**TELEWEST COMMUNICATIONS PLC** CHOSEN PROVIDER OF MULTIPLE BROADBAND SERVICES TO HOMES AND BUSINESSES IN OUR AREAS, FIRST TO LAUNCH UNMETERED INTERNET ACCESS, LARGEST WALLED GARDEN SERVICE IN THE UK, FOCUS ON INTERACTIVE TV DEVELOPMENT, EUROBELL ACQUIRED NOVEMBER 2000 BRINGING NUMBER OF HOMES PASSED TO 4.9 MILLION, STATE-OF-THE-ART NETWORK, TOP QUALITY BRANDED CONTENT, RAPID DATA TRANSMISSION AND REMOTE HOSTING, BROADBAND REVOLUTION, FULLY FUNDED BUSINESS PLAN, BLUEYONDER AVAILABLE ACROSS OUR REGIONS, DEVELOPING A TRULY INNOVATIVE GAME PRODUCT, HIGHEST INDUSTRY REVENUE PER HOUSEHOLD, 65% DUAL PENETRATION, 35% HOUSEHOLD PENETRATION REPRESENTING 1.7 MILLION HOMES, ADDED 217,000 INTERNET SUBSCRIBERS DURING 2000, BLUEYONDER HI-SPEED WILL REVOLUTIONISE CONSUMER INTERNET EXPERIENCE, TRANSFORMING FROM TRADITIONAL TELECOM OPERATOR TO TOTAL BUSINESS COMMUNICATIONS PROVIDER, OFFERING ENHANCED TELEPHONY SERVICES USING OUR INTELLIGENT NETWORK, ONE OF THE LARGEST COMPETITORS TO BT IN THE UK BUSINESS MARKET PLACE, FLEXTECH LARGEST SUPPLIER OF BASIC PAY-TV, 18.5 MILLION CUSTOMERS CHOOSE TO VIEW OUR CHANNELS EVERY WEEK, DRIVING DEVELOPMENTS OF CROSS PLATFORM ENTERTAINMENT SERVICES, CREATING THE NEXT WAVE OF MULTIMEDIA BROADBAND CONTENT, SERVICES AND APPLICATIONS, BROADBAND GAMES, STRONG GROWTH FROM UKTV, FLEXTECH ACHIEVED RECORD YEAR IN AUDIENCE DELIVERY, ACTIVE DIGITAL BEST VALUE BUNDLED DIGITAL TV AND TELEPHONE, INTERACTIVE GAMES SHOWCASE UNIQUE BENEFITS OF DIGITAL TV, BROADBAND PROVIDER OF CHOICE, MULTIPLE BROADBAND SERVICES, BLUEYONDER HI-SPEED INTERNET, PERMANENT CONNECTION, ALWAYS-ON, WALLED GARDEN INTERACTIVE TELEVISION, FREE TV E-MAIL, ACCESS TO SHOPPING, GAMES AND INFORMATION SERVICES THROUGH THE TV, DIGITAL TV SERVICES, RESIDENTIAL TELEPHONY, UNMETERED DIAL-UP INTERNET ACCESS – SURFUNLIMITED, OVER 150 LEADING BRANDS, IN OUR TV WALLED GARDEN SERVICE HIGH BANDWIDTH FIBRE-COAXIAL NETWORK, MULTI-FIBRE OPTIC NATIONAL BACKBONE NETWORK, RAPID TWO WAY DATA TRANSFER, 4.9 MILLION HOMES PASSED, 425,000 BUSINESSES PASSED, 1.7 MILLION RESIDENTIAL CUSTOMERS, 66,500 BUSINESS CUSTOMERS TAKING 366,000 BUSINESS LINES, 1.5 MILLION TELEPHONE CUSTOMERS, 1.2 MILLION CABLE TELEVISION CUSTOMERS, 287,000 INTERNET CUSTOMERS, UKTV JOINT VENTURE WITH THE BBC, COMBINATION OF BROADBAND NETWORK AND CONTENT, PORTFOLIO OF CHANNELS AND WEBSITES, 9.6 MILLION FLEXTECH SUBSCRIBERS, BROADBAND CONTENT OWNERSHIP, STATE-OF-THE-ART BROADBAND INTERACTIVE NETWORK, DEVELOPMENT OF NEXT GENERATION BROADBAND SERVICES, FOCUS ON THE CUSTOMER, PORTFOLIO OF VOICE AND DATA PRODUCTS FOR BUSINESS CUSTOMERS, BROADBAND CABLE MODEM SERVICE FOR SMALL BUSINESSES, BLUEYONDER WORKWISE, INTERACTIVE ENTERTAINMENT GUIDE, OVER £1 BILLION REVENUES 1.2 MILLION CABLE TELEVISION CUSTOMERS, **TO SEE US IN COLOUR WWW.TELEWEST.CO.UK** CHOSEN PROVIDER OF MULTIPLE BROADBAND SERVICES TO HOMES AND BUSINESSES IN OUR AREAS, FIRST TO LAUNCH UNMETERED INTERNET ACCESS, LARGEST WALLED GARDEN SERVICE IN THE UK, FOCUS ON 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287,000 INTERNET CUSTOMERS UKTV JOINT VENTURE WITH THE BBC, COMBINATION OF BROADBAND NETWORK AND CONTENT. **ANNUAL REPORT 2000**

TO SEE US IN COLOUR

# WWW.TELEV

WEST.CO.UK

*Financial highlights 2000*

REVENUE

# £1.129bn

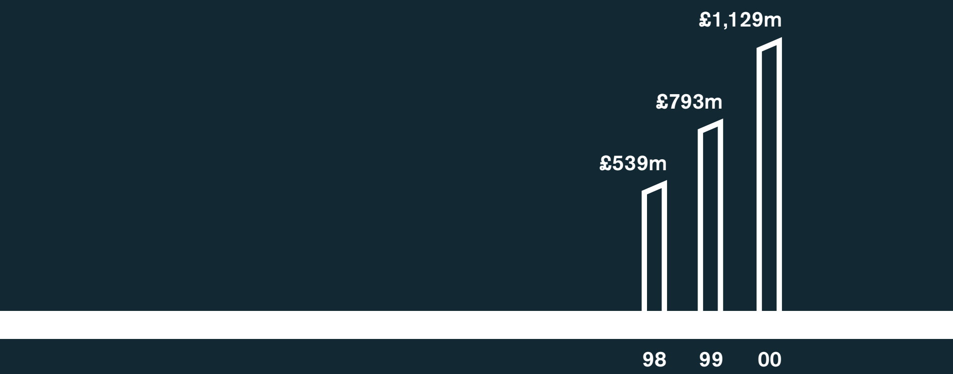
EBITDA

# £247m

MONTHLY REVENUE PER HOUSEHOLD

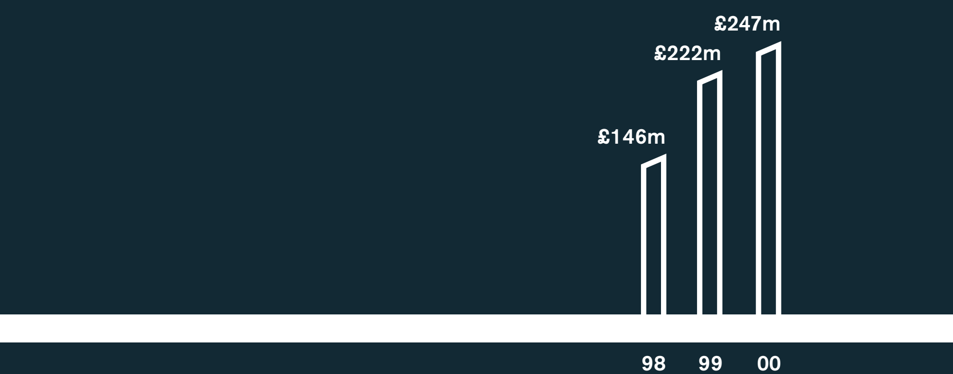
# £37.45

TELEWEST IS ONE OF BRITAIN'S LEADING BROADBAND COMMUNICATIONS AND MEDIA GROUPS SERVING THE RESIDENTIAL AND BUSINESS MARKETS. THE ACQUISITION OF FLEXTECH IN APRIL 2000 MAKES US THE BIGGEST PROVIDER OF BASIC CHANNELS TO THE UK PAY-TV MARKET. IN 2000 WE HAVE MADE FURTHER PROGRESS IN TRANSFORMING THE COMPANY INTO THE BROADBAND COMMUNICATIONS PROVIDER OF CHOICE WITHIN OUR AREAS OF OPERATION WITH THE CONTINUED ROLL-OUT OF DIGITAL TV AND LAUNCH OF HI-SPEED INTERNET SERVICES.

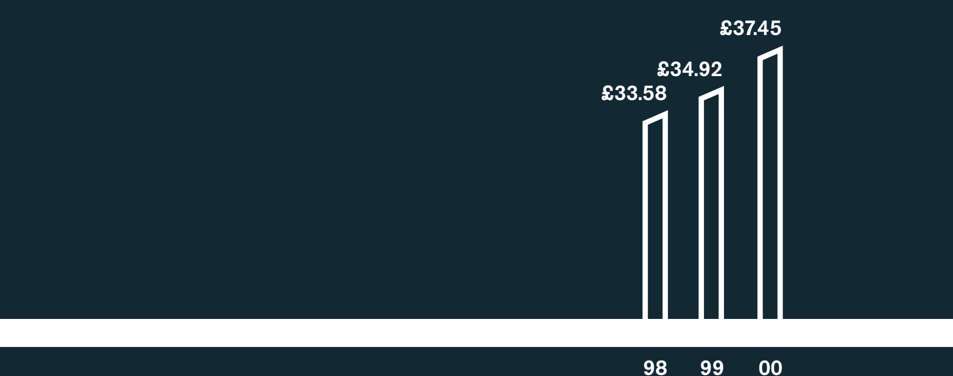



2000 WAS ANOTHER YEAR OF GROWTH FOR TELEWEST

REVENUE INCREASED 42% TO £1,129 MILLION




EBITDA INCREASED 11% TO £247 MILLION




MONTHLY REVENUE PER HOUSEHOLD INCREASED 7% TO £37.45

Search www.telewest.co.uk/financialhighlights

## *Chairman's Statement*

Cob Stenham

*For your attention*

10

2000 was a year of change for Telewest. Change from analogue to digital as we deployed digital TV and blueyonder, our hi-speed internet service. Change as we launched the UK's first unmetered access ISP. Change as we merged Flextech with Telewest. Any one of these would be enough to test an organisation, but to accomplish all in one year was a credit to our employees and I am pleased to say we have emerged a stronger and more confident company.

Telewest is now better placed than ever to capitalise on the fast-growing demand for digital communications from both residential and business customers. The changes in technology that are hastening a broadband world are transforming the prospects of companies such as ours, even if the financial markets are currently cynical about the sector's ability to deliver.

As with all technological transformations, that process has not always been easy. Migrating analogue cable TV customers to digital has been painful at times, but we now have made 500,000 digital TV sales. Our new web-access products took time and effort to roll-out effectively, but we already have almost 300,000 dial-up internet customers and getting on for 18,000 subscribers to our blueyonder hi-speed offering, which transforms the experience of surfing the web for its users.

The strength of this business is in the bundle of services we can offer our consumers. Cable is the only effective means of offering telephone, television, data and non-time-metered internet or hi-speed broadband services all in one package.

This network power allows us to tap a wider range of revenue streams. For the consumer it means more choice and functionality. All our digital TV homes have access to e-mail and to the Active Digital walled garden – essentially a shopping mall with more than 150 retail brands. This allows customers sitting in front of their TV sets to e-mail, bank, shop and organise their travel.

# 8,000 more business customers

**UK'S LEADING PROVIDER OF BROADBAND SERVICES**

# 6,000 more residential customers

The business division has also been leveraging our network to produce new and important sources of revenue. It launched its own hi-speed internet service, blueyonder workwise, in a joint venture with Cobweb, the ISP for small and medium sized businesses. This is providing high value services to those customers and has seen encouraging demand.

We further demonstrated our belief in the value of UK cable businesses when we bought from Deutsche Telekom, Eurobell, the last remaining independent cable operation of significance in this country. The Eurobell franchises bring our total number of homes passed to nearly five million. The acquisition is particularly good news for our business division as it brings Gatwick airport into franchise to add to our existing coverage of Heathrow.

Our content division, Flextech, has demonstrated the value of a vertically integrated business, particularly as it continues to develop broadband content and interactive services. UKTV, our joint venture with the BBC, reported strong growth and in the final quarter of 2000, it turned EBITDA positive for the first time. We announced a joint venture with Vis entertainment to design, develop and commission games for the broadband and interactive digital TV markets, and a further joint venture called SmashedAtom, which will focus on interactive TV development projects for clients both inside and outside the Group.

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Search www.telewest.co.uk/chairmans-statement

# Chairman's Statement

During the year our board was strengthened by the appointment of Bob Fuller as chief executive officer of the cable division. Bob joined us from Orange UK where he was chief operating officer and we welcome the skills and experience he brings from the highly competitive and innovative mobile telephony markets. We are also pleased to welcome to the board Mark Luiz, who heads our content division. Mark was a central figure in the transformation of Flextech into the largest supplier of basic TV programming in the pay-TV market.

The year 2000 also saw the completion of Microsoft's acquisition of a 21.7% stake in Telewest from MediaOne. Together with Liberty Media we have two significant major shareholders and we welcome their support and the technological and marketing experience they bring to the Company.

No commentary on the year would be complete without a word about our share price. At the beginning of last year a wave of confidence in the sector together with strong news flow about Telewest – the merger with Flextech, the launches of SurfUnlimited, the interactive walled garden digital TV service and blueyonder – drove our share price to a record high. However, by the middle of the year the market began to turn against "TMT" stocks. Whilst certain issues were Telewest specific, primarily the delay to our digital roll-out caused by a set-top box shortage, the market radically re-rated the TMT sector as a whole, causing valuations to plummet. Over the course of the year our share price fell by 69%. But we were not alone. BT and NTL, for example, fell by 62% and 76% respectively. These choppy markets have in no way weakened our belief in the fundamental potential of our business and our total commitment to the creation of long-term shareholder value.

**Outlook**

Telewest is a company in increasingly good shape to become the broadband communications provider of choice within our areas of operation. The growing demand for such services, at high speeds and on all manner of devices, puts us on target to deliver growth for the next few years and beyond.

We have a hi-speed digital network in place. Our capital expenditure costs going forward are variable and largely connected to customer acquisition – we do not face the burden of building new networks, as is the case with 3G mobile telephony licence-holders. Over our network we can deliver increasing quantities of speed and ever greater amounts of content. Meanwhile, we have a content division that is at the forefront of developing the next generation of broadband products which will enhance revenues. Our digital roll-out is now in full swing as we concentrate on executing our business plan. Our recently completed bank financing helps to ensure we have adequate funds to accomplish all of this.

Telewest now has the key ingredients for success in the digital age. Our goal for 2001 is to deliver to our customers the service and standards they have every right to expect and to our shareholders the long-term value that comes from being at the forefront of the broadband revolution. On behalf of the more than 10,000 employees of Telewest we appreciate your support and look forward to sharing with you the opportunities and successes that lie ahead.

**Cob Stenham**

**Chairman**

Search www.telewest.co.uk/telewesttoday

# Telewest today

From Edinburgh to London, Telewest provides a wide range of business and home products, services and content through its broadband and national networks illustrated above

## Cable Division

### The network

**Local Broadband Network**
High bandwidth, two-way fibre-coaxial network passing 4.9 million homes

**National Network**
Ultra-high capacity, national fibre network with the capability to provide hi-speed data and IP services

### Products and brands

*Residential*

**Telewest Active Digital**
Digital TV, interactive TV and TV e-mail

**blueyonder hi-speed**
Hi-speed internet

**blueyonder SurfUnlimited**
Dial-up unmetered internet

**blueyonder pay-as-you-go**
Dial-up metered internet

**Millennium package**
Analogue TV and telephone

*Business*

**blueyonder workwise**
Hi-speed internet service for SMEs with a dedicated business portal

**Enterprise Connect**
Managed data network solutions

**Telewest Endeavour**
Internet travel booking service for travel agents

**Carrier Services**
Providing wholesale capacity and interconnect solutions across the network

## Content Division

**Channels**

*100% owned*

Living
Bravo
Trouble
Challenge TV

*UKTV*
*50% owned with BBC*

UK Gold
UK Gold 2
UK Style
UK Horizons
Play UK
UK Drama

**Websites**
14 wholly owned and associated websites including SceneOne, Bravo, TV Travel Shop and tickets-online

**Joint Ventures and Investments**
Scottish Media Group, Imagine Broadband, TV Travel Shop, SmashedAtom, sit-up, Vis, GroupTrade, multimap

## *Chief Executive's Statement*

**Adam Singer**

Telewest provides more services, delivers them better, and generates more revenue than it did a year ago. Yet the pessimism that has gripped global markets about the telecoms sector has obscured the fact that no company is better placed than Telewest to benefit from the broadband revolution.

The UK cable industry has traditionally been better at promise than delivery, but in the second half of this year Telewest started to get its digital act together and to close the gap between aspiration and reality. The most interesting number hidden beneath the normal indicators of performance is the fact that we now have more than 10,000 residential customers paying more than £65 a month for telephone, TV and hi-speed internet – about 4 megabits of signal.

Our present is about supplying video, telephone and data; our future is about the 30 megabit customer. Our business is about utilising this advantage to be able to deliver the sort of services and products that customers need and want. Our digital network is better placed than any competing technology to supply an integrated bundle of hi-speed two-way communication.

Our days of financing, building and consolidating are largely behind us. Our network is almost completely digital and our business plan is fully funded. The challenge for all of us in the business is to execute better than we have in the past. That has been the focus of our efforts since the merger with Flextech last year.

In the circumstances, our progress has been good. The digital TV roll-out has proceeded well, allowing for the regrettable delays we faced last summer because of a set-top box shortage. In the autumn we promised that we would have a second set-top box supplier by the end of March this year. In February we announced that Scientific Atlanta was selected as that second supplier.

**377,664**

*active digital sales*

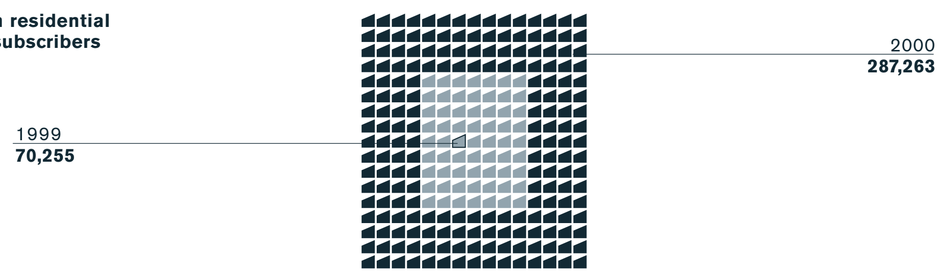
We had digital sales of 377,664 by the year-end, and have hit our target of 500,000 by the end of the first quarter of 2001. All our digital customers have free TV e-mail and access to our interactive walled garden cyber shopping mall, which has more than 150 content providers. We will continue to migrate analogue customers rapidly to digital, while increasing penetration through the acquisition of new customers. We believe all our customers will be digital by the end of 2003 and we will then be in a position to switch-off analogue, freeing up more network capacity for our new services.

