digital terrestrial services by ONdigital or other digital terrestrial operators; the Group's ability to respond to new or changed government regulation; the Group's ability to manage growth and expansion; the Group's ability to improve operating efficiencies, including through cost reductions; the Group's ability to construct and upgrade our network in a cost-efficient and timely manner; the Group's ability to raise additional financing; the Group's ability to refinance our syndicated bank facilities and other indebtedness; adverse changes in the price or availability of telephony interconnection or cable television programming; disruptions in supply of programming, services and equipment; and the performance of Cable London (the Group currently owns approximately 50% of Cable London and does not control it).

CONSOLIDATED FINANCIAL HIGHLIGHTS

(ALL AMOUNTS IN £MILLION)

| Year ended 31 December | UK GAAP | | | | | | US GAAP | | | | | |
|--|---------|----------------------|---------|---------|---------|----------------------|---------|----------------------|---------|---------|---------|----------------------|
| | 1998 | 1998 Pro forma | 1997 | 1996 | 1995 | 1995 Pro forma | 1998 | 1998 Pro forma | 1997 | 1996 | 1995 | 1995 Pro forma |
| REVENUE | | | | | | | | | | | | |
| Cable television | 201.9 | 239.9 | 159.9 | 121.2 | 64.7 | 83.7 | 201.9 | 239.9 | 159.9 | 121.2 | 64.7 | 83.7 |
| Telephony – residential | 232.5 | 285.6 | 166.6 | 125.0 | 57.6 | 81.2 | 232.5 | 285.6 | 166.6 | 125.0 | 57.6 | 81.2 |
| Telephony – business | 84.2 | 133.5 | 43.9 | 34.6 | 17.4 | 20.6 | 84.2 | 133.5 | 43.9 | 34.6 | 17.4 | 20.6 |
| Other | 20.6 | 22.0 | 16.1 | 9.5 | 5.1 | 5.7 | 20.6 | 22.0 | 16.1 | 9.5 | 5.1 | 5.7 |
| Total revenue | 539.2 | 681.0 | 386.5 | 290.3 | 144.8 | 191.2 | 539.2 | 681.0 | 386.5 | 290.3 | 144.8 | 191.2 |
| OPERATING COSTS & EXPENSES | | | | | | | | | | | | |
| Programming | (103.0) | (123.3) | (93.4) | (69.9) | (32.2) | (42.9) | (103.0) | (123.3) | (93.4) | (69.9) | (32.2) | (42.9) |
| Telephony | (82.3) | (117.2) | (50.1) | (52.7) | (29.5) | (38.7) | (82.3) | (117.2) | (50.1) | (52.7) | (29.5) | (38.7) |
| Selling, general and administrative | (207.9) | (259.7) | (193.3) | (167.3) | (105.4) | (137.8) | (207.9) | (259.7) | (193.3) | (167.3) | (105.4) | (137.8) |
| Depreciation | (223.6) | (276.3) | (177.3) | (129.7) | (61.5) | (82.3) | (223.6) | (279.6) | (177.3) | (129.7) | (60.0) | (80.8) |
| Amortisation ⁽¹⁾ | (14.2) | (46.8) | – | – | – | – | (36.2) | (59.7) | (26.4) | (26.1) | (7.9) | (25.3) |
| | (631.0) | (823.3) | (514.3) | (419.6) | (228.6) | (301.7) | (653.0) | (839.5) | (540.7) | (445.7) | (235.0) | (325.5) |
| Operating loss | (91.8) | (142.3) | (127.8) | (129.3) | (83.8) | (110.5) | (113.8) | (158.5) | (154.2) | (155.4) | (90.2) | (134.3) |
| OTHER INCOME (EXPENSE) | | | | | | | | | | | | |
| Share of loss of affiliates ⁽⁴⁾ | (6.5) | (12.5) | (11.1) | (15.2) | (12.1) | (12.1) | (18.7) | (12.5) | (21.7) | (16.0) | (12.8) | (12.8) |
| "Financial expenses, net" ⁽²⁾ | (215.3) | (238.2) | (171.0) | (105.4) | (18.8) | (25.3) | (201.3) | (234.6) | (156.2) | (90.8) | (34.6) | (41.1) |
| Other | 1.1 | (0.5) | (0.8) | (1.0) | (0.7) | (0.7) | 1.1 | (0.6) | (0.4) | (0.2) | 0.1 | 0.1 |
| Net loss | (312.5) | (393.5) | (310.7) | (250.9) | (115.4) | (148.6) | (332.7) | (406.2) | (332.5) | (262.4) | (137.5) | (188.1) |

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- Note 1 Goodwill arising before 1998 was set off under UK GAAP directly against Reserves. With effect from December 1998, under FRS 10 "Goodwill and Intangible Assets", goodwill arising on acquisitions is now being amortised over its estimated useful economic life of 20 years. Under US GAAP, goodwill is generally amortised over 20 years.
- Note 2 The accounting treatment for financial instruments is different under UK and US GAAP, as explained in the financial statements.
- Note 3 Pro forma information has been included for 1995 to demonstrate the effect of including the results of former SBCC franchises for the full year ended 31 December 1995. The pro forma information is not commented upon in the Financial Review.
- Note 4 The accounting treatment for affiliates is now different under UK and US GAAP after the introduction of FRS 9 "Associates and Joint Ventures". Under UK GAAP, the Group's share of affiliate losses is presented in terms of share of operations, share of interest receivable and share of interest payable.
- Note 5 For 1998, the financial information has been presented on a pro forma basis assuming the General Cable Merger and the Birmingham Cable Acquisitions had taken place on 1 January 1998. The pro forma information is not commented upon in the Financial Review.

| | | |
|--|------|-----------------|
| | 1998 | 145,958 |
| | 1997 | 49,577 |
| | 1996 | 465 |
| | 1995 | (28,085) |
| | 1994 | (18,601) |
| | 1993 | (10,800) |

EBITDA – £000

Owned and operated

| | | |
|--|------|--------------|
| | 1998 | 539.2 |
| | 1997 | 386.5 |
| | 1996 | 290.3 |
| | 1995 | 144.8 |
| | 1994 | 72.0 |
| | 1993 | 40.3 |

Total revenue – £000

OPERATING STATISTICS

OWNED AND OPERATED

| | London South & South East | Midlands & South West | Scotland & North East | Yorkshire & North West | Western London | Birmingham Cable | Telewest Group (pro forma)* | Cable London | | Owned & operated and Cable London on Equity Basis |
|--------------------------------------|---------------------------|-----------------------|-----------------------|------------------------|----------------|------------------|-----------------------------|--------------|-----------------------|---|
| | | | | | | | | Total 100 % | Equity Interest 50.0% | |
| RESIDENTIAL CABLE | | | | | | | | | | |
| TELEVISION | | | | | | | | | | |
| Homes passed and marketed | 651,048 | 850,514 | 785,769 | 599,209 | 692,099 | 415,333 | 3,993,972 | 377,842 | 188,921 | 4,182,893 |
| Residential television subscribers | 165,001 | 209,483 | 207,535 | 142,268 | 110,032 | 117,856 | 952,175 | 93,973 | 46,987 | 999,162 |
| Penetration rate | 25.3% | 24.6% | 26.4% | 23.7% | 15.9% | 28.4% | 23.8% | 24.9% | 24.9% | 23.9% |
| Churn rate | 32.8% | 26.6% | 33.8% | 25.3% | 29.4% | 28.2% | 29.5% | 32.2% | 32.2% | 29.7% |
| Average monthly revenue per customer | £23.92 | £22.75 | £22.95 | £22.00 | £20.89 | £21.56 | £22.49 | £23.01 | £23.01 | £22.51 |
| RESIDENTIAL TELEPHONY | | | | | | | | | | |
| Homes passed and marketed | 645,630 | 850,775 | 772,961 | 598,664 | 692,099 | 415,333 | 3,975,462 | 377,842 | 188,921 | 4,164,383 |
| Residential telephone customers | 172,969 | 291,494 | 251,959 | 189,870 | 174,881 | 131,588 | 1,212,761 | 96,321 | 48,161 | 1,260,922 |
| Penetration rate | 26.8% | 34.3% | 32.6% | 31.7% | 25.3% | 31.7% | 30.5% | 25.5% | 25.5% | 30.3% |
| Residential telephone lines | 198,646 | 308,898 | 263,477 | 202,466 | 177,026 | 136,901 | 1,287,414 | 104,203 | 52,102 | 1,339,516 |
| Churn rate | 24.0% | 18.8% | 24.2% | 19.7% | 22.2% | 16.8% | 21.1% | 29.4% | 29.4% | 21.4% |
| Average monthly revenue per line | £22.14 | £18.93 | £18.23 | £19.07 | £23.74 | £21.53 | £20.07 | £27.82 | £27.82 | £20.37 |
| BUSINESS TELEPHONY | | | | | | | | | | |
| Business telephone customers | 6,822 | 9,787 | 6,904 | 5,673 | 8,236 | 4,874 | 42,296 | 3,368 | 1,684 | 43,980 |
| Business telephone lines | 34,927 | 47,093 | 23,845 | 25,220 | 60,799 | 23,465 | 215,349 | 18,412 | 9,206 | 224,555 |
| Average number of lines | 5.1 | 4.8 | 3.5 | 4.4 | 7.4 | 4.8 | 5.1 | 5.5 | 5.5 | 5.1 |
| Average monthly revenue per line | £49.57 | £37.74 | £47.99 | £34.43 | £94.99 | £55.62 | £58.58 | £57.40 | £57.40 | £58.53 |

*Pro forma data assumes the General Cable Merger and Birmingham Cable Acquisitions had taken place at 1 January 1998.

BOARD OF DIRECTORS



GARY AMES



TONY ILLSLEY



CHARLES BURDICK



VICTORIA HULL



LORD GORDON BORRIE QC

GARY AMES

54, is a non-executive Director and Chairman. He is President and Chief Executive Officer of MediaOne International. Previously he was President and Chief Executive Officer of US West Communications. He is also a Director of Albertsons Inc and Tektronix Inc in the US, and a non-executive Director of Flextech plc.

TONY ILLSLEY

42, was appointed Chief Executive Officer and a Director of Telewest in September 1998. From June 1995 until September 1998, Mr Illsley served as President of Walkers Snack Foods Limited, part of the PepsiCo Group. Previously he was President of Pepsi-Cola Asia Pacific from January 1993 until March 1994 and President of Pepsi-Cola in Japan from June 1988 until December 1992. Prior to joining PepsiCo Inc., Mr Illsley worked in senior marketing positions for Colgate Palmolive.

CHARLES BURDICK

47, is the Group Finance Director, appointed in February 1997. He was acting Group Finance Director from September 1996. Prior to this he was Vice President Finance and Assistant Treasurer at MediaOne Inc. Prior to joining MediaOne in 1990, he worked in Treasury and Corporate Development roles at, *inter alia*, Time Warner and Carnation International.

VICTORIA HULL

37, is the Company Secretary and General Counsel and was appointed a Director in September 1998. Prior to joining the Company she was a solicitor in the corporate department of Clifford Chance, where she qualified in 1987.

LORD GORDON BORRIE QC

68, is a non-executive Director. He was the Director General of Fair Trading from 1976-1992. He also serves as a non-executive Director of Woolwich plc, The Mirror Group plc, Three Valleys Water plc and Newspaper Publishing plc.



TONY RICE



ANTHONY (COB) STENHAM



MIRANDA CURTIS



STEVE BOYD



GRAHAM HOLLIS

TONY RICE

47, was appointed a non-executive Director in September 1998. Mr Rice served as a non-executive Director of General Cable from October 1997 to the completion of the General Cable merger. He is the Group Managing Director – Commercial Aircraft of British Aerospace, having served in this position since June 1998. Previously he was Chief Executive of British Aerospace Asset Management from September 1995 to June 1998 and Group Treasurer of BAe from July 1991 to September 1995.

ANTHONY (COB) STENHAM

67, is the non-executive Deputy Chairman of the Board and Chairman of the Audit and Remuneration Committees. Previously, he was Chairman of Arjo Wiggins Appleton plc. He is also a non-executive Director of The Rank Organisation plc, Standard Chartered plc, Unigate plc, Jarrold & Sons and Rothmans International BV.

MIRANDA CURTIS

43, was appointed a non-executive Director in September 1998. She has been President of Tele-Communications International Inc. (which is in the process of changing its name to Liberty Media International Inc.) since February 1999. Prior to this she was Executive Vice President of Tele-Communications International Inc. since September 1996. From May 1992 until August 1996, Ms Curtis served in senior management positions for Tele-Communications International Inc. Prior to joining Tele-Communications International Inc., she worked in the UK cable industry with the predecessors of Telewest and Flextech and in the BBC's commercial division.

STEVE BOYD

46, is Executive Vice President for European Wireless Operations at MediaOne International. Joining US WEST in 1989 from Booz Allen & Hamilton, he has since held a variety of senior executive positions within the MediaOne Group, including President of its Domestic Wireless and Directory Operations and executive Director for corporate strategy at US WEST Inc.

GRAHAM HOLLIS

47, has served as a non-executive Director of Telewest since March 1999. He has been an Executive Vice President of Tele-Communications International Inc. (which is in the process of changing its name to Liberty Media International Inc.) since September 1996 and served as Chief Financial Officer of Tele-Communications International Inc. since May 1995. Previously, he was Director of Finance of Tele-Communications International Inc. from July 1994 until May 1995. Prior to joining the TCI Group, he was Vice President – Finance of DTC Management, LLC, a subsidiary of the Peninsula and Oriental Steam Navigation Company ("P&O") from January to July 1994. From September 1986 until December 1993 he held several other finance and accounting positions with subsidiaries of P&O.

During the year, and to the date of this report, the following resigned as directors of the Company: Mr Viera on 15 April 1998, Mr Singer on 19 March 1998, Mr Brett on 16 March 1999 (appointed 15 April 1998), Mr Shaner on 11 November 1998, Mr Robbins on 8 January 1999, Mr Evans on 29 September 1998 (appointed 19 March 1998), Mr Davidson on 24 April 1998, Lord Griffiths on 15 April 1998 and Mr Van Valkenburg on 16 March 1999.

FINANCIAL STATEMENTS UNDER UK GAAP

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REPORT OF THE DIRECTORS

1. FINANCIAL STATEMENTS

The Directors have pleasure in submitting their Annual Report together with the consolidated financial statements of the Company and its subsidiary undertakings for the year ended 31 December 1998.

The UK GAAP financial statements are set out on pages 26 to 60 and the Auditors' report thereon, on page 39.

The US GAAP financial statements are set out on pages 61 to 81 and the Auditors' report thereon, on page 62.

2. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Chairman's and Chief Executive's Statement on pages 2 to 5, the Operating Review on pages 14 and 15 and the Financial Review on pages 16 to 23 form part of this report. Information on likely future developments of the business of the Company and its activities is to be found in those sections. The principal activities of the Company are the provision of voice, video, data and Internet services to customers over a broadband cable network, as more fully described in the Operating Review and Financial Review.

During the year, Telewest acquired the issued share capital of General Cable PLC for a consideration of approximately £900 million (based on the Telewest closing share price on 1 September 1998, the date of completion of the acquisition). In October 1998, Telewest acquired the 27.47% interest of Comcast UK Cable Partners Limited in Birmingham Cable Limited for £125 million in cash plus £5 million for certain subordinated debt and fees. In November 1998, Telewest issued \$350 million of Senior Notes at 11.25% due 2008 to finance the purchase of Birmingham Cable Limited.

3. POST BALANCE SHEET EVENTS

On 19 February 1999 Telewest issued £300 million at 5.25% of Senior Convertible Notes to various institutions. Save as disclosed, there were no material post balance sheet events between the end of the financial year and the date of this Report.

4. DIVIDENDS

The Directors have not recommended the payment of a dividend in respect of the Telewest shares for the financial year ended 31 December 1998. No dividend was recommended for payment for the financial year ended 31 December 1997.

5. BOARD OF DIRECTORS

Details of all the Directors of the Company, including the non-executive Directors, appear on pages 24 and 25.

In accordance with the Company's Articles of Association, each of the Directors will retire from office at the Annual General Meeting and each will offer himself for re-election at the Annual General Meeting.

6. BOARD COMMITTEES

a) Remuneration Committee

Details of the Remuneration Committee appear on page 33.

b) Audit Committee

Details of the Audit Committee appear on page 32.

7. DIRECTORS' INTERESTS

Directors' interests (all of which are beneficial) in Telewest shares¹ as at 31 December 1998 were as follows:

a) Directors' share interests

Telewest shares under option

| | 31 Dec 1997 (or date of appointment) | Granted during 1998 | Date of grant | Exercised during 1998 | 31 Dec 1998 | Option price |
|---|--|-------------------------|------------------|--------------------------|------------------|-----------------|
| Anthony Illsley (appointed 29 Sept 1998) | – | 22,388 ² | 29 Sept 1998 | | 22,388 | 134p |
| | | 1,306,273 ² | 29 Sept 1998 | | 1,306,273 | 135.5p |
| | | 326,323 ^{3(a)} | 29 Sept 1998 | | 326,323 | – |
| | | 352,112 ^{3(b)} | 20 Nov 1998 | | 352,112 | – |
| Charles Burdick | 740,424 ⁵ | | | | 740,424 | 117.5p |
| | 25,423 ⁵ | | | | 25,423 | 118p |
| | | 182,316 ^{3(b)} | 20 Nov 1998 | | 182,316 | – |
| | | 264,910 ^{4(a)} | 20 Nov 1998 | | 264,910 | – |
| | | 244,565 ^{4(b)} | 20 Nov 1998 | | 244,565 | – |
| | | 26,232 ⁶ | 20 Nov 1998 | | 26,232 | – |
| Victoria Hull (appointed 29 Sept 1998) | 75,802 ^{5(a)} | | | | 75,802 | 171.5p |
| | 53,192 ^{5(b)} | | | | 53,192 | 141p |
| | 25,000 ⁷ | | | | 25,000 | – |
| | | 88,028 ^{3(b)} | 20 Nov 1998 | | 88,028 | – |
| | | 79,505 ^{4(a)} | 20 Nov 1998 | | 79,505 | – |
| | | 97,826 ^{4(b)} | 20 Nov 1998 | | 97,826 | – |

Notes:

- None of the Directors are or were interested in the convertible preference share capital of the Company. Mr Illsley owns 55,495 Telewest shares, Mr Rice owns 24,860 Telewest shares and Mr Burdick owns 47,320 Telewest shares in the form of ADRs. The interests of the Directors described herein have not changed between the end of the financial year and the date of this report.
- These options were granted under the Telewest Executive Share Option Schemes (described on page 34) and are exercisable (subject to the satisfaction of a performance condition) between 29 September 2001 and 28 September 2008.
- These shares were allocated under the Telewest Long-Term Incentive Plan (described on page 34) and (subject to the satisfaction of a performance condition) may be transferred to the Directors concerned, for no payment, in respect of those allocated to Mr Illsley in September 1998 as to 50% in September 2001 and 50% in September 2002 (3(a)) and in respect of those allocated to Mr Illsley, Mr Burdick and Ms Hull in November 1998 as to 50% in March 2002 and 50% in March 2003 (3(b)).
- These shares were allocated under the Telewest Long-Term Incentive Plan (described on page 34) under arrangements agreed by the Board so that Mr Burdick and Ms Hull would not be prejudiced by the inability of the Company to make awards in November 1997 and March 1998 because of a "closed period" and (subject to the satisfaction of a performance condition) may be transferred to the Directors concerned, for no payment, in respect of those allocated in respect of November 1997 as to 50% in November 2000 and 50% in November 2001 (4(a)) and in respect of those allocated in March 1998 as to 50% in March 2001 and 50% in March 2002 (4(b)). Following the pre-emptive offer in 1998 the Board agreed to adjust the Telewest Long-Term Incentive Plan shares to reflect the dilutive effect of the issue such that Mr Burdick now has 282,086 shares allocated in respect of November 1997 and 260,422 allocated in respect of March 1998 and Ms Hull has 84,659 shares allocated in respect of November 1997 and 104,168 allocated in respect of March 1998.
- These options are held under the Telewest Executive Share Option Schemes (described on page 34) and are exercisable (subject to the satisfaction of a performance condition) in respect of those granted to Mr Burdick in 1997, between 13 March 2000 and 12 March 2007 and in respect of those granted to Ms Hull in 1995, between 16 June 1998 and 15 June 2002 (5(a)) and in respect of those granted in 1996, between 11 March 1999 and 10 March 2006 (5(b)). Following the pre-emptive offer in 1998 the Board agreed to adjust the executive share options to reflect the dilutive effect of the issue such that Mr Burdick now has 788,431 options exercisable at 110.3p and 27,071 options exercisable at 110.8p. Ms Hull has 56,640 options exercisable at 132.4p and 80,716 options exercisable at 161.1p.
- These options were granted under the Telewest Equity Participation Plan (described on page 34) and are exercisable on payment of £1 in full between 20 March 2001 and 19 March 2005. Following the pre-emptive offer in 1998 the Board agreed to adjust Mr Burdick's options to reflect the dilutive effect of the issue such that he now has 27,932 options under the plan.
- This award was made in January 1997 pursuant to the Telewest Restricted Share Scheme (described on page 34) in respect of Telewest shares. The shares become exercisable, for no payment, between 21 January 2000 and 20 January 2007. Following the pre-emptive offer in 1998 the Board agreed to adjust Ms Hull's shares under the Telewest Restricted Share Scheme such that she now has 26,620 shares.

The option prices are all lower than the middle market price on 31 December 1998, which was 173.5p and the range during the year was 70p to 208.5p. More information on share price movements during the year is given in Shareholder Information on page 82.

Save as disclosed above, no right to subscribe for shares in the Company or its subsidiaries was granted to or exercised by a Director, nor any member of his immediate family during 1998.

Save as disclosed above, the Directors had no interests in the Company's issued share capital or the issued share capital of its subsidiaries at the dates given above.

b) Directors' interests in material contracts

The Company obtains a significant amount of its cable television programming from providers in which Flextech plc (approximately 36.8% of whose share capital is owned by Liberty Media and approximately 6.7% of whose share capital is owned by MediaOne) and other affiliated companies of Liberty Media and MediaOne manage or have an interest. Mr Ames and Ms Curtis are non-executive Directors of Flextech plc. The Company also obtains programming from Live TV which is a subsidiary of Mirror Group plc and Lord Borrie QC is a non-executive director of that company.

Save as disclosed herein, there has been no contract of significance subsisting during the year under review to which the Company or its subsidiaries was a party and in which any Director was materially interested.

8. SHARE CAPITAL

As at 16 March 1999, there were 2,142,418,413 issued Telewest shares and 7,638 holders of record and 3,033,982 issued ADSs and seven ADS holders of record. Details of all changes in the share capital during the financial year are set out in Note 20 to the UK GAAP consolidated financial statements on pages 54 and 55.

9. SUBSTANTIAL SHAREHOLDINGS

Liberty Media and MediaOne each own 50% of TW Holdings LLC, which itself owns the beneficial interest in 1,101,786,083 Telewest shares (approximately 51.5% of the Telewest shares). The legal interest in the Telewest shares held by TW Holdings LLC is owned as to 21.66% by Liberty Media and as to 29.84% by MediaOne.

Mercury Asset Management Company owns 234,438,330 shares representing 10.94% of the Company's total issued share capital.

The Company has not been notified of other interests of 3% or more of its ordinary share capital as at 16 March 1999.

10. CREDITORS

The Company agrees payment terms with its suppliers when it enters into binding purchase contracts. The Company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company does not have a standard code which deals specifically with the payment of suppliers.

11. DONATIONS

The Group made total charitable donations of £25,875 in the year (1997: £24,282) and no political donations.

12. EMPLOYMENT POLICIES

The Group does not discriminate between employees or potential employees on the grounds of colour, race, ethnic or national origin, sex, marital status or religious beliefs. Full consideration is given to applications for employment from disabled persons who are able to demonstrate that they have the necessary aptitudes and abilities. If individuals become disabled during employment and they are unable to continue to perform their jobs, consideration is given to retraining for alternative jobs. The importance of staff training is recognised at all levels. Each operating company is responsible for consulting with its staff on a regular basis and provides a common awareness of its business aims and performance to maximise the staff's involvement in the Company's affairs. Information is provided to employees, as required, on matters of concern to them.

The Company aims to attract and retain employees of the highest calibre and this is encouraged through participation in various performance related bonus schemes including the employee share schemes described on page 34 of the Report of the Board on Directors' Remuneration.

13. THE ENVIRONMENT

Telewest recognises the potential impact of its construction activity on the environment. The Group has developed a code of practice for the installation of cable networks in the vicinity of street trees. Our employees and contractors are required to comply with that code of practice, the requirements of the "New Roads and Street Works Act 1992", and with other relevant legislation.

The Board believes that the activities of the Company do not contribute materially to pollution or cause material damage to the environment.

14. AUDITORS

A resolution to reappoint the retiring auditors, KPMG Audit Plc, and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

15. ANNUAL GENERAL MEETING

The resolutions to be proposed at the Annual General Meeting to be held at 10.00 am (UK time) on Friday 14 May 1999 at The Grocers Hall, Princes Street, London EC2R 8AD appear in the Notice provided with this document.

On behalf of the Board

VICTORIA HULL LLB

Company Secretary

16 March 1999

Registered Office: Genesis Business Park,
Albert Drive, Woking,
Surrey GU21 5RW.
Registered in England: No 2983307.

CORPORATE GOVERNANCE

This statement describes how the Company has applied the principles (the "Principles") set out in the Combined Code for Corporate Governance issued by the London Stock Exchange (the "Combined Code").

Throughout the year ended 31 December 1998 the Company has complied with the majority of the Principles. The exceptions are described below. Such exceptions largely reflect the shareholder arrangements entered into between the Company and its founding shareholders MediaOne and Liberty Media at the time of the flotation of the Company in 1994 and which reflect the continued significance of the founding shareholders to the Company. As permitted by the London Stock Exchange, the Company has complied with Combined Code Provision D.2.1 on internal financial control in accordance with the guidance for directors on internal control that was issued in December 1994.

1. BOARD OF DIRECTORS

The Board meets regularly throughout the year and there is frequent contact between meetings. It retains full and effective control over the Company and monitors the executive management. The Directors have full and timely access to all relevant information and Board meetings follow a formal agenda of matters specifically reserved for decision by the Board. These involve approval of major capital expenditure and the annual budget. Further, the trading results of the Company, including trend analysis, are reported to each scheduled meeting of the Board. The Board is responsible for overall Group strategy. The Board is also supplied, on a monthly basis, with financial and other relevant information about the Company. The Company Secretary is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. All Directors have access to the advice and services of the Company Secretary. The Company Secretary attends all Board and Committee meetings.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense.

2. BOARD BALANCE

The Chairman and CEO positions are held by Mr Ames and Mr Illsley respectively and Mr Stenham (Deputy Chairman) is the senior independent non-executive Director. The current composition of the Board is three executive Directors and seven non-executive Directors of whom three are independent non-executive Directors (Mr Stenham, Lord Borrie QC and Mr Rice). The remaining four non-executive Directors represent the founder shareholders, Liberty Media and MediaOne. The biographies of the Directors appear on pages 24 and 25. The Combined Code does provide that a majority of the non-executive Directors should be independent non-executive Directors. The Board composition is reflective of the relationship between the Company and the founder shareholders as described above. The arrangements were established at the time of the flotation of the Company on the London Stock Exchange and were modified by the Company as result of the acquisition of General Cable in 1998, which modifications were approved by the independent shareholders in general meeting. These arrangements, together with other relevant details of the relationship between the founding shareholders, are described below.

The modified arrangements between the Company, MediaOne and Liberty Media provide, *inter alia*, in the Articles of Association of the Company that the Board shall consist of no more than 14 Directors and that for so long as Liberty Media owns 15% or more of the Telewest shares, it will be entitled to appoint two Directors to the Board and for so long as MediaOne owns 15% or more of the Telewest shares, it will be entitled to appoint two Directors to the Board.

Liberty Media and MediaOne have agreed that, for so long as either owns in excess of 15% of the Telewest shares, they will use their best efforts to

ensure that a majority of Directors are independent of Liberty Media and MediaOne.

The quorum for a meeting of the Board consists of the majority of the Directors. Liberty Media and MediaOne have agreed that on any matter requiring Board approval, they will cause the Directors designated by them to vote together as agreed by them (subject to each Director's fiduciary duties to the Company), or in the absence of such agreement, to vote together in the manner that would be most likely to maintain the status quo without materially increasing the Company's financial obligations or materially deviating from its approved budget and business plan.

If either the Liberty Media directors or MediaOne directors (as the case may be) are precluded from voting on any matter because of a conflict of interest, the members of the other shareholder group may vote on such matter as they deem appropriate. On a conflict of interest in relation to Liberty Media and MediaOne, whichever of the representative directors has the conflict will not be required to be part of the quorum and will have no rights to vote in respect of the conflict in question. Notwithstanding this, such directors will still be entitled to attend and be heard on the matter at the relevant Board Meeting.

Liberty Media and MediaOne have agreed that on any matter requiring shareholder approval, they will vote together in such manner as may be agreed by them or in the absence of such agreement will vote together in such a manner that would be most likely to continue the status quo, without materially increasing the Company's financial obligations or materially deviating from its approved budget and business plan. As a result of these ownership and voting arrangements, Liberty Media and MediaOne together will generally be able to determine the outcome of most matters requiring shareholder approval.

Any Committee appointed by the Board shall include one Liberty Media director, one MediaOne director and one independent non-executive Director (unless they consent otherwise).

The shareholder arrangements also provide that for so long as Liberty Media or MediaOne hold 15% or more of the Telewest shares, the consent of Liberty Media and/or MediaOne (as appropriate) must be obtained by Telewest before:

- (a) making any material acquisition or disposal out of the ordinary course of business including any transaction which would qualify as a Class 2 transaction for the purposes of the Listing Rules of the London Stock Exchange or which the Board intends to announce;

- (b) incurring any borrowings or indebtedness in excess of £50 million in aggregate (other than existing facilities);
- (c) allotting or issuing shares or securities convertible into shares or granting options;
- (d) appointing or removing the Chief Executive Officer of Telewest; or
- (e) increasing the number of Directors holding office beyond 14.

The proceedings of the Audit and Remuneration Committees are formally recorded by the Company Secretary and reported to the Board.

The Company intends to establish a Nomination Committee to make recommendations to the Board on new Board appointments.

3. RE-ELECTION

In accordance with the Principles, each Director submits himself for re-election each year. The independent non-executive Directors hold office for three year terms.

4. THE AUDIT COMMITTEE

The Audit Committee assists the Board in its duties regarding the Group's financial statements and meets with the external auditors.

The Committee meets at least four times a year. It has written terms of reference which include the review of and monitoring of the accounting policies and reporting requirements of the Group. The Committee has five members of whom, in accordance with the Principles, the majority are independent non-executive Directors (Mr Stenham, Lord Borrie QC and Mr Rice); Liberty Media and MediaOne are represented by Ms Curtis and Mr Ames respectively. Further details on Audit Committee procedures appear on pages 36 and 37.

Representatives of the external auditors and the Head of Internal Audit attend meetings and have direct access to the members of the Committee at all times.

The Committee is satisfied with the policies applied during the year and with the measurement and presentation of financial information contained in this Annual Report.

5. REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

The Remuneration Committee deals with the remuneration of the executive Directors and the senior management on behalf of the Board.

1) Composition of Remuneration Committee

During the year the Committee comprised solely non-executive Directors: Mr Stenham (Chairman), who took over from the previous Chairman, Mr Ames, in the middle of the year, Mr Rice, Lord Borrie QC (each of the aforesaid being an independent non-executive Director), Mr Ames and Ms Curtis. Mr Ames and Ms Curtis are non-executive Directors, representing MediaOne and Liberty Media, respectively. These arrangements do not comply with the Principles but, as described above, have been in place since the flotation of the Company in 1994 and reflect the significance of the founder shareholders to Telewest. The Committee submits reports regularly to the full Board of Directors concerning its activities and decisions. It has written terms of reference which include the assessment and approval of the remuneration of the executive Directors and senior executives and meets at least four times per year. The Board determines the remuneration of the non-executive Directors.

2) General policy

The Company aims to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages which are linked to both individual and business performance. These packages are based on the Company's philosophy of emphasising pay-for-performance.

The Company recognises the pressures for short-term as well as long-term performance and seeks to provide an appropriate balance. The Company uses a market-based four-tiered salary structure for its executive employees. Each senior executive is assigned to one of these four tiers based on his or her level of responsibility and position in relation to others inside and outside the Company.

The Company operates in an extremely competitive and dynamic environment and is itself at a significant stage of its development given it is evolving from a construction focused to a customer and marketing focused organisation. In view of this, the Company has departed from certain of its remuneration policies and the Principles in some instances (such as the grant of phased executive share options plus long-term incentive plan awards and one year notice periods) in order to attract employees to the Company of an appropriate calibre. For example, both Mr Illsley and Mr Burdick were granted executive share options of four times salary on appointment and participate in the Company's long-term incentive plan and each has a contract with an initial two year notice period.

The Board believes that the Company's current remuneration policy appropriately aligns the Company's senior executive compensation with the performance of the Company and shareholder interests and offers competitive compensation for its executives. The Board does not believe in compensating for poor performance and does not reward unsatisfactory performance. In the case of early termination of employment, it is the Board's policy to seek to mitigate any liability.

3) The Company

There are four components to the senior executive remuneration package: (a) base salary and benefits, (b) annual cash bonus, (c) long-term incentive arrangements and (d) pension.

a) Base salary and benefits

Salaries are established by the Board by reference to those prevailing in the employment market generally for executives of comparable status, responsibility and skills. To assist in determining the comparability of positions and competitive market pricing, the Company uses executive compensation salary surveys prepared by a recognised independent compensation consulting firm in the UK.

The Company uses surveys that specifically cover the UK communications industry, as well as surveys of comparable companies of similar size in similar industries. In general, and because of the competitive nature of the market, the Company seeks to set overall executive compensation levels to rank between the mid-market and upper quartile of the survey data.

Salary reviews for senior executives are generally determined by the Committee on an annual basis. Adjustments in base salary, if any, occur after a formal appraisal process, taking account of individual performance, changes in job responsibilities, changes in the marketplace and general economic conditions in the UK.

Benefits for senior executives typically include a car (or a cash payment in lieu thereof) and payment of its operating expenses and fuel, and life, disability and health insurance. The benefits are not pensionable.

b) Annual cash bonuses

The Company's Short-Term Incentive Plan (the "STIP") provides employees with an opportunity to earn an annual cash award (which is not pensionable) based upon the achievement of short-term Company targets (ie, one financial year) and personal objectives. These targets are set by the Remuneration Committee at the commencement of each financial year and kept under review thereafter. Under the STIP, the senior executive has an award opportunity expressed as a percentage of base salary. For executive Directors, the award is up to 25% of salary for achieving target, rising to a maximum of 50% of salary if the Company exceeds its STIP target, save for Mr Illsley whose opportunity is up to 50% of salary for achieving target up to a maximum of 75% of salary if the Company exceeds target. In 1998, the Company performance targets were related to customer growth, quality of operations (measured by customer satisfaction surveys) and operating cash flow. The Company performance targets comprised 60% of the bonus amount and 40% was allocated to achievement of personal objectives. The 1998 STIP awards to the executive Directors achieved the targeted bonus amount for the Company performance targets.

In 1998, employees were enabled to invest up to 50% of their pre tax bonus in the Equity Participation Plan described below.

c) Long-term incentive arrangements

The Company operates the following long-term share and option incentive plans: The Telewest Restricted Share Scheme and The Telewest Long-Term Incentive Plan (each of the aforesaid plans is designed to operate in conjunction with an Employee Share Ownership Plan ("ESOP")); an Inland Revenue approved executive share option scheme, the Telewest 1995 (No.1) Executive Share Option Scheme; an unapproved executive share option scheme, the Telewest 1995 (No.2) Executive Share Option Scheme; an Equity Participation Plan ("EPP"); an Employee Sharesave Scheme and a profit sharing scheme designed for Inland Revenue approval.

The Telewest Restricted Share Scheme was designed to replace a cash bonus scheme in operation prior to the initial public offering in November 1994 and, for this reason, exercise of the award is not subject to the satisfaction of a performance condition. Under this scheme, awards were made of Telewest shares to senior executives based on a percentage of salary and for no consideration.

The Telewest Restricted Share Scheme has been replaced with a Long-Term Incentive Plan ("LTIP") for share awards to executive Directors and senior executives. It is intended that senior executives in the LTIP will not be granted further options under the executive share option schemes (subject to exceptions as noted above at the discretion of the Remuneration Committee).

Under the LTIP a senior executive is awarded the provisional right to receive, for no payment, a number of Telewest shares with a value equating to a percentage of base salary. The shares will not vest unless certain performance criteria, based on total shareholder return assessed over a three year period, are met. The percentage of salary will be determined by the Remuneration Committee and will be up to 100% of base salary for executive Directors. The award is divided equally, with vesting of 50% depending on the Company's Total Shareholder Return ("TSR") meeting a performance condition relating to the TSR of FTSE 100 companies, and the remaining 50% depending on the Company's TSR meeting a performance condition relating to the TSR of a group of comparative companies (including cable, broadcasting and telecommunications companies listed on the London Stock Exchange and cable companies operating in the UK and listed on Nasdaq), in each case over a three year period. If the Company's TSR is in the top quartile of the FTSE 100 over that period, the executive will receive 50% of the number of shares awarded to him; if the Company's TSR is 50th place in the FTSE 100, the executive will receive 12.5% of the number of shares awarded to him; if below 50th place in the FTSE 100, the executive will receive nothing in respect of this portion of the award. Similarly, if the Company's TSR is in the top quartile of the

group of comparative companies in that period, the executive will receive 50% of the number of shares awarded to him; if the Company's TSR is at the median position the executive will receive 12.5% of the number of shares awarded to him; if below the median position, the executive will receive nothing in respect of that portion of the award. In either test a proportionate number of shares will be received for intermediate positions. TSR in each case will be calculated by reference to the cash flow generated by dividends, and capital appreciation on a share purchased at the beginning and sold at the end of the period. If the executive remains employed by the Company and depending on the achievement of the performance criteria, at the end of the third year after the date of grant, 50% of the vested award will be transferred to the employee and the balance will be transferred at the end of the fourth year after the date of grant if the employee remains so employed.

The executive share option schemes also form part of the Company's long-term incentive arrangements. Options over Telewest shares are granted in phases (save as noted above), generally on a one times salary basis up to a maximum of four times salary and exercise is subject to a performance condition, namely out-performance of the FTSE 100 Index over any three-year period preceding exercise.

The option arrangements relating to Mr Illsley, Mr Burdick and Ms Hull are set out on page 28.

Under the STIP, employees may be due a cash bonus. The Remuneration Committee has provided that, under the EPP, an employee with two years' service or at manager level or above, can use up to 100% of the pre-tax or post tax bonus payable to him to acquire Telewest shares ("bonus shares"). The employee must deposit the bonus shares with the Trustee of the existing Telewest ESOP. In return, the employee is provisionally allocated for no payment a matching number of Telewest shares (calculated on the gross amount of the bonus). Provided the bonus shares are retained for three years and the employee remains employed by the Company for three years, the bonus and matching shares would thereafter be released to the employee.

The Inland Revenue approved sharesave scheme, which enables the Company to grant options to employees to purchase Telewest shares at a 20% discount to market price is designed to incentivise employees. These options can be exercised only with funds saved by employees over time in a qualified savings account.

d) Pensions

The Company operates various Group Personal Pension Schemes established in predecessor companies. The actual contribution of the Company to such schemes depends on the contribution made by the employee and may vary according to length of service. Generally the Company contribution varies from 3% of an employee's salary up to 12% or, in the case of Mr Illsley 27.5% of salary and for

other executive Directors, up to the Inland Revenue limits. The Company's contribution is based on the employee's salary excluding benefits or bonuses.

e) Executive Directors' agreements

Mr Davidson's employment agreement, which had a one year notice period, terminated on the 15 June 1998. Mr Davidson was paid £494,375 in lieu of notice and in settlement of all rights under the agreement. Mr Davidson was permitted to exercise 107,579 executive share options at a price of 141p and 166,880 at a price of 171.5p, which have been so exercised, and to retain a proportion of his LTIP awards, which (subject to the satisfactory performance of the applicable performance criteria) may be transferred to him for no payment as to 181,925 of those allocated in October 1997 as to 50% in October 2000 and 50% in October 2001; and as to 32,311 of those allocated in respect of March 1998 as to 50% in March 2001 and 50% in March 2002. Mr Davidson's salary payment in 1998 was £116,685.

Mr Illsley's employment agreement is a two year fixed term agreement (from 21 September 1998) and continuing thereafter unless terminated by either party giving no less than 12 months' notice to expire on or at any time after the initial fixed term. If, during a three year period from the commencement of the agreement, a company other than MediaOne or Liberty Media acquires the Company, then the notice period shall revert to two years. Mr Illsley's annual salary is £450,000 and the Company pays an annual sum equal to 27.5% of Mr Illsley's salary to his pension schemes. Mr Illsley's bonus opportunity is 50% of salary for achieving target rising to 75% of salary for exceeding target. In respect of the year ended 31 December 1998, Mr Illsley was paid a bonus of £127,100. On appointment, Mr Illsley was granted executive share options of four times salary with an exercise price of 134p to 135.5p. Mr Illsley will be granted an award under the LTIP in each year of his employment, having a value, at the date of the award, equal to his salary.

Mr Burdick had an initial two year, fixed term employment agreement which commenced on 12 February 1997 and continuing thereafter until terminated by either party giving no less than 12 months' notice to expire on or at any time after the end of the initial fixed term. Mr Burdick's annual salary is £233,000. Mr Burdick's bonus is 25% of salary for achieving target rising to 50% of salary for exceeding target. For the financial year ended 31 December 1998, Mr Burdick was awarded an annual bonus, pursuant to the STIP, of £59,416 and a bonus in respect of the achievement of certain objectives set by the Board in relation to the merger with General Cable and certain financing arrangements of £50,000. On his appointment, Mr Burdick was granted executive share options of four times salary with an exercise price of 117.5p to 118p.

Ms Hull has an employment agreement with the Company which commenced on 14 July 1994, and is terminable by the employee on six months' notice and by the Company on 12 months' notice. Ms Hull's annual salary is £150,000. Ms Hull's bonus is 25% of salary for achieving target, rising to 50% of salary for exceeding target. For the financial year ended 31 December 1998, Ms Hull was awarded an annual bonus pursuant to the STIP of £45,000 and a bonus in respect of the achievement of certain objectives set by the Board in relation to the merger with General Cable of £35,000.

Mr Van Valkenburg was seconded to the Company from MediaOne International from June 1997 to February 1999. The Company reimbursed MediaOne International for Mr Van Valkenburg's salary and related benefits during his secondment to the Company. His salary was £234,487 per annum. Mr Van Valkenburg was eligible for an annual bonus of up to 40% of salary for achieving target. For the financial year ended 31 December 1998, Mr Van Valkenburg was awarded an annual bonus pursuant to the STIP of £72,000 and a further bonus in respect of his role of acting as Chief Executive of Telewest of £92,000.

Under the current Remuneration Committee policy senior executives generally have employment agreements with notice periods which range from three months to one year, depending on their grade.

f) Directors' remuneration

The aggregate compensation for the Directors is as follows:

| | 1998 £'000 | 1997 £'000 |
|---|---------------|---------------|
| Fees to non-executive Directors | 188 | 183 |
| Remuneration as executives: | | |
| – Basic salary, allowances and benefits | 1,041 | 851 |
| – Performance-related bonus | 411 | 112 |
| – Pension contributions | 21 | 33 |
| – Compensation for loss of office | 534 | – |
| Total in respect of the year | 2,195 | 1,179 |

Of the above remuneration £160,000 and £62,000 was reimbursed to MediaOne for the years ended 31 December 1998 and 1997, respectively, for making available to the Company the services of certain Directors.

The remuneration of the highest paid Director was as follows:

| | 1998 £'000 | 1997 £'000 |
|---------------------------------------|---------------|---------------|
| Basic salary, allowances and benefits | 506 | 353 |
| Performance-related bonuses | 164 | 45 |
| Pension contributions | 8 | 24 |
| Total in respect of the year | 678 | 422 |

Directors' Compensation

| | Salaries/fees | | Benefits | | Annual/special bonuses | | Compensation for loss of office | | Total emoluments excluding pension | | Pension contributions | |
|----------------------|---------------|---------------|---------------|---------------|------------------------|---------------|---------------------------------|---------------|------------------------------------|---------------|-----------------------|---------------|
| | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 |
| EXECUTIVE: | | | | | | | | | | | | |
| A K Illsley | 126 | – | 4 | – | 127 | – | – | – | 257 | – | – | – |
| S J Davidson | 117 | 334 | 5 | 19 | – | 45 | 534 | – | 656 | 398 | 5 | 24 |
| D Van Valkenburg | 234 | 94 | 272 | 170 | 164 | 42 | – | – | 670 | 306 | 8 | 3 |
| C J Burdick | 231 | 225 | 11 | 9 | 109 | 25 | – | – | 351 | 259 | 8 | 6 |
| V Hull | 38 | – | 3 | – | 11 | – | – | – | 52 | – | – | – |
| NON-EXECUTIVE | | | | | | | | | | | | |
| F A Vierra | – | – | – | – | – | – | – | – | – | – | – | – |
| A G Ames | – | – | – | – | – | – | – | – | – | – | – | – |
| A W P Stenham | 125 | 108 | – | – | – | – | – | – | 125 | 108 | – | – |
| Lord Borrie QC | 45 | 39 | – | – | – | – | – | – | 45 | 39 | – | – |
| Lord Griffiths | 12 | 36 | – | – | – | – | – | – | 12 | 36 | – | – |
| W A Rice | 6 | – | – | – | – | – | – | – | 6 | – | – | – |
| J A Atterbury | – | – | – | – | – | – | – | – | – | – | – | – |
| J O Robbins | – | – | – | – | – | – | – | – | – | – | – | – |
| A N Singer | – | – | – | – | – | – | – | – | – | – | – | – |
| R W Shaner | – | – | – | – | – | – | – | – | – | – | – | – |
| M Curtis | – | – | – | – | – | – | – | – | – | – | – | – |
| | 934 | 836 | 295 | 198 | 411 | 112 | 534 | 0 | 2,174 | 1,146 | 21 | 33 |

Notes:

- 1 Certain amounts reflected in this table and elsewhere in this section were paid in US dollars, but are represented in this table in pounds sterling, based on an average exchange rates of \$1.64 to £1.00 and \$1.60 to £1.00 for the years ended 31 December 1997 and 1998, respectively.
- 2 Mr Van Valkenburg's principal benefits were the provision of £137,158 in respect of his income taxes, housing allowance of £76,640 and foreign service allowances of £49,154.
- 3 The independent non-executive Directors are paid £1,000 for each Board or Committee meeting they attend in addition to their fees. The executive Directors' interests in Company share options and restricted share scheme awards are set out on page 28 of the Report of the Directors. No non-executive Director has any interests in Telewest shares.
- 4 Mr Stenham received additional fees for 1998 for increased responsibilities undertaken on behalf of the Company of £30,000 and a contribution of £10,000 to his office expenses.
- 5 The pension contributions for the Directors were paid into their private pension schemes. None of the Directors are members of the Company's money purchase pension scheme.

g) Remuneration policy for non-executive Directors

The remuneration policy for non-executive Directors consists of fees for their services in connection with Board and Board Committee meetings and, where relevant, for additional services such as chairing a Committee. The yearly fees comprise £20,000 for Lord Borrie QC and Mr Rice and £35,000 for Mr Stenham. They are not eligible for pension scheme membership and do not participate in any of the Company's bonus, share option or other incentive schemes. They have letters of appointment, for three year periods, and are re-elected at each AGM. Their remuneration is approved by the Board of Directors.

6. INVESTOR RELATIONS

The executive Directors meet regularly with analysts and institutional shareholders. The AGM is used as an opportunity to communicate with private shareholders.

7. INTERNAL FINANCIAL CONTROL

The Board has overall responsibility for the Group's system of internal control. Responsibility for designing and operating the system is delegated to the executive Directors. The Audit Committee has reviewed the effectiveness of the Group's internal financial control environment, the scope of the work undertaken by the internal audit function, the Group's financial statements and the scope of work undertaken by the external auditors.

Although no system of internal financial control can provide absolute assurance against misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The principal features of the Group's internal financial control structures are summarised below:

a) Management structure

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive and regional management, who are accountable for the conduct and performance of the business within the agreed business strategy and subject to the reserved powers and sanctioning limits laid down by the Board. Management responsibility is supplemented by accounting, purchasing, and capital expenditure policies and practices applicable across the Group.

b) Financial reporting

There is a Group-wide system of planning and budgeting, with the annual budget approved by the Board. There is frequent reporting of results to each level of management as appropriate, including monthly reporting of actual against budget and revised forecasts to executive management, and quarterly and annual external reporting in accordance with the requirements of the Securities and Exchange Commission and the London Stock Exchange. Key issues on financial management and treasury are also reported regularly to the Audit Committee and Board.

c) Detailed financial controls

These include internal financial controls and procedures which are designed to ensure completeness and accuracy of the recording of all transactions and the safeguarding of assets. In particular there are clearly defined policies for capital expenditure including appropriate authorisation levels. Significant capital projects and acquisitions and disposals require Board approval.

d) Risk management

Quarterly budgetary reviews include the identification and assessment of business and financial risks. Executive management and regional Managing Directors are required to complete a formal review of the status of their control environment every year.

The Audit Committee, on behalf of the Board, receives a written assurance from the senior managers of the adequacy of the controls in the operations for which senior management are responsible. The Audit Committee reviews these assurances together with the reports from the internal audit function and the external auditors.

e) Going concern

After reviewing the Group's budget for 1999, including the launch of Digital and high-speed data, the Directors considered that the current credit facilities of the Group provide sufficient funding to complete the planned

construction of the network, satisfy working capital requirements and pay interest on existing debt instruments.

Following the acquisition by Telewest of General Cable PLC and Birmingham Cable Corporation there are three principal bank groups. It is the intention of the Directors to refinance the Group's borrowings in a more efficient manner: the 1999 issue of £300 million convertible bonds is the first stage in this process.