Our set-top box problem was typical of the sort of issue that affects all communications businesses going through the change from analogue to digital. Other technical issues that have afflicted the network sporadically were also resolved quickly and they have been valuable reminders of the need to exercise caution and diligence when rolling out new technology. To that end, we have proceeded slowly and carefully with the roll-out of our blueyonder hi-speed internet service, only picking up pace as we became comfortable that the customer will have a reliable and satisfying service. Blueyonder hi-speed is now available right across our franchises and almost 18,000 subscribers were taking the service at the end of the first quarter of this year.

Meanwhile, SurfUnlimited, our unmetered internet access product, has been a success, after a difficult launch. We were overwhelmed with demand when we launched SurfUnlimited and we had not made available sufficient capacity. That was quickly rectified and the service is among the best ISPs for speed and reliability of connection in the industry. What's more, it is a great example of the incremental revenue we can garner from using the network capacity we have, and with almost 300,000 internet subscribers now, Telewest is the biggest ISP in our franchise areas.

The success of our internet access products and the strength of demand for our digital TV service convinced us that it is right for us to concentrate on increasing the penetration of these products within our franchises rather than entering the uncertain waters of residential DSL supply over BT's unbundled local loop. We are still examining the possibilities of using resale DSL capacity to service business customers. After all, we have the advantage of a fibre trunk network from which we can easily reach all significant concentrations of businesses around the country.

**Growth in residential internet subscribers**



## At home

Residential customers

1.4m
1998

1.6m
1999

1.7m
2000

4.9m homes passed

**Residential review: 65% of customers take two or more services**

Search www.telewest.co.uk/ceo

# Chief Executive's Statement

Underpinning all our efforts in rolling out these new products and services has been a renewed focus on customer service. Once again, the ending of the era of network building and cable industry consolidation has allowed us to begin raising levels of service to the point where customers will be happy to trust us as their total communications provider of choice. Bob Fuller's arrival towards the end of the year as chief executive of our cable division has intensified this drive. The skills and experience he brings from Orange UK, where he was chief operating officer, are precisely those needed to help us gain the reputation for first-class customer service that some of the mobile phone industry has enjoyed.

In last year's annual report, which was posted just after I became chief executive of Telewest, I asked you to imagine a new type of communications company for the digital age. One that married a hi-speed network to a content provider that could create the new forms of broadband content that will drive revenues in the hi-speed world of constant connectivity. We have made solid progress in realising this vision and the network and content arms are working well together to develop this new generation of broadband content.

For example we signed an agreement with Vis entertainment, the innovative Scottish games company. Together we are developing a truly innovative game product to run over our network. We created SmashedAtom, a joint venture with Atomic Tangerine, an offshoot of the Stanford Research Institute, the people who brought the world the computer mouse and colour television. We are working with Atomic Tangerine to innovate in the field of interactive TV.

As a clear signal of how much we believe in the cable business, we bought more of it. In November 2000, we acquired Eurobell, the last remaining independent cable business in the UK of significance. This acquisition brought us extra franchises in southern England, including Gatwick airport, bringing the number of homes passed to almost 5 million. Adding Gatwick to our existing franchise around Heathrow is a particular boon for our business division, which can now service the concentration of businesses around two of the busiest airports in Europe.

Increasingly we have in Telewest a business that can take advantage of the broadband opportunities available to us. In the next section I review in detail the progress our divisions have made in 2000.

**CONSUMER DIVISION**

2000 was a year for consolidation, continuing the roll-out and enhancement of digital and interactive TV and internet services. During the course of the year we delivered digital TV services to all franchises and launched and expanded our walled garden interactive TV services. In February we launched the UK's first unmetered fixed fee dial-up internet service, closely followed by the launch of blueyonder hi-speed internet.

Consumer division revenues increased by 22% to £740 million in 2000. This increase was attributable to a 12% increase in the average number of homes connected and a 7% increase in average monthly revenue per household that increased to £37.45. The increasing average revenue per household arose predominantly from strong telephony revenues and an increase in dual penetration (percentage of customers subscribing to CATV and telephony) up to 64.8% from 62.3%.

Our household penetration was 35.3% at 31 December 2000, representing 1,691,341 homes, a rise of 105,775.

# Chief Executive's Statement

**Television**

Telewest Active Digital, comprising of 150 TV and radio channels, pay-per-view movies, interactive services and TV e-mail, was rolled out as planned to all franchise areas during 2000. A product campaign promoting a best value bundled TV and telephone offer boosted sales in the last quarter.

We have now signed up over 150 content providers to our walled garden interactive TV service, establishing the largest live platform in the UK. This allows customers to shop, bank and use other similar services via their TV screens. We have worked with many household names including WH Smith, Lloyds TSB, Marks & Spencer, Ladbrokes and British Airways to develop enhanced interactive content for television.

**Internet**

Consumer demand for our internet services has remained buoyant throughout the year. We have experienced huge growth in the number of internet subscribers, increasing our customer base by more than 300% to 287,263 customers. To help cope with demand we introduced a series of network and capacity upgrades. We were first to launch an unlimited fixed fee dial-up cable internet service in the UK, SurfUnlimited, adding to our pay as you go dial-up service. Blueyonder hi-speed internet was launched in March 2000 offering cable modem technology for a fixed monthly charge. We believe hi-speed internet services such as blueyonder will revolutionise consumers' internet experience providing quicker downloads and eventually giving access to richer content.

**Telephony lines**


**Telephone**

Residential telephony remains a core revenue provider for our business with over 1.5 million customers at the year end. Last February we introduced a simplified residential tariff, "3-2-1 free", that allows Telewest customers to make UK weekday daytime calls for 3p per minute, UK weekday evening calls for 2p per minute, UK weekend calls for 1p per minute, and local cable-to-cable calls free, 8pm-8am.

Our ability to combine telephony with our digital TV service gives us a competitive edge against operators such as BT.

**Customer Service**

Improving customer care remains at the heart of our plans. We are integrating systems from the different franchises we have acquired into systems with common performance indicators. Our focus this year is on establishing centres of excellence for customer care.

# Chief Executive's Statement

### Marketing

Our marketing team has been strengthened by the appointment of customer relationship and segmentation specialists. The product teams have been focused on developing service enhancements and reviewing customer research to drive new customer acquisitions, usage and service upgrades.

A key part of our marketing activity has been aimed at customer retention and satisfaction. We have dedicated teams in place to drive down churn. During the year we introduced a digital customer magazine, ZAP, promoting the customer benefits of interactive TV and TV e-mail.

## BUSINESS DIVISION

The understandable concentration in the media and elsewhere on the roll-out of residential digital TV services tends to obscure the fact that our business division is a substantial business in its own right. It has gone through a year of great change and development, evolving as a broadband business expert with the capability to deliver first-class solutions for customers. Telewest's national broadband fibre optic digital network provides the full spectrum of voice, data, internet, e-commerce and carrier services which we market through focused sales teams across these sectors: government, education and health, travel, small and medium enterprises (SMEs), corporate and wholesale.

During the year we have launched a number of exciting new services, including the “Endeavour” portal service for the Travel sector, new “Enterprise Connect” managed data services, and enhanced telephony services from our intelligent network platform.

However the highlight of the year was an industry first for Telewest, the launch of our new hi-speed, always-on cable broadband and internet service for SMEs, called “blueyonder workwise”. This product, which is delivered via a cable modem, enables SMEs to enjoy the power of low-cost broadband through a dedicated business portal, which is provided via our joint venture with Cobweb Solutions. We are already on track to develop the next generation of services based on the Microsoft Exchange 2000 platform, and are working towards formal Microsoft accreditation.

In 2000, the business division revenues grew 47% to £271 million accounting for almost a quarter of total Telewest revenues. Our commercial services team had a particularly successful year with some significant sales wins. Telewest provided a 1,200 km national network for 360Networks in a contract worth £39 million, of which £36 million was earned during the year 2000.

The division also completed the first phase of the One2One national network, which started carrying traffic in spring 2000. This is a 2,000 km national network which carries all One2One traffic. We now have a contract to double the capacity of One2One's network by the end of this year.

Commercial services has been boosted by the acquisition of Eurobell, which links our national network to the key transatlantic cable landing sites in Cornwall enabling further end-to-end wholesale products to be offered.

## Your business

Business Overview

# 47%

**Business revenue increase**

Operating over **365,000** telephone lines to business customers

Education & Health

Government

SME market

Travel

Corporate clients

Other licensed operators

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# Chief Executive's Statement

Eurobell will be formally integrated this year, and we will be enhancing the product set to business customers in the Eurobell areas, which includes the valuable Gatwick airport area. This will help to build on the successes in 2000 which included a contract win with British Airways who selected Telewest as its UK internet service provider.

Other notable sales successes in the year included Ford Motor Company, Age Concern, Hays Travel, Travel Choice Express, Lehman Brothers, Bloomberg and Regent Inns. Activity in the public sector included the provision of all Birmingham's universities with a hi-speed data network. These successes have contributed to making us one of the largest competitors to BT in the UK business market place.

## CONTENT DIVISION

The continuing growth of pay-TV households within the UK provided Flextech, our content division, with more opportunities to secure its position as the largest supplier of basic pay-TV. By the year end 9.6 million households had access to our channels, across all platforms, with 18.5 million viewers choosing to watch our services every week.

### Channel performance

Throughout the year significant commitments were made to improving the on-air 'look' and positioning of our channels. Living and Bravo were both successfully repositioned to attract a younger, more upscale audience resulting in enhanced appeal from both a distribution and advertising revenue point of view.

During 2000 Bravo recorded an increase of 57% in commercial audience delivery, while the profile of the Living viewer was shifted significantly younger.

Trouble, the youth channel within our portfolio, captured the attention of both TV viewers and web-users via a series of convergent media events. On 14 February 2000, Max, our interactive "Flash Boyfriend", was launched on the Trouble website providing the opportunity for surfers to indulge in a cyber-space virtual relationship.

Within three months Max was involved in over 120,000 relationships providing a big increase in site impressions. As a consequence of this success an animated version of Flash Boyfriend was launched on the TV channel, again providing viewers with interactive dating potential via e-mail or telephone.

Further ways of extending the success of Flash Boyfriend are currently being explored via licensing agreements for other global markets and the production of similar tailored interactive formats for the other Flextech channels.

Challenge TV our game show service, achieved extensive audience gains as the success of terrestrial shows such as "Who Wants to be a Millionaire" drove heightened enthusiasm for this well-established programme format. As a result, Challenge enjoyed a 24% growth in share of viewing amongst all adults.

Attracting 18.5m viewers a week

# 9.6m

Flextech subscribers growth from 7.6m

Advertising revenues up 19%

# *Chief Executive's Statement*

**SceneOne**

Launched in 1999 as the UK's first interactive entertainment guide SceneOne has consolidated its position as Flextech's e-commerce hub. It is available as a guide and a shop on all digital channels – indeed it was one of the biggest revenue generators on Sky's Open.... shopping mall at the end of 2000.

This year we have repositioned SceneOne by integrating it more closely with our wholly-owned television channels. The use of interactive advertising combined with the cross-promotional power of our channels' reach aims to drive more visitors to SceneOne, where they can transact. We closed SceneOne TV, which was an experimental channel launched only on our own digital platform. Although it enhanced the brand, it became clear that we could better use the reach and the targeted demographics of our existing successful channels to promote SceneOne. But SceneOne allowed us to develop worthwhile branded programming, which we continue to broadcast on our other channels.

**Broadband**

Last year we appointed David Docherty, former deputy director of television and new services at the BBC, as managing director, broadband content. He has recruited a team of creative directors who are creating the next wave of multimedia broadband content, services and applications.

The division has also been developing content for our blueyonder hi-speed internet service, and has entered into a joint venture for broadband games with Vis entertainment.

In November 2000, Living Health was selected by the NHS to pilot a new interactive TV service aimed at providing real-time healthcare information and services. This is one of a small number of pilot projects that the NHS is funding to explore possible health applications of digital interactive TV.

This service, the first of its kind in the UK, will give customers fully interactive 24/7 access to comprehensive healthcare information. The Living Health service will be provided from May 2001 to Telewest Active Digital customers in Birmingham. Subject to the outcome of an independent evaluation of the service, it could be rolled out nationally across all digital platforms and all digital media. Although small in revenue terms to begin with, Living Health is an enormously important development for the Group as it shows how our network power and content skills can be combined to offer public services, which opens up a new world of opportunity.

**UKTV**

In addition to the success of our core channels we also witnessed strong growth from UKTV, our commercial partnership with the BBC. All channels within the portfolio recorded strong audience growth with Play UK and UK Style achieving impressive gains driven by enhanced digital take-up.

## *Chief Executive's Statement*

As the UKTV portfolio continues to mature a number of refinements and service extensions were introduced; the relaunch of UK Play as Play UK and the launch of websites for Play UK and UK Style provided further opportunities for interaction with the viewers.

**Outlook**

Telewest has passed through that difficult initial stage of moving from an analogue to a digital business. We are gaining subscribers and revenue, churn is going down and we are bundling a wide range of products to our customers, giving us the highest revenue per household of any cable operation in Europe.

Cable is in a unique position to deliver bundled services because of the reach and quality of our network. We still have a long way to go in improving products and service, but there is now permission to believe we can do it. To be a great business we must be about more than delivering telephone and video. You can see the seeds of our future in the thousands of customers I mentioned at the beginning of this review who spend over £65 per month with us for approximately 4 megabits of signal in TV, telephone and hi-speed internet.

We are only at the beginning of the broadband revolution; we are only starting to explore the potential products and services that customers will need, want and pay for in a world of hi-speed, always-on connectivity. Many different types of device will be able to connect to our network, making broadband in a communications sense, the new electricity. I passionately believe that Telewest is the perfect place to generate this revolution.

**Adam Singer**
**Group Chief Executive**

## Segmentation of total turnover



Search www.telewest.co.uk/ceo

Consumer

£740m 66%

Content

£118m 10%

Business

£271m 24%

# Financial Review

**Charles Burdick**

EBITDA **£247m** this year

**Revenue increase to £1.12**

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 47 to 77, financial statements prepared under US GAAP can be found on pages 79 to 109.

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

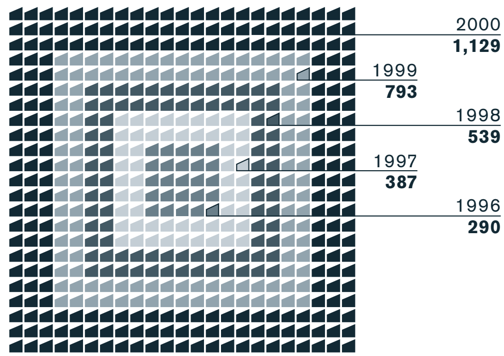
## INTRODUCTION

The results for the 2000 financial year reflect the strong economy in 2000 which led to increased telephony revenues primarily because of increased usage by our customers. The results also reflect the competitive pressures that we have experienced in the provision of telephony to our residential and business customers, the costs of delivering new products to our customers and in meeting growing demand particularly in the provision of internet and retail and wholesale telephony. Voice margins continued to decline in residential and business telephony reflecting competition and changing call patterns of our customers. This was partially offset by the introduction of connection charges and a simplified national calling plan for our residential customers: "3-2-1 free". Cable television margins improved but we are still dependent on BSkyB for premium programming and we and our customers are affected by price increases for BSkyB programming that occurred in 2000.

Search www.telewest.co.uk/annualreport

9bn

**Total turnover** £m




The acquisition of Flextech is included in our results from April 2000 and the results reflect the inclusion of our proportionate share of the revenue of Flextech's joint venture with the BBC, UKTV. Strong advertising revenue growth and increases in viewing share and subscribers were partially offset by lower overall subscription fees primarily from BSkyB.

## REGULATORY

### Microsoft shareholding

In October 1999, Microsoft Corporation announced its proposed acquisition of MediaOne's shareholding in Telewest, which would have – with Liberty Media – given it joint control over Telewest. However, it became apparent that the European Commission had serious doubts about the compatibility of this acquisition with the European Union's merger control legislation. Therefore, following discussions with the European Commission, on 7 July 2000 Microsoft announced that it had amended its proposed acquisition of a shareholding in Telewest, and had acquired a 21.7% interest in Telewest from MediaOne resulting in an aggregate interest of 23.6% in Telewest. It also renounced certain of its rights under its shareholder arrangement with Liberty Media such that the acquisition did not require European Commission clearance.

Following this, the acquisition came under the jurisdiction of the UK's Office of Fair Trading (OFT). Following a review by the OFT, the Secretary of State for Trade and Industry cleared the acquisition and Microsoft's subsequent 23.6% aggregate shareholding in Telewest.

# Financial Review

**Broadcasting**
Following an initial review of BSkyB's position in the UK pay-TV market, the OFT announced, on 5 December 2000, that it had launched a formal investigation into BSkyB's activities, in particular its wholesale supply of pay-TV content, notably premium channels such as Sky Sport and Sky Movies, to other distribution platforms, e.g. cable and digital terrestrial. The OFT has stated that this investigation is based on its reasonable suspicions that aspects of these activities may be contrary to the provisions of the Competition Act 1998. The outcome of this investigation and its impact on Telewest is uncertain at this time.

**Telecommunications**
Over the last 12 months, Oftel has announced several decisions which affect both our retail and wholesale telecommunications activities. It has proposed that a retail price cap applicable to BT should continue from 2001; this influences Telewest's pricing in the same market. From the wholesale perspective, Oftel has proposed a continuation of price controls on BT's wholesale network charges, including a mandated interconnect price cap on BT. This will have some effect on Telewest, particularly for our termination of other operators' calls and for the non-geographic calls we originate on our network but terminate elsewhere.

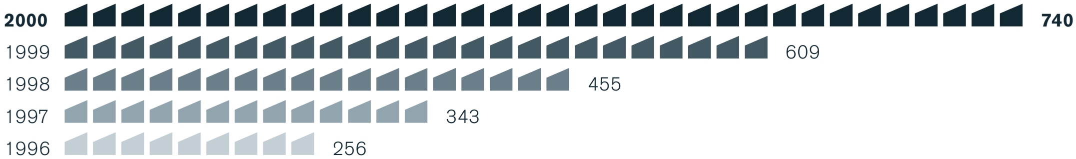
**REVENUE**
The Group's total turnover, under UK GAAP increased by £336 million or 42% to £1,129 million in 2000 from £793 million in 1999. The increase was due to the continuing strong revenue increases in residential telephony and our business division along with the full-year impact in 2000 of the Cable London acquisition, completed in November 1999, the merger with Flextech in April 2000 and the acquisition of Eurobell, completed in November 2000. These acquisitions accounted for £76 million, £118 million, and £10 million, respectively, of the total increase in revenue.