The Group regularly monitors its ongoing ability to draw down under the facilities, which is dependent on satisfying financial covenants. In addition, the Group is continually evaluating future investment opportunities and these may require additional funding sources outside the current arrangements. The Directors have considered these factors and they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore they have continued to adopt the going concern basis in preparing the accounts.

f) Year 2000 compliance

In November 1997, we established a steering committee, supported by a dedicated project team, to establish and monitor procedures required to achieve Year 2000 compliance in the Telewest Franchises. In 1997, General Cable and Birmingham Cable established similar project teams for their franchises. The three Year 2000 project teams have now been integrated and are responsible for managing programs that review products, systems and services we use in our businesses to determine Year 2000 compliance. They rely on in-house testing and confirmation from relevant suppliers and manufacturers. Following a review of all our products, systems and services, the Year 2000 project teams identified approximately 4,300 items which were date dependent. Of those items, as of 31 December 1998, the project teams confirmed that 47% were Year 2000 compliant. Of the remaining 53%, as at that date, the project teams had identified 400 items that were non-compliant; the remainder were awaiting confirmation as to compliance.

The Year 2000 project teams work with suppliers and manufacturers to modify or upgrade products, systems and services that are non-compliant. In the event that modifications cannot be made or upgrades are not available, we intend to actively seek and secure alternative suppliers or develop contingency arrangements. The Year 2000 teams are also working with those parties with whom our networks interconnect and from whom we otherwise receive services (eg, programme suppliers) to determine Year 2000 compliance. We cannot provide assurance that these parties will achieve Year 2000 compliance or that, even if achieved, there will be no disruptions in interconnection or other supply arrangements in the Year 2000.

The project objective is to ensure complete compliance in advance of the Year 2000. We believe that our relatively modern systems and systems upgrades planned for 1999 that incorporate external package solutions that are Year 2000 compliant, should help us achieve this objective. We estimate that the aggregate cost of achieving Year 2000 compliance will be approximately £4.0 million, of which we had spent approximately £2.5 million up until 31 December 1998. Although we believe that we will achieve Year 2000 compliance in advance of 1 January 2000, we cannot provide assurance that we will do so.

8. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the Directors are required to: select suitable accounting policies and apply them consistently; make judgements and

estimates that are reasonable and prudent; state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements, and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities. The Directors, having prepared the financial statements, note that the auditors are required by the Act to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their auditors' report.

AUDITORS' REPORT

TO THE MEMBERS OF TELEWEST COMMUNICATIONS PLC

We have audited the financial statements on pages 40 to 60.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, as described on page 38 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 31 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1998 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

KPMG AUDIT PLC

Chartered Accountants
Registered Auditors

16 March 1999
LONDON

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

| ALL FIGURES IN £ THOUSANDS | NOTE | 1998 | 1997 |
|--|------|------------------|-----------|
| TURNOVER | | | |
| Continuing operations | 2 | 465,771 | 386,498 |
| Acquisitions | 2 | 73,403 | – |
| | | 539,174 | 386,498 |
| Operating costs | 3 | (630,998) | (514,262) |
| GROUP OPERATING LOSS | | | |
| Continuing operations | | (87,011) | (127,764) |
| Acquisitions | | (4,813) | – |
| | | (91,824) | (127,764) |
| Share of operating losses of associated undertakings | 13 | (6,480) | (11,126) |
| | | (98,304) | (138,890) |
| Other interest receivable and similar income | 7 | 19,096 | 14,662 |
| Interest payable and similar charges | 8 | (234,354) | (185,681) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | | |
| Tax on loss on ordinary activities | 4 | (313,562) | (309,909) |
| | 9 | 15 | (521) |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | | |
| Minority interests | 19 | (313,547) | (310,430) |
| | | 1,064 | (293) |
| LOSS FOR THE FINANCIAL YEAR | | | |
| | 21 | (312,483) | (310,723) |
| BASIC AND DILUTED LOSS PER EQUITY SHARE (PENCE) – as restated | | | |
| for the dilutive impact of the pre-emptive issue | 10 | (17.8) | (19.9) |

The Group has no recognised gains or losses other than those reflected in the profit and loss account.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1998

| ALL FIGURES IN £ THOUSANDS | NOTE | 1998 | 1997 |
|--|------|--------------------|-------------|
| FIXED ASSETS | | | |
| Intangible assets | 11 | 918,765 | – |
| Tangible assets | 12 | 2,457,061 | 1,705,520 |
| Investments in associated undertakings | 13 | 26,556 | 59,707 |
| Other investments | 13 | 2,365 | 43,986 |
| | | 3,404,747 | 1,809,213 |
| CURRENT ASSETS | | | |
| Stocks | 14 | 383 | 32 |
| Debtors | 15 | 124,683 | 70,457 |
| Secured cash deposit restricted for more than one year | 17 | 187,420 | – |
| Cash at bank and in hand | | 40,887 | 29,582 |
| | | 353,373 | 100,071 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 16 | (330,108) | (334,756) |
| NET CURRENT ASSETS/(LIABILITIES) | | 23,265 | (234,685) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,428,012 | 1,574,528 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 17 | (2,569,570) | (1,305,708) |
| MINORITY INTERESTS | 19 | (412) | (640) |
| NET ASSETS | | 858,030 | 268,180 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 20 | 213,950 | 142,363 |
| Share premium | 21 | 839,933 | 9,187 |
| Merger reserve | 21 | 534,257 | 534,257 |
| Other reserves | 21 | 270,237 | 270,237 |
| Profit and loss account | 21 | (1,000,347) | (687,864) |
| EQUITY SHAREHOLDERS' FUNDS | | 858,030 | 268,180 |

The financial statements were approved by the Board of Directors on 16 March 1999 and signed on its behalf by:

A K ILLSLEY

Director

C J BURDICK

Director

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 1998

| ALL FIGURES IN £ THOUSANDS | NOTE | 1998 | 1997 |
|--|------|--------------------|-------------|
| FIXED ASSETS | | | |
| Investments | 13 | 1,258,542 | 225,880 |
| CURRENT ASSETS | | | |
| Debtors: due within one year | 15 | 1,474 | 467 |
| Debtors: due after more than one year | 15 | 1,397,651 | 1,208,656 |
| Cash at bank and in hand | | 4,646 | 9,234 |
| | | 1,403,771 | 1,218,357 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 16 | (12,554) | (6,863) |
| NET CURRENT ASSETS | | 1,391,217 | 1,211,494 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,649,759 | 1,437,374 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 17 | (1,597,160) | (1,324,810) |
| NET ASSETS | | 1,052,599 | 112,564 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 20 | 213,950 | 142,363 |
| Share premium | 21 | 839,933 | 9,187 |
| Profit and loss account | 21 | (1,284) | (38,986) |
| EQUITY SHAREHOLDERS' FUNDS | | 1,052,599 | 112,564 |

The financial statements were approved by the Board of Directors on 16 March 1999 and signed on its behalf by:

A K ILLSLEY
Director

C J BURDICK
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

| ALL FIGURES IN £ THOUSANDS | NOTE | 1998 | 1997 |
|--|------|------------------|-----------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 23 | 129,064 | 68,624 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 18,962 | 3,599 |
| Interest paid | | (119,362) | (63,479) |
| Interest element of finance lease payments | | (8,264) | (4,702) |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | (108,664) | (64,582) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchase of tangible fixed assets | | (257,119) | (436,100) |
| Sale of tangible fixed assets | | 6,075 | 6,066 |
| NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | (251,044) | (430,034) |
| ACQUISITIONS AND DISPOSALS | | | |
| Purchase of subsidiary undertakings | | (393,980) | – |
| Cash acquired with subsidiaries | | 16,893 | – |
| Investment in associated undertakings and other participating interests | | (5,732) | (9,633) |
| NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS | | (382,819) | (9,633) |
| MANAGEMENT OF LIQUID RESOURCES | | | |
| Decrease in fixed deposits (net) | | 3,535 | 53,288 |
| FINANCING | | | |
| Cash paid for credit facility arrangement costs | | (5,900) | – |
| Net proceeds from borrowing under credit facility | | 206,148 | 392,500 |
| Release of restricted deposits | | 5,460 | – |
| Cash received from exercise of share options | | 620 | – |
| Cash received from pre-emptive issue | | 241,115 | – |
| Share issue costs | | (3,358) | – |
| Proceeds from bridge loan | | 136,604 | – |
| Proceeds from issue of Senior Notes | | 210,338 | – |
| Repayment of bridge loan | | (138,522) | – |
| Senior Notes issue costs | | (5,568) | – |
| Repayment of borrowings | | (384) | (2,375) |
| Capital element of finance lease payments | | (21,765) | (3,971) |
| NET CASH INFLOW FROM FINANCING | | 624,788 | 386,154 |
| INCREASE IN CASH | | 14,860 | 3,817 |

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1998

| ALL FIGURES IN £ THOUSANDS | Group 1998 | Company 1998 | Group 1997 | Company 1997 |
|--------------------------------------|-----------------------|-------------------------|---------------|-----------------|
| Opening equity shareholders' funds | 268,180 | 112,564 | 579,913 | 96,694 |
| (Loss)/profit for the financial year | (312,483) | 37,702 | (310,723) | 15,870 |
| Issue of shares | 902,333 | 902,333 | – | – |
| Goodwill written off | – | – | (1,010) | – |
| Closing equity shareholders' funds | 858,030 | 1,052,599 | 268,180 | 112,564 |

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1 ACCOUNTING POLICIES

The principal accounting policies which have been applied consistently throughout the year in the preparation of the financial statements are as follows:

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings and include the Group's share of associated undertakings on an equity accounted basis. The results of subsidiary undertakings acquired during the year are included in the consolidated profit and loss account from the date of acquisition.

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not presented a profit and loss account. The profit of the Company for the financial year is disclosed in note 21 to these financial statements.

INVESTMENTS

Investments in subsidiary and associated undertakings are stated in the Company balance sheet at cost less any permanent diminution in value. The consolidated profit and loss account includes the Group's share of the losses of associated undertakings analysed into share of operating losses, share of interest receivable and share of interest payable in accordance with FRS 9 "Associates and Joint Ventures". The amounts included in 1997 have been restated to comply with FRS 9. The consolidated balance sheet includes the investment in these companies at the Group's share of their net assets.

GOODWILL

Purchased goodwill on acquisition of subsidiary and associated undertakings represents the excess of the fair value of the consideration given over the fair value of the separable net assets acquired.

Goodwill arising before 1998 has been set off directly against reserves. Goodwill arising on the acquisitions of General Cable PLC and Birmingham Cable Corporation Limited has been capitalised in accordance with FRS 10 "Goodwill and Intangible Assets" and is being amortised over its estimated useful economic life of 20 years.

CAPITALISATION OF OVERHEADS

The Group capitalises that proportion of overheads which relates to the construction of the cable network.

DEPRECIATION

Depreciation is provided to write off the cost, less estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | |
|---------------------------------------|----------|
| Freehold and long leasehold buildings | 50 years |
| Cable and ducting | 20 years |
| Electronic equipment | |
| – System electronics | 8 years |
| – Switching equipment | 8 years |

| | |
|---|---------|
| – Subscriber electronics | 5 years |
| – Headend, studio and playback facilities | 5 years |
| Other equipment | |
| – Office furniture and fittings | 5 years |
| – Motor vehicles | 4 years |

Depreciation of cable and ducting and system electronics is charged monthly on their estimated cost at the end of the prematurity period, scaled down by a ratio of average customers in the current period to the estimated customer base at the end of the prematurity period.

Preconstruction costs are amortised over the life of the franchise from the date of the first customer.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, to the extent that they are not hedged by financial instruments, are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

LEASES

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

TURNOVER

Turnover represents the invoiced value (excluding value added tax) of services supplied by the Group.

SALE OF SPARE CAPACITY

The Group sells spare capacity on the Telewest National Network to third parties under leasing contracts. Substantially all the risks and rewards of ownership accrue to the grantees for a significant proportion of the total life of the network asset. As is common in the telecoms industry the Group has recognised the income on these contracts as turnover.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

FRANCHISE COSTS

Expenditure incurred on successful applications for franchise licences is included in tangible fixed assets and is amortised over the life of the original franchise term. Costs relating to unsuccessful applications are written off to the profit and loss account.

1 ACCOUNTING POLICIES (continued)**TAXATION**

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual asset or liability will crystallise.

LOSS PER SHARE

In accordance with the new FRS 14 "Earnings Per Share" the Group presents both basic and diluted loss per share for the current and preceding years. The basis of calculation is given in note 10 to the Financial Statements.

PENSION COSTS

The Group operates a defined contribution pension scheme or contributes to third-party schemes on behalf of employees. The amount charged against the profit and loss account represents the contributions payable to the selected schemes in respect of the accounting period, in line with assumptions on performance criteria.

RESTRICTED SHARE SCHEME/LONG TERM INCENTIVE PLAN ("LTIP")/EQUITY PARTICIPATION PLAN ("EPP")

The value of awards over ordinary shares granted to eligible employees under these schemes is charged to the profit and loss account based on the purchase price of the shares and to the extent that the awards have been earned by employees in the current period.

INTERCONNECTION WITH OTHER OPERATORS

When telephony traffic is carried by other operators the Group incurs interconnect costs. Some interconnect costs are subject to regulation in the form of a determination by the Office of Telecommunications. A determination may give rise to amendments, most often in the form of reductions, to interconnect costs relating to prior periods.

The Group reviews its interconnect costs on a regular basis and adjusts the rate at which these costs are charged in the profit and loss account in accordance with the estimated interconnect costs for the current period. Amendments to costs relating to prior periods are made in the current period, but only when recovery or payment of these amounts is reasonably certain.

FINANCIAL INSTRUMENTS

The Group uses foreign currency options which permit, but do not require, the Group to exchange foreign currencies at a future date with another party at a contracted exchange rate (the "Forward Rate"). Such contracts are used to hedge against adverse changes in foreign currency exchange rates associated with certain obligations denominated in foreign currency. The premium paid to enter into these options is included on the balance sheet as a fixed asset investment and is amortised to the profit and loss account over the life of the option at a constant rate of the carrying value of the obligation it hedges. The difference between the contracted amount to be exchanged under the option translated at the Forward Rate and the contracted amount translated at the spot rate at the inception of the contract is also amortised to the profit and loss account over the life of the option at a constant rate of the carrying value of the obligation. The carrying value of the obligation is increased for the amortised portion of the difference.

To the extent that the Sterling values of the Group's foreign currency obligations, translated at the year-end exchange rate, are less than their carrying values as determined above, the carrying values of the obligation are reduced. These gains on translation are recognised in the profit and loss account to the extent that they cannot be offset against the carrying value of the foreign currency option premium.

The Group also enters into combined foreign currency and interest rate swap contracts ("Foreign Currency Swaps") to hedge against adverse changes in foreign currency exchange rates associated with obligations denominated in foreign currency. The principal element

of Foreign Currency Swaps is translated at the spot rate at the reporting date with any gain or loss on translation recognised in the profit and loss account. Such gains and losses are offset against gains and losses arising on the translation of the obligations which have been hedged. The interest element of Foreign Currency Swaps is accounted for on an accruals basis with the net interest income or expense recognised in the profit and loss account as it is earned and payable.

Interest rate swap agreements which are used to manage interest rate risk on the Group's borrowings are accounted for using the accruals method. Net income or expense resulting from the differential between exchanging floating and fixed rate interest payments is recorded on an accruals basis. To the extent that the interest rate swap agreements are delayed starting, net income or expense is not recognised until the effective date of the agreement.

FINANCE COSTS

Costs incurred in raising debt finance are deducted from the amount raised and amortised over the life of the debt facility on a constant-yield basis. Where the period and utilisation of the debt facility is uncertain, the amortisation rate is determined by reference to the Group's estimated future financing requirements.

Costs incurred in raising equity finance are deducted from the premium arising on the issue of shares.

2 SEGMENTAL INFORMATION

Turnover is attributable principally to the provision of cable television and telephony services in the United Kingdom, which the Directors consider to be the same class of business and, accordingly, no segmental analysis of operating loss or net assets is shown.

Turnover comprised the following:

| | 1998 Continuing operations £'000 | 1998 Acquisitions £'000 | 1998 Total £'000 | 1997 £'000 |
|------------------|---|-------------------------------|------------------------|---------------|
| Cable television | 182,550 | 19,308 | 201,858 | 159,918 |
| Telephony | | | | |
| – residential | 203,545 | 28,969 | 232,514 | 166,645 |
| Telephony | | | | |
| – business | 59,107 | 25,126 | 84,233 | 43,882 |
| Other | 20,569 | – | 20,569 | 16,053 |
| | 465,771 | 73,403 | 539,174 | 386,498 |

Other revenue comprises management services provided to affiliated companies, internet sales, cable publications and sales of indefeasible rights of use of cable capacity.

3 OPERATING COSTS

| | 1998 Continuing operations £'000 | 1998 Acquisitions £'000 | 1998 Total £'000 | 1997 £'000 |
|--|---|-------------------------------|------------------------|---------------|
| Programming expenses | 93,073 | 9,957 | 103,030 | 93,441 |
| Telephony expenses | 62,972 | 19,306 | 82,278 | 50,145 |
| Selling, general and administrative expenses | 186,515 | 21,393 | 207,908 | 193,335 |
| Depreciation | 195,997 | 27,560 | 223,557 | 177,341 |
| Amortisation of goodwill | 14,225 | – | 14,225 | – |
| | 552,782 | 78,216 | 630,998 | 514,262 |

3 OPERATING COSTS (continued)

Having regard to the special nature of the Group's business, the analysis of operating costs as prescribed by the Companies Act 1985 is not meaningful. In the circumstances, therefore, as required by paragraph 3(3) of Schedule 4 of the Companies Act 1985, the Directors have adapted the prescribed format to the requirements of the Group's business.

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

| | 1998 £'000 | 1997 £'000 |
|---|---------------|---------------|
| Auditors' remuneration: | | |
| Audit | 480 | 320 |
| Other services – auditors and their associates | 1,930 | 1,032 |
| Depreciation and other amounts written off tangible fixed assets: | | |
| Owned | 202,186 | 166,452 |
| Leased | 21,371 | 10,889 |
| Exchange losses | 6,867 | 30,954 |
| Hire of plant and machinery – rentals payable under operating leases | 770 | 371 |
| Hire of other assets – operating leases | 3,337 | 2,827 |

The auditors' remuneration for audit services to the Company was £33,000 (1997: £27,000).

5 REMUNERATION OF DIRECTORS

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Fees to non-executive Directors | 188 | 183 |
| Remuneration as executives: | | |
| Basic salary, allowances and benefits | 1,041 | 851 |
| Performance-related bonuses | 411 | 112 |
| Pension contributions | 21 | 33 |
| Compensation for loss of office | 534 | – |
| Total in respect of the year | 2,195 | 1,179 |

Of the above remuneration, £160,000 and £62,000, was reimbursed to MediaOne for the years ended 31 December 1998 and 1997, respectively, for making available to the Company the services of certain Directors.

The remuneration of the highest paid Director was as follows:

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Basic salary, allowances and benefits | 506 | 353 |
| Performance-related bonuses | 164 | 45 |
| Pension contributions | 8 | 24 |
| Total in respect of the year | 678 | 422 |

A detailed analysis of Directors' remuneration, including salaries and benefits, performance-related bonuses and other bonuses is set out in the Report of the Directors on pages 35 and 36. Details of Directors' interests in the share capital of the Company are set out in the Report of the Directors on page 28.

6 STAFF NUMBERS AND COSTS

The weighted average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

| | 1998 Number | 1997 Number |
|-----------------------------|----------------|----------------|
| Sales and customer services | 2,289 | 2,297 |
| Construction and operations | 1,921 | 1,985 |
| Administration | 783 | 691 |
| | 4,993 | 4,973 |

The aggregate payroll costs of these persons, including amounts which have been capitalised in tangible fixed assets, were as follows:

| | 1998 £'000 | 1997 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 112,777 | 103,516 |
| Social security costs | 11,108 | 10,378 |
| Other pension costs | 3,044 | 2,801 |
| | 126,929 | 116,695 |

7 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| On bank deposits and short-term investments | 11,957 | 4,231 |
| On loans made to associated undertakings | 3,115 | 3,178 |
| Share of interest of associates | 2,319 | 5,565 |
| Other | 1,705 | 1,688 |
| | 19,096 | 14,662 |

8 INTEREST PAYABLE AND SIMILAR CHARGES

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| On bank loans and overdrafts and other loans: | | |
| Wholly repayable within five years | 100 | 16,941 |
| Wholly or partly repayable in more than five years | 71,414 | 14,741 |
| Finance costs of Senior Discount Debentures | 84,607 | 71,661 |
| Finance costs of Senior Debentures | 23,751 | 22,657 |
| Finance charges payable in respect of finance leases and hire purchase contracts | 9,011 | 4,702 |
| Finance costs of Senior Notes | 6,587 | – |
| Exchange losses on foreign currency translation, net | 6,867 | 30,954 |
| Share of interest of associates | 14,587 | 15,751 |
| Other | 17,430 | 8,274 |
| | 234,354 | 185,681 |

The exchange gain for the year on the translation of the US Dollar denominated Senior Discount Debentures amounted to £13,921,000 (1997: loss £11,623,000). This amount has been offset by an adjustment of £2,027,000 to the unamortised value of the premium paid for the foreign currency option which hedges the Senior Discount Debentures.

9 TAX ON LOSS ON ORDINARY ACTIVITIES

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Corporation tax on taxable profit at 31% (1997: 31.5%) | (15) | 137 |
| Share of irrecoverable ACT of associated undertakings | – | 384 |
| | (15) | 521 |

The corporation tax credit for the year represents payment for consortium relief losses.

10 LOSS PER SHARE

The calculation of basic and dilutive loss per equity is based on the loss on ordinary activities after taxation and minority interests for the year, divided by the weighted average number of equity shares as follows:

| | 1998 | 1997 |
|---|---------------|---------------|
| Weighted average number of equity shares, adjusted for the pre-emptive issue, used for basic loss per share | 1,755,801,499 | 1,563,210,427 |
| Dilutive potential ordinary shares issuable on exercise of share options | 3,310,303 | 1,926,622 |
| Weighted average number of equity shares used for dilutive loss per share | 1,759,111,802 | 1,565,137,049 |

The weighted average number of equity shares for 1997 has been restated to take account of the dilutive effect of the pre-emptive issue.

12 TANGIBLE FIXED ASSETS

GROUP

| | Freehold land £'000 | Freehold and long leasehold buildings £'000 | Cable and ducting £'000 | Electronic equipment £'000 | Other equipment £'000 | Total £'000 |
|---|------------------------|--|----------------------------|-------------------------------|--------------------------|------------------|
| COST | | | | | | |
| At 1 January 1998 | 4,234 | 54,577 | 1,264,262 | 708,437 | 155,461 | 2,186,971 |
| Reclassification | – | 4,975 | 1,642 | – | (6,617) | – |
| On acquisitions | 1,455 | 20,520 | 567,611 | 80,657 | 43,221 | 713,464 |
| Additions | 238 | 3,567 | 134,475 | 87,583 | 40,280 | 266,143 |
| Disposals | – | (976) | (1,835) | (3,193) | (8,291) | (14,295) |
| At 31 December 1998 | 5,927 | 82,663 | 1,966,155 | 873,484 | 224,054 | 3,152,283 |
| ACCUMULATED DEPRECIATION | | | | | | |
| At 1 January 1998 | – | 11,202 | 167,531 | 231,548 | 71,170 | 481,451 |
| Reclassification | – | 1,964 | – | – | (1,964) | – |
| Charge for the year | – | 5,587 | 92,977 | 88,529 | 36,464 | 223,557 |
| Disposals | – | (92) | (236) | (2,862) | (6,596) | (9,786) |
| At 31 December 1998 | – | 18,661 | 260,272 | 317,215 | 99,074 | 695,222 |
| NET BOOK VALUE AT 31 DECEMBER 1998 | 5,927 | 64,002 | 1,705,883 | 556,269 | 124,980 | 2,457,061 |
| At 31 December 1997 | 4,234 | 43,375 | 1,096,731 | 476,889 | 84,291 | 1,705,520 |

Included in the net book value of electronic equipment and other equipment is £167,069,000 and £40,374,000, respectively, (1997: £42,404,000 and £10,057,000, respectively) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets was £21,371,000.