Consolidated revenue under US GAAP increased by £283 million or 36% to £1,069 million in 2000 from £786 million in 1999. The difference between UK and US GAAP revenues is primarily due to different accounting treatments for revenue recognition within the business division for commercial services contracts.

**CONSUMER DIVISION REVENUE**
Consumer division revenues increased by £131 million or 22% to £740 million in 2000 from £609 million in 1999. This increase was attributable to a 12% increase in the average number of customer homes connected and an increase in average revenue per household of 7% to £37.45 per month.

Total customer homes connected increased to 1,691,341 as at 31 December 2000, up from 1,585,566 homes at 31 December 1999, equivalent to household penetration of 35.3% as at 31 December 2000. The increase in homes connected was primarily a result of the acquisition of Eurobell (84,000 homes) and an increase in the proportion of customer households which subscribe to both our cable television and telephony products. This dual penetration, which results from the continued market acceptance of combined cable television and telephony packages, grew to 64.8% at 31 December 2000 from 62.3% a year earlier.

**CONSUMER REVENUE** £m



**Cable television**

Cable television revenues increased by £21 million or 8% to £279 million in 2000, from £258 million in 1999.

As at 31 December 2000, total cable television subscribers increased to 1,249,610 from 1,155,560 as at 31 December 1999. Cable television penetration increased to 26.1% by the end of 2000 from 26.0% in 1999. This increase in penetration resulted from improved customer take up of Active Digital packages and a reduction in cable television product churn, which fell by 2.7 percentage points during the fourth quarter to 26.0%. The reduction in churn is principally attributed to better perceived customer value and improved customer service and satisfaction. A highly competitive market in which retail price increases were restricted limited the total increase in cable television revenues.

The third quarter saw the disruption of digital sales due to a worldwide shortage of flash memory chips, which limited the supply of digital set-top boxes. Once this situation had been resolved in partnership with our supplier, we initiated a national campaign on 2 October, to relaunch our Active Digital service and by the end of 2000 we had 377,664 sales and had an installed base of 339,195 digital customers.

**Residential telephony**

Residential telephony revenues increased by £111 million or 33% to £445 million in 2000 from £334 million in 1999.

The acquisition of Eurobell and increasing penetration resulted in residential telephony subscribers growing to 1,538,140 from 1,416,697. Residential telephony product penetration increased to 32.2% as at 31 December 2000 from 32.0% at 31 December 1999. Total residential telephony lines increased to 1,706,159 from 1,586,010 reflecting the continued strong penetration of second lines to the household at 10.9%. As with cable television, product churn improved during the year and fell by 2.2 percentage points in the last quarter of 2000 to 19.8%, and compares to 20.5% in 1999.

The increase in telephony revenues was due to a strong increase in call volumes per residential line, an increase in incoming call revenue from BT and other operators to £31 million from £24 million in 1999 and the inclusion of a full year's trading at Cable London which contributed £36 million. Usage increased nearly 50% year on year although the average revenue per minute decreased by approximately 14%. Whilst a growing number of calls were made to mobile operators, boosting telephony revenue per minute, this was more than offset by the effects in price competition and a change in mix in particular by the increase in calls to ISPs at lower retail rates (or at no charge in the case of SurfUnlimited customers) and free cable-to-cable local calls.

**Other revenues**

Other revenues included within the consumer division include an increase in internet income of £4 million in 2000 over 1999. Telewest's Internet Service Provider, SurfUnlimited, was launched in February 2000 and contributed significantly to this increase. Further revenues are derived from the sale of cable publications and sales of advertising airtime, negotiated as part of channel carriage agreements.

**BUSINESS DIVISION REVENUE**

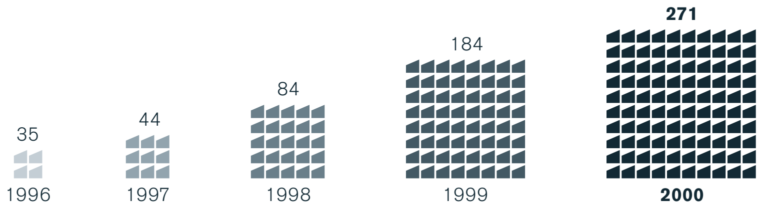
Business division revenues under UK GAAP increased by £87 million or 47% to £271 million in 2000 from £184 million in 1999.

The revenues in 2000 were generated from the sale of voice and data services primarily to SMEs and strong growth in commercial services contracts. Commercial services contributed £88 million of revenue, up £64 million from £24 million in 1999. These revenues were enhanced by a large contract with 360Networks which contributed £36 million of revenues in 2000.

Business telephony lines in 2000 increased by 19.4% to 365,535 from 306,244 in 1999. The revenue increase as a result of total line growth, was partially offset by a 12% decrease in average monthly revenue per line during 2000.

Business division revenues under US GAAP increased by £71 million or 40% to £248 million from £177 million. The difference between UK and US GAAP revenues is primarily due to the revenue recognition conventions on certain commercial services contracts within the business division.

**BUSINESS REVENUE** £m




**CONTENT DIVISION (Flextech)**

Telewest's merger with Flextech was completed on 19 April 2000 and accordingly its results have been consolidated from that date contributing revenues, including its share of joint ventures' revenue, of £118 million, under UK GAAP, after inter-company eliminations of £7 million.

On a pro forma basis, Flextech's turnover, including its share of joint ventures' revenue, increased by £17 million or 10% to £182 million for the year ended 31 December 2000. This compares with £165 million in the year ended 31 December 1999. Subscription revenue (including share of joint ventures) increased by 11% during 2000. This was driven by pay-TV subscriber growth of 26% to 9.6 million homes at 31 December 2000, up from 7.6 million homes a year earlier, partially offset by lower subscription rates from Sky Digital homes.

Flextech's advertising sales house increased net advertising revenue by 19% in 2000 to £62 million. This compares to growth in television national advertising revenue in 2000 of 6.9%, and growth in pay-TV advertising revenue of 13.9%. This improvement was enhanced by the increase in Flextech's share (including UKTV) of basic pay-TV viewing to 23.1% in 2000 from 21.8% in 1999.

The joint venture with BBC Worldwide turned EBITDA positive in 2000 with our proportionate share of EBITDA increasing by £11 million to £8 million. The growth is driven by improved subscription and advertising revenues resulting from increased distribution and viewing share, particularly at the highly successful UK Gold channel and the growing maturity of its recently launched channels Play UK and UK Drama.

Flextech's EBITDA, on an unconsolidated basis, in the period since acquisition was a loss of £1 million before inter-company eliminations of £7 million.

Following the merger with Flextech, the Group reclassified certain operating leases to finance leases due to the re-evaluation of useful economic lives of the equipment and residual values at the end of the lease terms. The impact of the reclassification was to increase EBITDA by £11 million in the post-acquisition period, increase depreciation charge by £28 million and record an interest credit of £5 million.

Content division revenues under US GAAP totalled £81 million since acquisition. The difference between UK and US GAAP being primarily the different treatment of share of joint ventures' turnover under US GAAP.

**OPERATING COSTS**

Operating costs, which include selling, general and administrative expenses ("SG&A"), costs of programming, interconnect and content, and before depreciation and amortisation, increased by 48% to £846 million in 2000 from £571 million in 1999. This increase arises principally because of telephony interconnect charges (described below), the full year impact of Cable London, the merger with Flextech and the acquisition of Eurobell, and includes the costs of subsequent restructuring of the Group and significant expense in launching our new digital TV and hi-speed internet product offerings.

Consumer programming expenses remained at £132 million in 2000 and as a percentage of cable television revenues improved to 47.5% in 2000 from 51.1% in 1999. Total costs increased marginally in the year reflecting growth in the overall size of our customer base, offset by inter-company elimination on consolidation of programme costs purchased from our content division. Programme costs reflect payments to programme providers generally based on the numbers of subscribers to individual channels under long-term contracts or, in the case of BSkyB, an industry ratecard.

Telephony expenses at £235 million in 2000 increased 49% from £158 million in 1999. These are principally payments to third party network providers for terminating calls which originate on Telewest networks. As a percentage of consumer division and business division telephony revenues, margins decreased to 67.3% in 2000 from 69.4% in 1999. Increasing volumes of traffic were adversely affected by traffic terminating on mobile networks or third party ISPs which provide lower margins to Telewest.

The content division's cost of sales for the period since acquisition was £46 million or 39% of the content division's revenues, including share of joint ventures' turnover. This compares with £63 million or 38% in the full year to 31 December 1999.

SG&A expenses at £433 million in 2000 increased from £281 million in 1999. Expressed as a percentage of total turnover, these expenses increased to 38% in 2000 from 35% in 1999, reflecting, in part, the increase in expenses required to launch Active Digital and blueyonder and the restructuring of the Group subsequent to the Flextech merger and Eurobell acquisition which accounted for £20 million of additional costs. Staff costs increased to £229 million (after capitalisation) from £158 million in 1999, reflecting an increase of some 2,400 employees on a base of 6,900 in 1999. This increase in employees reflects the enlarged Group, continuing focus on customer service, a reduction in the use of contractors for installation and requirements to support hi-speed internet and digital TV.

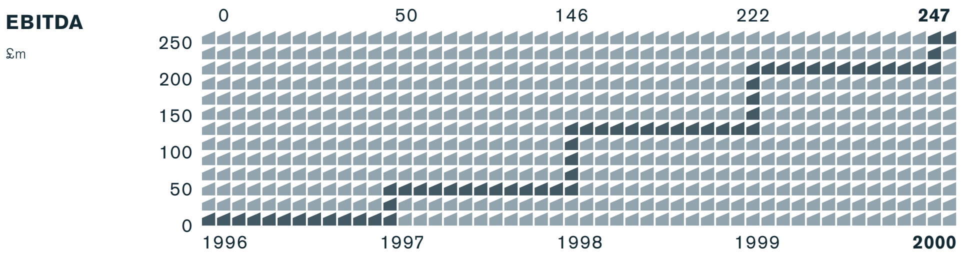
Operating costs under US GAAP increased by 44% to £857 million from £597 million in 1999. The difference between UK and US GAAP is due to the treatment of SG&A. SG&A under US GAAP totalled £445 million in 2000 (£307 million in 1999). This difference is due mainly to different accounting conventions in respect of telephony installation costs of £6 million and share compensation cost of £5 million under US GAAP in 2000.

**EBITDA**

The Group's consolidated EBITDA under UK GAAP increased by £25 million or 11% to £247 million in 2000 from £222 million in 1999. Before exceptional restructuring costs described above, EBITDA was £267 million. This increase in EBITDA was due to increased customers in the consumer and business divisions, increased telephony minutes and wholesale business to other operators offset by lower margins on telephony and increased SG&A expenses in introducing new products and improving the quality of service to our customers.

EBITDA under US GAAP was £211 million reflecting different accounting conventions for recognition of revenue on certain commercial services contracts, telephony installation fees and costs and share compensation cost.

# Financial Review




**DEPRECIATION AND AMORTISATION**

Depreciation expense under UK GAAP increased 31% to £399 million in 2000 from £305 million in 1999, (before an exceptional charge of £49 million relating to accelerated depreciation of analogue set-top boxes in that year). This increase of £94 million is principally attributable to the additional capital expenditure on digital and hi-speed data equipment, the full-year impact of Cable London, the acquisition of Eurobell franchises and the merger with Flextech.

Depreciation expense under US GAAP increased 39% to £423 million in 2000 from £305 million in 1999 due principally to the factors above and to the remaining useful lives of analogue assets originally scheduled to be depreciated over five years being reassessed and their net book value being written off over two years from 1 January 2000.

Amortisation of goodwill under UK GAAP increased to £142 million in 2000 from £49 million in 1999, principally as a result of the impact of the Flextech merger. Goodwill of £2,254 million (£1,382 million under US GAAP) arising on this merger is being written off over 20 years.

Amortisation expense under US GAAP in respect of goodwill and intangibles increased to £148 million in 2000 from £62 million in 1999, primarily as a result of the merger referred to above.

**OTHER INCOME AND EXPENSE**

Interest payable and similar charges under UK GAAP totalled £424 million in 2000 an increase of £63 million compared to the preceeding year. This consisted of interest expense of £371 million in 2000 (£276 million in 1999), net foreign currency exchange losses on re-translation of £18 million in 2000 (£44 million in 1999) and other financing costs of £35 million in 2000 (£41 million in 1999), relating to fees incurred for the issuance of financing instruments.

Interest receivable and similar income, under UK GAAP totalled £16 million in 2000 (£11 million in 1999).

Interest expense increased by £95 million in 2000 primarily as a result of additional borrowing to fund the roll-out of digital TV and hi-speed internet products, acquisitions and general working capital.

Interest expense and other financing costs under US GAAP increased by £92 million in 2000 primarily as a result of the additional interest expense explained above.

The foreign currency re-translation losses under UK and US GAAP primarily relate to exchange differences on the translation of the US dollar-denominated debentures and notes to pounds sterling using the 31 December 2000 exchange rate less the impact of corresponding hedging transactions and, under US GAAP, the marking of associated derivative instruments to their market value at 31 December 2000.

**FINANCING**

The Group had gross debt of £4,451 million (£3,224 million in 1999), of which £3,576 million (£3,053 million in 1999) is considered to be long-term borrowings falling due after one year. There was £815 million of bank debt, £246 million of leases and the remainder being a series of long-term bonds and convertible obligations disclosed in note 17 to the UK GAAP financial statements. The estimated fair value of £3,378 million of long-term debt instruments is £2,736 million disclosed in note 18 to the UK GAAP financial statements and is based on quoted market prices and reflects higher interest rate conditions generally prevailing at the year-end. (The estimated fair values of financial instruments under US GAAP are shown in note 4 to the US GAAP financial statements.)

Operating cash inflow under UK GAAP was £194 million and £198 million in 2000 and 1999, respectively. Cash outflow to fund investing activities totalled £565 million in 2000 and £859 million in 1999. £545 million of this total in 2000 (£463 million in 1999) related to capital expenditures. This increase in capital expenditures was due to the full-year impact of Cable London, the accelerated roll-out of digital TV services, new product development and the upgrade of certain parts of the network. A further £20 million, net, in 2000 related to cash paid in the acquisitions of Flextech and Eurobell and other associated undertakings (£395 million in 1999 relating to the acquisition of Cable London).

During 2000, Telewest used a mix of bonds, syndicated bank facilities, leasing and the issue of equity as sources of financing. In total, net cash inflow from financing activities was £555 million (£849 million in 1999). This included £544 million raised from the issue of Senior Discount Notes and Senior Notes due 2010 in January 2000, £330 million of cash proceeds from the issue of Senior Convertible Notes due 2005 in July 2000 and £20 million of the proceeds from the Accreting Convertible Notes due 2003 issued in November 2000 in connection with the acquisition of Eurobell. Net repayment of bank facility borrowings was £401 million, including £126 million relating to the old Cable London facility and £260 million under the Senior Secured facility entered into in May 1999.

In October 2000, certain forward contracts and currency swaps that were used to hedge the Senior Debentures due 2006, Senior Discount Debenture due 2007 and Senior Notes due 2008 matured. These were replaced by new hedging swap contracts, which were put in place at market rates of exchange. The difference between the exchange rates on the maturing contracts and the new contracts resulted in a cash inflow of £107 million.

As of 31 December 2000, the Group had cash balances of £60 million (excluding £12 million that is restricted as to use to providing security to certain lessors of equipment to former General Cable companies).

On 25 January 2000 the Group issued $450 million 11 3/8% Senior Discount Notes due 2010, £180 million 9 7/8% Senior Notes due 2010 and $350 million 9 7/8% Senior Notes due 2010. On 7 July 2000 the Group issued $500 million 6% Senior Convertible Notes due 2005 and on 1 November 2000 the Group issued to Deutsche Telekom a £220 million Accreting Convertible Note due 2003 as consideration for its 100% interest in Eurobell. The details of these Notes are also described more fully in note 17 to the UK GAAP financial statements and note 14 to the US GAAP financial statements.

On 16 March 2001, Telewest signed new senior secured credit facilities of up to £2.25 billion, £2 billion of which has been made available by a syndicate of 26 banks. There is also the ability under the terms of the loan agreement to raise a further £250 million from institutional investors.

**CAPITAL EXPENDITURES**

Net additions to fixed assets in 2000 totalled £611 million, an increase over 1999 of £123 million. The Group's capital expenditures have primarily funded the construction of local distribution networks and the national network, capital costs of installing customers and enhancing the network for new product offerings. The increase was principally a result of the increased size of the Group, together with network upgrades and new digital set-top boxes and modems in connection with our roll-out of digital television and hi-speed internet services.

# Financial Review

Network coverage has continued to expand and as at 31 December 2000, Telewest's broadband network, including Eurobell, was capable of providing 78% of the homes in our franchises with both cable television services and cable telephony services.

We have substantially completed all network upgrades necessary for delivery of our digital television and hi-speed services. Consequently, we anticipate that capital expenditures associated with our existing and currently planned services will be largely driven by connecting new subscribers and the launch of new products and will vary depending upon the take-up of our services.

**OTHER INVESTING ACTIVITIES**

In March 2000, the Group acquired a 10% interest in Imagine Broadband Limited ("IBL"), a venture with Accenture (formerly Andersen Consulting). IBL is the leading integrator of platforms for the broadband market place and delivered Telewest's broadband interactive DTV platform. As part of the investment, Telewest has committed to engage IBL on certain projects subject to a minimum fee to be spent before December 2002. Telewest's investment is accounted for as a trade investment.

In August 2000, the Group acquired a 10% interest in Grouptrade.com Limited, a procurement service for small and medium size businesses. Grouptrade is a core part of the functionality of the blueyonder workwise broadband portal. Telewest's investment is accounted for as a trade investment.

On 1 November 2000, the Group completed its acquisition of Eurobell from Deutsche Telekom for an initial net consideration of £200 million. The initial and subsequent deferred consideration is in the form of 5% Accreting Convertible Notes due 2003. The aggregate principal amount of such Notes, following agreement of the deferred consideration, will be £254 million.

Accordingly, Eurobell's results have been consolidated from 1 November 2000, contributing revenues of £10 million and an EBITDA loss of £5 million. Eurobell's pro forma revenues for the year ended 31 December 2000 were £56 million compared with £35 million in 1999 and its pro forma EBITDA loss was £17 million compared with £4 million in 1999.

At 31 December 2000, Eurobell contributed 84,000 residential and 4,000 business directly connected subscribers. In addition, Eurobell had 116,000 residential and 7,000 business telephony subscribers who were not directly connected to their network but used their services through an indirect access product (IDA).