11 INTANGIBLE ASSETS

GOODWILL ON ACQUISITION

| | Group 1998 £'000 | Group 1997 £'000 |
|------------------------------|------------------------|------------------------|
| Cost at 1 January 1998 | – | – |
| Purchased goodwill (Note 13) | 932,990 | – |
| Amortisation | (14,225) | – |
| Balance at 31 December 1998 | 918,765 | – |

13 FIXED ASSET INVESTMENTS

| GROUP | Associated undertakings | | Other participating interests £'000 | Own shares held £'000 | Foreign currency option premium £'000 | Total £'000 |
|--|----------------------------------|----------------------------------|--|--|--|----------------|
| | Share of net assets £'000 | Loans £'000 | | | | |
| COST | | | | | | |
| At 1 January 1998 | 71,400 | 39,863 | 25,666 | 5,121 | 88,070 | 230,120 |
| Additions | 145 | 2,549 | – | 285 | – | 2,979 |
| Eliminated on associate becoming subsidiary | (38,289) | (3,661) | (25,666) | – | – | (67,616) |
| Exercised during the year | – | – | – | (2,480) | – | (2,480) |
| At 31 December 1998 | 33,256 | 38,751 | – | 2,926 | 88,070 | 163,003 |
| SHARE OF POST-ACQUISITION LOSSES | | | | | | |
| At 1 January 1998 | (51,556) | – | – | – | – | (51,556) |
| Share of operating losses | (6,480) | – | – | – | – | (6,480) |
| Share of interest receivable (Note 7) | 2,319 | – | – | – | – | 2,319 |
| Share of interest payable (Note 8) | (14,587) | – | – | – | – | (14,587) |
| Eliminated on associate becoming subsidiary | 24,853 | – | – | – | – | 24,853 |
| PROVISION | | | | | | |
| At 1 January 1998 | – | – | – | (2,638) | – | (2,638) |
| Charge for the year | – | – | – | (403) | – | (403) |
| Exercised during the year | – | – | – | 2,480 | – | 2,480 |
| AMORTISATION OF FOREIGN CURRENCY OPTION PREMIUM | | | | | | |
| At 1 January 1998 | – | – | – | – | (72,233) | (72,233) |
| Charge for the year | – | – | – | – | (17,864) | (17,864) |
| Valuation adjustment to option premium | – | – | – | – | 2,027 | 2,027 |
| At 31 December 1998 | (45,451) | – | – | (561) | (88,070) | (134,082) |
| NET INVESTMENTS AT 31 DECEMBER 1998 | | | | | | |
| | (12,195) | 38,751 | – | 2,365 | – | 28,921 |
| At 31 December 1997 | 19,844 | 39,863 | 25,666 | 2,483 | 15,837 | 103,693 |
| COMPANY | | | | | | |
| | Subsidiary undertakings £'000 | Participating interests £'000 | Own shares held £'000 | Foreign currency option premium £'000 | Total £'000 | |
| COST | | | | | | |
| At 1 January 1998 | 172,250 | 35,310 | 5,121 | 88,070 | 300,751 | |
| Additions | 1,048,617 | – | 285 | – | 1,048,902 | |
| Exercised during the year | – | – | (2,480) | – | (2,480) | |
| At 31 December 1998 | 1,220,867 | 35,310 | 2,926 | 88,070 | 1,347,173 | |
| PROVISION | | | | | | |
| At 1 January 1998 | – | – | (2,638) | – | (2,638) | |
| Charge for the year | – | – | (403) | – | (403) | |
| Exercised during the year | – | – | 2,480 | – | 2,480 | |
| AMORTISATION OF FOREIGN CURRENCY OPTION PREMIUM | | | | | | |
| At 1 January 1998 | – | – | – | (72,233) | (72,233) | |
| Charge for the year | – | – | – | (17,864) | (17,864) | |
| Valuation adjustment to option premium | – | – | – | 2,027 | 2,027 | |
| At 31 December 1998 | – | – | (561) | (88,070) | (88,631) | |
| NET INVESTMENTS AT 31 DECEMBER 1998 | | | | | | |
| | 1,220,867 | 35,310 | 2,365 | – | 1,258,542 | |
| At 31 December 1997 | 172,250 | 35,310 | 2,483 | 15,837 | 225,880 | |

Details of principal subsidiary undertakings, associated undertakings, and other participating interests of the Group are set out on pages 58 to 60.

13 FIXED ASSET INVESTMENTS (continued)**OWN SHARES HELD**

At 31 December 1998, own shares held comprised 1,507,000 ordinary shares of 10 pence held by the Telewest Employee Share Ownership Plan Trust (the "Telewest ESOP") for awards under the Telewest Restricted Share Scheme, a scheme designed to provide incentives to executives of the Company. Further details on the Telewest Restricted Share Scheme are set out on page 34 of the Report of the Remuneration Committee.

The market value at 31 December 1998 of the shares held was 173.5 pence per share; the carrying value of the shares held is 182 pence per share, being the cost of the shares at the date they were acquired by the Telewest ESOP.

At 31 December 1998, 416,000 ordinary shares had been awarded to executives of the Group, leaving the remaining 1,091,000 shares available for future awards to eligible executives. The provision made against own shares held represents awards earned by executives in respect of services to the Group.

The Telewest ESOP received an interest-free loan of £7,280,000 from the Group to subscribe for the ordinary shares to establish the Telewest ESOP. The loan is to be repaid by way of cash contributions made to the ESOP Trustees by subsidiary undertakings of the Group. At 31 December 1998, the Telewest ESOP owed £1,910,000 to the Group.

ACQUISITIONS

On 1 September 1998, the Group acquired General Cable PLC. The results of the companies in the General Cable group from this date to 31 December 1998 have been consolidated within the Group profit and loss account.

On acquisition of General Cable PLC the Group also acquired a controlling interest in Birmingham Cable Corporation Limited.

All of the Group's acquisitions have been accounted for using acquisition accounting.

The fair value of the assets and liabilities of General Cable and Birmingham Cable at the date of acquisition were as follows:

| | Balance sheet at acquisition | | Fair value adjustments £'000 | Fair value £'000 |
|--|------------------------------|---------------------------|---------------------------------|---------------------|
| | General Cable £'000 | Birmingham Cable £'000 | | |
| Fixed assets | 504,971 | 244,715 | (36,222) | 713,464 |
| Investments | 213 | – | – | 213 |
| Debtors | 45,318 | 19,806 | (236) | 64,888 |
| Cash | 209,683 | 92 | – | 209,775 |
| Creditors | (607,454) | (215,706) | (6,275) | (829,435) |
| Assets acquired | 152,731 | 48,907 | (42,733) | 158,905 |
| Less: Birmingham Cable minority interest arising | | | | (8,772) |
| Less: previously accounted for: | | | | |
| – equity interest in The Cable Corporation | | | | (19,666) |
| – equity investment in Birmingham Cable | | | | (38,289) |
| Less: share of cumulative losses of Birmingham Cable | | | | 24,853 |
| Goodwill | | | | 814,764 |
| Consideration | | | | 931,795 |
| Satisfied by: | | | | |
| Equity | | | | 663,955 |
| Cash | | | | 267,840 |
| | | | | 931,795 |

The fair value adjustments relate to adjustments to bring the General Cable and Birmingham Cable accounting policies into line with those of Telewest.

Prior to becoming a subsidiary, Birmingham Cable was accounted for as an associated undertaking. In accordance with FRS 2 and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each purchase of the identifiable assets and liabilities of the interest purchased. This is a departure from the statutory method, under which goodwill is calculated as the difference between cost and fair value on the date that Birmingham Cable became a subsidiary. The statutory method would not give a true and fair view because it would result in the Group's share of Birmingham Cable's retained reserves, during the period that it was an associate, being characterised as goodwill. The effect of this departure is to increase retained losses by £24,853,000 and to decrease purchased goodwill by £24,853,000.

The summarised profit and loss accounts for General Cable and Birmingham Cable from 1 January 1998, the beginning of the subsidiaries' financial year, to the date of acquisition were as follows:

| | General Cable £'000 | Birmingham Cable £'000 |
|--------------------------------------|------------------------|---------------------------|
| Turnover | 91,022 | 50,830 |
| Operating loss | (6,115) | (6,205) |
| Loss before tax | (32,499) | (22,814) |
| Tax | (1) | – |
| Minority interest | 2,102 | – |
| Loss after tax and minority interest | (30,398) | (22,814) |

13 FIXED ASSET INVESTMENTS (continued)

For the year ended 31 December 1997 General Cable and Birmingham Cable made losses after tax and minority interest of £83,177,000 and £31,431,000 respectively.

There were no recognised gains or losses in either subsidiary other than those included in the profit and loss accounts.

The acquired businesses contributed £16 million to the Group's net operating cashflows, paid £15 million in respect of net returns on investments and servicing of finance, had a cash flow of £33 million from financing and utilised £23 million for capital expenditure.

In October 1998 the Group purchased the remaining minority interest in Birmingham Cable for £126.1 million. Goodwill arising was £118.5 million.

On acquisition of General Cable the Group acquired a further 15% equity shareholding in Cable Guide Limited – negative goodwill arising was £320,000.

14 STOCKS

All stock is in the form of raw materials and consumables.

15 DEBTORS

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|------------------------|--------------------------|------------------------|--------------------------|
| DUE WITHIN ONE YEAR | | | | |
| Trade debtors | 77,310 | – | 36,627 | – |
| Other debtors | 19,255 | 1,474 | 17,742 | 217 |
| Prepayments and accrued income | 27,940 | – | 15,914 | 250 |
| | 124,505 | 1,474 | 70,283 | 467 |
| DUE AFTER MORE THAN ONE YEAR | | | | |
| Amounts owed by subsidiary undertakings | – | 1,397,651 | – | 1,208,656 |
| Other debtors | 178 | – | 174 | – |
| | 178 | 1,397,651 | 174 | 1,208,656 |
| | 124,683 | 1,399,125 | 70,457 | 1,209,123 |

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| Senior Secured facility | – | – | 121,009 | – |
| Bank loans and overdrafts | 1,626 | – | 574 | – |
| Other loans | 5,000 | – | – | – |
| Obligations under finance leases and hire purchase contracts (Note 22) | 40,896 | 643 | 10,221 | 160 |
| Trade creditors | 41,107 | – | 26,710 | 92 |
| Taxation and social security | 8,761 | – | 3,319 | – |
| Other creditors | 29,530 | 2,058 | 18,689 | 1,263 |
| Accruals and deferred income | 203,188 | 9,853 | 154,234 | 5,348 |
| | 330,108 | 12,554 | 334,756 | 6,863 |

Included in the bank loans are property loans secured on freehold land and buildings held by the Group.

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| Senior Debentures due 2006 | 178,515 | 178,515 | 179,777 | 179,777 |
| Senior Discount Debentures due 2007 | 758,747 | 758,747 | 686,034 | 686,034 |
| Senior Notes due 2008 | 205,031 | 205,031 | – | – |
| Senior Secured facility | 645,838 | – | 355,528 | – |
| General Cable facility | 320,501 | – | – | – |
| Birmingham Cable facility | 153,000 | – | – | – |
| Bank loans and overdrafts | 4,396 | – | 400 | – |
| Other loans | 22,000 | – | – | – |
| Obligations under finance leases and hire purchase contracts (Note 22) | 259,667 | 19,548 | 65,313 | 20,191 |
| Foreign Currency Swap | 15,660 | 15,660 | 13,452 | 13,452 |
| Amounts owed to group undertakings | – | 419,659 | – | 425,356 |
| Other creditors | 6,215 | – | 5,204 | – |
| | 2,569,570 | 1,597,160 | 1,305,708 | 1,324,810 |

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The bank loans are property loans secured on certain freehold land and buildings held by the Group repayable as follows:

| | Group 1998 £'000 | Group 1997 £'000 |
|----------------------------|------------------------|------------------------|
| Less than one year | 363 | – |
| Between two and five years | 4,396 | 400 |
| | 4,759 | 400 |

SENIOR DEBENTURES DUE 2006

The Group has issued US\$300,000,000 principal amount of Senior Debentures (the "Senior Debentures") with a yield to maturity of 9.625%. The Senior Debentures mature on 1 October 2006. Interest on the Senior Debentures accrues semi-annually and is payable in arrears. The Senior Debentures are redeemable, in whole or in part, at the option of the Group at any time on or after 1 October 2000.

The Group has entered into a Foreign Currency Swap which expires on 1 October 2000 to hedge its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Debentures. The terms of the Foreign Currency Swap provided for the Group to make an initial exchange of principal of US\$300,000,000 in exchange for £196,078,000. During the term of the Foreign Currency Swap, the Group is to make Sterling fixed-rate interest payments and is to receive US Dollar fixed-rate interest payments on the initial exchange amounts. On expiration, the initial principal amounts will be re-exchanged.

The Senior Debentures are unsecured liabilities of the Group.

SENIOR DISCOUNT DEBENTURES DUE 2007

The Group has issued US\$1,536,413,000 principal amount at maturity of Senior Discount Debentures (the "Senior Discount Debentures") with a yield to maturity of 11%. At 31 December 1998, the unamortised portion of the discount on issue is £157,733,000 (1997: £260,171,565). The Senior Discount Debentures mature on 1 October 2007. Interest on the Senior Discount Debentures accrues semi-annually. Cash interest will not accrue on the Senior Discount Debentures prior to 1 October 2000 and is thereafter payable in arrears on 1 April and 1 October of each year at a rate of 11% per annum. The Senior Discount Debentures are redeemable, in whole or in part, at the option of the Group at any time on or after 1 October 2000.

The Group has purchased a five-year Sterling put option to purchase US\$1,537,000,000 to hedge its exposure to adverse fluctuations in exchange rates on the principal amount at the early redemption date of the Senior Discount Debentures. The put option has a strike price at expiration on 28 September 2000 of £1 = US\$1.4520 ("the Forward Rate").

The option premium paid of £88,070,000 has been included on the balance sheet within fixed asset investments and is being amortised to the profit and loss account over the five-year term of the option at a constant rate of the carrying amount of the Senior Discount Debentures. The difference between the contracted amount translated at the Forward Rate and at the spot rate at the inception of the contract in the amount of £91,717,000 is also being amortised on the same basis to the profit and loss account.

At 31 December 1998, the carrying value of the option premium has been reduced to zero, as foreign exchange gains of £2,027,000 on the Senior Discount Debentures have been offset against the unamortised value. Further foreign exchange gains of £11,264,000 on the Senior Discount Debentures have been recognised in the profit and loss account.

The Senior Discount Debentures are unsecured liabilities of the Group.

SENIOR NOTES DUE 2008

On 9 November 1998 the Group issued \$350,000,000 principal amount of Senior Notes (the "Senior Notes") with a yield to maturity of 11.25%. The Senior Notes mature on 1 November 2008. Interest on the Senior Notes accrues semi-annually and is payable in arrears. The Senior Notes are redeemable, in whole or in part, at the option of the Group at any time on or after 1 November 2003.

The Group has entered into a series of forward exchange contracts which expire on 3 November 2003 to hedge its exposure to adverse fluctuations in exchange rates on interest payment dates. The effective exchange rate is \$1.64:£1. During the term of these contracts, the Group is to make Sterling fixed-rate interest payments and receive US Dollar fixed rate interest payments.

The Group has also entered into two Foreign Exchange Forwards, expiring on 2 October 2000, to hedge its exposure to adverse fluctuations in exchange rates on part of the principal amount of the Senior Notes. The terms of the Forwards provide for the Group to purchase \$200 million at expiry at a rate of \$1.65:£1.

The Senior Notes are unsecured liabilities of the Group.

SENIOR CONVERTIBLE NOTES DUE 2007

On 19 February 1999 the Group issued £300,000,000 principal amount of Senior Convertible Notes (the "Convertible Notes") with a yield to maturity of 5.25%. The Convertible Notes mature on 19 February 2007 with interest accruing semi-annually payable in arrears. The Convertible Notes are convertible into the ordinary shares of the Group at an initial conversion price of 330p per ordinary share. The Convertible Notes are redeemable, in whole (but not in part) at the option of the Group at any time on or after 9 March 2003 or at any time when at least 90% of the notes issued have been purchased by the Group and cancelled or converted.

SENIOR SECURED FACILITY

On 22 May 1996, the Group entered into a senior secured credit facility (the "Senior Secured facility") with a syndicate of banks. The facility is divided into two tranches: the first portion (Tranche A) was fully repaid by 30 September 1998; the second portion (Tranche B) is available on a revolving basis for an amount up to 6.5 times the trailing, rolling six month annualised consolidated net operating cash flow, gradually reducing throughout the period of the facility to four times by 1 January 2000. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortising over five years. The aggregate drawing at any time cannot exceed £1.0 billion.

Borrowings under the facility are secured by the assets of the Group, including the partnership interests and shares of subsidiaries, and bear interest at between 0.5% and 1.875% above LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualised consolidated net operating cash flow).

A supplementary £100 million revolving credit facility is available, secured with a second fixed and floating charge over the Group's assets, and interest costs ranging from 3.5%–5.5% above LIBOR. This facility which was never drawn, was cancelled on 19 February 1999 upon receipt by the Group of the proceeds of £300 million 5¼% convertible bonds due 2007.

The Group's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

In September 1996, the Group entered into certain delayed-starting interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. The effective dates of the interest rate swap agreements are 2 January 1997 and 31 March 1997, and the agreements mature between 31 December 2001 and 31 March 2004. The aggregate notional principal amount of the swaps adjusts upwards on a semi-annual basis to a maximum of £750 million. In accordance with the swap agreements, the Group receives interest at the six-month LIBOR rate and pays a fixed interest rate in the range of 7.175–7.910%.

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

GENERAL CABLE FACILITY

Following the Group's acquisition of General Cable PLC, the Group has taken over an existing Senior Secured credit facility with a syndicate of banks. The facility is divided into two tranches: the first portion (Tranche A) is available on a revolving basis for up to £80 million reducing by £20 million every six months from 31 December 1998 with full repayment on 31 March 2000; the second portion (Tranche B) is available up to 30 June 2002 on a revolving basis concurrently with Tranche A for an amount up to £500 million. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortising over 5 years. The aggregate drawing at any time under both tranches cannot exceed £500 million.

Borrowings under the facility are secured by the assets of the General Cable Group and bear interest at between 2.0% and 2.25% above LIBOR for Tranche A and between 0.5% and 2.0% above LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualised consolidated net operating cash flow) for Tranche B. The General Cable Group's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

In December 1996, the General Cable Group entered into certain interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. The effective dates of the interest rate swap agreements are 23 December 1996 and the agreements mature on 23 December 2001. The aggregate notional principal amount of the swaps is £248 million. In accordance with the swap agreements, the General Cable Group receives interest at the three-month LIBOR rate and pays six-monthly a fixed interest rate in the range of 7.7825%–7.79%.

In March 1996, the General Cable Group entered into an interest rate cap agreement over a principal of £106 million at rate of 10% to hedge against adverse fluctuations in interest rates.

BIRMINGHAM FACILITY

Following the Group's acquisition of Birmingham Cable Corporation Limited, the Group has taken over an existing Senior Secured credit facility with a syndicate of banks. The facility is divided into two tranches: the first portion (Tranche A) is available on a revolving basis for up to £70 million reducing by £10 million per quarter with full repayment on 30 June 1999; the second portion (Tranche B) is available on a revolving basis concurrently with Tranche A for an amount up to 6.5 times the trailing, rolling six month annualised consolidated net operating cash flow, gradually reducing throughout the period of the facility to 5.25 times by 30 June 2000. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortising over 5.5 years. The aggregate drawing at any time from 31 December 1998 under both tranches cannot exceed £175 million.

Borrowings under the facility are secured by the assets of the Birmingham Group and bear interest at 2.25% above LIBOR for Tranche A and between 0.625% and 2.0% above LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualised consolidated net operating cash flow) for Tranche B.

The Birmingham Group's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

In February 1995, the Birmingham Group entered into certain interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. The effective dates of the interest rate swap agreements are 16 February 1995 and the agreements mature on 15 February 2000. The aggregate notional principal amount of the swaps is £160 million. In accordance with the swap agreements, the Birmingham Group receives interest at the six-month LIBOR rate and pays a fixed interest of 7.23%.

THE CABLE CORPORATION AND YORKSHIRE CABLE FINANCING ARRANGEMENTS

In February 1996, The Cable Corporation and certain of its subsidiaries entered into sale and leaseback arrangements covering a maximum amount of equipment with a purchase price of up to £92 million. The Cable Corporation's obligations under the arrangements are secured by guarantees and cash collateralised letter of credit facilities.

In December 1996, Yorkshire Cable and certain of its subsidiaries entered into sale and leaseback arrangements covering a maximum amount of equipment with a purchase price of up to £206 million. Yorkshire Cable's obligations under the arrangements are also secured by guarantees and cash collateralised letter of credit facilities.

Total cash restricted as to use by providing backing for security to lessors amounted to £187,420,000 at 31 December 1998, which has been classified as secured cash deposits restricted for more than one year. There were no outstanding guarantees.

In the event that security provided to the lessors under The Cable Corporation and Yorkshire Cable's leasing arrangements is inadequate, the General Cable Group has the ability to provide acceptable additional security. If such additional security is not provided, this constitutes an event of default under the leases. The leasing agreements may be terminated at either of the parties' option.

OTHER LOANS

Other loans include £100,000,000 6.0568% preference shares, issued by a subsidiary and guaranteed by the General Cable Group, which have been included within creditors in the consolidated financial statements in accordance with FRS 4. £90,000,000 has been deposited with the parent company of the preference shareholder (an authorised banking institution), which has, in these financial statements, been set against the guaranteed preference shares under a legal right of offset in accordance with FRS 5. Interest receivable on the deposit has also been set against the dividend payable on the preference shares in the profit and loss account.

In addition, General Cable PLC has a standby credit facility of £32,000,000 made available by Vivendi S.A., a former shareholder of General Cable PLC, until 19 April 1998, which reduces by £5,000,000 every six months until 19 April 2001. At 31 December 1998, £17,000,000 had been drawn. The loan carries interest at 1% over LIBOR. The loan is repayable as follows:

| | Group 1998 £'000 | Group 1997 £'000 |
|--------------------|------------------------|------------------------|
| Less than one year | 5,000 | — |
| Between 2–5 years | 12,000 | — |
| | 17,000 | — |

18 DEFERRED TAXATION

The amount provided, and the full potential liability, in respect of deferred taxation is as follows:

| | Group 1998 £'000 | Group 1997 £'000 |
|---|------------------------|------------------------|
| Tax effect of timing differences due to: | | |
| Excess capital allowances over depreciation | – | – |
| Other | 9,539 | 15,900 |
| Trading losses | (9,539) | (15,900) |
| | – | – |

As at 31 December 1998, the Group estimates that it has, subject to Inland Revenue agreement, £871,610,000 (1997: £587,000,000), of tax losses available to relieve future profits. Accumulated tax losses at 31 December 1998 and 1997 exclude capital allowances on assets which were available to the Group, but had not been claimed. These allowances are available for future periods.

20 CALLED UP SHARE CAPITAL

| | Number | | £'000 | | Total |
|---|--------------------------------|--|--------------------------------|--|---------|
| | Ordinary shares of 10p each | Convertible preference shares of 10p each | Ordinary shares of 10p each | Convertible preference shares of 10p each | |
| AUTHORISED | | | | | |
| 31 December 1998 | 2,900,000,000 | 164,933,292 | 290,000 | 16,493 | 306,493 |
| 31 December 1997 | 2,010,000,000 | 661,000,000 | 201,000 | 66,100 | 267,100 |
| ALLOTTED, CALLED UP AND FULLY PAID | | | | | |
| At 1 January 1998 | 927,567,600 | 496,066,708 | 92,756 | 49,607 | 142,363 |
| Issued during the year | 715,866,961 | – | 71,587 | – | 71,587 |
| Converted into ordinary shares | 496,066,708 | (496,066,708) | 49,607 | (49,607) | – |
| At 31 December 1998 | 2,139,501,269 | – | 213,950 | – | 213,950 |

The consideration received in respect of the shares issued during the year was as follows:

| | Number of shares issued |
|---|----------------------------|
| Consideration received | |
| Receipt of £620,000 from employees on exercise of share options | 437,747 |
| Receipt of £241,115,527 from shareholders from shares issued under the pre-emptive issue to fund acquisition of General Cable PLC | 260,665,422 |
| Issued share capital of General Cable PLC | 454,763,792 |
| Conversion of preference shares | 496,066,708 |
| | 1,211,933,669 |

CONVERTIBLE PREFERENCE SHARES

The convertible preference shares were convertible into fully paid ordinary shares at any time on the basis of one ordinary share for every convertible preference share provided that, immediately following the conversion, the percentage of the issued ordinary share capital of the Company held by members of the public, as defined by the listing rules of the London Stock Exchange, did not fall below 25%. The ordinary shares issued on conversion rank *pari passu* in all respects with the other ordinary shares in issue.

19 MINORITY INTERESTS

At 31 December 1998, the minority interests comprised 15,000 ordinary shares of £1 each and 10,000 cumulative convertible preference shares of £1 each in Cable Guide Limited, together with the relevant minority share of the profits or losses of each entity. All minority interests are equity interests.

On acquisition of General Cable's investment in Birmingham Cable, there was a minority interest in Birmingham Cable representing 27.58% of the ordinary shares. This minority interest was subsequently purchased on 28 October 1998. The profit and loss account includes the minority share of Birmingham Cable's losses for the period from 1 September to 28 October 1998.

The holders of the convertible preference shares were entitled to receive a dividend of such amount as declared and paid in relation to each ordinary share, subject to the dividend to be paid not exceeding 20 pence per share net of any associated tax credit.

In the event of a winding-up of the Company or other return of capital, the assets of the Company available for distribution were to be paid first to the holders of the convertible preference shares up to the sum of capital paid-up or credited as paid-up unless the right of election upon a winding-up of the Company had been exercised in respect of the convertible preference shares (the "Elected Shares"). If the election had been exercised, the holders of the ordinary shares and the Elected Shares would have received any surplus in accordance with the amount paid-up or credited as paid-up on the shares held.

The holders of the convertible shares were not entitled to vote at any general meeting of the Company unless the meeting included the consideration of a resolution for winding up the Company or a resolution modifying the rights or privileges attaching to the convertible preference shares.

20 CALLED UP SHARE CAPITAL (continued)**EMPLOYEE SHARE SCHEMES**

Details of the employee share schemes operated by the Company are set out on page 34 of the Report of the Directors.