**MARKET RISK**

The principal market risks to which we are exposed are:

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

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

**Interest rate risk**

Certain of our outstanding long-term 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 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 7 July 2001 to 31 March 2004. The aggregate notional principal amount of these hedging arrangements is £1.2 billion. At 31 December 2000, the aggregate amount outstanding under the senior bank facilities was £806 million. The excess of the hedging arrangements over the senior bank facilities is due to the issue in July 2000 of our $500 million Senior Convertible Notes due 2005 which led to a temporary reduction in bank debt.

**Foreign currency exchange risk**

At 31 December 2000, certain of 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 derivative instruments comprise foreign currency options, foreign currency swaps and a series of foreign exchange forward contracts. Our results may be materially influenced by future exchange rate movements, due to the requirement that certain hedging instruments be marked to their market value at the end of the financial period whereas the underlying liabilities may be re-translated at the spot rate of exchange.

The Group had foreign currency swaps and contracts hedging the principal and interest exposures of the Group totalling in aggregate £2,732 million. It is the policy of the Group to hedge principal to the first optional redemption date of its bonds outstanding and its interest conversion exposure for the same period.

Further information on the exchange rate instruments is disclosed in note 18 to the UK GAAP financial statements and note 4 to the US GAAP financial statements.

**Charles Burdick**

**Group Finance Director**

# Board of Directors

## Anthony (Cob) Stenham

**69 Non-executive chairman** §

Appointed non-executive chairman of the board in December 1999. Also chairman of the nomination committee. He has served as a non-executive director of the Company since November 1994 and was deputy chairman of the board until December 1999. Mr Stenham was also chairman of the audit and remuneration committees until December 1999. From 1990 to 1997, he was chairman of Arjo Wiggins Appleton plc and was a managing director of Bankers Trust Company from 1986 to 1990. Prior to that he was an executive director of Unilever NV and PLC for 15 years. Mr Stenham also currently serves as non-executive chairman of IFonline Group plc and Whatsonwhen plc. He is a non-executive director of Altnamara Shipping plc, Standard Chartered plc, Jarrold & Sons plc, Hawk-Point Partners and The Management Consultancy.

## Adam Singer

**49 Group chief executive** §

Appointed chief executive and a director of Telewest in April 2000 upon the completion of Flextech's merger with Telewest. Mr Singer was previously appointed to the combined post of chairman and chief executive of Flextech in October 1998, having been chairman since June 1997. Prior to this, he was president and chief operating officer of Tele-Communications International Inc ("TINTA"), now renamed Liberty Media International. He joined the Tele-Communications group of companies in 1988 as a vice president of United Artists (Programming) Ltd. Before joining Tele-Communications Inc ("TCI"), he held positions with Viacom International Inc. and the BBC. He was a non-executive director of Telewest between November 1995 and March 1998, and has been a non-executive director of SMG plc since September 1995. He was appointed as a non-executive director of QXL Ricardo plc in January 2001.

## Charles Burdick

**49 Group finance director**

Appointed group finance director 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.

## Stephen Cook

**40 Group strategy director and general counsel**

Appointed to the board of Telewest as group strategy director in April 2000 following the completion of the Flextech merger. From October 1998, Mr Cook was general counsel and executive director of Flextech. Prior to this he was a partner with Wiggin and Co., Flextech's principal legal advisors, from April 1995. He is also a non-executive director of SMG plc. Mr Cook was appointed general counsel of Telewest in August 2000.

## Robert Fuller

**53 Chief executive, cable division**

Appointed to the board as chief executive of the cable division in December 2000 having previously been at Orange UK, the UK wireless division of France Telecom, where he served as chief operating officer and group director of UK operations since 1997. Mr Fuller joined Orange in 1990 and held a variety of general management roles. Prior to this he was group chief accountant for Hong Kong Electric Holdings Ltd.

## Mark Luiz

**47 Chief executive, content division**

Appointed chief executive of Flextech, which became the content division of Telewest when the two companies merged in April 2000 and subsequently appointed to the board of Telewest in November 2000. Mr Luiz has been one of the pioneers of the UK multi-channel television industry, having been closely involved with the launch of channels such as UK Gold, Living and TV Travel Shop. He joined Flextech in 1994 as chief financial officer and was appointed finance director the following year. Prior to joining Flextech, Mr Luiz was chief finance officer for United Artists Programming from 1992, having joined the Company as financial controller in 1988.

## Lord Borrie QC

**70 Non-executive director** *§†

Lord Borrie is the senior independent non-executive director and was appointed to the board in August 1995. He was president of the Institute of Trading Standards Administration from 1992 to 1996 and was director general of the Office of Fair Trading from 1976 to 1992. He also serves as a non-executive director of Three Valleys Water plc and Vivendi Water plc. He is chairman of the Advertising Standards Authority.

## Anthony Rice

**49 Non-executive director** *§†

Appointed a non-executive director in September 1998 and was appointed chairman of the audit committee in December 1999. He was also chairman of the remuneration committee from December 1999 until April 2000. He served as a non-executive director of General Cable from October 1997 to September 1998. Mr Rice is the group managing director – ventures at BAe Systems, having held this position since January 2001. Prior to this, he has held the following positions at BAe between July 1991 to December 2000: group director – Supply Chain Management, group managing director – Commercial Aircraft of British Aerospace plc, chief executive of British Aerospace Asset Management and group treasurer of BAe. Mr Rice is also a non-executive director of SAAB Technologies.

## Stanislas Yassukovich CBE

**66 Non-executive director** *§†

Appointed as a non-executive director in April 2000 following the completion of the Flextech merger. He was appointed chairman of the remuneration committee in April 2000. From June 1997 until the merger, Mr Yassukovich was deputy chairman of Flextech, having previously been non-executive chairman from August 1989. He is currently chairman of EASDAQ S.A., Henderson Eurotrust Plc, Park Place Capital Ltd., Manek Investment Management Ltd and serves on the board of a number of other companies. He is former deputy chairman and chief executive officer of the European Banking Group, former chairman of Merrill Lynch Europe and Middle East, and a former deputy chairman of the London Stock Exchange.

## Robert Bennett

**42 Non-executive director**

Appointed as a non-executive director in April 2000 following the completion of the Flextech merger. He is president and chief executive officer of Liberty Media Corporation. Mr. Bennett has been with Liberty Media since its inception in 1990, serving as its principal financial officer and in various other officer capacities. Prior to the creation of Liberty, he was vice president and director of finance at TCI. Mr. Bennett is a director of Gemstar-TV Guide International, Inc., Liberty Livewire Corporation, Liberty Satellite & Technology, Inc., Teligent, Inc., Discovery Communications, Inc., USANi, LLC, Starz Encore Group, LLC, and chairman of the board of Liberty Digital, Inc.

## Miranda Curtis

**45 Non-executive director** §†

Appointed a non-executive director in September 1998 representing Liberty Media. She has been president of Liberty Media International Inc., ("LMI") since February 1999. Prior to that, she served as executive vice president of LMI from September 1996 until February 1999. From May 1992 until August 1996, she held senior management positions for LMI. Ms Curtis is a director of: Jupiter Telecommunications Co Ltd, Jupiter Programming Co Ltd; La La Media Co Ltd; Multithematiques SA and Princes Holdings Ltd.

## Graham Hollis

**49 Non-executive director** *

Mr Hollis has served as a non-executive director since March 1999. He has been an executive vice president of Liberty Media International Inc. ("LMI"), since September 1996 and LMI's chief financial officer since May 1995. From July 1994 until May 1995, he was director of finance at LMI. Prior to joining LMI, he held several senior finance and accounting positions with US subsidiaries of the Peninsular and Oriental Steam Navigation Company (P&O) from 1986 to 1994. Mr Hollis also serves on the board of directors of The Wireless Group plc, Jupiter Telecommunications Co Ltd. Jupiter Programming Co. Ltd., Multithematiques SA and Princes Holdings Ltd.

## Neil Holloway

**40 Non-executive director** †

Appointed as a non-executive director in August 2000. Mr Holloway was appointed managing director of Microsoft (UK) Ltd in July 1998, and subsequently appointed vice president Microsoft EMEA in April 2000. Mr Holloway joined Microsoft in 1990 and has held a number of strategic roles within the company since that date, including deputy managing director, director of the organisation customer unit and the enterprise customer unit and was instrumental in building the NT Server business. Before joining Microsoft, Mr Holloway was managing director of Migent UK, and prior to this, he worked for Ashton Tate as a business development manager.

## Salman Ullah

**37 Non-executive director** *

Appointed as a non-executive director in August 2000. Mr Ullah has been senior director of corporate development at Microsoft since 1998. Prior to that he was MSN's senior business manager. From 1993 to 1997 he was engagement manager in the Chicago office of McKinsey, and prior to that he held research fellow posts in theoretical physics at the University of Chicago between 1991 and 1992, and the University of Virginia between 1989 and 1991.

## Henry Vigil

**43 Non-executive director** §

Appointed as a non-executive director in August 2000. He has been vice president, consumer strategy and partnerships at Microsoft Corporation since January 1999. From 1997 to 1999, Mr Vigil was senior director of strategy planning and business development for the digital television group at Microsoft. From 1995 to 1997, he was general manager of the internet commerce business unit, and general manager of the interactive television business unit. From 1990 to 1995 he was director of marketing for desktop applications. He also serves on the board of directors of Artist Trust.

* Member of audit committee
§Member of nomination committee
†Member of remuneration committee

## *Content of the Financial Statements*

# 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 2000.

The UK GAAP financial statements are set out on pages 47 to 77 and the Auditors' report thereon, on page 46. The US GAAP financial statements are set out on pages 79 to 109 and the Auditors' report thereon, on page 78.

### 2 PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Chairman's Statement on pages 2 to 4, the Group Chief Executive's Statement on pages 6 to 16 and the Financial Review on pages 18 to 27 report on the principal activities of the Group. Information on likely future developments of the business of the Group and its activities is to be found in those sections.

During the year, the Company acquired the share capital of Flextech Plc ("Flextech") effected by an offer to Flextech shareholders of 3.78 new ordinary shares for each Flextech share. Based on a price per ordinary share of 384 pence, the offer for Flextech valued each Flextech share at approximately 1,224 pence and the whole of Flextech's issued share capital, fully diluted for the exercise of all outstanding options, at approximately £2.3 billion.

On 1 November 2000 the Company completed its acquisition of the entire issued share capital of Eurobell (Holdings) PLC ("Eurobell"), from Deutsche Telekom ("DT") and agreed to pay initial and deferred consideration to DT, (as discussed below), in the form of 5% Accreting Convertible Notes due 2003. The aggregate principal amount of such Notes, following agreement of the deferred consideration, will be £253.5 million. The terms of the Accreting Convertible Notes are described in note 17 to the financial statements.

Upon completion of the acquisition, the Company issued a £220.0 million Accreting Convertible Note to DT in consideration for: Eurobell's entire issued share capital, £71.7 million, the assignment of an inter-company loan previously owed by Eurobell to DT, £128.3 million, and a cash payment remitted to Eurobell by DT shortly after the acquisition, £20.0 million. Subsequently, on 15 January 2001 DT remitted a further cash payment, £30.0 million, to Eurobell and the Company issued an additional Accreting Convertible Note to DT for £30.0 million.

In addition, under the terms of the acquisition, the Company is obliged to provide deferred consideration, contingent on Eurobell's turnover for the year ended 31 December 2000 exceeding a certain target. As a result, an additional £3.5 million Accreting Convertible Note will be issued to DT in April 2001. This deferred consideration has been accrued for at 31 December 2000. Following this latest issue, total costs for the acquisition of the equity shares of Eurobell will be £76.5 million, comprising of £75.2 million incurred for the acquisition of the share capital and £1.3 million in acquisition expenses.

### 3 POST BALANCE SHEET EVENTS

On 5 March 2001, the Company announced that it intended to invest £14.8 million into sit-up Limited ("sit-up"). In return, sit-up would buy Screenshop's business for £10 million and Telewest would have a 38% stake in the enlarged sit-up business.

On 16 March 2001, the Company signed new senior secured credit facilities of up to £2.25 billion. These replace the separate £1,500 million Telewest facility and £200 million Flextech facility. £2 billion has been made available by a syndicate of 26 banks. There is also the ability under the terms of the loan agreement, to raise a further £250 million from institutional investors.

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 do not recommend the payment of a dividend for the financial year ended 31 December 2000. No dividend was recommended for payment during the financial year ended 31 December 1999.

### 5 BOARD OF DIRECTORS

Details of all the directors of the Company, including the non-executive directors, appear on pages 28 and 29.

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/herself for re-appointment.

Details of directors' interests in the share capital of the Company are set out in the Report of the Board on Directors' Remuneration on pages 44 and 45.

During the year, and to the date of this report, the following were appointed as directors of the Company: Adam Singer, Stephen Cook, Brent Harman, Robert Bennett representing Liberty Media Corporation ("Liberty Media"), and Stanislas Yassukovich on 19 April 2000; Simone Brych-Nourry representing MediaOne Group, Inc ("MediaOne") on 18 May 2000; Neil Holloway, Salman Ullah and Henry Vigil representing Microsoft Corporation ("Microsoft") on 4 August 2000; Mark Luiz on 16 November 2000 and Robert Fuller on 1 December 2000.

## Report of the Directors

The following resigned as directors of the Company: Anthony Illsley on 19 April 2000; Brent Harman on 14 July 2000; Gary Ames, Stephen Boyd and Simone Brych-Nourry, representing MediaOne on 4 August 2000; and Victoria Hull on 18 August 2000.

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.

### 6 BOARD COMMITTEES

Details of the audit committee, the nomination committee and the remuneration committee appear on page 36.

### 7 CORPORATE GOVERNANCE

Details of the Company's corporate governance arrangements and compliance with the Principles of Good Governance and Code of Best Practice ("The Combined Code") annexed to the Listing Rules of the UK Listing Authority are set out on pages 34 to 37. The Report of the Board on Directors' Remuneration is on pages 40 to 45.

### 8 SHARE CAPITAL

As at 22 March 2001, there were 2,890,208,519 issued ordinary shares, 62,507,747 issued convertible limited voting shares and 32,798 holders and 2,974,176 issued American Depositary Shares ("ADSs") and 22 ADS holders. The ordinary shares and the limited voting shares rank pari passu in all respects, save that the limited voting shares do not confer the right to speak or vote on any resolution for the removal, election, appointment or reappointment of directors. Details of all changes in the share capital during the financial year are set out in note 21 to the UK GAAP consolidated financial statements.

As at 8 June 2000, the Company had authority to purchase just under 5% of its ordinary shares and shareholders' approval is being sought for the renewal of this authority at the annual general meeting.

### 9 SUBSTANTIAL SHAREHOLDINGS

As at 22 March 2001, the Company was aware of the undermentioned notifiable interests in the shares of the Company:

| NAME OF BENEFICIAL OWNER | NO OF ORDINARY SHARES | NO OF LIMITED VOTING SHARES | % OF ISSUED SHARE CAPITAL |
|---|---|---|---|
| LIBERTY MEDIA CORPORATION | 722,205,222 | 2,185,093 | 24.5 |
| MICROSOFT CORPORATION | 636,056,024 | 60,322,654 | 23.6 |
| THE CAPITAL GROUP COMPANIES INC | 121,180,935 | – | 4.1 |

On 15 June 2000, AT&T Corporation ("AT&T") and MediaOne announced that they had completed their merger, and MediaOne had become a subsidiary of AT&T. AT&T had previously reported that it had agreed with the European Commission that, as part of the European Union's approval of the AT&T/MediaOne merger, MediaOne's interest in the Company would be sold. In addition, MediaOne had entered into an agreement with certain subsidiaries of Microsoft whereby those subsidiaries would purchase MediaOne's shareholding in Telewest. Following clearance by the European Commission for this agreement to proceed, Microsoft subsidiaries acquired 21.7% of MediaOne's 22.98% shareholding in the Company on 7 July 2000, bringing Microsoft's total holding to 23.6% of the Company's issued share capital.

As at 22 March 2001, the Company has not been notified of any other interests of 3% or more in its ordinary share capital.

### 10 CREDITORS

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group 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 Group does not have a standard code which deals specifically with the payment of suppliers.

Creditor days for the year ended 31 December 2000 were an average of 52 for the Group.

The Company's costs are generally in respect of corporate overheads and staff costs and a creditor days figure for the Company would not therefore be meaningful.

### 11 DONATIONS

The Group made total charitable donations of £36,829 in the year (1999: £28,808) and no political donations (1999: £ nil).

**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 with a wide range of programmes available for staff including leadership and management development courses, technical on-the-job training and national accreditation schemes.

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 Group's affairs. Information is provided to employees through a range of media including an established team briefing system, regular management briefings and workshops, company intranets and a staff newsletter as well as announcements updating them on matters of concern to them.

The Group aims to attract and retain employees of the highest calibre and this is encouraged through participation in performance-related bonus schemes and employee share schemes as described in the Report of the Board on Directors' Remuneration. In addition, the Group offers a range of benefits to its staff and regularly reviews policies to ensure that they reflect current industry practices. The Group is also committed to providing modern facilities and a good working environment for its staff to enable them to deliver a quality service to customers.

**13 THE ENVIRONMENT**

The Company's commitment to the environment and its policy on environmental matters is shown as a separate statement on pages 38 and 39.

**14 AUDITORS**

A resolution to re-appoint 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 appear in the Notice of Meeting.

On behalf of the Board of Directors
**CLIVE BURNS**
Company Secretary
22 March 2001

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 of Good Governance (the "Principles") and Code of Best Practice (the "Combined Code") contained in the Listing Rules of the UK Listing Authority.

Throughout the year ended 31 December 2000 the Group has complied with the majority of the Principles. The exceptions are described below. Such exceptions largely reflect the shareholder arrangements originally entered into between the Company and its major shareholders, at the time of the flotation in 1994. Following the acquisition by Microsoft of the majority of MediaOne's interest in Telewest in July 2000, these arrangements are now in place between the Company, Microsoft and Liberty Media, and reflect the continued significance of those major corporate shareholders to the Company. The agreement reflecting the current arrangements was approved by the independent shareholders on 31 March 2000.

### 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 Group 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 the Group's strategic plans, major capital expenditure and the annual budget. Furthermore, the trading results of the Group are reported to each scheduled meeting of the board. The board is also supplied on a monthly basis with financial and other relevant information about the Group.

The company secretary is responsible for ensuring that the board procedures are followed and that applicable rules and regulations are complied with. In addition, the Group has established a Code of Conduct for directors which sets out policies relating to share dealing, expenses, benefits and disclosure of interests.

All directors have access to the advice and services of the company secretary. The company secretary attends all board and committee meetings. There is also an agreed procedure in place for directors to take independent professional advice, if necessary, at the Group's expense.

### 2 BOARD BALANCE

Details of the current directors are given on pages 28 and 29. Changes to the board composition during the year have been identified in the Report of the Directors.