During the year, options and awards were granted over ordinary shares of the Company in accordance with the rules of the various employee share schemes. At 31 December 1998, taking into account options and awards exercised, cancelled, and lapsed, during the year, the following options to subscribe for the ordinary shares and awards over ordinary shares were outstanding:

TELEWEST EXECUTIVE SHARE OPTION SCHEMES

| Date of grant | Exercise price per share | Exercise period | Number of shares under option |
|--|-----------------------------|-----------------------|----------------------------------|
| 12 May 1995 | 154.5p | 13/5/98-11/5/2002 | 4,296,379 |
| 12 May 1995 | 155.5p | 13/5/98-11/5/2002 | 205,395 |
| 16 June 1995 | 171.5p | 17/6/98-15/6/2002 | 938,100 |
| 16 June 1995 | 173.5p | 17/6/98-15/6/2002 | 36,125 |
| 9 November 1995 | 173.5p | 12/3/98-8/11/2005 | 728,630 |
| 11 March 1996 | 141.0p | 12/3/99-10/3/2006 | 3,071,685 |
| 11 March 1996 | 138.0p | 12/3/99-10/3/2006 | 95,084 |
| 30 October 1996 | 135.0p | 30/10/99-29/10/2006 | 162,962 |
| 13 March 1997 | 117.5p | 13/3/2000-12/3/2007 | 740,424 |
| 13 March 1997 | 118.0p | 13/3/2000-12/3/2007 | 25,423 |
| 1 October 1997 | 83.0p | 1/10/2000-30/9/2004 | 3,523,107 |
| 1 October 1997 | 82.5p | 1/10/2000-30/9/2007 | 1,325,165 |
| 31 October 1997 | 73.0p | 31/10/2000-30/10/2004 | 1,972,462 |
| 31 October 1997 | 71.0p | 31/10/2003-30/10/2007 | 452,266 |
| 20 March 1998 | 91.5p | 20/3/2001-19/3/2008 | 196,716 |
| 20 March 1998 | 95.5p | 20/3/2001-19/3/2005 | 3,420,669 |
| 7 August 1998 | 160.5p | 7/8/2001-6/8/2008 | 37,382 |
| 7 August 1998 | 159.0p | 7/8/2001-6/8/2005 | 62,139 |
| 29 September 1998 | 134.0p | 29/9/2001-28/9/2008 | 22,388 |
| 29 September 1998 | 135.5p | 29/9/2001-28/9/2005 | 1,306,273 |
| 19 November 1998 | 122.0p | 19/11/2001-18/11/2008 | 811,470 |
| 19 November 1998 | 127.0p | 19/11/2001-17/11/2005 | 2,735,500 |
| TOTAL OPTIONS OUTSTANDING AT 31 DECEMBER 1998 | | | 26,165,744 |

TELEWEST SHARESAVE OPTION SCHEMES

| | | | |
|--|--------|--------------------|------------------|
| 12 December 1994 | 150.0p | 1/2/2000-31/7/2000 | 209,622 |
| 12 December 1995 | 134.0p | 1/2/2001-31/7/2001 | 254,969 |
| 12 December 1996 | 102.5p | 1/2/2000-31/7/2000 | 375,230 |
| 11 December 1997 | 58.0p | 1/2/2001-31/7/2001 | 4,464,860 |
| 18 December 1998 | 105.5p | 1/2/2002-31/7/2002 | 4,155,655 |
| TOTAL OPTIONS OUTSTANDING AT 31 DECEMBER 1998 | | | 9,460,336 |

The savings contracts associated with the options granted on 18 December 1998 became effective from 1 February 1999.

TELEWEST RESTRICTED SHARE SCHEME

At 31 December 1998, awards over 416,000 shares were outstanding. The exercise period of these awards is from 13 January 1998 to 20 January 2007.

TELEWEST LONG-TERM INCENTIVE PLAN ("LTIP")

At 31 December 1998, awards over 3,797,000 shares were outstanding. The exercise period of these awards is from 1 October 2000 to 20 March 2009.

EQUITY PARTICIPATION PLAN ("EPP")

At 31 December 1998, awards over 677,000 shares were outstanding. The exercise period of these awards is from 20 March 1998 to 19 March 2005.

21 RESERVES

| | Group | | | | Company | |
|---|---------------------------|----------------------------|----------------------------|-----------------------------|---------------------------|-----------------------------|
| | Share premium £'000 | Merger reserve £'000 | Other reserves £'000 | Profit and loss £'000 | Share premium £'000 | Profit and loss £'000 |
| At 1 January 1998 | 9,187 | 534,257 | 270,237 | (687,864) | 9,187 | (38,986) |
| Issue of ordinary shares net of issue costs | 830,746 | – | – | – | 830,746 | – |
| (Loss)/profit for the financial year | – | – | – | (312,483) | – | 37,702 |
| AT 31 DECEMBER 1998 | 839,933 | 534,257 | 270,237 | (1,000,347) | 839,933 | (1,284) |

The cumulative amount of positive goodwill eliminated against reserves in previous years was £487,439,000 and the cumulative amount of negative goodwill added to reserves in prior years was £270,237,000.

22 COMMITMENTS AND CONTINGENCIES**(I) CAPITAL COMMITMENTS**

The amount of capital expenditure authorised by the Group for which no provision has been made in the financial statements is as follows:

| | 1998 £'000 | 1997 £'000 |
|------------|---------------|---------------|
| Contracted | 17,374 | 12,715 |

The Company has no capital commitments.

(II) LEASING COMMITMENTS

Obligations of the Group in respect of finance leases, net of interest, are payable over the following periods.

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| Within one year | 40,896 | 643 | 10,221 | 160 |
| In the second to fifth years inclusive | 130,151 | 8,272 | 35,796 | 6,150 |
| Over five years | 129,516 | 11,276 | 29,517 | 14,041 |
| | 300,563 | 20,191 | 75,534 | 20,351 |

Annual commitments of the Group under operating leases are set out below:

| | 1998 Land and buildings £'000 | 1998 Other assets £'000 | 1997 Land and buildings £'000 | 1997 Other assets £'000 |
|--|--|-------------------------------|--|-------------------------------|
| Within one year | 87 | 63 | – | 30 |
| In the second to fifth years inclusive | 1,764 | 189 | 547 | 79 |
| Over five years | 16,065 | 1 | 10,549 | – |
| | 17,916 | 253 | 11,096 | 109 |

The Company has no operating lease commitments.

24 ANALYSIS OF CHANGES IN NET DEBT

| | At 1 January 1998 £'000 | Cash flow £'000 | Acquisitions £'000 | Other non-cash changes £'000 | Exchange movements £'000 | At 31 December 1998 £'000 |
|--------------------------|-------------------------------|--------------------|-----------------------|------------------------------------|--------------------------------|---------------------------------|
| Cash in hand, at bank | 8,147 | (2,033) | 16,893 | – | (20) | 22,987 |
| Short-term deposits | 21,435 | (3,535) | – | – | – | 17,900 |
| Restricted cash deposits | – | (5,460) | 192,880 | – | – | 187,420 |
| Debt due after 1 year | (1,342,748) | (408,801) | (458,377) | (78,102) | – | (2,288,028) |
| Debt due within 1 year | (574) | 190 | (6,242) | – | – | (6,626) |
| Finance leases | (75,534) | 21,765 | (222,797) | (23,997) | – | (300,563) |
| TOTAL NET DEBT | (1,389,274) | (397,874) | (477,643) | (102,099) | (20) | (2,366,910) |

(III) CONTINGENCIES

The General Cable Group has provided security for leasing obligations of £1,308,000 of the Cable Corporation Limited.

In addition the Group has provided performance bonds in respect of its national licence and to local authorities up to a maximum amount of £6,100,000.

23 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 1998 £'000 | 1997 £'000 |
|---|-----------------|---------------|
| Operating loss | (91,824) | (127,764) |
| Depreciation | 223,557 | 177,341 |
| Amortisation of goodwill | 14,225 | – |
| (Increase)/decrease in stocks | (129) | 21 |
| Decrease/(increase) in debtors | 2,366 | (2,966) |
| (Decrease)/increase in creditors | (19,131) | 21,992 |
| Net cash inflow from operating activities | 129,064 | 68,624 |

24 ANALYSIS OF CHANGES IN NET DEBT (continued)**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

| | 1998 £'000 | 1997 £'000 |
|---|--------------------|---------------|
| (Decrease)/increase in cash in the period | (2,033) | 3,817 |
| Cash inflow from increase in debt and lease financing | (386,846) | (386,154) |
| Cash inflow from decrease in liquid resources | (3,535) | (53,288) |
| Cash flow from restricted deposits | (5,460) | – |
| Change in net debt resulting from cash flows | (397,874) | (435,625) |
| Acquisitions | (477,643) | – |
| New finance leases | (23,997) | (25,115) |
| Translation differences | (20) | (63) |
| Valuation adjustments | 11,287 | (34,804) |
| Amortisation of issue costs | (89,389) | (74,738) |
| Movement in net debt in the period | (977,636) | (570,345) |
| Net debt at 1 January 1998 | (1,389,274) | (818,929) |
| NET DEBT AT 31 DECEMBER 1998 | (2,366,910) | (1,389,274) |

MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £19.2 million.

Part of the consideration for the purchases of subsidiary undertakings that occurred during the year comprised shares. Further details of the acquisitions are set out in note 13 to the financial statements.

25 RELATED PARTY TRANSACTIONS**IDENTITY OF RELEVANT RELATED PARTIES**

Tele-Communications International, Inc. ("TCI²") and MediaOne International ("MediaOne") are related parties of the Group, in that they own more than 20% of the voting rights of the Group. Cox Communications, Inc. ("COX"), a former shareholder, and SBC Communications, Inc. ("SBC") are also considered to be related parties of the Group, in that they controlled substantial portions of the voting rights of the Group and hence were able to exercise influence over its financial and operating policies.

Birmingham Cable Corporation Limited up to its acquisition on 1 September 1998 and Cable London plc (together "the Associates") are related parties of the Group by virtue of their status as associated companies.

NATURE OF TRANSACTIONS

Transactions with related parties, other than those described in other notes to the financial statements, were as follows:

The Group, in the normal course of providing cable television services, purchases certain of its programming from associates of TCI². Such programming is purchased on commercially-available terms. Total purchases in the year amounted to £11,280,000 (1997: £9,681,000). The amount due to the subsidiaries of TCI² at 31 December 1998 is £2,514,000 (1997: £2,375,000).

The Group has management agreements with TCI², MediaOne, COX, and SBC under which amounts are paid for employees who have been seconded to the Group. The amounts charged under these agreements during the year and total amounts due to TCI², MediaOne, COX, and SBC at 31 December 1998 are set out below:

| Related party | Amounts charged under management agreements | | Total amounts due at 31 December | |
|------------------|---|---------------|----------------------------------|---------------|
| | 1998 £'000 | 1997 £'000 | 1998 £'000 | 1997 £'000 |
| TCI ² | – | 1 | – | 43 |
| MediaOne | 1,620 | 967 | 259 | 198 |
| COX | 60 | 202 | 118 | 357 |

The Group has entered into consulting agreements with the Associates to provide consulting services relating to telephony operations. Under the agreements, the Group receives an annual fee based upon the revenue of the Associates. The Group also receives a fee for providing switching services to the Associates comprising a fixed element based on a number of switches and a variable element based on a number of lines. Fees received during the year in respect of these services amount to £3,020,000 (1997: £1,526,000). The amounts due at 31 December 1998 from the Associates in respect of these services were £2,233,000 (1997: £3,112,000).

Birmingham Cable Corporation had a consultancy agreement with Comcast UK Consulting Inc. (a subsidiary undertaking of Comcast UK Cable Partners Limited). Charges under this agreement amounted to £223,000, for the period since acquisition by the Group of Birmingham Cable Corporation.

The Company also made sales of cable publications to Associates. For the years ended 31 December 1998 and 1997 sales were £303,000 and £109,000, respectively.

The Group has also made loans to Associates. Interest charged on these loans in 1998 and 1997 was £3,115,000 and £3,175,000, respectively.

26 POST BALANCE SHEET EVENTS

On 19 February 1999 Telewest issued £300 million of Senior Convertible Notes to various institutions. Save as disclosed, there were no material post balance sheet events between the end of the financial year and the date of this Report.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

Except where otherwise stated, the Company owns indirectly 100% of the ordinary share capital of the following principal subsidiary companies and holds indirectly a 100% interest in the following partnerships and joint ventures. The Company also indirectly owns preference shares in the subsidiary companies which are separately disclosed. The subsidiary companies are incorporated in Great Britain and registered in England and Wales except for the Scottish companies, being those companies indicated by *, which are registered in Scotland. The proportion of the ordinary shares held by the Group also represents the proportion of voting rights held by the Group with the exception of Cable Guide Limited in which the Group holds 83.34% of the voting rights.

The principal activities of these entities, unless otherwise indicated, are the building and operation of cable television and telephony networks in the United Kingdom.

All subsidiary undertakings have been included in the consolidated financial statements.

COMPANIES:

Cable Adnet Limited

Cable Guide Limited (Publisher)

(The Company owns indirectly 85% of the ordinary shares and 80% of the cumulative convertible preference shares)

Cable Internet Limited

Telewest Communications (Central Lancashire) Limited

Telewest Communications (Cotswolds) Limited

Telewest Communications (Cumbernauld) Limited*

Telewest Communications (Dumbarton) Limited*

Telewest Communications (Dundee & Perth) Limited*

Telewest Communications (East Lothian & Fife) Limited*

Telewest Communications (Falkirk) Limited*

Telewest Communications (Fylde & Wyre) Limited

Telewest Communications (Glenrothes) Limited*

Telewest Communications Group Limited

(Management Company)

Telewest Communications (Liverpool) Limited

Telewest Communications (London South) Limited

Telewest Communications (Midlands) Limited

Telewest Communications (Midlands & North West) Limited

Telewest Communications (Motherwell) Limited*

Telewest Communications Networks Limited

(Management Company) (directly held)

Telewest Communications (North East) Limited

Telewest Communications (North West) Limited

Telewest Communications Scotland Holdings Limited*

(Holding Company)

Telewest Communications (Scotland) Limited*

Telewest Communications (South East) Limited

Telewest Communications (South Thames Estuary) Limited

Telewest Communications (South West) Limited

Telewest Communications (Southport) Limited

Telewest Communications (St. Helens & Knowsley) Limited

Telewest Communications (Telford) Limited

Telewest Communications (Wigan) Limited

Telewest Communications (Worcester) Limited

Birmingham Cable Corporation Limited (the Company owns directly 27.58% and indirectly 72.42% of the ordinary shares)

Birmingham Cable Limited

Network 21 Limited

CablePhone Limited

Central Cable Limited

Central Cable Communications Limited

Central Cable Holdings Limited

Century 21 Cable Communications Limited

West Midlands Credit Limited

Central Cable Sales Limited

Birmingham Cable Finance Limited (Jersey)

General Cable PLC (directly held)

General Cable Holdings Limited

General Cable Investments Limited

General Cable Group Limited

General Telecommunications Limited†

Filegale Limited (Holding Company)

The Cable Corporation Limited

The Yorkshire Cable Group Limited

Middlesex Cable Limited

Windsor Television Limited

The Cable Corporation Equipment Limited

Chariot Collection Services Limited

European Business Network Limited

Cable Alarms Limited†

Windsor Alarms Limited†

Barnsley Cable Communications Limited

Bradford Cable Communications Limited

Doncaster Cable Communications Limited

Halifax Cable Communications Limited

Sheffield Cable Communications Limited

Wakefield Cable Communications Limited

†Dormant Company

PRINCIPAL SUBSIDIARY UNDERTAKINGS

Yorkshire Cable Limited
 Yorkshire Cable Telecom Limited
 Yorkshire Cable Communications Limited
 Yorkshire Cable Finance Limited
 Yorkshire Cable Properties Limited
 Northern Credit Limited
 Rotherham Cable Communications Limited
 Mayfair Way Management Limited
 Imminus Limited
 Fastrak Limited†
 General Cable Programming Limited
 Applied Communications Solutions Limited†
 General Cable Communications Limited†
 General Cable Programming 1 Limited†
 General Communications Corporation Limited†
 General Communications International Limited†
 General Media Communications Limited†
 General Telecommunications International Limited†
 Middlesex Cable Telecom Limited†
 Sheffield Cable Telecom Limited†
 Windsor Cable Telecom Limited†
 Cable Finance Limited (Jersey)

†Dormant Company

PARTNERSHIPS:

Avon Cable Limited Partnership
 Cotswolds Cable Limited Partnership
 Edinburgh Cable Limited Partnership
 Estuaries Cable Limited Partnership
 London South Cable Partnership
 Telewest Communications (North East) Partnership
 Telewest Communications (South East) Partnership
 Tyneside Cable Limited Partnership
 United Cable (London South) Limited Partnership

JOINT VENTURES:

Avon Cable Limited Partnership and Telewest Communications (South West) Limited Joint Venture
 London South Cable Partnership and Telewest Communications (London South) Limited Joint Venture
 Telewest Communications (Cotswolds) Venture
 Telewest Communications (Scotland) Venture

**PRINCIPAL PLACE
OF BUSINESS:**

Bristol
 Cheltenham
 Edinburgh
 Basildon
 Croydon
 Newcastle
 Basildon
 Newcastle
 Croydon

Bristol

Croydon

Cheltenham

Edinburgh

**PRINCIPAL ASSOCIATED UNDERTAKINGS
AND OTHER PARTICIPATING INTERESTS**

ASSOCIATED UNDERTAKINGS

| | Issued and fully paid up share capital | Percentage shareholding |
|------------------------------|---|----------------------------|
| Cable London plc | 55,572,916 ordinary shares of 10p each | 50.00 |
| Front Row Television Limited | 707,193 ordinary shares of 10p each | 53.00* |

Cable London plc has also issued £45,000,000 of convertible loan stock which is convertible into ordinary shares. The Group held £22,500,000 of the issued loan stock at 31 December 1998.

*The Company owns directly 40% and indirectly 13% of the ordinary shares.

The Group accounts for Front Row Television Limited as an associate as it does not intend to hold a majority stake on a long-term basis.

All associated shareholdings operate in the United Kingdom and are incorporated in Great Britain and are registered in England and Wales.

The principal activities of Cable London plc are the building and operation of cable television and telephony networks. The principal activity of Front Row Television Limited is the provision of pay per view cable television.

FINANCIAL STATEMENTS UNDER US GAAP

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELEWEST COMMUNICATIONS PLC

We have audited the accompanying consolidated balance sheets of Telewest Communications plc and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements on pages 63 to 80 present fairly, in all material respects, the financial position of Telewest Communications plc and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles in the United States of America.

KPMG AUDIT PLC

Chartered Accountants
Registered Auditors
London, England

March 16, 1999

CONSOLIDATED STATEMENTS OF OPERATIONS

| YEAR ENDED DECEMBER 31, | 1998 \$'000 (note 2) | 1998 £'000 | 1997 £'000 | 1996 £'000 |
|--|----------------------------|------------------|---------------|---------------|
| REVENUE | | | | |
| Cable television | 335,649 | 201,858 | 159,918 | 121,224 |
| Telephony – residential | 386,624 | 232,514 | 166,645 | 125,013 |
| Telephony – business | 140,063 | 84,233 | 43,882 | 34,562 |
| Other (£3,324, £3,573 and £1,600 in 1998, 1997 and 1996, respectively, from related parties) | 34,202 | 20,569 | 16,053 | 9,467 |
| | 896,538 | 539,174 | 386,498 | 290,266 |
| OPERATING COSTS AND EXPENSES | | | | |
| Programming | (171,318) | (103,030) | (93,441) | (69,906) |
| Telephony | (136,812) | (82,278) | (50,145) | (52,572) |
| Selling, general and administrative (including £1,965, £1,170 and £2,560 in 1998, 1997 and 1996, respectively, to related parties) | (345,709) | (207,908) | (193,335) | (167,323) |
| Depreciation | (371,731) | (223,557) | (177,341) | (129,716) |
| Amortization of goodwill | (60,140) | (36,168) | (26,395) | (26,149) |
| | (1,085,710) | (652,941) | (540,657) | (445,666) |
| OPERATING LOSS | (189,172) | (113,767) | (154,159) | (155,400) |
| OTHER INCOME/(EXPENSE) | | | | |
| Interest income (including £3,115, £3,178 and £1,723 in 1998, 1997 and 1996, respectively, from related parties) | 25,062 | 15,072 | 7,959 | 16,651 |
| Interest expense | (342,655) | (206,071) | (141,721) | (105,172) |
| Foreign exchange losses, net | (19,729) | (11,865) | (23,544) | (2,838) |
| Share of net losses of affiliates | (31,174) | (18,748) | (21,696) | (15,973) |
| Gain on disposal of assets | 2,604 | 1,566 | 1,139 | 571 |
| Minority interests in loss/(profits) of consolidated subsidiaries, net | 1,769 | 1,064 | (293) | (180) |
| LOSS BEFORE INCOME TAXES | (553,295) | (332,749) | (332,315) | (262,341) |
| Income tax benefit/(expense) (note 14) | 25 | 15 | (137) | (50) |
| NET LOSS | (553,270) | (332,734) | (332,452) | (262,391) |
| YEAR ENDED DECEMBER 31, | 1998 | 1998 | 1997 | 1996 |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | | | | |
| Weighted average number of ordinary shares outstanding as restated for the dilutive effect of the pre-emptive issue | 1,394,373,240 | 1,394,373,240 | 1,020,324,360 | 1,017,968,020 |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | \$(0.40) | £(0.24) | £(0.33) | £(0.26) |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

| DECEMBER 31, | 1998 \$'000 (note 2) | 1998 £'000 | 1997 £'000 |
|---|----------------------------|------------------|---------------|
| ASSETS | | | |
| Cash and cash equivalents | 67,987 | 40,887 | 29,582 |
| Secured cash deposits restricted for more than one year (note 17) | 311,642 | 187,420 | – |
| Trade receivables (net of allowance for doubtful accounts of £14,295 and £6,507) | 128,551 | 77,310 | 36,627 |
| Other receivables (note 7) | 49,907 | 30,014 | 26,207 |
| Prepaid expenses | 29,761 | 17,899 | 7,625 |
| Investments in affiliates, accounted for under the equity method, and related receivables (note 8) | 44,157 | 26,556 | 59,707 |
| Other investments, at cost | – | – | 25,666 |
| Property and equipment (less accumulated depreciation of £695,222 and £481,451) (note 9) | 4,085,603 | 2,457,061 | 1,705,520 |
| Goodwill (less accumulated amortization of £100,469 and £64,301) | 1,822,078 | 1,095,789 | 465,905 |
| Other assets (less accumulated amortization of £12,042 and £10,140) (note 11) | 74,379 | 44,731 | 56,513 |
| TOTAL ASSETS | 6,614,065 | 3,977,667 | 2,413,352 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Accounts payable | 68,358 | 41,110 | 26,710 |
| Other liabilities (note 12) | 446,999 | 268,823 | 198,664 |
| Debt (note 13) | 3,867,152 | 2,325,687 | 1,373,054 |
| Capital lease obligations (note 17) | 499,776 | 300,563 | 75,534 |
| TOTAL LIABILITIES | 4,882,285 | 2,936,183 | 1,673,962 |
| MINORITY INTERESTS | 685 | 412 | 640 |
| SHAREHOLDERS' EQUITY (note 15) | | | |
| Convertible preference shares, 10p par value; 164,933,292 and 661,000,000 shares authorized; and no shares and 496,066,708 shares issued and outstanding in 1998 and 1997, respectively | – | – | 49,607 |
| Ordinary shares, 10p par value; 2,900,000,000 and 2,010,000,000 shares authorized; 2,139,501,629 and 927,567,600 issued and outstanding in 1998 and 1997, respectively | 355,758 | 213,950 | 92,757 |
| Additional paid-in capital | 3,153,808 | 1,896,686 | 1,332,887 |
| Accumulated deficit | (1,774,696) | (1,067,294) | (734,560) |
| | 1,734,870 | 1,043,342 | 740,691 |
| Ordinary shares held in trust for the Telewest Restricted Share Scheme (note 16) | (3,775) | (2,270) | (1,941) |
| TOTAL SHAREHOLDERS' EQUITY | 1,731,095 | 1,041,072 | 738,750 |
| Commitments and contingencies (note 17) | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 6,614,065 | 3,977,667 | 2,413,352 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| YEAR ENDED DECEMBER 31, | 1998 \$'000 (note 2) | 1998 £'000 | 1997 £'000 | 1996 £'000 |
|--|----------------------------|------------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net loss | (553,270) | (332,734) | (332,452) | (262,391) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | |
| Depreciation | 371,731 | 223,557 | 177,341 | 129,716 |
| Amortization of goodwill | 60,140 | 36,168 | 26,395 | 26,149 |
| Amortization of deferred financing costs and issue discount on senior discount debentures | 146,385 | 88,035 | 77,482 | 74,104 |
| Unrealized loss on foreign currency translation | 23,366 | 14,052 | 23,544 | 2,838 |
| Share of net losses of affiliates | 31,174 | 18,748 | 21,696 | 15,973 |
| Gain on disposals of assets | (2,604) | (1,566) | (1,139) | (571) |
| Minority interests in (loss)/profits of consolidated subsidiaries | (1,769) | (1,064) | 293 | 180 |
| Changes in operating assets and liabilities, net of effect of acquisition of subsidiaries: | | | | |
| Change in receivables | 46,830 | 28,164 | (4,268) | (15,908) |
| Change in prepaid expenses | (17,084) | (10,274) | (2,457) | 953 |
| Change in accounts payable | (10,580) | (6,363) | (7,091) | (4,575) |
| Change in other liabilities | (60,398) | (36,323) | 23,635 | 51,668 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 33,921 | 20,400 | 2,979 | 18,136 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash paid for property and equipment | (427,538) | (257,119) | (435,037) | (464,367) |
| Cash paid for acquisition of subsidiaries | (655,110) | (393,980) | (608) | (14,167) |
| Cash acquired with subsidiary undertakings | 28,090 | 16,893 | – | – |
| Additional investments in and loans to affiliates | (9,531) | (5,732) | (9,025) | (2,728) |
| Additions to other investments | – | – | – | (5,000) |
| Proceeds from disposals of assets | 10,102 | 6,075 | 6,066 | 3,059 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,053,987) | (633,863) | (438,604) | (483,203) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Cash paid for credit facility arrangement costs | (9,811) | (5,900) | – | (18,400) |
| Repayment of borrowings | (639) | (384) | (2,375) | (937) |
| Cash paid for debenture issue costs | – | – | – | (829) |
| Proceeds from pre-emptive issue | 400,926 | 241,115 | – | – |
| Proceeds from exercise of share options | 1,031 | 620 | – | – |
| Proceeds from bridge loan | 227,145 | 136,604 | – | – |
| Share issue costs | (5,584) | (3,358) | – | – |
| Proceeds from issue of Senior Notes | 349,750 | 210,338 | – | – |
| Repayment of bridge loan | (230,334) | (138,522) | – | – |
| Senior Notes issue costs | (9,258) | (5,568) | – | – |
| Release of restricted deposits | 9,079 | 5,460 | – | – |
| Proceeds from borrowings | 342,783 | 206,148 | 392,500 | 100,400 |
| Capital element of finance lease repayments | (36,191) | (21,765) | (3,971) | (1,231) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,038,897 | 624,788 | 386,154 | 79,003 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 18,831 | 11,325 | (49,471) | (386,064) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (33) | (20) | (63) | 362 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 49,189 | 29,582 | 79,116 | 464,818 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 67,987 | 40,887 | 29,582 | 79,116 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Convertible preference shares £'000 | Ordinary shares £'000 | Shares held in trust £'000 | Additional paid-in capital £'000 | Accumulated deficit £'000 | Total £'000 |
|--|--|-----------------------------|----------------------------------|---|---------------------------------|----------------|
| BALANCE AT | | | | | | |
| DECEMBER 31, 1995 | 49,607 | 91,996 | (2,109) | 1,322,971 | (139,717) | 1,322,748 |
| Ordinary shares issued | – | 761 | – | 9,916 | – | 10,677 |
| Accrued employee compensation relating to the Telewest Restricted Share Scheme | – | – | (237) | – | – | (237) |
| Net loss | – | – | – | – | (262,391) | (262,391) |
| BALANCE AT | | | | | | |
| DECEMBER 31, 1996 | 49,607 | 92,757 | (2,346) | 1,332,887 | (402,108) | 1,070,797 |
| Accrued employee compensation relating to the Telewest Restricted Share Scheme | – | – | 405 | – | – | 405 |
| Net loss | – | – | – | – | (332,452) | (332,452) |
| BALANCE AT | | | | | | |
| DECEMBER 31, 1997 | 49,607 | 92,757 | (1,941) | 1,332,887 | (734,560) | 738,750 |
| Ordinary shares issued in exercise of share options | – | 44 | – | 576 | – | 620 |
| Ordinary shares issued under the pre-emptive issue | – | 26,067 | – | 215,049 | – | 241,116 |
| Ordinary shares issued to General Cable shareholders | – | 45,475 | – | 348,174 | – | 393,649 |
| Conversion of preference shares | (49,607) | 49,607 | – | – | – | – |
| Accrued employee compensation relating to the Telewest Restricted Share Scheme | – | – | (329) | – | – | (329) |
| Net loss | – | – | – | – | (332,734) | (332,734) |
| BALANCE AT | | | | | | |
| DECEMBER 31, 1998 | – | 213,950 | (2,270) | 1,896,686 | (1,067,294) | 1,041,072 |

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

1 ORGANIZATION AND HISTORY

Telewest Communications plc ("the Company") is a cable television and telephony operator which offers these services to business and residential customers in the United Kingdom ("UK"). The Company derives its cable television revenues from installation fees, monthly basic and premium service fees and advertising charges.

The Company derives its telephony revenues from connection charges, monthly line rentals, call charges, special residential service charges and interconnection fees payable by other operators. The cable television and telephony services account in 1998 for approximately 37% and 59%, respectively, of the Company's revenue. This revenue is predominantly derived from residential, rather than business, customers.

The Company was incorporated on October 20, 1994 under the laws of England and Wales in preparation for the October 2, 1995 internal reorganization of Telewest Communications Cable Limited ("TCCL"), then called TeleWest Communications plc, and its subsidiaries whereby the entire issued share capital of TCCL was transferred to the Company in exchange for fully paid up shares of the Company. TCCL had traded since November 22, 1994 when affiliates of Tele-Communications, Inc. (the "TCI Affiliates") and affiliates of MediaOne (the "MediaOne Affiliates") contributed their UK cable interests to TCCL (the "Contribution"). These interests were previously held by the TCI Affiliates and MediaOne Affiliates through TCI/US West Cable Communications Group, a general partnership. TCI/US WEST Cable Communications Group and its subsidiaries collectively are referred to herein as the "Joint Venture" and the TCI Affiliates and MediaOne Affiliates collectively are referred to herein as the "Joint Venturers".

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The economic environment in which the Company operates is the UK and hence its reporting currency is Pounds Sterling (£). Certain financial information for the year ended December 31, 1998 has been translated into US Dollars, with such US Dollar amounts being unaudited and presented solely for the convenience of the reader, at the rate of \$1.6628 = £1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 1998. The presentation of the US Dollar amounts should not be construed as a representation that the Pounds Sterling amounts could be so converted into US Dollars at the rate indicated or at any other rate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and those of all majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated upon consolidation.

All acquisitions have been accounted for under the purchase method of accounting. Under this method, the results of subsidiaries and affiliates acquired in the year are included in the consolidated statement of operations from the date of acquisition.

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard No. 121 (SFAS 121), "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of". SFAS 121 requires that long-lived assets and certain identifiable intangibles, including goodwill, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon adoption of this standard, the Company evaluated its long-lived assets using projected undiscounted future cash flows and operating income for each subsidiary and determined that no material impairment of these assets existed at January 1, 1996 and accordingly, no loss was recognized. The Company believes that no material impairment existed at December 31, 1998.

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) is amortized over the acquisition's useful life or over a maximum period of 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through projected undiscounted future operating cash flows of the acquired operations. The assessment of the recoverability of goodwill will be impacted if projected future operating cash flows are not achieved. The amount of goodwill impairment, if any, is measured based on the projected discounted future operating cash flows using a discount rate reflecting the Company's cost of funds.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly-liquid investments with original maturities of three months or less that are readily convertible into cash.

FINANCIAL INSTRUMENTS

The Company uses foreign currency option contracts which permit, but do not require, the Company to exchange foreign currencies at a future date with another party at a contracted exchange rate. The Company also enters into combined foreign currency and interest rate swap contracts ("Foreign Currency Swaps"). Such contracts are used to mitigate against adverse changes in foreign currency exchange rates associated with obligations denominated in foreign currency. Foreign exchange forward contracts are used to reduce the exchange rate risk on certain foreign currency borrowings.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

The foreign currency option, Foreign Currency Swaps and the foreign exchange forward contracts are recorded on the balance sheet in other assets or other liabilities at their fair value at the end of each reporting period with changes in their fair value during the reporting period being reported as part of the foreign exchange gain or loss in the consolidated statement of operations. Such gains and losses are offset against foreign exchange gains and losses on the obligations denominated in foreign currencies which have been hedged.

Interest rate swap agreements which are used to manage interest rate risk on the Company's borrowings are accounted for using the accruals method. Net income or expense resulting from the differential between exchanging floating and fixed rate interest payments is recorded on an accruals basis. To the extent that the interest rate swap agreements are delayed starting, net income or expense is not recognized until the effective date of the agreement.

Other interest rate swaps which are held as trading assets are recorded on the consolidated balance sheet at their fair value at the end of each reporting period with changes in their fair value being recorded as gains and losses in the consolidated statement of operations.

An interest rate cap agreement which is designated as a hedge (ie to limit interest cost) of long-term debt is accounted for on an accruals basis. Amounts receivable under the agreement are recognised when due. The premium paid on the interest rate cap agreement is amortized over its term.

INVESTMENTS

Investments in partnerships, joint ventures and subsidiaries in which the Company's voting interest is 20% to 50%, and others where the Company has significant influence, are accounted for using the equity method. Investments which do not have a readily determinable fair value, in which the Company's voting interest is less than 20%, and in which the Company does not have significant influence, are carried at cost and written down to the extent that there has been an other-than-temporary diminution in value.

ADVERTISING COSTS

Advertising costs are expensed as incurred. The amount of advertising costs expensed was £20,538,000, £25,920,000 and £24,846,000 for the years ended December 31, 1998, 1997, and 1996, respectively.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Except during the prematurity period as described below, depreciation is provided to write off the cost, less estimated residual value, of property and equipment by equal instalments over their estimated useful economic lives as follows:

| | |
|---|----------|
| Freehold and long leasehold buildings | 50 years |
| Cable and ducting | 20 years |
| Electronic equipment | |
| – System electronics | 8 years |
| – Switching equipment | 8 years |
| – Subscriber electronics | 5 years |
| – Headend, studio and playback facilities | 5 years |
| Other equipment | |
| – Office furniture and fittings | 5 years |
| – Motor vehicles | 4 years |

During the prematurity period, depreciation of cable and ducting and system electronics is charged monthly to write off the estimated cost at the end of the prematurity phase over a useful life of 20 and

8 years, respectively. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 51, "Financial Reporting by Cable Television Companies", the monthly charge is adjusted by a ratio of average customers in the current period to the estimated customer base at the end of the prematurity period. The prematurity period covers the period between connecting the first customer and substantial completion of the network.

Preconstruction costs which are included within cable and ducting are amortized over the life of the franchise from the date of the first customer.

The Company accounts for costs, expenses and revenues applicable to the construction and operation of its cable systems under SFAS No. 51.

The estimated useful lives of cable and ducting and system electronics were reassessed with effect from January 1, 1996, and were changed from 25-30 years and 10 years to 20 years and 8 years, respectively. The net book values of these assets are being written-off over their revised estimated remaining lives.

In 1997, the treatment of activation costs was reviewed. With effect from January 1, 1997, activation labour was reclassified from "cable and ducting" to "electronics" to be consistent with the classification of activation materials. The assets are now depreciated over 8 years rather than 20 years.

FRANCHISE COSTS

Expenditure incurred on successful applications for franchise licenses is included in property and equipment and is amortized over the remaining life of the original franchise term. Costs relating to unsuccessful applications are charged to the consolidated statement of operations.

DEFERRED FINANCING COSTS

Costs incurred in raising debt are deferred and recorded on the consolidated balance sheet in other assets. The costs are amortized to the consolidated statement of operations at a constant rate to the carrying value of the debt over the life of the obligation.

MINORITY INTERESTS

Recognition of the minority interests' share of losses of consolidated subsidiaries is limited to the amount of such minority interests' allocable portion of the equity of those consolidated subsidiaries.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at the balance sheet date and the gains or losses on translation are included in the consolidated statement of operations.

REVENUE RECOGNITION

Revenue is recognized as services are delivered. Other revenues include connection fees which are recognized in the period of connection to the extent that the fee is offset by direct selling costs. The remainder is recognized over the estimated average period that customers are expected to remain connected to the system.

PENSION COSTS

The Company operates a defined-contribution scheme or contributes up to specified limits to third-party schemes on behalf of the employees. The amount included in losses in 1998, 1997 and 1996 of £3,044,000, £2,801,000 and £2,580,000, respectively, represents the contributions payable to the selected schemes in respect of the relevant accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered.

SHARE-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation", encourages, but does not require, companies to record compensation cost for share-based employee compensation plans at fair value. The Company has chosen to continue to account for share-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for share options is measured as the excess, if any, of the quoted market price of the Company's shares at the date of the grant over the amount an employee must pay to acquire the shares.

Shares purchased by trustees in connection with the Telewest Restricted Share Scheme, are valued at the market price on the date on which they are purchased and are reflected as a reduction of shareholders' equity in the consolidated balance sheet. This equity account is reduced when the shares are awarded to employees based on the original cost of the shares to the trustees. The value of awards of ordinary shares to be made to employees in future years is charged to the consolidated statement of operations to the extent that the awards have been awarded to and earned by employees in the current accounting period. The value of shares which have been awarded to, but have not been earned by employees, is included as deferred compensation expense within other assets.

EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding during the period for all dilutive potential ordinary shares outstanding during the period and adjusting the net loss for any changes in income or loss that would result from the conversion of such potential ordinary shares. There is no difference in net income and number of shares used for basic and diluted net income per ordinary share, as potential ordinary share equivalents are not included in the computation as their effect would be to decrease the loss per share.

NEW ACCOUNTING STANDARDS APPLICABLE TO THE COMPANY

COMPREHENSIVE INCOME

The Company adopted SFAS No. 130 "Reporting Comprehensive Income" with effect from January 1, 1998. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. Comprehensive income is the same as net income for all years presented.

SEGMENT INFORMATION

The Company adopted the provisions of SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information" with effect from January 1, 1998. This statement required that in the initial year of application comparative information for earlier years is to be restated. It requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. The Company has made such disclosures in note 20 to the consolidated financial statements.

4 FINANCIAL INSTRUMENTS

FOREIGN CURRENCY OPTION CONTRACT

At December 31, 1998, the Company held a Pounds Sterling put option ("Foreign Currency Option") to purchase US\$1,537,000,000 to reduce its exposure to adverse fluctuations in exchange rates on the principal amount at maturity of its US Dollar-denominated Senior Discount Debentures due 2007 ("Senior Discount Debentures"). The expiration date of this option contract is September 28, 2000. The put option has a strike price at expiration of £1.00 = US\$1.4520. The foreign currency option has been included in other assets at its fair value on December 31, 1998.

FOREIGN CURRENCY SWAP

The Company has entered into a Foreign Currency Swap to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of its US Dollar-denominated Senior Debentures due 2006 ("Senior Debentures"). The terms of the contract provided for the Company to make an initial exchange of principal of US\$300,000,000 in exchange for £196,078,000. On expiration on October 1, 2000, the initial principal amounts will be re-exchanged. The interest element of the Foreign Currency Swap requires the Company to make Pounds Sterling fixed-rate interest payments and to receive US Dollar fixed-rate interest payments on the initial exchange amounts on a semi-annual basis. The Foreign Currency Swap contract has been included in other liabilities at its fair value on December 31, 1998.

FOREIGN EXCHANGE FORWARD CONTRACTS

The Company has entered into a series of foreign exchange forward contracts through November 3, 2003, to hedge its exposure to adverse fluctuations in exchange rates on the interest payment dates of its US Dollar denominated Senior Notes due 2008 ("Senior Notes"). The aggregate notional amount is \$196 million. The result of these foreign exchange forward contracts is that during the term of these contracts the Company is to make the equivalent of sterling fixed rate interest payments and receive the equivalent US Dollar fixed rate interest payments at a rate of \$1.64/£1.

The Company has also entered into two Foreign Exchange Forward Contracts, expiring on October 2, 2000, to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Notes. The terms of the Contracts provide for the Company to purchase \$200 million at expiry at a rate of \$1.65/£1. These two Foreign Exchange Forward Contracts have been included in other liabilities at their fair value on December 31, 1998.

INTEREST RATE CAP

A subsidiary of General Cable PLC ("General Cable") has entered into an interest rate cap agreement (the "Interest Rate Cap") over a principal amount of £106 million to hedge against adverse fluctuations in interest rates. The agreement entitles General Cable to receive payments to the extent three month LIBOR exceeds 10%. The effective date is March 11, 1996, and the agreement matures on December 11, 1999. As the current three month LIBOR is significantly below 10%, the Company ascribes no value to this instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 FINANCIAL INSTRUMENTS (continued)

INTEREST RATE SWAPS

The Company has also entered into certain interest rate swap agreements ("Interest Rate Swaps") in order to manage interest rate risk on its three senior secured facilities ("Senior Secured Facilities") as follows:

| Telewest counterparty | Effective dates | Maturities | Notional principal | Receives | Pays |
|-----------------------|------------------------|--------------------------|--------------------|------------------|-------------------|
| Telewest | 1/2/1997- 3/31/1997 | 12/31/2001- 3/31/2004 | £750m | 6-month LIBOR | 7.175%- 7.910% |
| General Cable | 12/23/1996 | 12/23/2001 | £248m | 3-month LIBOR | 7.7825%- 7.79% |
| Birmingham | 2/16/1995 | 2/15/2000 | £160m | 6-month LIBOR | 7.23% |

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 119 "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments" requires disclosure of an estimate of the fair values of certain financial instruments.

FINANCIAL INSTRUMENTS – ASSETS:

Foreign currency option contract

FINANCIAL INSTRUMENTS – LIABILITIES:

Interest rate swap agreements

Foreign exchange forward contracts

Foreign Currency Swap

FOREIGN DENOMINATED DEBT OBLIGATIONS:

Senior Discount Debentures

Senior Debentures

Senior Notes

SFAS No. 119 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale. Fair value estimates are made at a specific point in time, based upon relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

At December 31, 1998, the Company's significant financial instruments include cash and cash equivalents, trade receivables, a foreign currency option contract, the Foreign Currency Swap, Interest Rate Swaps, foreign exchange forward contracts, Interest Rate Cap, trade payables and long-term borrowings. The following table summarizes the fair value of certain instruments held by and obligations of the Company. The fair value of the other financial instruments held by the Company approximates their recorded carrying amount due to the short maturity of these instruments and these instruments are not presented in the following table.

| | At December 31, 1998 | | At December 31, 1997 | |
|------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | Carrying amount £'000 | Fair value £'000 | Carrying amount £'000 | Fair value £'000 |
| Foreign currency option contract | 8,998 | 8,998 | 26,145 | 26,145 |
| Interest rate swap agreements | – | 73,834 | – | 25,543 |
| Foreign exchange forward contracts | – | 333 | – | – |
| Foreign Currency Swap | 22,059 | 22,059 | 18,039 | 18,039 |
| Senior Discount Debentures | 766,258 | 763,291 | 696,954 | 729,532 |
| Senior Debentures | 180,418 | 188,086 | 182,626 | 189,931 |
| Senior Notes | 210,488 | 235,221 | – | – |

The estimated fair values of the financial instruments specified above are based on quotations received from independent, third party financial institutions and represent the net amount receivable or payable to terminate the position, taking into consideration market rates and counterparty credit risk. The estimated fair values of the foreign denominated debt obligations are also based on quotations from independent third party financial institutions and are based on discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

MARKET RISK AND CONCENTRATIONS OF CREDIT RISK

Market risk is the sensitivity of the value of the financial instruments to changes in related currency and interest rates. Generally, the Company is not exposed to such market risk because gains and losses on the financial instruments are offset by gains and losses on the underlying assets and liabilities.

The Company may be exposed to potential losses due to the credit risk of non-performance by the counterparties to its foreign currency option contract, Interest Rate Swaps, the Foreign Exchange Forward Contracts and Foreign Currency Swap, however such losses are not anticipated as these counterparties are major international financial institutions.

Temporary cash investments also potentially expose the Company to concentrations of credit risk, as defined by SFAS No. 105 "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risks". The Company places its temporary cash investments with major international financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base.

At December 31, 1998, the Company had no significant concentration of credit risk.

5 BUSINESS COMBINATIONS

On September 1, 1998, the Company acquired the entire issued share capital of General Cable PLC, a company which holds cable television and telephony interests in the UK, in exchange for 454,763,792 ordinary shares of 10p each and £267,840,000 in cash. The Company's interest in Birmingham Cable Corporation Ltd increased to 72.42% as a result of acquiring General Cable PLC which held 44.95% of Birmingham Cable Corporation Ltd.

The value attributed to the shares issued in exchange for the issued shares of General Cable was 87.3p, being the average share market price for a five day period around April 15, 1998, the day the terms of the acquisitions were agreed to and announced. The fair value of the share consideration using this share price was £397,008,782. The aggregate cost of the acquisition was £664,848,193 including the expenses of acquisition. The acquisition method has been accounted for using the purchase method of accounting. The goodwill arising on acquisition was £547,506,000 and is being amortized on a straight-line basis over 20 years.

On October 28, 1998, the Company purchased the remaining minority interests in Birmingham Cable Corporation Ltd in exchange for £126,115,000 in cash. The acquisition has been accounted for using the purchase method of accounting. The goodwill arising on the acquisition was £118,546,000 and is being amortized over 20 years on a straight-line basis.

The operating results of these acquisitions are included in the Company's consolidated statements of operations from the date of acquisition. The following unaudited pro forma information presents the consolidated results of the operations of the Company as if the General Cable PLC and Birmingham Cable Corporation Ltd acquisitions had occurred at the beginning of the applicable period, after giving effect to certain adjustments including the amortization of goodwill, depreciation and increased interest arising as a result of each of the acquisitions:

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
5 BUSINESS COMBINATIONS continued

| | 1998 £'000 | 1997 £'000 |
|----------------|---------------|---------------|
| Revenue | 681,026 | 565,385 |
| Net loss | (406,175) | (453,652) |
| Loss per share | (0.29) | (0.21) |

On January 10, 1996, the Company acquired the entire issued share capital of Telewest Communications (Worcester) Limited, then called Bell Cablemedia (Worcester) Limited and owner of the Worcester cable franchise, for cash consideration of £9,849,000. Telewest Communications (Worcester) Limited was otherwise a dormant company with net assets of £2 representing its called up share capital. This acquisition has been accounted for under the purchase method of accounting. The goodwill arising on acquisition was £9,849,000 and is being amortized on a straight-line basis over 20 years.

During 1996, the Company made various other minor acquisitions, largely for share consideration. The goodwill arising on these acquisitions was £11,708,000 and is being amortized on a straight-line basis over 20 years.

**6 SUPPLEMENTAL DISCLOSURES TO CONSOLIDATED
STATEMENTS OF CASH FLOWS**

Cash paid for interest was £119,362,000, £63,479,000 and £25,795,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Significant non-cash investing activities of the Company are described below. The amounts stated for 1998 represent the purchase of General Cable PLC and the Birmingham Cable Corporation Ltd as described in Note 5 to the Consolidated Financial Statements. The amounts stated for 1996 represent the purchase of former minority shareholders' interests in certain UK cable interests held by the Company.

| | Year ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 1998 £'000 | 1997 £'000 | 1996 £'000 |
| Purchase/contribution of cable interests: | | | |
| Assets | 988,340 | – | – |
| Liabilities assumed | (364,878) | – | – |
| Debt assumed | (464,557) | – | – |
| Net assets acquired/contributed | 158,905 | – | – |
| Less: | | | |
| Minority interest in Birmingham Cable arising | (8,772) | – | – |
| Less: | | | |
| Previously accounted for | | | |
| – equity investment in The Cable Corporation | (19,666) | – | – |
| – equity investment in Birmingham Cable | (38,289) | – | – |
| – Share of cumulative losses of Birmingham Cable | 24,853 | – | – |
| Goodwill arising | 547,818 | – | 9,874 |
| | 664,849 | – | 9,874 |

| | Year ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 1998 £'000 | 1997 £'000 | 1996 £'000 |
| Share consideration/capital contribution | 397,009 | – | 9,869 |
| Purchase of shares | 243,957 | – | – |
| Costs of acquisition | 23,883 | – | 5 |
| | 664,849 | – | 9,874 |

7 OTHER RECEIVABLES

| | At December 31, | |
|-----------------------------|-----------------|---------------|
| | 1998 £'000 | 1997 £'000 |
| Value Added Tax refund | 3,318 | 4,567 |
| Interconnection receivables | 1,311 | 1,505 |
| Interest receivable | 2,463 | 807 |
| Accrued income | 10,042 | 8,290 |
| Prepaid expenses | 5,722 | 3,161 |
| Other | 7,158 | 7,877 |
| | 30,014 | 26,207 |

Accrued income primarily represents telephone calls made by subscribers that have not been billed as at the accounting period end.

8 INVESTMENTS

The Company has investments in affiliates accounted for under the equity method at December 31, 1998 and 1997 as follows:

| | Percentage ownership at December 31, | |
|----------------------------------|---|--------|
| | 1998 | 1997 |
| Birmingham Cable Corporation Ltd | – | 27.47% |
| Cable London plc | 50.00% | 50.00% |
| Front Row Television Limited | 53.00% | 40.00% |
| London Interconnect Limited | 16.67% | 16.67% |
| Central Cable Sales Limited | – | 50.00% |

Summarized combined financial information for such affiliates which operate principally in the cable television and telephony industries is as follows:

COMBINED FINANCIAL POSITION

| | At December 31, | |
|------------------------------|-----------------|---------------|
| | 1998 £'000 | 1997 £'000 |
| Property and equipment, net | 192,221 | 429,161 |
| Intangible assets, net | 4,206 | 4,859 |
| Other assets, net | 14,094 | 30,249 |
| Total assets | 210,521 | 464,269 |
| Debt | 172,000 | 293,492 |
| Other liabilities | 61,436 | 98,758 |
| Owners' equity | (22,915) | 72,019 |
| Total liabilities and equity | 210,521 | 464,269 |

COMBINED OPERATIONS

| | Year ended December 31, | |
|--------------------|-------------------------|---------------|
| | 1998 £'000 | 1997 £'000 |
| Revenue | 72,808 | 120,468 |
| Operating expenses | (80,506) | (150,768) |
| Operating loss | (7,698) | (30,300) |
| Interest expense | (15,411) | (26,311) |
| Net loss | (23,109) | (56,611) |

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
8 INVESTMENTS (continued)

The Company's investments in affiliates are comprised as follows:

| | At December 31, | |
|---------------------|-----------------|---------------|
| | 1998 | 1997 |
| | £'000 | £'000 |
| Loans | 26,556 | 39,863 |
| Share of net assets | – | 19,844 |
| | 26,556 | 59,707 |

Any excess of the purchase cost over the value of the net assets acquired is treated as goodwill and amortized over 20 years on a straight-line basis.