The posts of chairman and group chief executive are held by Anthony (Cob) Stenham and Adam Singer respectively and Lord Borrie QC is the senior independent non-executive director. The current composition of the board is five executive directors and ten non-executive directors, of whom four are independent (Lord Borrie QC, Tony Rice, Cob Stenham and Stanislas Yassukovich). The remaining six non-executive directors represent the major corporate shareholders, Liberty Media and Microsoft.

The Principles provide that a majority of the non-executive directors should be independent. The board composition is reflective of the relationship between the Company and the major corporate shareholders as described herein.

### 3 CORPORATE SHAREHOLDER ARRANGEMENTS

The shareholder arrangements which are currently in place between the Company, Microsoft and Liberty Media were originally established at the time of the flotation of the Company on the London Stock Exchange in 1994. They were modified in 1998 as a result of the acquisition of General Cable and in 1999 to reflect the anticipated acquisition by Microsoft of the majority of MediaOne's shareholding in Telewest which was subsequently completed in July 2000. The arrangements were further amended to reflect arrangements in connection with the acquisition of Flextech in 2000. All the above modifications were approved by independent shareholders in general meetings.

In addition, in connection with its acquisition of the majority of MediaOne's shareholding in Telewest, Microsoft has given undertakings not to exercise certain of its rights under the shareholder arrangements and to exercise its voting rights in relation to the Company in a particular manner, unless required by Liberty Media in accordance with the shareholder arrangements to do otherwise.

The shareholder arrangements, as modified (where relevant) by Microsoft's undertakings, together with other relevant details of the relationship between Microsoft and Liberty Media, are described below.

The arrangements between the Company, Microsoft and Liberty Media provide that the board shall consist of no more than 16 directors (unless consent is given) and that for so long as Liberty Media owns 15% or more of the Telewest shares, it will be entitled to appoint three directors to the board and for so long as Microsoft owns 15% or more of the Telewest shares, it will also be entitled to appoint three directors to the board. Each of Liberty Media and Microsoft is entitled to appoint two directors to the board if it holds 7.5% or more of the Telewest shares.

Liberty Media and Microsoft have agreed that if there is any arrangement to which the Company is a party (or proposes to be a party), which gives rise to a conflict between the interests of the Company and those of Liberty Media or Microsoft, then the approval of the independent directors and the directors appointed by the non-conflicted shareholder shall be required before the arrangement can proceed.

The quorum for a meeting of the board consists of a majority of the directors. Under the formal shareholder arrangements, Liberty Media and Microsoft 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 the approved budget and business plan. However, notwithstanding this provision, Microsoft has undertaken that it will cause the directors designated by it to vote (subject to their fiduciary duties) in all matters as the independent directors (or a majority of them) recommend, unless either Microsoft has a conflict of interest in relation to any matter (in which case its designated directors will abstain from voting) or Liberty Media enforces its rights to require the Microsoft designated directors to vote in the manner that would most likely maintain the status quo as described above.

If either the Liberty Media directors or Microsoft 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, subject to Microsoft's undertakings described above, on such matter as they deem appropriate. On a conflict of interest in relation to Liberty Media and Microsoft, 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 Microsoft 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. However, notwithstanding this provision, Microsoft has undertaken that it will exercise its votes in all matters as the independent directors (or a majority of them) recommend, unless either Microsoft has a conflict of interest in relation to any matter (in which case it will abstain from voting) or Liberty Media enforces its rights to require the Microsoft designated directors to vote in the manner that would most likely maintain the status quo as described above.

Any committee appointed by the board shall include one Liberty Media director, and one Microsoft director (unless they consent otherwise), provided that a majority of the members of the committee are independent directors.

The shareholder arrangements also provide that, for so long as Liberty Media or Microsoft hold 15% or more of the Telewest shares, the consent of Liberty Media and/or Microsoft (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 UK Listing Authority 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 group chief executive officer of Telewest; or
e) increasing the number of directors holding office beyond 16.

Microsoft has undertaken, however, that it will not exercise its right under this provision to withhold its consent to any appointment or removal of the group chief executive officer of Telewest.

The shareholder rights described above can be assigned to members of the relevant shareholder's group.

The proceedings of the audit, nomination and remuneration committees are formally recorded by the company secretary and reported to the board.

**4 RE-APPOINTMENT**

In accordance with the Articles of Association of the Company, each director submits himself/herself for re-appointment each year. The independent non-executive directors normally hold office for three years, subject to standing for re-appointment in the same manner.

**5 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 has written terms of reference which include the review and monitoring of the accounting policies and reporting requirements and effectiveness of the internal controls of the Group. The committee has five members of whom, in accordance with the Principles, the majority are independent non-executive directors namely Tony Rice (Chairman), Lord Borrie QC and Stanislas Yassukovich. Liberty Media and Microsoft are represented by Graham Hollis and Salman Ullah respectively.

Representatives of the external auditors and the group director of risk and control attend meetings and have direct access to the members of the committee at all times. The chairman and group chief executive are also invited to attend meetings.

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.

**6 NOMINATION COMMITTEE**

The nomination committee assesses candidates and makes recommendations for the appointment of directors to the board. The committee has seven members and comprises Cob Stenham (Chairman), Lord Borrie QC, Tony Rice and Stanislas Yassukovich (each of the aforesaid being an independent non-executive director); Miranda Curtis and Hank Vigil who are non-executive directors and represent Liberty Media and Microsoft respectively; and Adam Singer (group chief executive).

**7 REMUNERATION COMMITTEE**

The remuneration committee deals with the remuneration of the executive directors and policies for senior management remuneration and development on behalf of the board.

The committee has five members and comprises solely non-executive directors: Stanislas Yassukovich (Chairman), Lord Borrie QC and Tony Rice (each of the aforesaid being an independent non-executive director); and Miranda Curtis and Neil Holloway who are non-executive directors and represent Liberty Media and Microsoft 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 Liberty Media and Microsoft to Telewest.

Further details about the Company's remuneration policy can be found in the Report of the Board on Directors' Remuneration on pages 40 to 45 together with details of the Company's departures from certain of its remuneration policies and the Principles.

**8 INVESTOR RELATIONS**

The executive directors and the director of corporate affairs meet regularly with analysts and institutional shareholders according to a programme organised by the investor relations department and external advisors. The board views the annual general meeting as an opportunity to communicate with private investors and sets aside time at these meetings for shareholders to ask questions of the board. Investors are encouraged to visit the Company's website at www.telewest.co.uk.

**9 INTERNAL CONTROL**

The board is ultimately responsible for the Group's system of internal control. Responsibility for designing and operating the system is delegated to the executive directors.

The board has established a process to apply the Combined Code which has been in place for the financial year. This process ensures that significant risks faced by the Group are identified, evaluated and managed. The process begins with a fundamental appraisal of the risks facing the business, conducted in conjunction with executive management. Risks are therefore identified and evaluated. On a quarterly basis the audit committee receives a report detailing changes to the risks identified and progress made in mitigation. The identified risks have named individuals responsible for their ongoing management.

The audit committee has reviewed the effectiveness of the Group's internal 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.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Key elements of the Group's system of internal controls are as follows:

**a) Management structure**

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive and divisional 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 UK Listing Authority. Key issues on financial management and treasury are also reported regularly to the audit committee and the 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**

Executive management is responsible for the identification and evaluation of key risks applicable to their areas of the business. These risks are highlighted through a number of different routes:

- quarterly budgetary reviews include the identification and assessment of business and financial risks;
- involvement of specialist teams such as IT and network technical teams, health and safety, physical security, revenue assurance, treasury, purchasing and logistics along with fraud investigators to review and manage risks identified within these spheres; and
- the monitoring performed by the internal audit team and reported on a quarterly basis.

**10 GOING CONCERN**

The directors consider that the current credit facilities of the Group provide sufficient funding to finance its existing business plans, satisfy working capital requirements and pay interest on existing debt instruments.

The Group regularly monitors its ongoing ability to draw down under the facilities, which is dependent on satisfying financial covenants.

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.

**11 STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The responsibilities of the directors are set out on page 45.

## *Environmental Statement*

The Company takes its responsibility to the environment seriously and recognises the importance of developing and maintaining good environmental standards. Environmental risks within the Group are regularly assessed and the board believes that the activities of the Group do not contribute materially to pollution or cause material damage to the environment.

Even so, the board has appointed the group finance director, Charles Burdick, responsible for environmental matters. Through a senior committee, Mr Burdick ensures that the Group commits itself towards processes and practices that have the least impact on the environment, and also seeks to use its resources with care and encourage all employees and suppliers to minimise waste and recycle waste products where possible.

Telewest has recognised for some years the potential impact of its construction activity on the environment and the communities it serves. The Group 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 the code of practice, the requirements of the New Roads and Street Works Act 1992, and with other relevant legislation.

Now that the Group's network is substantially complete, the majority of employees and contractors are predominantly office-based. The environment committee has turned its attention to making the Group's offices more environmentally friendly and has redefined the Telewest Group environmental policy.

The policy seeks to:

- comply with all applicable environmental legislation;
- conserve all types of energy and reduce waste in its operations;
- where possible, to work with suppliers to ensure their own environmental procedures are environmentally acceptable;
- take environmental considerations into account when making investment decisions;
- increase employees' environmental awareness through policy and by example;
- increase our customers' and shareholders' environmental awareness through the reporting of our impact on the community.

In particular, the environment committee has set a number of targets to achieve over the next few years. In 2001 the key areas being approached are:

### REDUCTION IN GREENHOUSE GAS EMISSIONS ($CO_2$)

**Transport**

- The identification of alternative data sources to effectively measure vehicle utilisation and the impact that changes in business use has on fleet mileage and fuel usage. This data will be used to establish future transport targets and initiatives;
- The incorporation of environmental concerns into our travel and transportation policies. The Company will promote awareness of how each employee can make a difference to the Group's environmental impact by launching a driver awareness programme designed to encourage drivers to conserve fuel and improve their driving techniques;
- Continue the installation of videoconferencing facilities and promote the use of audio conferencing through the Group so as to reduce travel time spent on attending intra-group and external meetings;
- Continue the trial of alternative fuel vehicles (LPG, CNG and other hybrids), to assess their suitability for use within our commercial fleet;
- Further develop and promote Green Transport Plans (GTPs) incorporating initiatives such as car share schemes, across key occupational sites (already in place in certain inner city offices).

**Refrigerants**

- All new air conditioning system installations will be installed using appropriate HFC refrigerants and the Group will ensure that all refrigerant work is carried out by REFCOM, or equivalent, accredited engineers;
- Maintain systems for recording all refrigerant losses and establish targets for minimising total losses.

**Energy/fuel**

- Track and understand our total energy consumption across all Group properties and through our networks. This will allow us to calculate our emission impact and establish improvement targets for the future.

**Waste reduction, prevention and re-use/recycling**

- Improve the quality of data relating to our existing waste collection/disposal and recycling activities. This initiative will be carried out in co-operation with our suppliers and will aid the early identification of further recycling opportunities and any potential contaminative issues;
- Initiate a programme for the recovery and re-use of IT equipment (donation to charities, sold on, or stripped for spares or recycling);
- Re-launch a national Group recycling effort and set improvement targets for the future;
- Start to plan for the phase out of fixed Halon fire extinguishant systems, in advance of current legislation, and replacement with non ozone-depleting alternatives.

**Procurement type activities**

- Develop a suppliers' environmental performance statement, ensuring the selection process considers environmental impacts in the supply chain wherever economically possible;
- Establish a "product stewardship" forum with the objective of seeking an overall reduction in the use of material and energy resources; increasing the working life of the product and designing for a second life with sale or re-use as a prime objective and recycling as a final option;
- Ensure any new property acquisitions or developments are rated to the equivalent of BREEAM "good" or "very good".

## Report of the Board on Directors' Remuneration

### REMUNERATION POLICY

The role of the remuneration committee is to establish terms of employment and remuneration packages for each executive director and to keep under review the Company's policies for senior management remuneration and development. The chairman and group chief executive are invited to attend meetings to discuss remuneration recommendations for senior executives. They are not present when their own remuneration arrangements are being considered.

Although the full board considers itself ultimately responsible for both the framework and the cost of executive remuneration, the board has delegated prime responsibility for these issues to the remuneration committee.

The committee has access to professional advisors both within the Company and externally. The committee chairman and senior executives maintain contact when appropriate with Telewest's principal shareholders to discuss the Company's overall remuneration policy and its development.

The Company operates in the telecommunications and media sectors where there is intense international competition in attracting and retaining high calibre executives. The Company's remuneration policies have, therefore, been developed to ensure that it can compete effectively for such executives.

A significant proportion of the total remuneration package is performance related. The Company recognises the pressures for long-term as well as short-term performance and seeks to provide an appropriate balance.

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. The board does not believe in compensation for poor performance and does not reward unsatisfactory performance. In the case of early termination of employment, it is the Company's policy to seek to mitigate any liability.

There are four components to the senior executive remuneration package: a) base salary and benefits, b) performance-related bonus scheme, c) share schemes and long term incentive plan and d) pension.

#### a) Base salary and benefits

Salaries are established by reference to the salaries prevailing in the employment market generally for executives of comparable status, responsibility and skills in companies operating in similar markets. 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.

Salary reviews for senior executives are generally determined by the committee on an annual basis and include a review of individual performance, changes in job responsibilities, changes in the marketplace and general economic conditions.

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. These benefits are not pensionable.

#### b) Performance-related bonus scheme

For the year under review, Adam Singer, Stephen Cook and Mark Luiz participated in the former Flextech bonus scheme. The level of bonus payable to each director under this scheme is based on the achievement of targets relating to the net operating results of Flextech, the number and strategic worth of transactions undertaken, share price growth and the achievement of personal targets. Charles Burdick participated in the Telewest bonus scheme, under which the level of bonus payable is based on the achievement of targets relating to EBITDA for the Group and certain personal objectives. The bonus target under the Telewest scheme is 35% of salary for achieving target, rising to 70% of salary for exceeding target. In accordance with his contract of employment, Bob Fuller received a bonus of £250,000 on joining the Company.

Also for the year under review, special non-recurring bonuses were paid to certain of the executive directors in respect of their contributions to the successful completion of the acquisition of Flextech and also, in the case of Victoria Hull, in respect of her contribution to the transactions relating to the acquisition by Microsoft of the majority of MediaOne's shareholding in the Company.

For 2001, Adam Singer, Charles Burdick, Stephen Cook and Mark Luiz will participate in a bonus scheme under which the level of bonus payable will be based on EBITDA for the Group, the achievement of personal targets and share price growth. In accordance with his contract of employment, Bob Fuller will receive a bonus of £175,000 on 1 April 2002.

Details of bonuses paid for the year to 31 December 2000 are given on page 43. Any bonuses paid are not pensionable.

**c) Share schemes and long term incentive plan**

The Company operates the following schemes:

*i) The Telewest 1995 (No.1) Executive Share Option Scheme (an Inland Revenue approved scheme) and The Telewest 1995 (No.2) Executive Share Option Scheme (an unapproved scheme).*

Under these schemes, options are normally only exercisable after the expiry of three years from the date of grant and lapse if not exercised within ten years. Options are normally only exercisable if the Company's Total Shareholder Return ("TSR") outperforms that of the FTSE 100 Index over any three year period between the dates of grant and exercise. Participants are granted options up to a market value of £30,000 at the time of grant under the approved scheme and thereafter any further options are granted under the unapproved scheme.

As explained above, the Company operates in an extremely competitive and dynamic environment and against this background and following the approval of shareholders at the 2000 annual general meeting to remove the four times salary limit on awards of share options, the remuneration committee approved a special grant of options for executive directors of eight times salary in June 2000. This grant was made in order to fully incentivise the new management team following the completion of the acquisition of Flextech. It is intended that future grants of options will be made on a phased basis.

*ii) The Telewest Long Term Incentive Plan ("LTIP")*

Under the LTIP a participant is awarded the provisional right to receive, for no payment, a number of shares with a value of up to 100% of base salary for executive directors.

50% of the shares vesting may be transferred on the third anniversary of the award date and the remaining 50% of the shares vesting may be transferred on the fourth anniversary of the award date.

The shares will not vest unless certain performance criteria, based on TSR assessed over the three year period, from the date of award, are met. The award is divided equally, with vesting of 50% depending on the Company's TSR meeting a performance condition relating to the TSR of the FTSE 100 Index and 50% depending on the Company's performance against the TSR of a group of comparator companies, in each case over the 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 comparator 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.

The remuneration committee intends in future to make phased grants of options under the Company's executive share option schemes rather than generally to make awards under the LTIP.

*iii) The Telewest Restricted Share Scheme*

Under this scheme, a participant receives an award over shares which are held by the Trustees of the Telewest 1994 Employees' Share Ownership Plan Trust. Nothing is payable by the participant for the shares. The award normally vests after three years and remains exercisable for up to seven years from the date of vesting. The remuneration committee intends only to make grants under this scheme in exceptional circumstances.

*iv) The Telewest Equity Participation Plan*

Under this scheme, 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 Trustees of the Telewest 1994 Employees' Share Ownership Plan Trust. In return, the employee is provisionally allocated for no payment a matching number of Telewest shares (calculated on the gross amount of 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 remuneration committee currently has no intention to make further awards under this scheme.

*v) The Telewest 1995 Sharesave Scheme*

Under this scheme employees enter into a savings contract whereby they can save up to £250 per month for a period of three or five years and use the funds accumulated at the end of the savings period to purchase Telewest shares at a discount of up to 20% of the market value of the shares at the date of grant. All employees are eligible to participate in this scheme.

*vi) The Telewest All Employee Share Scheme ("AESOP")*

In June 2000 shareholders approved the establishment of an AESOP in line with the recent proposals issued by the Government. All employees will be eligible to participate in this scheme.

Details of options or awards granted to directors under any of the above schemes are shown on pages 44 and 45.

**d) Pensions**

With effect from 1 April 2000, the Company introduced a Money Purchase Occupational Pension Plan to replace the various group personal pension schemes that were operating until 31 March 2000. In this plan, the Company and members pay predetermined or defined levels of contributions in order to fund future pension benefits.

This plan was offered to all permanent employees and has a competitive contribution range. Employee contributions range from 3% to 15% and employer contributions range from 3% to 12%. These percentages are based on gross basic salary and actual commission earned (if applicable). The employer contributions are age related – if an employee is under 40, the Company will match the employee contributions up to a maximum of 6%. Alternatively, if an employee is over 40, the Company will double match the employee contributions up to a maximum of 12%. The contributions to the plan are in addition to full rate National Insurance Contributions and therefore it is not contracted out of the State Earnings Related Pension Scheme ("SERPS").

Each of the executive directors receives a contribution towards their personal pension schemes as shown on page 43. Directors do not participate in the Company pension scheme.

## EXECUTIVE DIRECTORS' AGREEMENTS

Charles Burdick, Stephen Cook, Bob Fuller and Mark Luiz have employment agreements which continue until terminated by either party giving to the other not less than 12 months' notice.

Adam Singer's employment agreement will continue unless terminated by him giving the Company not less than 12 months' notice or by the Company giving him not less than 24 months' notice.

## FORMER DIRECTORS AND COMPENSATION FOR LOSS OF OFFICE

Brent Harman resigned as a director on 14 July 2000. He received no compensation for loss of office.

Victoria Hull resigned as a director on 18 August 2000. She was paid a sum equal to one year's salary and benefits (including pension contributions) in lieu of notice. Ms Hull, under the terms of her termination agreement, is entitled to exercise her outstanding options (in accordance with the scheme rules) over 876,800 shares at exercise prices between 228p and 235p per share; 27,028 shares under the Telewest Restricted Share Scheme and 344,639 shares allocated to her under the LTIP. She entered into a consultancy agreement on 18 August 2000 for which she was paid a fee of £110,000. This consultancy agreement terminated on 31 December 2000.

Tony Illsley resigned as a director on 19 April 2000. He was paid a sum equal to one year's salary and benefits (including pension contributions) in lieu of notice. Between 28 April 2000 and 2 May 2000, Mr Illsley, under the terms of his termination agreement, exercised his outstanding options over 1,349,071 shares at exercise prices between 132p and 133p per share and 344,182 shares allocated to him under the LTIP were released to him. Mr Illsley entered into a consultancy agreement on 1 May 2000, for which he was paid a fee of £150,000. This consultancy agreement terminated on 30 June 2000.

## DIRECTORS' REMUNERATION

The aggregate compensation for directors during the year was as follows:

| | 2000 £M | 1999 £M |
|---|---|---|
| FEES TO NON-EXECUTIVE DIRECTORS | **0.3** | 0.3 |
| REMUNERATION FOR EXECUTIVE DIRECTORS | | |
| BASIC SALARY, ALLOWANCES AND BENEFITS | **1.4** | 1.0 |
| PERFORMANCE-RELATED BONUSES | **1.3** | 0.6 |
| PENSION CONTRIBUTIONS | **0.2** | 0.2 |
| COMPENSATION FOR LOSS OF OFFICE | **1.0** | – |
| TOTAL IN RESPECT OF YEAR | **4.2** | 2.1 |

| Directors' compensation | Salaries/Fees 2000 £'000 | Salaries/Fees 1999 £'000 | Benefits 2000 £'000 | Benefits 1999 £'000 | Performance-related bonuses 2000 £'000 | Performance-related bonuses 1999 £'000 | Compensation for loss of office[7] 2000 £'000 | Compensation for loss of office[7] 1999 £'000 | Total emoluments excluding pensions 2000 £'000 | Total emoluments excluding pensions 1999 £'000 | Pension contributions[8] 2000 £'000 | Pension contributions[8] 1999 £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EXECUTIVE** | | | | | | | | | | | | |
| CJ BURDICK | **319** | 265 | **16** | 13 | **189**[1] | 90 | **–** | – | **524** | 368 | **13** | 9 |
| SS COOK app 19.4.00 | **245** | – | **1** | – | **195**[1] | – | **–** | – | **441** | – | **48** | – |
| R FULLER app 1.12.00 | **33** | – | **1** | – | **250**[2] | – | **–** | – | **284** | – | **7** | – |
| PB HARMAN app 19.4.00 res 14.7.00 | **98** | – | **7** | – | **–** | – | **–** | – | **105** | – | **10** | – |
| VM HULL[3] res 18.8.00 | **143** | 173 | **5** | 11 | **238**[4] | 182 | **302** | – | **688** | 366 | **12** | 34 |
| AK ILLSLEY[5] res 19.4.00 | **169** | 464 | **6** | 15 | **168**[6] | 183 | **669** | – | **1,012** | 662 | **46** | 149 |
| MW LUIZ app 16.11.00 | **38** | – | **1** | – | **88** | – | **–** | – | **127** | – | **4** | – |
| AN SINGER app 19.4.00 | **340** | – | **23** | – | **141** | – | **–** | – | **504** | – | **34** | – |
| D VAN VALKENBURG res 16.3.99 | **–** | 81 | **–** | 26 | **–** | 136 | **–** | – | **–** | 243 | **–** | – |
| **NON-EXECUTIVE** | | | | | | | | | | | | |
| AG AMES res 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| RR BENNETT app 19.4.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| LORD BORRIE QC | **35** | 46 | **–** | – | **–** | – | **–** | – | **35** | 46 | **–** | – |
| S BOYD res 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| S BRYCH-NOURRY app 18.5.00 res 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| MTC CURTIS | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| G HOLLIS | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| N HOLLOWAY app 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| WA RICE | **35** | 45 | **–** | – | **–** | – | **–** | – | **35** | 45 | **–** | – |
| AWP STENHAM[9] | **214** | 177 | **–** | – | **–** | – | **–** | – | **214** | 177 | **–** | – |
| S ULLAH app 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| HP VIGIL app 4.8.00 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| SM YASSUKOVICH CBE app 19.4.00 | **29** | – | **–** | – | **–** | – | **–** | – | **29** | – | **–** | – |
| | **1,698** | 1,251 | **60** | 65 | **1,269** | 591 | **971** | 0 | **3,998** | 1,907 | **174** | 192 |

Notes:

1. The following amounts within the figures shown, were paid as special bonuses: CJ Burdick and SS Cook, £100,000 each, in respect of their contribution to the completion of the acquisition of Flextech in April 2000.
2. R Fuller was paid an initial bonus of £250,000 on joining the Company. He will be paid a further bonus of £175,000 on 1 April 2002.
3. VM Hull was paid £110,000 in respect of her consultancy services for the period 21 August to 31 December 2000.
4. VM Hull was paid a special bonus of £150,000 in respect of her contribution to the completion of the acquisition of Flextech in April 2000 and in relation to the transactions relating to the acquisition by Microsoft of the majority of MediaOne's shareholding in the Company in July 2000. She was also paid an annual bonus of £87,500 which was paid at the time she left the Company.
5. Between 28 April and 2 May 2000, AK Illsley, under the terms of his termination agreement, exercised all his outstanding share options and the accrued shares allocated to him under the LTIP were released to him. All these shares were sold at approximately 390p per share. Based on this price, the gain on sale, less exercise price paid by Mr Illsley, amounted to £4,875,059. He was also paid an amount of £150,000 in respect of his consultancy services for the period 1 May to 30 June 2000.
6. AK Illsley was paid a special bonus of £85,000 in respect of his contribution to the completion of the acquisition of Flextech in April 2000. He was also paid an annual bonus of £83,000 which was paid at the time he left the Company.
7. Included within the compensation for loss of office figures are pension payments of £22,000 and £154,000 for VM Hull and AK Illsley, respectively.
8. The pension contributions for the directors were paid into their personal pension schemes. None of the directors are members of the Company's money purchase occupational pension plan. Bonuses paid to directors are not pensionable.
9. AWP Stenham receives an annual fee of £175,000 and support services or compensation in lieu of, up to a maximum of £75,000.

## Report of the Board on Directors' Remuneration

**Remuneration policy for non-executive directors**

Cob Stenham has a letter of appointment for a fixed term of one year from 1 December 1999, continuing thereafter unless terminated by 12 months' notice by either party.

The non-executive directors are not eligible for pension scheme membership and other than disclosed below, do not participate in any of the Company's bonus, share option or other incentive schemes. All non-executive directors are eligible for re-appointment at each annual general meeting. Their remuneration is approved by the board of directors. The shareholder directors have no formal appointment letters and are not paid by the Company for their services as board members.

**Directors' interests**

Beneficial and family interests in ordinary shares of the Company at 31 December:

| | 1999 (OR AT DATE OF APPOINTMENT) | NOTE | 2000 |
|---|---|---|---|
| CJ BURDICK | 51,621 | 1 | **167,971** |
| MW LUIZ | 20,631 | | **20,631** |
| WA RICE | 27,120 | | **27,120** |
| AN SINGER | 194,508 | 2 | **194,508** |
| AWP STENHAM | – | | **40,000** |
| SM YASSUKOVICH | 24,297 | | **24,297** |

Options to acquire ordinary shares of the Company granted under the Executive Share Option Schemes and the Sharesave Schemes are shown below:

| | NUMBER OF SHARES UNDER OPTION AT 31 DEC 1999 (OR AT DATE OF APPOINTMENT) | GRANTED/(LAPSED) DURING 2000 (OR SINCE DATE OF APPOINTMENT) | DATE OF GRANT/LAPSE | NOTE | NUMBER OF SHARES UNDER OPTION AT 31 DEC 2000 | EXERCISE PERIOD | EXERCISE PRICE PER SHARE (PENCE) |
|---|---|---|---|---|---|---|---|
| CJ BURDICK | 27,486 | – | – | a | **27,486** | 13/03/2000-12/03/2007 | 109.1 |
| | 800,542 | – | – | b | **800,542** | 13/03/2000-12/03/2007 | 108.7 |
| | – | 1,192,982 | 30/06/2000 | b | **1,192,982** | 30/06/2003-29/06/2010 | 228.0 |
| **TOTALS** | 828,028 | 1,192,982 | | | **2,021,010** | | |
| SS COOK | 21,394 | – | – | 3,a | **21,394** | 22/06/2000-21/04/2002 | 140.2 |
| | 742,021 | – | – | 3,b | **742,021** | 22/06/2000-21/04/2002 | 140.2 |
| | 5,979 | (5,979) | 22/06/2000 | 3,c | **–** | – | – |
| | – | 982,456 | 30/06/2000 | b | **982,456** | 30/06/2003-29/06/2010 | 228.0 |
| | – | 421,052 | 21/11/2000 | b | **421,052** | 21/11/2003-20/11/2010 | 114.0 |
| | – | 10,977 | 19/12/2000 | c | **10,977** | 01/02/2004-31/07/2004 | 88.3 |
| **TOTALS** | 769,394 | 1,408,506 | | | **2,177,900** | | |
| R FULLER | – | 27,906 | 04/12/2000 | a | **27,906** | 04/12/2003-03/12/2010 | 107.5 |
| | – | 2,908,257 | 04/12/2000 | b | **2,908,257** | 04/12/2003-03/12/2010 | 109.0 |
| **TOTALS** | – | 2,936,163 | | | **2,936,163** | | |
| MW LUIZ | 169,223 | – | – | 3,b | **169,223** | 19/06/1998-18/06/2005 | 99.9 |
| | 397,776 | – | – | 3,b | **397,776** | 19/06/1998-18/06/2002 | 99.9 |
| | 1,052,631 | – | 30/06/2000 | b | **1,052,631** | 30/06/2003-29/06/2010 | 228.0 |
| | – | 10,977 | 19/12/2000 | c | **10,977** | 01/02/2004-31/07/2004 | 88.3 |
| **TOTALS** | 1,619,630 | 10,977 | | | **1,630,607** | | |
| AN SINGER | – | 12,765 | 30/06/2000 | a | **12,765** | 30/06/2003-29/06/2010 | 235.0 |
| | – | 1,741,229 | 30/06/2000 | b | **1,741,229** | 30/06/2003-29/06/2010 | 228.0 |
| | 8,414 | – | – | 3,c | **8,414** | 01/06/2001-30/11/2001 | 115.9 |
| **TOTALS** | 8,414 | 1,753,994 | | | **1,762,408** | | |
| AWP STENHAM | – | 10,977 | 19/12/2000 | c | **10,977** | 01/02/2004-31/07/2004 | 88.3 |
| **TOTALS** | – | 10,977 | | | **10,977** | | |

Other entitlements to ordinary shares of the Company under the Telewest LTIP:

| | NUMBER OF SHARES AT 31 DEC 1999 | LAPSED DURING 2000 | NOTE | ALLOCATED DURING 2000 | TRANSFERRED DURING 2000 | NUMBER OF SHARES AT 31 DEC 2000 | TRANSFER DATES |
|---|---|---|---|---|---|---|---|
| CJ BURDICK | 286,419 | (53,704) | **4** | – | (116,350) | **116,365** | FROM 01/11/2001 |
| | 264,422 | (132,211) | | – | – | **132,211** | 50% FROM 20/03/2001, 50% FROM 20/03/2002 |
| | 185,116 | – | | – | – | **185,116** | 50% FROM 20/03/2002, 50% FROM 20/03/2003 |
| | – | – | | 51,546 | – | **51,546** | 50% FROM 30/03/2003, 50% FROM 30/03/2004 |
| **TOTALS** | 735,957 | (185,915) | | 51,546 | (116,350) | **485,238** | |

Notes:
1. Mr Burdick also has an interest in 14,180 shares and 14,989 shares held by the Trustees of the Telewest 1994 Employees' Share Ownership Plan Trust under the terms of the Telewest Equity Participation Plan. Mr Burdick will be entitled to matching allocations of 14,180 and 25,401 shares in March 2001 and March 2002 respectively.
2. Shares arising under the terms of the Flextech Equity Participation Plan. This scheme is no longer operative.
3. Flextech options were exchanged for replacement options over Telewest shares on the basis of 3.78 Telewest shares for each Flextech share under option. These options continue to be governed by the rules of the relevant Flextech scheme and as a result of the option exchange there are no performance conditions attached to these options.
4. The market value at the time of transfer was 113p per share. Based on this price, the gross gain on transfer was £131,475.

a. Approved Executive Share Options
b. Unapproved Executive Share Options
c. Sharesave

The middle market price on 29 December 2000, was 103.25p and the range during the year was 103.25p to 563p. More information on share price movements during the year is given in Shareholder Information on page 111.

Save as disclosed above, no right to subscribe for shares in the Company or its subsidiaries was granted to or exercised by a director, or any member of his immediate family during 2000.

None of the directors are or were interested in the Company's limited voting convertible ordinary share capital. Save as disclosed above, the directors had no interests in the issued share capital of the Company or its subsidiaries at the dates given above.

On 22 March 2001, the Telewest 1994 Employees' Share Ownership Plan Trust held 1,535,784 ordinary shares. Each of the executive directors is taken to have a technical interest in all the ordinary shares held by the trustees.

Save as noted above, the interests of the directors set out herein have not changed between the end of the financial year and the date of this report.

## *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.

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## *Auditor's Report to the Members of Telewest Communications plc*

We have audited the financial statements on pages 47 to 77.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the Annual Report. As described on page 45 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, 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 Group is not disclosed.

We review whether the statement on pages 34 to 37 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 AUDIT 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 the Group as at 31 December 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG AUDIT Plc**
Chartered Accountants
Registered Auditor
London, England

22 March 2001

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## ***Consolidated Profit and Loss Account*** (FOR THE YEAR ENDED 31 DECEMBER 2000)

| | NOTES | 2000 £M | 1999 £M |
|---|---|---|---|
| **TURNOVER** | | | |
| EXISTING OPERATIONS | 2 | **1,000.7** | 792.5 |
| ACQUISITIONS | 2 | **92.2** | – |
| SHARE OF JOINT VENTURES TURNOVER | | **36.0** | – |
| **TOTAL TURNOVER – CONTINUING OPERATIONS** | | **1,128.9** | 792.5 |
| LESS: SHARE OF JOINT VENTURES TURNOVER | | **(36.0)** | – |
| **GROUP TURNOVER** | 2 | **1,092.9** | 792.5 |
| OPERATING EXPENSES BEFORE CHARGING DEPRECIATION AND AMORTISATION | 3 | **(845.8)** | (570.7) |
| **EBITDA** | | **247.1** | 221.8 |
| DEPRECIATION AND AMORTISATION | 3 | **(541.1)** | (402.9) |
| **GROUP OPERATING LOSS** | | | |
| EXISTING OPERATIONS | | **(166.5)** | (181.1) |
| ACQUISITIONS | | **(127.5)** | – |
| **GROUP OPERATING LOSS – CONTINUING OPERATIONS** | | **(294.0)** | (181.1) |
| **SHARE OF OPERATING LOSS OF JOINT VENTURES** | 13 | **(2.3)** | – |
| **SHARE OF OPERATING PROFITS OF ASSOCIATED UNDERTAKINGS** | 13 | **3.6** | 0.7 |
| **TOTAL OPERATING LOSS: GROUP AND SHARE OF JOINT VENTURES AND ASSOCIATED UNDERTAKINGS** | | **(292.7)** | (180.4) |
| **INTEREST RECEIVABLE AND SIMILAR INCOME** | 7 | **15.7** | 11.1 |
| **INTEREST PAYABLE AND SIMILAR CHARGES** | 8 | **(423.9)** | (360.6) |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | 4 | **(700.9)** | (529.9) |
| **TAX ON LOSS ON ORDINARY ACTIVITIES** | 9 | **(4.9)** | – |
| **LOSS ON ORDINARY ACTIVITIES AFTER TAXATION** | | **(705.8)** | (529.9) |
| **MINORITY INTERESTS** | 20 | **0.2** | (0.1) |
| **LOSS FOR THE FINANCIAL YEAR** | 22 | **(705.6)** | (530.0) |
| **BASIC AND DILUTED LOSS PER SHARE (PENCE)** | 10 | **(26.1)** | (24.1) |

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## *Consolidated Balance Sheet* (AS AT 31 DECEMBER 2000)

| | NOTES | 2000 £M | 2000 £M | 1999 £M |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| INTANGIBLE ASSETS | 11 | | **2,877.9** | 1,304.4 |
| OTHER INTANGIBLES | 11 | | **0.5** | – |
| TANGIBLE ASSETS | 12 | | **3,290.1** | 2,775.1 |
| INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND PARTICIPATING INTERESTS | 13 | | **172.2** | 4.0 |
| INVESTMENTS IN JOINT VENTURES: | 13 | | | |
| SHARE OF GROSS ASSETS | | **34.2** | | – |
| GOODWILL | | **428.1** | | |
| SHARE OF GROSS LIABILITIES | | **(142.5)** | | – |
| LOANS TO JOINT VENTURES | | **229.1** | | – |
| | 13 | | **548.9** | – |
| OTHER INVESTMENTS | 13 | | **1.7** | 2.1 |
| | | | **6,891.3** | 4,085.6 |
| **CURRENT ASSETS** | | | | |
| PROGRAMMING INVENTORY | | | **31.0** | – |
| STOCKS | 14 | | **37.8** | 0.2 |
| DEBTORS | 15 | | **244.6** | 158.2 |
| SECURED CASH DEPOSITS RESTRICTED FOR MORE THAN ONE YEAR | | | **12.0** | 12.0 |
| CASH AT BANK AND IN HAND | | | **59.6** | 65.2 |
| | | | **385.0** | 235.6 |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | 16 | | **(1,342.4)** | (505.8) |
| **NET CURRENT LIABILITIES** | | | **(957.4)** | (270.2) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | **5,933.9** | 3,815.4 |
| **CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (INCLUDES CONVERTIBLE DEBT OF £846.5 AND £293.0 IN 2000 AND 1999 RESPECTIVELY)** | 17 | | **(3,580.4)** | (3,061.0) |
| **MINORITY INTERESTS** | 20 | | **1.9** | (0.5) |
| **NET ASSETS** | | | **2,355.4** | 753.9 |
| **CAPITAL AND RESERVES** | | | | |
| CALLED UP SHARE CAPITAL | 21 | | **288.6** | 228.1 |
| LIMITED VOTING SHARES | 21 | | **6.2** | 6.2 |
| SHARE PREMIUM | 22 | | **1,248.6** | 1,245.4 |
| MERGER RESERVE | 22 | | **2,768.8** | 534.3 |
| OTHER RESERVES | 22 | | **277.3** | 270.2 |
| PROFIT AND LOSS ACCOUNT | 22 | | **(2,234.1)** | (1,530.3) |
| **EQUITY SHAREHOLDERS' FUNDS** | | | **2,355.4** | 753.9 |