9 PROPERTY AND EQUIPMENT

| | Land £'000 | Buildings £'000 | Cable and ducting £'000 | Electronic equipment £'000 | Other equipment £'000 | Total £'000 |
|---------------------------------|---------------|--------------------|-------------------------------|----------------------------------|-----------------------------|------------------|
| ACQUISITION COSTS | | | | | | |
| Balance at January 1, 1998 | 4,234 | 54,577 | 1,264,262 | 708,437 | 155,461 | 2,186,971 |
| Reclassification | – | 4,975 | 1,642 | – | (6,617) | – |
| On acquisition | 1,455 | 20,520 | 567,611 | 80,657 | 43,221 | 713,464 |
| Additions | 238 | 3,567 | 134,475 | 87,583 | 40,280 | 266,143 |
| Disposals | – | (976) | (1,835) | (3,193) | (8,291) | (14,295) |
| Balance at December 31, 1998 | 5,927 | 82,663 | 1,966,155 | 873,484 | 224,054 | 3,152,283 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Balance at January 1, 1998 | – | 11,202 | 167,531 | 231,548 | 71,170 | 481,451 |
| Reclassification | – | 1,964 | – | – | (1,964) | – |
| Charge for the year | – | 5,587 | 92,977 | 88,529 | 36,464 | 223,557 |
| Disposals | – | (92) | (236) | (2,862) | (6,596) | (9,786) |
| At December 31, 1998 | – | 18,661 | 260,272 | 317,215 | 99,074 | 695,222 |
| 1998 NET BOOK VALUE | 5,927 | 64,002 | 1,705,883 | 556,269 | 124,980 | 2,457,061 |
| ACQUISITION COSTS | | | | | | |
| Balance at January 1, 1997 | 4,223 | 45,956 | 1,101,961 | 489,835 | 113,459 | 1,755,434 |
| Reclassification | – | (62) | (118,331) | 117,954 | 439 | – |
| Additions | 11 | 8,683 | 280,814 | 101,204 | 49,882 | 440,594 |
| Disposals | – | – | (182) | (556) | (8,319) | (9,057) |
| Balance at December 31, 1997 | 4,234 | 54,577 | 1,264,262 | 708,437 | 155,461 | 2,186,971 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Balance at January 1, 1997 | – | 7,378 | 121,181 | 130,483 | 49,198 | 308,240 |
| Reclassification | – | – | (12,792) | 12,792 | – | – |
| Charge for year | – | 3,824 | 59,324 | 88,502 | 25,691 | 177,341 |
| Disposals | – | – | (182) | (229) | (3,719) | (4,130) |
| Balance at December 31, 1997 | – | 11,202 | 167,531 | 231,548 | 71,170 | 481,451 |
| 1997 NET BOOK VALUE | 4,234 | 43,375 | 1,096,731 | 476,889 | 84,291 | 1,705,520 |

Cable and ducting consists principally of civil engineering and fiber optic costs. In addition, cable and ducting includes net book value of preconstruction and franchise costs of £13,465,000 and £9,807,000 as of December 31, 1998 and 1997, respectively. Electronic equipment includes the Company's switching, headend and converter equipment. Other equipment consists principally of motor vehicles, office furniture and fixtures and leasehold improvements.

10 VALUATION AND QUALIFYING ACCOUNTS

| | Balance at January 1 £'000 | Acquisition of subsidiaries £'000 | Additions charged to costs and expenses £'000 | Deductions £'000 | Balance at December 31 £'000 |
|-----------------------------------|----------------------------------|---|--|---------------------|------------------------------------|
| 1998 | | | | | |
| Deferred tax valuation allowances | 247,400 | – | 121,996 | – | 369,396 |
| Allowance for doubtful accounts | 6,507 | 9,581 | 9,171 | (10,964) | 14,295 |
| 1997 | | | | | |
| Deferred tax valuation allowances | 175,200 | – | 72,200 | – | 247,400 |
| Allowance for doubtful accounts | 5,405 | – | 8,815 | (7,713) | 6,507 |
| 1996 | | | | | |
| Deferred tax valuation allowances | 96,300 | – | 78,900 | – | 175,200 |
| Allowance for doubtful accounts | 4,695 | – | 9,020 | (8,310) | 5,405 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 OTHER ASSETS

The components of other assets, net of amortization, are as follows:

| | At December 31, | |
|---|-----------------|---------------|
| | 1998 £'000 | 1997 £'000 |
| Deferred financing costs of debentures | 14,873 | 13,770 |
| Deferred financing costs of Senior Secured facility | 20,322 | 15,963 |
| Foreign currency option contract | 8,998 | 26,145 |
| Other | 538 | 635 |
| | 44,731 | 56,513 |

12 OTHER LIABILITIES

Other liabilities are summarized as follows:

| | At December 31, | |
|--|-----------------|----------------|
| | 1998 £'000 | 1997 £'000 |
| Amounts due to affiliated or other related parties | 94 | 61 |
| Accrued interest | 18,761 | 13,641 |
| Accrued construction costs | 22,219 | 30,235 |
| Accrued expenses and deferred income | 166,269 | 112,198 |
| Foreign Currency Swap | 22,058 | 18,039 |
| Other liabilities | 39,422 | 24,490 |
| | 268,823 | 198,664 |

13 DEBT

Debt is summarized as follows at December 31, 1998 and 1997:

| | Weighted average interest rate | | 1998 £'000 | 1997 £'000 |
|---------------------------------|--------------------------------|---------|------------------|------------------|
| | 1998 | 1997 | | |
| Senior Debentures 2006 | 9.625% | 9.625% | 180,418 | 182,626 |
| Senior Discount Debentures 2007 | 11.000% | 11.000% | 766,258 | 696,954 |
| Senior Notes 2008 | 11.25% | – | 210,488 | – |
| Senior Secured facility | 9.499% | 9.071% | 657,500 | 492,500 |
| General Cable facility | 9.79% | – | 325,001 | – |
| Birmingham Cable facility | 9.23% | – | 153,000 | – |
| Other debt | 7.5% | 8.719% | 33,022 | 974 |
| | | | 2,325,687 | 1,373,054 |

SENIOR DEBENTURES 2006

In October 1995, the Company issued US\$300,000,000 principal amount of Senior Debentures with a yield to maturity of 9.625%. The cash consideration received at the date of issue was £188,703,000. The Senior Debentures mature on October 1, 2006. Interest on the Senior Debentures accrues semi-annually and is payable in arrears. The Senior Debentures are redeemable, in whole or in part, at the option of the Company at any time on or after October 1, 2000, at the redemption price of 104.813% of the principal amount during the year commencing October 1, 2000, 102.406% of the principal amount during the year commencing October 1, 2001, and thereafter at 100% of the principal amount plus accrued and unpaid interest.

The Senior Debentures and the Senior Discount Debentures, which are described below, were issued to finance working capital, capital expenditure, foreign currency swap and options to hedge against adverse fluctuations in exchange rates, and additional investments in affiliated companies. A portion of the net proceeds of the issue also was used to repay the £157,930,000 indebtedness outstanding under the loan facility held by SBCC CableComms (UK) at the date that it was acquired by the Company.

The indenture under which the Senior Debentures were issued contains various covenants which, among other things, restrict the ability of the Company to incur additional indebtedness, pay dividends, create certain liens, enter into certain transactions with shareholders or affiliates, or sell certain assets. The Company was in compliance with the covenants at December 31, 1998.

The Company has entered into a Foreign Currency Swap to reduce its exposure to adverse fluctuations in exchange rates on the principal amount which will be outstanding on October 1, 2000, the earliest redemption date, and the associated interest payments of the Senior Debentures. The terms of the Foreign Currency Swap are described in Note 4 to the consolidated financial statements.

The Senior Debentures are unsecured liabilities of the Company.

SENIOR DISCOUNT DEBENTURES 2007

In October 1995, the Company issued US\$1,536,413,000 principal amount at maturity of Senior Discount Debentures with a yield to maturity of 11%. The cash consideration received at the date of issue was £566,109,000 (US\$900,000,000). At December 31, 1998, the unamortized portion of the discount on issue was £157,733,000 (US\$262,279,000). The Senior Discount Debentures mature on October 1, 2007. The discounted amount of the Senior Discount Debentures accretes at an annual rate of 11% compounded semi-annually to October 1, 2000. Thereafter, interest on the Senior Discount Debentures accrues semi-annually. Cash interest will not accrue on the Senior Discount Debentures prior to October 1, 2000, and is thereafter payable in arrears on April 1 and October 1 of each year at a rate of 11% per annum. The Senior Discount Debentures are redeemable, in whole or in part, at the option of the Company at any time on or after October 1, 2000, at the redemption price of 100% of the principal amount plus accrued and unpaid interest.

The indenture under which the Senior Discount Debentures were issued contains various covenants as set out for the Senior Debentures above and the Company was in compliance with such covenants at December 31, 1998.

The Company has purchased a five year Pounds Sterling put option to purchase US\$1,537,000,000 to reduce its exposure to adverse fluctuations in exchange rates on the principal amount which will be outstanding on October 1, 2000, the earliest redemption date of the Senior Discount Debentures. The terms of the foreign currency option contract are described in Note 4 to the consolidated financial statements.

The Senior Discount Debentures are unsecured liabilities of the Company.

SENIOR NOTES 2008

On November 9, 1998, the Company issued \$350,000,000 principal amount of Senior Notes (the "Senior Notes") with a yield to maturity of 11.25%. Cash consideration received at the date of issue was £210,338,000. The Senior Notes mature on November 1, 2008. Interest on the Senior Notes accrues semi-annually and is payable in arrears. The Senior Notes are redeemable, in whole or in part, at the option of the Company at any time on or after November 1, 2003 at the redemption price of 107.625% of the principal amount during the year commencing November 1, 2003, 106.100% of the principal amount during the year commencing November 1, 2004, 104.575% of the principal amount during the year commencing November 1, 2005, 103.050% of the principal amount during the year commencing November 1, 2006, 101.525% of the principal amount during the year commencing November 1, 2007, and thereafter at 100% of the principal amount plus accrued and unpaid interest.

13 DEBT (continued)

The Senior Notes were issued primarily to finance repayment of Bridge Notes which were issued on October 28, 1998, to fund the acquisition of the outstanding 27.4% of shares in Birmingham Cable not already owned by the Company. A portion of the net proceeds was also used to fund general corporate purposes.

The indenture under which the Senior Notes were issued contains various covenants which, among other things, restrict the ability of the Company to incur additional indebtedness, pay dividends, create certain liens, enter into certain transactions with shareholders or affiliates, or sell certain assets. The Company was in compliance with the covenants at December 31, 1998.

The Company has entered into a series of forward exchange contracts to hedge its exposure to adverse fluctuations in exchange rates on interest payment dates. The Company also entered into two forward exchange contracts to purchase \$200 million on October 2, 2000 to reduce its exposure to adverse fluctuations in exchange rates on the principal amounts of the Senior Debentures 2008. The terms of these contracts are described in Note 4 to the consolidated financial statements.

The Senior Notes are unsecured liabilities of the Company.

SENIOR CONVERTIBLE NOTES DUE 2007

On February 19, 1999 the Company issued £300,000,000 principal amount of Senior Convertible Notes (the "Convertible Notes") with a yield to maturity of 5.25%. The Convertible Notes mature on February 19, 2007 with interest accruing semi-annually payable in arrears. The Convertible Notes are convertible into the ordinary shares of the Company after May 1, 1999 and up to the close of business on February 2, 2007 at an initial conversion price of 330p per ordinary share. The Convertible Notes are redeemable, in whole (but not in part) at the option of the Company at 100% of their principal amount plus accrued and unpaid interest at any time on or after March 9, 2003 or at any time when at least 90% of the notes issued have been purchased by the Company and cancelled or converted.

The Convertible Notes were issued to temporarily repay indebtedness under certain revolving credit facilities.

The Convertible Notes are unsecured liabilities of the Company.

SENIOR SECURED FACILITY

During 1996, a subsidiary of the Company entered into a senior secured credit facility (the "Senior Secured Facility") with a syndicate of banks. The facility is available to finance the capital expenditure, working capital requirements and other permitted related activities involving the construction and operation of all the Company's owned and operated franchises, to pay cash interest on the Company's unsecured debentures, to fund the repayment of existing secured borrowings in respect of the London South and South West Regional Franchise Areas, to fund loans to or investments in affiliated companies, to bid for or purchase, and subsequently construct, licenses or franchises which may become available and to refinance advances and the payment of interest, fees, and expenses in respect of the Senior Secured Facility.

The facility is divided into two tranches: the first portion (Tranche A) was repaid by September 30, 1998; the second portion (Tranche B) is available on a revolving basis for an amount up to 6.5 times the trailing, rolling six month annualized consolidated net operating cash flow, gradually reducing throughout the period of the facility to 4 times by January 1, 2000. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortizing over 5 years. The aggregate drawing at any time cannot exceed £1.0 billion. At December 31, 1998, £0 (1997: £125,000,000) was outstanding under Tranche A and £657,500,000 under Tranche B (1997: £367,500,000).

Borrowings under the facility are secured by the assets of the Company, including the partnership interests and shares of subsidiaries, and bear interest between 0.5% and 1.875% above

LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualized consolidated net operating cash flow) for Tranche B. A supplementary £100 million revolving credit facility is available, secured with a second fixed and floating charge over the Group's assets, and interest costs ranging from 3.5%-5.5% above LIBOR. This facility was never drawn and was cancelled on February 19, 1999 upon receipt by the Company of the proceeds of the issue of £300 million 5¼% convertible bonds due 2007.

In September 1996, the Company entered into certain delayed-starting interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. The terms of the swap agreements are described in Note 4 to the consolidated financial statements.

The Company's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

The Company was in compliance with the covenants at December 31, 1998.

GENERAL CABLE FACILITY

Following the Group's acquisition of General Cable PLC, the Group has taken over an existing Senior Secured credit facility with a syndicate of banks. The facility is divided into two tranches: the first portion (Tranche A) is available on a revolving basis for up to £80 million reducing by £20 million every six months from December 31, 1998, with full repayment on March 31, 2000; the second portion (Tranche B) is available up to June 30, 2002 on a revolving basis concurrently with Tranche A for an amount up to £500 million. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortizing over 5 years. The aggregate drawing at any time under both tranches cannot exceed £500 million. At December 31, 1998, £52 million was outstanding under Tranche A and £273 million under Tranche B.

Borrowings under the facility are secured by the assets of the General Cable Group and bear interest at between 2.0%-2.25% above LIBOR for Tranche A and between 0.5% and 2.0% above LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualized consolidated net operating cash flow) for Tranche B.

The General Cable Group's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

The Company was in compliance with the covenants at December 31, 1998.

In December 1996, the General Cable Group entered into certain interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. In March 1996, the General Cable Group entered into an interest rate cap agreement to hedge against adverse fluctuations in interest rates. The terms of the swap agreements and the interest rate cap agreements are described in Note 4 to the consolidated financial statements.

BIRMINGHAM FACILITY

Following the Group's acquisition of Birmingham Cable Corporation Limited, the Group has taken over an existing Senior Secured credit facility with a syndicate of banks. The facility is divided into two tranches: the first portion (Tranche A) is available on a revolving basis for up to £70 million reducing by £10 million per quarter with full repayment on June 30, 1999; the second portion (Tranche B) is available on a revolving basis concurrently with Tranche A for an amount up to 6.5 times the trailing, rolling six month annualized consolidated net operating cash flow, gradually reducing throughout the period of the facility to 5.25 times by June 30, 2000. Thereafter, the amount outstanding under the Tranche B facility converts to a term loan amortizing over 5.5 years. The aggregate drawing at any time from December 31, 1998 under both tranches cannot exceed £175 million. At December 31, 1998, £30 million was outstanding under Tranche A and £123 million under Tranche B.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 DEBT (continued)

Borrowings under the facility are secured by the assets of the Birmingham Group and bear interest at 2.25% above LIBOR for Tranche A and between 0.625% and 2.0% above LIBOR (depending on the ratio of borrowings to the trailing, rolling six month annualized consolidated net operating cash flow) for Tranche B.

The Birmingham Group's ability to borrow under the facility is subject to, among other things, its compliance with the financial and other covenants and borrowing conditions contained therein.

The Company was in compliance with the covenants at December 31, 1998.

In February 1995, the Birmingham Group entered into certain interest rate swap agreements in order to manage interest rate risk on the Senior Secured facility. The terms of the swap agreements and the interest rate cap agreements are described in Note 4 to the consolidated financial statements.

The Company has £348 million of unused commitments under credit facilities available to drawdown at December 31, 1998.

OTHER DEBT

Other debt includes property loans which are secured on freehold land and buildings held by the Company which mature from 1998 onwards. The property loans bear interest at a rate of between 1.00% and 1.5% above LIBOR.

Other debts also includes £100 million 6.0568% preference shares, issued by a subsidiary and guaranteed by General Cable pursuant to a put option. £90 million has been deposited with the parent company of the preference shareholder (an authorized banking institution), which has, in these consolidated financial statements, been set against the put option with respect to the guaranteed preference shares under a legal right of offset. Interest receivable on the deposit has also been set against the dividend payable on the preference shares in the profit and loss account.

In addition, a subsidiary has a standby credit facility of £32 million made available by Vivendi S.A., a former shareholder of General Cable PLC, until April 19, 1998 and reduces by £5 million every six months until April 19, 2001. At December 31, 1998 £17 million had been drawn. The loan carries interest at 1% over LIBOR.

14 INCOME TAXES

Loss before income taxes is solely attributable to the UK.

The provisions for income taxes follow:

| | Year ended December 31, | | |
|-------------------|-------------------------|-------|-------|
| | 1998 | 1997 | 1996 |
| | £'000 | £'000 | £'000 |
| Benefit/(expense) | (15) | 137 | 50 |

A reconciliation of income taxes determined using the statutory UK rate of 31% (1997: 31.5%) to the effective rate of income tax is as follows:

| | Year ended December 31, | | |
|---|-------------------------|--------|------|
| | 1998 | 1997 | 1996 |
| | % | % | % |
| Corporate tax at UK statutory rates | (31) | (31.5) | (33) |
| Permanent differences | — | 0.5 | 1 |
| Valuation allowance and other temporary differences | 31 | 29 | 30 |
| Share of losses of affiliates | — | 2 | 2 |
| | — | — | — |

Deferred income tax assets and liabilities at December 31, 1998 and 1997 are summarized as follows:

| | 1998 | 1997 |
|---|-----------|-----------|
| | £'000 | £'000 |
| Deferred tax assets relating to: | | |
| Fixed assets | 116,400 | 79,100 |
| Net operating loss carried forward | 261,483 | 181,800 |
| Other | 1,052 | 2,400 |
| Deferred tax asset | 378,935 | 263,300 |
| Valuation allowance | (369,396) | (247,400) |
| | 9,539 | 15,900 |
| Deferred tax liabilities | (9,539) | (15,900) |
| DEFERRED TAX ASSET PER BALANCE SHEET | — | — |

At December 31, 1998 the Company estimates that it has, subject to Inland Revenue agreement, net operating losses ("NOLs") of £871,610,000 available to relieve against future profits. This excludes capital allowances on assets which are available to the Company, but have not been claimed.

Due to a history of operating losses the Company has established a valuation allowance with respect to deferred tax assets, except to the extent of deferred tax liabilities.

The NOLs have an unlimited carry forward period under UK tax law, but are limited to their use to the type of business which has generated the loss.

15 SHAREHOLDERS' EQUITY

MOVEMENTS IN SHARE CAPITAL

During 1996 the Company issued 7,604,200 ordinary shares of 10 pence each for the following consideration: an additional 0.25% of the ordinary shares of Cable London plc, the surrender by Trans-Global (UK) Limited of its option to acquire 9.9% of equity in the South East Regional Franchise Area, and the remaining 20% of the ordinary shares of Telewest Communications (Cotswolds) Limited held by a minority interest.

On July 28, 1998, the authorized share capital of the Company was increased to £356,100,000, being 2,900,000,000 ordinary shares of 10 pence each and 661,000,000 convertible preference shares of 10 pence each.

During 1998 the Company issued 260,665,436 ordinary shares of 10 pence each for £241,115,000 and 454,763,792 shares of 10 pence each in consideration for the entire issued share capital of General Cable PLC, and 437,747 ordinary shares of 10 pence each in consideration of £620,000 on exercise of employee share options.

On September 8, 1998, all 496,066,708 convertible preference shares of 10 pence each were converted into the same number of ordinary shares of 10 pence each.

CONVERTIBLE PREFERENCE SHARES

The convertible preference shares were convertible into fully paid up ordinary shares at any time on the basis of one ordinary share for every convertible preference share provided that, immediately following the conversion, the percentage of the issued ordinary share capital of the Company held by members of the public, as defined by the listing rules of the London Stock Exchange, did not fall below 25%. The ordinary shares issued on conversion rank *pari passu* in all respects with the other ordinary shares in issue.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
15 SHAREHOLDERS' EQUITY (continued)

The holders of the convertible preference shares were entitled to receive a dividend of such amount as declared and paid in relation to each ordinary share, subject to the dividend to be paid not exceeding 20 pence per share net of any associated tax credit.

In the event of a winding-up of the Company or other return of capital, the assets of the Company available for distribution were to be paid first to the holders of the convertible preference shares up to the sum of capital paid-up or credited as paid-up unless the right of election upon a winding-up of the Company had been exercised in respect of the convertible preference shares ("the Elected Shares"). If the election had been exercised, the holders of the ordinary shares and the Elected Shares would have received any surplus in accordance with the amount paid-up or credited as paid-up on the shares held.

The holders of the convertible preference shares were not entitled to vote at any general meeting of the Company unless the meeting included the consideration of a resolution for winding up the Company or a resolution modifying the rights or privileges attaching to the convertible preference shares.

16 SHARE-BASED COMPENSATION PLANS

At December 31, 1998, the Company operated five types of share-based compensation plans: the Telewest Executive Share Option Schemes, the Telewest Sharesave Schemes, and the Telewest Restricted Share Scheme, as replaced in 1997 by the Telewest Long-Term Incentive Plan ("LTIP") and an Equity Participation Plan ("EPP").

The Company applies APB Opinion Bulletin No. 25 and related interpretations in accounting for its share-based compensation plans. Compensation cost is recognized over the estimated service period in respect of performance based share option grants to the extent that the market value of the Company's ordinary shares exceeds the exercise price at the earlier of the date the options become exercisable or the Balance Sheet date. Compensation cost is recognized for awards over ordinary shares made under the Telewest Restricted Share Scheme since the awards have no exercise price. Compensation cost is recognized over the estimated service period in respect of the LTIP to the extent that the market value of the Company's ordinary shares exceeds the exercise price at the earlier of the vesting date or the balance sheet date.

Compensation cost recognized for share option grants and awards is as follows:

| | 1998 £'000 | 1997 £'000 | 1996 £'000 |
|--------------------------|---------------|---------------|---------------|
| Restricted Share Scheme | 107 | 496 | 1,380 |
| LTIP | 520 | – | – |
| Executive Option Schemes | 3,461 | – | – |
| EPP | 193 | – | – |
| | 4,281 | 496 | 1,380 |

If compensation cost for share option grants and for awards under the Telewest Restricted Share Scheme, LTIP, Executive Option Schemes and EPP had been determined based on their fair value at the date of grant for 1998, 1997 and 1996 consistent with the method prescribed by SFAS 123, the Company's net loss and basic and diluted loss per share would have been adjusted to the pro forma amounts set out below:

| | 1998 £'000 | 1997 £'000 | 1996 £'000 |
|------------------------|------------------|------------------|------------------|
| Net loss – As reported | (332,734) | (332,452) | (262,391) |
| – Pro forma | (339,997) | (336,737) | (264,579) |

| | £ | £ | £ |
|----------------------------------|---------------|---------------|---------------|
| Basic and diluted loss per share | | | |
| – As reported | (0.23) | (0.33) | (0.26) |
| – Pro forma | (0.24) | (0.33) | (0.26) |

The fair value of each option grant in all plans was estimated as at the date of grant using a Black-Scholes option-pricing model. The model used a weighted-average, risk-free interest rate of 5.4%, 6.9% and 7.8% for grants in 1998, 1997 and 1996, respectively, and an expected volatility of 25–45%. The Company does not expect to pay a dividend on its ordinary shares at any time during the expected life of any outstanding option.

**PERFORMANCE-BASED SHARE OPTION
COMPENSATION PLANS**

The Company has two performance-based share option plans: the Telewest 1995 (No. 1) Executive Share Option Scheme and the Telewest 1995 (No. 2) Executive Share Option Scheme. Under both plans, certain officers and key employees are granted options to purchase ordinary shares of the Company. The exercise price of each option generally equals the market price of the Company's ordinary shares on the date of grant. The options are exercisable between three and ten years after the date of the grant with exercise conditional on the Company's shares out-performing by price the FTSE 100 Index over any three year period preceding exercise. The Company may grant options for up to 92,000,000 ordinary shares.

A summary of the status of the Company's performance-based share option plans as at December 31, 1998, 1997 and 1996 and changes during the years ended on those dates is presented below:

| | 1998 | | 1997 | | 1996 | |
|--|-------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Outstanding at beginning of year | 19,028,431 | 120.6p | 11,238,852 | 153.0p | 8,645,229 | 160.4p |
| Granted | 8,643,845 | 114.7p | 8,994,654 | 83.7p | 4,121,474 | 140.9p |
| Forfeited | (1,506,532) | 115.7p | (1,205,075) | 147.1p | (1,527,851) | 162.6p |
| Outstanding at end of year | 26,165,744 | 118.9p | 19,028,431 | 120.6p | 11,238,852 | 153.0p |
| Options exercisable at year end | 5,289,415 | 143.0p | 3,375,739 | 152.3p | 1,023,042 | 154.3p |
| Weighted average fair value of options granted during the year | 99.2p | – | 50.4p | – | 75.6p | – |

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
16 SHARE-BASED COMPENSATION PLANS (continued)

The following table summarizes information about the Company's performance-based share option plans outstanding at December 31, 1998.

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|---|---|---------------------------------|---|---------------------------------|
| | Number outstanding at December 31, 1998 | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at December 31, 1998 | Weighted average exercise price |
| 71.0– 73.0p | 2,424,728 | 6.4 years | 72.6p | 116,275 | 73.0p |
| 82.5– 83.0p | 4,848,272 | 6.6 years | 82.9p | 461,334 | 82.9p |
| 91.5– 95.5p | 3,617,385 | 6.4 years | 95.3p | 237,259 | 95.5p |
| 117.5–118.0p | 765,847 | 8.2 years | 117.5p | – | – |
| 122.0–127.0p | 3,546,970 | 7.6 years | 125.9p | – | – |
| 134.0–135.5p | 1,491,623 | 7.0 years | 135.4p | – | – |
| 138.0–141.0p | 3,166,769 | 7.2 years | 140.9p | 1,422,990 | 140.8p |
| 154.5–155.5p | 4,501,774 | 3.4 years | 154.5p | 2,184,935 | 154.6p |
| 159.0–160.5p | 99,521 | 7.7 years | 159.6p | – | – |
| 171.5–173.5p | 1,702,855 | 4.9 years | 172.4p | 866,622 | 171.9p |
| 71.0–173.5p | 26,165,744 | 6.2 years | 118.9p | 5,289,415 | 143.0p |

FIXED SHARE OPTION COMPENSATION PLANS

The Company also operates the Telewest Sharesave Scheme, a fixed share option compensation scheme. Under this plan, the Company grants options to employees to purchase ordinary shares at a 20% discount to market price. These options can be exercised only with funds saved by employees over time in a qualified savings account. The options are exercisable between 37 and 66 months after the date of grant.

A summary of the status of the Company's fixed share option plans as of December 31, 1998, 1997, and 1996, and the changes during the years ended on those dates is presented below:

| | 1998 | | 1997 | | 1996 | |
|--|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Outstanding at beginning of year | 6,968,175 | 72.1p | 4,076,635 | 119.8p | 3,345,941 | 139.6p |
| Granted | 4,155,655 | 105.5p | 5,341,783 | 58.0p | 2,165,009 | 102.5p |
| Forfeited | (1,663,494) | 83.9p | (2,450,243) | 120.7p | (1,434,315) | 139.8p |
| Outstanding at end of year | 9,460,336 | 84.7p | 6,968,175 | 72.1p | 4,076,635 | 119.8p |
| Options exercisable at year end | – | – | – | – | – | – |
| Weighted average fair value of options granted during the year | 88.4p | – | 42.7p | – | 49.7p | – |

The following table summarizes information about the Company's fixed share options outstanding at December 31, 1998.

| Exercise price | Options outstanding | |
|----------------|---|---|
| | Number outstanding at December 31, 1998 | Weighted average remaining contractual life |
| 58.0p | 4,464,860 | 2.6 years |
| 102.5p | 375,230 | 1.6 years |
| 105.5p | 4,155,655 | 3.6 years |
| 134.0p | 254,969 | 2.6 years |
| 150.0p | 209,622 | 1.6 years |
| 58.0–150.0p | 9,460,336 | 3.0 years |

TELEWEST RESTRICTED SHARE SCHEME

The Company operates the Telewest Restricted Share Scheme in conjunction with an employment trust, the Telewest Employees Share Ownership Plan Trust (the "Telewest ESOP"), which has been designed to provide incentives to executives of the Company based on the performance of the Company. Under the Telewest Restricted Share Scheme, executives may be granted awards over ordinary shares of the Company based on a percentage of salary. The awards are made for no consideration. The awards generally vest three years after the date of the award and are exercisable for up to seven years after the date when they vest. Awards granted under the Telewest Restricted Share Scheme may be made over a maximum of 4,000,000 ordinary shares of the Company.

The fair value of each award is the share price of the ordinary shares on the date the award was made.

A summary of the status of the Company's Restricted Share Scheme at December 31, 1998, 1997 and 1996, and changes during the years ended on those dates is presented below:

| | 1998 | 1997 | 1996 |
|---|------------------|------------------|------------------|
| | Number of shares | Number of shares | Number of shares |
| Outstanding at beginning of year | 1,747,162 | 2,648,433 | 2,616,857 |
| Granted | – | 377,975 | 328,297 |
| Exercised | (1,306,853) | (1,123,324) | (62,920) |
| Forfeited | (24,123) | (155,922) | (233,801) |
| Outstanding at end of year | 416,186 | 1,747,162 | 2,648,433 |
| Awards exercisable at year end | 250,157 | 924,008 | 646,341 |
| Weighted average fair value of awards granted during the year | – | £1.25 | £1.47 |

At December 31, 1998, the 416,186 awards outstanding and the 250,157 awards exercisable have weighted average remaining contractual lives of 4.7 years and 2.7 years, respectively.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
16 SHARE-BASED COMPENSATION PLANS (continued)
LONG-TERM INCENTIVE PLAN ("LTIP")

The Telewest Restricted Share Scheme has been replaced with a Long-Term Incentive Plan ("LTIP") which provides for share awards to executive Directors and senior executives. Under the LTIP an executive will be awarded the provisional right to receive, for no payment, a number of Telewest shares with a value equating to a percentage of base salary. The shares will not vest unless certain performance criteria, based on total shareholder return assessed over a three year period are met. The percentage of salary will be determined by the Remuneration Committee and will be up to 100% of base salary for executive Directors.

| | 1998 Number of shares | 1997 Number of shares |
|---|-----------------------------|-----------------------------|
| Outstanding at beginning of year | 574,309 | – |
| Granted | 4,101,826 | 574,309 |
| Forfeited | (879,402) | – |
| Outstanding at end of year | 3,796,733 | 574,309 |
| Awards exercisable at year end | – | – |
| Weighted average fair value of awards granted during the year | £1.14 | £0.81 |

At December 31, 1998, the 3,796,733 awards outstanding have weighted average remaining contractual lives of 9.4 years.

EQUITY PARTICIPATION PLAN ("EPP")

The Remuneration Committee has provided that, under the EPP, an employee with two years service or at manager level or above, can use up to 100% of the pre-tax or post-tax Short-Term Incentive Plan ("STIP") bonus payable to the employee to acquire Telewest shares ("bonus shares"). The employee must deposit the bonus shares with the Trustee of the existing Telewest ESOP. In return, the employee is provisionally allocated for no payment a matching number of Telewest shares. Provided the bonus shares are retained for three years and the employee remains employed by the Company for three years, the bonus and matching shares would thereafter be released to the employee.

A summary of the status of the Company's EPP at December 31, 1998 and the movement during the year ended on that date is presented below:

| | 1998 Number of shares |
|---|-----------------------------|
| Outstanding at beginning of year | – |
| Granted | 725,992 |
| Exercised | (30,053) |
| Forfeited | (19,435) |
| Outstanding at end of year | 676,504 |
| Awards exercisable at year end | 338,252 |
| Weighted average fair value of awards granted during the year | £1.07 |

At December 31, 1998, the 676,504 awards outstanding have weighted average remaining contractual lives of 6.2 years.

17 COMMITMENTS AND CONTINGENCIES
**THE CABLE CORPORATION AND YORKSHIRE CABLE
FINANCING ARRANGEMENTS**

In February 1996, The Cable Corporation and certain of its subsidiaries entered into sale and leaseback arrangements covering a maximum amount of equipment with a purchase price of up to £92 million. The Cable Corporation's obligations under the arrangements are secured by guarantees and cash collateralized letter of credit facilities.

In December 1996, Yorkshire Cable and certain of its subsidiaries entered into sale and leaseback arrangements covering a maximum amount of equipment with a purchase price of up to £206 million. Yorkshire Cable's obligations under the arrangements are also secured by guarantees and cash collateralized letter of credit facilities.

Total cash restricted as to use by providing backing for security to lessors amounted to £187,420,000 at December 31, 1998 which has been classified as secured cash deposits restricted for more than one year. There were no outstanding guarantees. In the event that security provided to the lessors under The Cable Corporation and Yorkshire Cable's leasing arrangements is inadequate General Cable has the ability to provide acceptable additional security. If such additional security is not provided, this constitutes an event of default under the leases. The leasing agreements may be terminated at either of the parties' option.

CAPITAL AND OPERATING LEASES

The Company leases a number of assets under arrangements accounted for as capital leases, as follows:

| | Acquisition costs £'000 | Accumulated depreciation £'000 | Net book value £'000 |
|----------------------|-------------------------------|--------------------------------------|----------------------------|
| At December 31, 1998 | | | |
| Electronic equipment | 258,498 | (91,429) | 167,067 |
| Other equipment | 422,577 | (193,267) | 229,310 |
| At December 31, 1997 | | | |
| Electronic equipment | 58,465 | (16,061) | 42,404 |
| Other equipment | 40,207 | (8,050) | 32,157 |

Depreciation charged on these assets was £18,069,000 and £10,889,000 for the years ended December 31, 1998 and 1997, respectively.

The Company leases business offices and uses certain equipment under lease arrangements accounted for as operating leases. Minimum rental expense under such arrangements amounted to £4,107,000, £3,198,000 and £3,065,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Future minimum lease payments under capital and operating leases are summarized as follows as at December 31, 1998:

| | Capital leases £'000 | Operating leases £'000 |
|---------------------|----------------------------|------------------------------|
| 1999 | 52,134 | 4,500 |
| 2000 | 46,346 | 4,388 |
| 2001 | 50,577 | 4,172 |
| 2002 | 47,636 | 3,865 |
| 2003 | 46,032 | 2,876 |
| 2004 and thereafter | 153,585 | 23,681 |
| | 396,310 | |
| Imputed interest | (95,747) | |
| Total | 300,563 | |

It is expected that, in the normal course of business, expiring leases will be renewed or replaced.

CONTINGENT LIABILITIES

The Company is a party to various legal proceedings in the ordinary course of business which it does not believe will result, in aggregate, in a material adverse effect on its financial condition or results of operations.

The Company has provided surety for leasing obligations of £1,308,000 of the Cable Corporation Ltd. In addition the Company has provided performance bonds in respect of its national license and to local authorities up to a maximum amount of £6.1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 RELATED PARTY TRANSACTIONS

The Company, in the normal course of providing cable television services, purchases certain of its programming from UK affiliates of TCI. Such programming is purchased on commercially-available terms. Total purchases in the years ended December 31, 1998 and 1997 amounted to £11,280,000 and £9,681,000, respectively.

The Company has management agreements with TCI and MediaOne under which amounts are paid by the Company relating to TCI and MediaOne employees who have been seconded to the Company. For the years ended December 31, 1998, 1997 and 1996, fees charged to the Company under the agreements were £1,620,000, £968,000 and £2,185,000, respectively. The Company has similar management agreements with Cox Communications, Inc. and SBC Communications, Inc. For the years ended December 31, 1998, 1997 and 1996, fees charged to the Company under these agreements were £60,000, £202,000 and £374,000, respectively.

Birmingham Cable Corporation had a consultancy agreement with Comcast UK Consulting Inc. (a subsidiary undertaking of Comcast UK Cable Partners Limited). Charges under this agreement amounted to £223,000, for the period since the acquisition of Birmingham Cable Corporation.

The Company has entered into consulting agreements with certain of its affiliates pursuant to which the Company provides consulting services related to telephony operations. Under the agreements, the Company receives an annual fee from each affiliate based upon the affiliate's revenues. Fees received for the years ended December 31, 1998, 1997 and 1996, were £1,768,000, £786,000 and £642,000, respectively. The affiliate banking agreements contain certain deferred payment arrangements for these fees. The Company also receives a fee for providing switching support services, comprising a fixed element based on a number of switches and a variable element based on a number of lines. Fees received for the years ended December 31, 1998, 1997 and 1996, were £1,252,000, £740,000 and £741,000, respectively. The Company also made sales of cable publications to affiliates. For the years ended December 31, 1998, 1997 and 1996, sales were £303,000, £109,000 and £71,000, respectively.

The Company has also made loans to affiliates. Interest charged on these loans in the years ended December 31, 1998, 1997 and 1996 was £3,115,000, £3,175,000 and £1,723,000.

19 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | Total £'000 | Fourth quarter £'000 | 1998 | | |
|---|----------------|-------------------------|------------------------|-------------------------|------------------------|
| | | | Third quarter £'000 | Second quarter £'000 | First quarter £'000 |
| Revenue | 539,174 | 175,215 | 138,082 | 115,453 | 110,424 |
| Operating loss | (113,767) | (33,559) | (27,192) | (25,452) | (27,564) |
| Finance expenses, net | (201,298) | (86,174) | (34,189) | (46,481) | (34,454) |
| Net loss | (332,734) | (121,934) | (65,710) | (76,362) | (68,728) |
| Basic and diluted loss per ordinary share | (24 pence) | (5 pence) | (5 pence) | (7 pence) | (7 pence) |

| | Total £'000 | Fourth quarter £'000 | 1997 | | |
|---|----------------|-------------------------|------------------------|-------------------------|------------------------|
| | | | Third quarter £'000 | Second quarter £'000 | First quarter £'000 |
| Revenue | 386,498 | 104,969 | 100,087 | 91,052 | 90,390 |
| Operating loss | (154,159) | (39,578) | (41,394) | (36,421) | (36,766) |
| Finance expenses, net | (156,167) | (29,604) | (43,613) | (30,992) | (51,958) |
| Net loss | (332,452) | (74,887) | (90,780) | (72,902) | (93,883) |
| Basic and diluted loss per ordinary share | (33 pence) | (8 pence) | (9 pence) | (7 pence) | (9 pence) |

In 1997, the treatment of activation costs was reviewed. With effect from January 1, 1997, activation labor was reclassified from 'Cable and Ducting' to 'Electronics' to be consistent with the classification of activation materials. The impact of this change was an additional depreciation charge of £10,359,000, with activation labor now depreciated over 8 years rather than 20 years.

Finance expenses include foreign exchange gains and losses on the retranslation or valuation of non sterling denominated financial instruments using period end exchange rates and market valuations.

20 SEGMENTAL INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", during the fourth quarter of 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is the Board of Directors. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and services different markets. The Company's reportable operating segments include Cable Television, Residential Cable Telephony, Business Cable Telephony and Other. The Other segment includes management services provided to affiliated companies, Internet sales, cable publications and sales of indefeasible rights of use of cable capacity.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on operating segment contribution which represents revenue less programming and telephony expenses. All of the Company's products and services are delivered via the Company's national network and accordingly segmental information for total assets, capital expenditures and depreciation and amortization is not meaningful.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
20 SEGMENTAL INFORMATION (continued)

| | 1998 £'000 | 1997 £'000 | 1996 £'000 |
|-----------------------------------|------------------|---------------|---------------|
| REVENUE FROM THIRD PARTIES | | | |
| Cable television | 201,858 | 159,918 | 121,224 |
| Cable telephony – residential | 232,514 | 166,645 | 125,013 |
| Cable telephony – business | 84,233 | 43,882 | 34,562 |
| All other | 20,569 | 16,053 | 9,467 |
| Consolidated third party revenue | 539,174 | 386,498 | 290,266 |
| CONTRIBUTION | | | |
| Cable television | 98,828 | 66,477 | 51,318 |
| Cable telephony – residential | 175,852 | 128,306 | 84,532 |
| Cable telephony – business | 58,617 | 32,076 | 22,471 |
| All other | 5,344 | 4,085 | 864 |
| Segmental contribution | 338,641 | 230,944 | 159,185 |
| Less: | | | |
| Operating expenses | (192,683) | (181,367) | (158,720) |
| Depreciation | (223,557) | (177,341) | (129,716) |
| Amortization | (36,168) | (26,395) | (26,149) |
| Consolidated operating loss | (113,767) | (154,159) | (155,400) |

SUPPLEMENTARY FINANCIAL INFORMATION – FIVE YEAR SUMMARY

| YEAR ENDED DECEMBER 31, | Company 1998 £'000 | 1997 £'000 | 1996 £'000 | 1995 ⁽²⁾ £'000 | Joint Venture ⁽¹⁾ 1994 £'000 |
|---|--------------------------|------------------|------------------|------------------------------|--|
| BALANCE SHEET DATA | | | | | |
| Property and equipment (net) | 2,457,062 | 1,705,520 | 1,447,194 | 1,063,808 | 454,843 |
| Total assets | 3,977,667 | 2,413,352 | 2,241,940 | 2,289,720 | 878,156 |
| Investment in affiliates | 26,556 | 59,707 | 69,420 | 80,703 | 81,907 |
| Total debt and capital leases ⁽³⁾ | 2,626,250 | 1,448,588 | 933,741 | 822,579 | 18,439 |
| Equity | 1,041,072 | 738,750 | 1,070,797 | 1,322,748 | 776,934 |
| INCOME STATEMENT DATA | | | | | |
| REVENUE | | | | | |
| Cable television | 201,858 | 159,918 | 121,224 | 64,740 | 35,875 |
| Telephony – residential | 232,514 | 166,645 | 125,013 | 57,597 | 23,471 |
| Telephony – business | 84,233 | 43,882 | 34,562 | 17,449 | 8,812 |
| Other | 20,569 | 16,053 | 9,467 | 4,998 | 3,869 |
| TOTAL REVENUE | 539,174 | 386,498 | 290,266 | 144,784 | 72,027 |
| OPERATING COSTS AND EXPENSES | | | | | |
| Programming | (103,030) | (93,441) | (69,906) | (32,194) | (15,500) |
| Telephony | (82,278) | (50,145) | (52,572) | (29,526) | (14,714) |
| Selling, general and administrative | (207,908) | (193,335) | (167,323) | (105,388) | (60,414) |
| Depreciation | (223,557) | (177,341) | (129,716) | (60,019) | (30,320) |
| Amortization | (36,168) | (26,395) | (26,149) | (7,854) | (1,827) |
| OPERATING LOSS | (113,767) | (154,159) | (155,400) | (90,197) | (50,748) |
| Share of loss of affiliates | (18,748) | (21,696) | (15,973) | (12,777) | (8,466) |
| Financial expenses, net | (201,298) | (156,167) | (90,788) | (34,607) | (6,137) |
| Extraordinary gain | – | – | – | – | 7,287 ⁽⁴⁾ |
| Net loss (pro forma loss for 1994) | (332,734) | (332,452) | (262,391) | (137,531) | (58,050) |
| Basic and diluted (loss)/gain per ordinary share: | | | | | |
| Before extraordinary gain (pro forma loss for 1994) | (24 pence) | (33 pence) | (26 pence) | (15 pence) | (9 pence) |
| Extraordinary gain | – | – | – | – | 1 pence |
| Loss (pro forma loss for 1994) | (24 pence) | (33 pence) | (26 pence) | (15 pence) | (8 pence) |

⁽¹⁾ See Note 1 (Organization and history) to the US GAAP Consolidated Financial Statements.

⁽²⁾ See Note 5 (Business combinations) to the US GAAP Consolidated Financial Statements.

⁽³⁾ See Note 13 (Debt) and Note 17 (Commitments and contingencies) to the US GAAP Consolidated Financial Statements.

⁽⁴⁾ Extraordinary gain relates to the fair value of interest rate swaps in the US GAAP Consolidated Financial Statements arising on repayment of debt following the initial public offering of the Company in November 1994.

SHAREHOLDER INFORMATION

PROPOSED FINANCIAL CALENDAR 1999

| | |
|--|------------------|
| Fourth Quarter operating statistics | 22 January 1999 |
| Preliminary results for 1998 | 16 March 1999 |
| Annual Report posted to shareholders | 7 April 1999 |
| First Quarter operating statistics and financial results | 13 May 1999 |
| Annual General Meeting | 14 May 1999 |
| Announcement of interim results for 1999 | 5 August 1999 |
| Third Quarter operating statistics and financial results | 11 November 1999 |

DEBENTURES – INTEREST PAYMENTS

9 $\frac{5}{8}$ % Senior Debentures due 2006, interest is payable semi-annually on 1 April and 1 October. 11% Senior Discount Debentures due 2007, interest is payable semi-annually on 1 April and 1 October commencing on 1 April 2001. 11 $\frac{1}{4}$ % Senior Notes due 2008, interest is payable semi-annually on 1 May and 1 November. 5 $\frac{1}{4}$ % Convertible Notes due 2007, interest is payable semi-annually on 19 August and 19 February commencing on 19 August 1999.

SHARE AND ADS INFORMATION

Telewest shares trade under the symbol "TWT" on the London Stock Exchange. American Depositary Shares ("ADSs") (evidenced by American Depositary Receipts ("ADRs")) representing Telewest shares trade on the Nasdaq Stock Market's National Market under the symbol "TWSTY". Each ADS represents ten Telewest shares.

The following table sets out, for the periods indicated, the high and low middle market quotations for Telewest shares on the London Stock Exchange and the high and low reported trade prices for the ADSs on the Nasdaq Stock Market's National Market.

| | Ordinary shares ⁽¹⁾ | | ADSs ⁽²⁾ | |
|--------------------|--------------------------------|--------|---------------------|---------|
| | High | Low | High | Low |
| 1997 First Quarter | 133.5p | 106p | \$22.00 | \$17.38 |
| Second Quarter | 107.5p | 63p | \$17.50 | \$10.75 |
| Third Quarter | 95p | 74p | \$15.50 | \$12.13 |
| Fourth Quarter | 88.5p | 68.5p | \$14.88 | \$11.75 |
| 1998 First Quarter | 95.5p | 70.0p | \$16.25 | \$11.63 |
| Second Quarter | 159.0p | 84.5p | \$25.03 | \$14.50 |
| Third Quarter | 208.5p | 131.0p | \$33.63 | \$21.63 |
| Fourth Quarter | 173.5p | 107.3p | \$28.25 | \$18.13 |

⁽¹⁾ The prices set out for the Telewest shares are derived from the London Stock Exchange Daily Official List.

⁽²⁾ The prices set out for the ADSs are provided by the Nasdaq Stock Market's National Market.

REGISTRAR AND DEPOSITARY

Enquiries concerning holdings of Telewest shares should be addressed to the Registrars, who are Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Tel: (01903) 502541.

Changes in a holder's address should also be notified to the Registrars.

The Bank of New York is the Depositary for the Telewest ADR programme and all enquiries regarding ADR holder accounts and payment of dividends should be directed to: The Bank of New York, ADR Department, 101 Barclay Street, New York NY 10286.

Tel: +(001) 800 524 4458.

CREST – SHARE SETTLEMENT SYSTEM

The Company belongs to CREST, the settlement system for shares and other securities. There are 1,254 CREST holders, holding 1,176,581,675 Telewest shares as at 16 March 1999.

ANNUAL GENERAL MEETING

The 1999 Annual General Meeting of shareholders takes place at The Grocers' Hall, Princes Street, London EC2R 8AD on Friday, 14 May 1999 at 10.00 a.m.

For general investor information please contact:

Ian Hood
Telewest Investor Relations Department
Telephone: (01483) 295184

For all other enquiries please contact:

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Company Secretary
Telewest Communications plc
Genesis Business Park
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Surrey GU21 5RW

Telephone: (01483) 750900
Facsimile: (01483) 750901

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BROKER

Kleinwort Benson Securities Limited
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London EC4Y 1HS

(As to US law)
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One South Place
London EC2M 2WG

REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

GLOSSARY

Affiliate companies means Cable London Limited, in which the Group owns an equity interest of 50%, and Front Row Limited in which the Group owns an equity interest of 53%.

Churn refers to the percentage of customers who voluntarily or involuntarily cease subscription to a Telewest service.

Company means Telewest Communications plc, registration number 2983307.

Group means the Company and its subsidiaries.

Homes passed refers to homes in respect of which network construction is complete and where customers can subscribe to Telewest's services.

Penetration refers to the percentage of 'passed' customers who subscribe to one or more of Telewest's services.

SBCC refers to SBC Cablecomms (UK) which was acquired by the Company on 3 October 1995.

Telewest shares refers to the issued ordinary shares of 10p each in the capital of the Company.

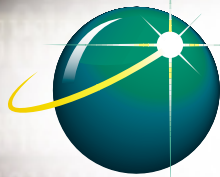
Liberty Media means Tele-Communications International Inc which is in the process of changing its name to Liberty Media International Inc.

MediaOne means MediaOne International Inc.

NOTES

www.telewest.co.uk

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