The financial statements were approved by the Board of Directors on 22 March 2001 and signed on its behalf by:

**A SINGER**
DIRECTOR

**C J BURDICK**
DIRECTOR

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## *Company Balance Sheet* (AS AT 31 DECEMBER 2000)

| | NOTES | 2000 £M | 1999 £M |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| INVESTMENTS | 13 | **5,345.1** | 2,179.2 |
| **CURRENT ASSETS** | | | |
| DEBTORS: DUE WITHIN ONE YEAR | 15 | **8.2** | 4.4 |
| DEBTORS DUE AFTER MORE THAN ONE YEAR | 15 | **3,551.2** | 2,223.6 |
| CASH AT BANK AND IN HAND | | **16.4** | 16.9 |
| | | **3,575.8** | 2,244.9 |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | 16 | **(72.0)** | (30.2) |
| **NET CURRENT ASSETS** | | **3,503.8** | 2,214.7 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **8,848.9** | 4,393.9 |
| **CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (INCLUDES CONVERTIBLE DEBT OF £520.0 AND £293.0 IN 2000 AND 1999 RESPECTIVELY)** | 17 | **(3,799.9)** | (2,429.3) |
| **NET ASSETS** | | **5,049.0** | 1,964.6 |
| **CAPITAL AND RESERVES** | | | |
| CALLED UP SHARE CAPITAL | 21 | **288.6** | 228.1 |
| LIMITED VOTING SHARES | 21 | **6.2** | 6.2 |
| SHARE PREMIUM | 22 | **1,248.6** | 1,245.4 |
| MERGER RESERVE | 22 | **2,234.5** | – |
| OTHER RESERVES | 22 | **1,251.8** | 483.5 |
| PROFIT AND LOSS ACCOUNT | 22 | **19.3** | 1.4 |
| **EQUITY SHAREHOLDERS' FUNDS** | | **5,049.0** | 1,964.6 |

The financial statements were approved by the Board of Directors on 22 March 2001 and signed on its behalf by:

**A SINGER**
DIRECTOR

**C J BURDICK**
DIRECTOR

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## *Consolidated Cash Flow Statement* (FOR THE YEAR ENDED 31 DECEMBER 2000)

| | NOTES | 2000 £M | 1999 £M |
|---|---|---|---|
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | 24 | **193.6** | 197.6 |
| **DIVIDENDS RECEIVED FROM ASSOCIATES** | | **3.4** | – |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | | |
| INTEREST RECEIVED | | **6.6** | 7.5 |
| INTEREST PAID | | **(164.5)** | (123.8) |
| INTEREST ELEMENT OF FINANCE LEASE PAYMENTS | | **(13.7)** | (12.9) |
| ISSUE COSTS OF NOTES AND CREDIT FACILITY ARRANGEMENT COSTS | | **(21.0)** | (34.1) |
| **NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | **(192.6)** | (163.3) |
| **CAPITAL EXPENDITURE** | | | |
| PURCHASE OF TANGIBLE FIXED ASSETS | | **(547.2)** | (468.1) |
| SALE OF TANGIBLE FIXED ASSETS | | **2.4** | 4.7 |
| **NET CASH OUTFLOW FOR CAPITAL EXPENDITURE** | | **(544.8)** | (463.4) |
| **ACQUISITIONS AND DISPOSALS** | | | |
| PURCHASE OF SUBSIDIARY UNDERTAKINGS | | **(32.2)** | (395.3) |
| CASH ACQUIRED WITH SUBSIDIARIES | | **8.2** | 2.2 |
| INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND OTHER PARTICIPATING INTERESTS | | **(10.5)** | (2.4) |
| REPAYMENT OF LOANS MADE TO JOINT VENTURES | | **14.4** | – |
| **NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS** | | **(20.1)** | (395.5) |
| **NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING** | | **(560.5)** | (824.6) |
| **MANAGEMENT OF LIQUID RESOURCES** | | | |
| DECREASE/(INCREASE) IN FIXED DEPOSITS (NET) | | **32.3** | (33.6) |
| **FINANCING** | | | |
| NET REPAYMENT OF BORROWINGS UNDER OLD CREDIT FACILITY | | **–** | (538.5) |
| REPAYMENT OF BORROWING UNDER OLD FACILITIES | | **(141.3)** | (642.1) |
| NET (REPAYMENTS)/PROCEEDS FROM BORROWINGS UNDER NEW CREDIT FACILITIES | | **(260.0)** | 951.0 |
| CASH RECEIVED FROM RIGHTS ISSUE | | **–** | 415.5 |
| SHARE ISSUE COSTS | | **(12.6)** | (2.5) |
| PROCEEDS FROM ISSUE OF ACCRETING CONVERTIBLE NOTES 2003 | | **20.0** | – |
| PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES 2005 | | **330.2** | – |
| PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES 2007 | | **–** | 300.0 |
| PROCEEDS FROM ISSUE OF SENIOR DISCOUNT NOTES 2009 | | **–** | 399.2 |
| PROCEEDS FROM ISSUE OF SENIOR DISCOUNT NOTES AND SENIOR NOTES 2010 | | **543.5** | – |
| NET PROCEEDS FROM MATURITY OF FORWARD CONTRACTS | | **107.0** | – |
| RELEASE OF RESTRICTED CASH DEPOSITS | | **–** | 175.4 |
| CASH RECEIVED FROM EXERCISE OF SHARE OPTIONS | | **3.4** | 12.5 |
| CAPITAL ELEMENT OF FINANCE LEASE PAYMENTS | | **(35.3)** | (221.8) |
| **NET CASH INFLOW FROM FINANCING** | | **554.9** | 848.7 |
| **INCREASE/(DECREASE) IN CASH IN THE YEAR** | 25 | **26.7** | (9.5) |

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## Reconciliations of Movements in Equity Shareholders' Funds (FOR THE YEAR ENDED 31 DECEMBER 2000)

| | NOTES | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|---|
| **OPENING EQUITY SHAREHOLDERS' FUNDS** | | **753.9** | **1,964.6** | 858.0 | 1,052.5 |
| (LOSS)/PROFIT FOR THE FINANCIAL YEAR | 22 | **(705.6)** | **16.1** | (530.0) | 2.7 |
| UNREALISED GAIN ON INTRA GROUP SALE OF INVESTMENTS | 22 | **–** | **768.3** | – | 483.5 |
| UNREALISED GAIN ON DEEMED PARTIAL DISPOSAL OF INVESTMENT | 22 | **7.1** | **–** | – | – |
| ACCRUED SHARE BASED COMPENSATION COST | 22 | **1.8** | **1.8** | – | – |
| ISSUE OF SHARES | 21, 22 | **2,298.2** | **2,298.2** | 425.9 | 425.9 |
| **CLOSING EQUITY SHAREHOLDERS' FUNDS** | | **2,355.4** | **5,049.0** | 753.9 | 1,964.6 |

## Statement of Total Recognised Gains and Losses (FOR THE YEAR ENDED 31 DECEMBER 2000)

| | | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|---|
| (LOSS)/PROFIT FOR THE FINANCIAL YEAR | 22 | **(705.6)** | **16.1** | (530.0) | 2.7 |
| UNREALISED GAIN ON DEEMED PARTIAL DISPOSAL OF INVESTMENT | 22 | **7.1** | **–** | – | – |
| UNREALISED GAIN ON INTRA GROUP SALE OF INVESTMENTS | 22 | **–** | **768.3** | – | 483.5 |
| **TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR** | | **(698.5)** | **784.4** | (530.0) | 486.2 |

# Notes to the Accounts (FOR THE YEAR ENDED 31 DECEMBER 2000)

## 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 financial statements have been prepared on a going concern basis. The terms of the Group's borrowings require compliance with a range of financial covenants. Whilst the Group was not in compliance with certain of its covenants under the senior credit facility towards the end of 2000, a waiver was granted by the Group's bankers.

On 16 March 2001 the Group agreed a new senior secured credit facility and the directors expect the Group to be in compliance with the financial covenants in respect of the new facility for the remainder of 2001.

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings and include the Group's share of associated undertakings and joint ventures 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 22 to these financial statements.

The directors have decided to publish EBITDA as they consider that EBITDA is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the cable television and telecommunications industry. EBITDA represents earnings before net interest expense, taxation, depreciation and amortisation.

**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 and joint ventures 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 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.

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 "Goodwill and Intangible Assets" was adopted, was written off to reserves in the year of acquisition. Upon subsequent disposal, any related goodwill previously written off to reserves is written back to the profit and loss account as part of the profit and loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. Any impairment charge is included within operating profit.

**Capitalisation of overheads**

The Group capitalises that proportion of overheads which relates to the construction and development of the cable network and related infrastructure.

**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 | SUBSCRIBER ELECTRONICS | – | 5 YEARS |
| CABLE AND DUCTING | – | 20 YEARS | HEADEND, STUDIO AND PLAYBACK FACILITIES | – | 5 YEARS |
| ELECTRONIC EQUIPMENT | | | OTHER EQUIPMENT | | |
| SYSTEM ELECTRONICS | – | 8 YEARS | OFFICE FURNITURE AND FITTINGS | – | 5 YEARS |
| SWITCHING EQUIPMENT | – | 8 YEARS | MOTOR VEHICLES | – | 4 YEARS |

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.

## 1 ACCOUNTING POLICIES CONTINUED

**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**

Revenues are recognised as network communication services are provided. Connection and activation fees relating to cable television and telephony customers are recognised in the period of connection to the extent that such fees are less than direct selling costs. All other up-front fees are deferred and recognised over the estimated average period that the customers are expected to remain connected to the system.

Occasionally, the Group sells capacity on its network to other telecommunications providers. Sales of capacity are accounted for as finance leases, operating leases, or service agreements depending on the terms of the transaction. Revenue for sales of capacity which meet the criteria of a finance lease are recognised as revenue using the percentage-of-completion method. If title is not transferred or if the other requirements of sales-type lease accounting are not met, revenues are recognised over the term of the agreement.

Programming revenues are recognised based on subscriber numbers for the period. Revenues on transactional and interactive sales are recognised when the services are delivered. Advertising sales revenue is recognised at estimated realisable values when the advertising is aired.

**Recognition of contract costs**

Certain of the sales of network capacity referred to above involve the Group constructing new capacity. Where the Group retains some of this new capacity, either for subsequent resale or for use within the business, then an element of the construction costs is retained within stocks or fixed assets, respectively. The allocation of construction cost between costs expensed to the profit and loss account and costs capitalised within stocks or fixed assets is based upon the ratio of capacity sold and retained.

**Stocks**

Stocks of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Stocks for resale are stated at the lower of cost and net realisable value.

**Programming inventory**

Programming inventory comprises fees paid for film licences and film distribution rights and is stated at cost less accumulated amortisation and any provision for permanent diminution in value. Internal infomercial and video brochure costs are capitalised and written off over two years.

Amortisation is provided to write off the cost of the programming inventory as follows:

| | |
|---|---|
| LICENCE FEES | ON A TRANSMISSION BASIS |
| DISTRIBUTION RIGHTS | MATCHED TO PERIOD SALES AS A PROPORTION OF ANTICIPATED SALES |

**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.

**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. The charge for taxation also includes share of the tax charges of the associates and joint ventures.

**Loss per share**

In accordance with 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.

**1 ACCOUNTING POLICIES** CONTINUED

**Pension costs**

The Group operates a defined contribution pension scheme or contributes to third-party schemes on behalf of the 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 ("RSS")/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 fair value of the shares at the date of grant 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.

The Group also uses foreign exchange forward contracts to hedge against adverse changes in foreign currency exchange rates associated with principle amounts of bonds denominated in foreign currency and of future interest payments on those bonds. Hedge accounting is used on the hedges of future interest payments as these payments represent fixed obligations of the Group. Hedge accounting is used on the hedges of bond principle amounts where the maturity of the hedging instrument matches the first call date of the bonds which they hedge. Where hedge accounting is permitted, the hedged obligation is translated at the forward contracted rate. Where hedge accounting is not permitted, the contracts are recorded on the balance sheet at their fair market value. Where the hedged transaction is not likely to occur or the contracts cease to be regarded as a hedge, then the contracts are recorded on the balance sheet at their fair market value.

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

The Group has two classes of business, being cable and content. Cable division 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 within the cable division is shown. Content division turnover is attributable principally to the supply of entertainment content, interactive and transactional services to the UK pay-TV and internet markets. Turnover by business segment was:

| | 2000 EXISTING OPERATIONS £M | 2000 ACQUISITIONS £M | 2000 INTERDIVISIONAL TURNOVER £M | 2000 TOTAL £M | 1999 £M |
|---|---|---|---|---|---|
| CONSUMER DIVISION | | | | | |
| CABLE TELEVISION | **276.9** | **1.8** | **–** | **278.7** | 258.3 |
| TELEPHONY | **439.9** | **5.7** | **–** | **445.6** | 333.7 |
| OTHER | **16.2** | **–** | **–** | **16.2** | 17.0 |
| | **733.0** | **7.5** | **–** | **740.5** | 609.0 |
| BUSINESS DIVISION | **267.7** | **3.0** | **–** | **270.7** | 183.5 |
| TOTAL CABLE DIVISION | **1,000.7** | **10.5** | **–** | **1,011.2** | 792.5 |
| CONTENT DIVISION | | | | | |
| PROGRAMMING, TRANSACTIONAL AND INTERACTIVE REVENUE | **–** | **88.8** | **(7.1)** | **81.7** | – |
| GROUP TURNOVER | **1,000.7** | **99.3** | **(7.1)** | **1,092.9** | 792.5 |

Other revenue comprises internet sales, cable publications and management services provided to affiliated companies.

| SEGMENTAL ANALYSIS OF OPERATING RESULTS | 2000 CABLE £M | 2000 CONTENT £M | 2000 TOTAL £M | 1999 £M |
|---|---|---|---|---|
| GROUP TURNOVER | **1,011.2** | **81.7** | **1,092.9** | 792.5 |
| OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTISATION | **(756.0)** | **(89.8)** | **(845.8)** | (570.7) |
| EBITDA | **255.2** | **(8.1)** | **247.1** | 221.8 |
| DEPRECIATION OF TANGIBLE FIXED ASSETS | **(367.5)** | **(31.2)** | **(398.7)** | (354.3) |
| AMORTISATION OF GOODWILL AND INTANGIBLE ASSETS | **(67.2)** | **(75.2)** | **(142.4)** | (48.6) |
| OTHER OPERATING EXPENSES | **(756.0)** | **(89.8)** | **(845.8)** | (570.7) |
| TOTAL OPERATING EXPENSES | **(1,190.7)** | **(196.2)** | **(1,386.9)** | (973.6) |
| GROUP OPERATING LOSS | **(179.5)** | **(114.5)** | **(294.0)** | (181.1) |
| SHARE OF OPERATING (LOSS)/PROFIT OF JOINT VENTURES | **(6.4)** | **4.1** | **(2.3)** | – |
| SHARE OF OPERATING PROFIT OF ASSOCIATED UNDERTAKINGS | **–** | **3.6** | **3.6** | 0.7 |
| TOTAL OPERATING LOSS | **(185.9)** | **(106.8)** | **(292.7)** | (180.4) |
| NET INTEREST PAYABLE | | | **(408.2)** | (349.5) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAX | | | **(700.9)** | (529.9) |

| NET ASSETS | 2000 £M | 1999 £M |
|---|---|---|
| CABLE DIVISION | **4,351.0** | 3,972.1 |
| CONTENT DIVISION | **1,730.9** | – |
| INVESTMENTS | **722.8** | 6.1 |
| DEBT | **(4,451.2)** | (3,223.8) |
| MINORITY INTEREST | **1.9** | (0.5) |
| TOTAL NET ASSETS | **2,355.4** | 753.9 |

| 3 OPERATING EXPENSES | 2000 EXISTING OPERATIONS £M | 2000 ACQUISITIONS £M | 2000 INTERDIVISIONAL CHARGES £M | 2000 TOTAL £M | 1999 £M |
|---|---|---|---|---|---|
| **Operating expenses before charging depreciation and amortisation** | | | | | |
| CONSUMER PROGRAMMING EXPENSES | **138.5** | **0.9** | **(7.1)** | **132.3** | 131.9 |
| BUSINESS AND CONSUMER TELEPHONY EXPENSES | **231.5** | **3.0** | **–** | **234.5** | 158.0 |
| CONTENT DIVISION EXPENSES | **–** | **45.5** | **–** | **45.5** | – |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | **376.3** | **57.2** | **–** | **433.5** | 280.8 |
| | **746.3** | **106.6** | **(7.1)** | **845.8** | 570.7 |
| **Depreciation and amortisation** | | | | | |
| DEPRECIATION OF TANGIBLE FIXED ASSETS | **360.8** | **37.9** | **–** | **398.7** | 354.3 |
| AMORTISATION OF GOODWILL AND INTANGIBLE ASSETS | **67.2** | **75.2** | **–** | **142.4** | 48.6 |
| | **428.0** | **113.1** | **–** | **541.1** | 402.9 |
| **Total operating expenses** | **1,174.3** | **219.7** | **(7.1)** | **1,386.9** | 973.6 |

Having regard to the special nature of the Group's business, the analysis of operating costs, within the individual divisions, 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 and present the required disclosures split between the Cable and Content divisions.

Included within selling, general and administration expenses is £20.7 million of restructuring costs arising from the acquisitions of Flextech and Eurobell.

### 4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

| Loss on ordinary activities before taxation is stated after charging: | 2000 £M | 1999 £M |
|---|---|---|
| AUDITORS' REMUNERATION | | |
| AUDIT | **0.9** | 0.6 |
| OTHER SERVICES – AUDITORS AND THEIR ASSOCIATES | **2.5** | 3.8 |
| DEPRECIATION AND OTHER AMOUNTS WRITTEN OFF TANGIBLE FIXED ASSETS | | |
| OWNED (INCLUDING IN 1999 EXCEPTIONAL CHARGE OF £49.0 MILLION) | **334.5** | 333.1 |
| LEASED | **64.2** | 21.2 |
| EXCHANGE LOSSES | **17.5** | 44.0 |
| HIRE OF PLANT AND MACHINERY – RENTALS PAYABLE UNDER OPERATING LEASES | **5.4** | 0.6 |
| HIRE OF OTHER ASSETS – OPERATING LEASES | **11.4** | 6.5 |

The auditors' remuneration for audit services to the Company was £40,000 (1999: £33,000).

During the year the auditors received an additional £1.2 million (1999: £0.2 million) in respect of fees which were capitalised as acquisition costs relating to the Flextech and Eurobell transactions (1999: Cable London transaction).

| 5 REMUNERATION OF DIRECTORS | 2000 £M | 1999 £M |
|---|---|---|
| FEES TO NON-EXECUTIVE DIRECTORS | **0.3** | 0.3 |
| REMUNERATION FOR EXECUTIVE DIRECTORS: | | |
| BASIC SALARY, ALLOWANCES AND BENEFITS | **1.4** | 1.0 |
| PERFORMANCE-RELATED BONUSES | **1.3** | 0.6 |
| PENSION CONTRIBUTIONS | **0.2** | 0.2 |
| COMPENSATION FOR LOSS OF OFFICE | **1.0** | – |
| TOTAL IN RESPECT OF THE YEAR | **4.2** | 2.1 |

Of the above remuneration, £Nil and £81,000, was reimbursed to MediaOne for the years ended 31 December 2000, and 1999, respectively, for making available to the Company the services of D Van Valkenburg.

## 5 REMUNERATION OF DIRECTORS CONTINUED

| The remuneration of the highest paid director was as follows: | **2000 £M** | 1999 £M |
|---|---|---|
| BASIC SALARY, ALLOWANCES AND BENEFITS | **0.2** | 0.5 |
| PERFORMANCE-RELATED BONUSES | **0.1** | 0.2 |
| PENSION CONTRIBUTIONS | **0.1** | 0.1 |
| COMPENSATION FOR LOSS OF OFFICE | **0.7** | – |
| TOTAL IN RESPECT OF THE YEAR | **1.1** | 0.8 |

A detailed analysis of directors' remuneration, including salaries and benefits, performance-related bonuses and other bonuses is set out in the Report of the Board on Directors' Remuneration on pages 40 to 45. Details of directors' interests in the share capital of the Company are set out in the Report of the Board on Directors' Remuneration on pages 44 and 45.

## 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: | **2000 NUMBER** | 1999 NUMBER |
|---|---|---|
| SALES AND CUSTOMER SERVICES | **4,129** | 3,206 |
| CONSTRUCTION AND OPERATIONS | **3,647** | 2,667 |
| ADMINISTRATION | **1,526** | 1,026 |
| | **9,302** | 6,899 |

| The aggregate payroll costs of these persons, including amounts which have been capitalised in tangible fixed assets, were as follows: | **2000 £M** | 1999 £M |
|---|---|---|
| WAGES AND SALARIES | **237.5** | 156.7 |
| SOCIAL SECURITY COSTS | **24.7** | 15.1 |
| OTHER PENSION COSTS | **8.0** | 4.8 |
| | **270.2** | 176.6 |

## 7 INTEREST RECEIVABLE AND SIMILAR INCOME

| | **2000 £M** | 1999 £M |
|---|---|---|
| ON BANK DEPOSITS AND SHORT-TERM INVESTMENTS | **4.6** | 3.2 |
| ON LOANS MADE TO ASSOCIATED UNDERTAKINGS | **11.1** | 2.7 |
| OTHER | **–** | 5.2 |
| | **15.7** | 11.1 |

## 8 INTEREST PAYABLE AND SIMILAR CHARGES

| | **2000 £M** | 1999 £M |
|---|---|---|
| ON BANK LOANS: | | |
| WHOLLY REPAYABLE WITHIN FIVE YEARS | **79.2** | 25.9 |
| WHOLLY OR PARTLY REPAYABLE IN MORE THAN FIVE YEARS | **–** | 55.9 |
| FINANCE COSTS OF ACCRETING SENIOR CONVERTIBLE NOTES DUE 2003 | **1.8** | – |
| FINANCE COSTS OF SENIOR CONVERTIBLE NOTES DUE 2005 | **10.8** | – |
| FINANCE COSTS OF SENIOR DEBENTURES DUE 2006 | **21.7** | 21.9 |
| FINANCE COSTS OF SENIOR DISCOUNT DEBENTURES DUE 2007 | **110.3** | 93.6 |
| FINANCE COSTS OF SENIOR CONVERTIBLE NOTES DUE 2007 | **17.7** | 15.1 |
| FINANCE COSTS OF SENIOR NOTES DUE 2008 | **25.1** | 24.9 |
| FINANCE COSTS OF SENIOR DISCOUNT NOTES DUE 2009 | **44.2** | 28.8 |
| FINANCE COSTS OF SENIOR NOTES DUE 2010 | **17.2** | – |
| FINANCE COSTS OF SENIOR DISCOUNT NOTES DUE 2010 | **18.5** | – |
| FINANCE COSTS OF SENIOR NOTES DUE 2010 | **21.7** | – |
| FINANCE CHARGES PAYABLE IN RESPECT OF FINANCE LEASES AND HIRE PURCHASE CONTRACTS | **3.5** | 9.4 |
| EXCHANGE LOSSES ON FOREIGN CURRENCY TRANSLATION, NET | **17.5** | 44.0 |
| SHARE OF INTEREST OF ASSOCIATES | **8.9** | 6.9 |
| SALE AND LEASEBACK TERMINATION | **–** | 8.9 |
| EXTINGUISHMENT OF DEBT | **14.5** | 15.7 |
| OTHER | **11.3** | 9.6 |
| | **423.9** | 360.6 |

| 9 TAX ON LOSS ON ORDINARY ACTIVITIES | 2000 £M | 1999 £M |
|---|---|---|
| SHARE OF TAX OF JOINT VENTURES | **3.0** | – |
| SHARE OF TAX OF ASSOCIATES | **1.9** | – |
| | **4.9** | – |

**10 LOSS PER SHARE**

The calculation of basic and diluted loss per equity share 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:

| | 2000 M | 1999 M |
|---|---|---|
| WEIGHTED AVERAGE NUMBER OF EQUITY SHARES USED FOR BASIC AND DILUTED LOSS PER SHARE. | **2,705.1** | 2,197.0 |

**11 INTANGIBLE ASSETS**

| Positive purchased goodwill<br>Cost | 2000 £M | 1999 £M |
|---|---|---|
| AT 1 JANUARY | **1,367.2** | 933.0 |
| PURCHASED GOODWILL ON CABLE LONDON | **–** | 442.4 |
| PURCHASED GOODWILL ON FLEXTECH (NOTE 13) | **2,254.3** | – |
| ALLOCATED TO ASSOCIATES AND JOINT VENTURES | **(557.0)** | – |
| PURCHASED GOODWILL ON EUROBELL (NOTE 13) | **0.9** | – |
| ADJUSTMENTS TO GOODWILL ON PURCHASE OF GENERAL CABLE, BIRMINGHAM CABLE AND CABLE LONDON | **(1.0)** | (8.2) |
| AT 31 DECEMBER | **3,064.4** | 1,367.2 |
| **Provision for amortisation** | | |
| AT 1 JANUARY | **62.8** | 14.2 |
| AMORTISATION CHARGE | **123.7** | 48.6 |
| AT 31 DECEMBER | **186.5** | 62.8 |
| **Net book value** | **2,877.9** | 1,304.4 |
| **Other intangibles** | | |
| DEVELOPMENT COSTS | **0.5** | – |

On acquisition of Cable London in 1999 and General Cable and Birmingham Cable in 1998, provisional fair values were allocated to the acquired net assets. As permitted by FRS 7, the provisional fair values have been adjusted for Cable London in 2000 and General Cable and Birmingham Cable in 1999 as a result of detailed investigations in the post-acquisition period.

## 12 TANGIBLE FIXED ASSETS GROUP

| | FREEHOLD LAND £M | FREEHOLD AND LONG LEASEHOLD LAND AND BUILDINGS £M | CABLE AND DUCTING £M | ELECTRONIC EQUIPMENT £M | OTHER EQUIPMENT £M | TOTAL £M |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| AT 1 JANUARY 2000 | 6.1 | 99.9 | 2,266.5 | 1,063.1 | 367.7 | 3,803.3 |
| ON ACQUISITIONS | – | 3.8 | 187.8 | 91.8 | 17.1 | 300.5 |
| ADDITIONS | 0.3 | 14.7 | 195.5 | 238.9 | 165.0 | 614.4 |
| DISPOSALS | – | – | (0.6) | (0.8) | (1.7) | (3.1) |
| AT 31 DECEMBER 2000 | 6.4 | 118.4 | 2,649.2 | 1,393.0 | 548.1 | 4,715.1 |
| **Accumulated depreciation** | | | | | | |
| AT 1 JANUARY 2000 | – | 27.5 | 388.3 | 457.8 | 154.6 | 1,028.2 |
| CHARGE FOR THE YEAR | – | 8.0 | 147.6 | 172.0 | 71.1 | 398.7 |
| DISPOSALS | – | – | (0.3) | (0.8) | (0.8) | (1.9) |
| AT 31 DECEMBER 2000 | – | 35.5 | 535.6 | 629.0 | 224.9 | 1,425.0 |
| **Net book value at 31 December 2000** | **6.4** | **82.9** | **2,113.6** | **764.0** | **323.2** | **3,290.1** |
| NET BOOK VALUE AT 31 DECEMBER 1999 | 6.1 | 72.4 | 1,878.2 | 605.3 | 213.1 | 2,775.1 |

Included in the net book value of electronic equipment and other equipment is £106.9 million and £68.0 million, respectively, (1999: £39.9 million and £46.6 million respectively) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets was £64.2 million. The Company does not have any tangible fixed assets.

## 13 FIXED ASSET INVESTMENTS GROUP

| | ASSOCIATED UNDERTAKINGS AND JOINT VENTURES | | | | | | |
|---|---|---|---|---|---|---|---|
| | SHARE OF NET ASSETS £M | GOODWILL £M | LOANS £M | OTHER INVESTMENTS £M | OWN SHARES HELD £M | FOREIGN CURRENCY OPTION PREMIUM £M | TOTAL £M |
| **Cost** | | | | | | | |
| AT 1 JANUARY 2000 | 1.3 | – | 3.9 | – | 3.1 | 29.4 | 37.7 |
| ON ACQUISITIONS | (93.3) | 557.0 | 271.3 | – | – | – | 735.0 |
| ADDITIONS | 2.0 | – | 12.2 | 6.0 | – | – | 20.2 |
| EXERCISED IN THE YEAR | – | – | – | – | (1.0) | – | (1.0) |
| RECLASSIFICATION | (1.4) | – | – | 1.4 | – | – | – |
| DISPOSALS | – | – | – | – | – | (29.4) | (29.4) |
| REPAYMENTS RECEIVED | – | – | (14.0) | – | – | – | (14.0) |
| AT 31 DECEMBER 2000 | (91.4) | 557.0 | 273.4 | 7.4 | 2.1 | – | 748.5 |
| **Share of post-acquisition losses** | | | | | | | |
| AT 1 JANUARY 2000 | (1.2) | – | – | – | – | – | (1.2) |
| SHARE OF OPERATING PROFITS | 7.7 | – | (6.4) | – | – | – | 1.3 |
| SHARE OF INTEREST PAYABLE (NOTE 8) | (8.9) | – | – | – | – | – | (8.9) |
| SHARE OF TAXATION (NOTE 9) | (4.9) | – | – | – | – | – | (4.9) |
| UNREALISED GAIN ON DISPOSAL | 7.1 | – | – | – | – | – | 7.1 |
| **Provision** | | | | | | | |
| AT 1 JANUARY 2000 | – | – | – | – | (1.0) | – | (1.0) |
| CHARGE FOR THE YEAR | – | (18.7) | – | – | (0.4) | – | (19.1) |
| EXERCISED DURING THE YEAR | – | – | – | – | 1.0 | – | 1.0 |
| **Amortisation of foreign currency option premium** | | | | | | | |
| 1 JANUARY 2000 | – | – | – | – | – | (29.4) | (29.4) |
| DISPOSAL | – | – | – | – | – | 29.4 | 29.4 |
| AT 31 DECEMBER 2000 | (0.2) | (18.7) | (6.4) | – | (0.4) | – | (25.7) |
| **Net investments** | | | | | | | |
| **At 31 December 2000** | **(91.6)** | **538.3** | **267.0** | **7.4** | **1.7** | **–** | **722.8** |
| AT 31 DECEMBER 1999 | 0.1 | – | 3.9 | – | 2.1 | – | 6.1 |

Included within investments in associated undertakings and joint ventures is £148.0 million in respect of listed investments. The aggregate market value of these listed investments at 31 December 2000 was £146.0 million.

## 13 FIXED ASSET INVESTMENTS CONTINUED

| COMPANY | SUBSIDIARY UNDERTAKINGS £M | OTHER INVESTMENTS £M | OWN SHARES HELD £M | FOREIGN CURRENCY OPTION PREMIUM £M | TOTAL £M |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| AT 1 JANUARY 2000 | 2,176.4 | 0.7 | 3.1 | 29.4 | 2,209.6 |
| ADDITIONS | 3,590.7 | 3.0 | – | – | 3,593.7 |
| RECLASSIFICATION FROM DEBTORS | – | 6.1 | – | – | 6.1 |
| EXERCISED IN THE YEAR | – | – | (1.0) | – | (1.0) |
| DISPOSALS | (427.1) | | | (29.4) | (456.5) |
| AT 31 DECEMBER 2000 | 5,340.0 | 9.8 | 2.1 | – | 5,351.9 |
| **Provision** | | | | | |
| AT 1 JANUARY 2000 | – | – | (1.0) | – | (1.0) |
| CHARGE FOR THE YEAR | – | (6.4) | (0.4) | – | (6.8) |
| EXERCISED DURING THE YEAR | – | – | 1.0 | – | 1.0 |
| **Amortisation of foreign currency option premium** | | | | | |
| 1 JANUARY 2000 | – | – | – | (29.4) | (29.4) |
| DISPOSAL | – | – | – | 29.4 | 29.4 |
| AT 31 DECEMBER 2000 | – | (6.4) | (0.4) | – | (6.8) |
| **Net investments** | | | | | |
| **At 31 December 2000** | **5,340.0** | **3.4** | **1.7** | **–** | **5,345.1** |
| AT 31 DECEMBER 1999 | 2,176.4 | 0.7 | 2.1 | – | 2,179.2 |

Details of principal subsidiary undertakings, associated undertakings, and other investments of the Group are set out on pages 75 to 77.

**Own shares held**

At 31 December 2000, own shares held comprised 1,284,756 ordinary shares of 10 pence held by the Telewest 1994 Employees Share Ownership Plan Trust (the "Telewest ESOP") for awards under the Telewest Restricted Share Scheme ("the RSS") and the Telewest Long Term Incentive Plan, ("the LTIP"), schemes designed to provide incentives to executives of the Company. Further details on the schemes are set out on page 41 of the Report of the Board on Directors' Remuneration.

The market value at 31 December 2000 of the shares held was 103.3 pence per share; the carrying value of the shares held is 165.7 pence per share, being the weighted average cost of the shares acquired by the Telewest ESOP.

At 31 December 2000, 358,316 and 463,494 ordinary shares were reserved for existing awards to executives of the Group under the RSS and LTIP, respectively, leaving the remaining 462,946 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 £7.3 million 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 2000, the Telewest ESOP owed £1.9 million to the Group.

**13 FIXED ASSET INVESTMENTS** CONTINUED

**Acquisitions**

**Flextech Plc**

On 19 April 2000, the Group acquired the whole of the issued share capital of Flextech. The results of Flextech from this date to 31 December 2000 have been consolidated within the Group profit and loss account. The acquisition has been accounted for using the acquisition method of accounting.

The fair value of the assets and liabilities of Flextech at the date of acquisition was as follows:

| | BOOK VALUE AT ACQUISITION £M | FAIR VALUE ADJUSTMENTS £M | FAIR VALUE £M |
|---|---|---|---|
| FIXED ASSETS | 14.2 | 70.4 | 84.6 |
| INVESTMENTS | 180.2 | (2.2) | 178.0 |
| DEBTORS | 45.0 | – | 45.0 |
| PROGRAMMING INVENTORY | 48.4 | (5.0) | 43.4 |
| CASH | 6.3 | – | 6.3 |
| CREDITORS | (188.9) | (83.7) | (272.6) |
| NET ASSETS ACQUIRED | 105.2 | (20.5) | 84.7 |
| GOODWILL | | | 2,254.3 |
| CONSIDERATION | | | 2,339.0 |
| SATISFIED BY: | | | |
| EQUITY | | | 2,307.6 |
| ACQUISITION COSTS | | | 31.4 |
| | | | 2,339.0 |

| | £M |
|---|---|
| TOTAL GOODWILL ON ACQUISITION OF FLEXTECH | 2,254.3 |
| OF WHICH: | |
| CAPITALISED WITHIN GOODWILL | 1,697.3 |
| CAPITALISED WITHIN FIXED ASSET INVESTMENTS | 557.0 |

Following the acquisition, the Group reclassified certain operating leases to finance leases due to the re-evaluation of the useful economic lives of the equipment and residual values at the end of the lease terms. The impact of the reclassification at acquisition was to increase tangible fixed assets by £70.4 million, reduce share of net assets of joint ventures by £2.2 million and increase finance lease creditors by £83.7 million. In the post acquisition period, the impact of the reclassification was to increase EBITDA by £11.0 million, depreciation by £9.0 million and interest charges by £5.0 million.

In addition, programming inventory was written down by £5.0 million to reflect permanent diminutions in value of old programming inventory.

The goodwill arising on acquisition of Flextech is being amortised over its estimated useful life of 20 years. In determining the estimated useful life, the Group reviewed key distribution and advertising agency relationships within the acquired business, and considers that the value of these relationships support an amortisation period of 20 years.

The summarised profit and loss account of Flextech from 1 January 2000, the beginning of its financial year, to the date of acquisition was as follows:

| | £M |
|---|---|
| TURNOVER | 41.8 |
| OPERATING LOSS | (2.9) |
| PROFIT BEFORE TAX | 1.1 |
| TAX | (0.9) |
| MINORITY INTEREST | (0.1) |
| PROFIT AFTER TAX AND MINORITY INTEREST | 0.1 |

For the year ended 31 December 1999 Flextech made a profit after tax and minority interest of £13.0 million.

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

The acquired business contributed £5.8 million to the Group's net operating cash flows, had a cash flow of £7.0 million from financing and utilised £7.8 million for capital expenditure.

**13 FIXED ASSET INVESTMENTS** CONTINUED

**Eurobell (Holdings) PLC**

On 1 November 2000 the Group completed the acquisition of the entire issued share capital of Eurobell (Holdings) PLC ("Eurobell") from Deutsche Telekom ("DT") and agreed to pay initial and deferred consideration to DT, (as discussed below), in the form of 5% Accreting Convertible Notes due 2003. The aggregate principal amount of such Notes, following agreement of the deferred consideration, will be £253.5 million. The terms of the Accreting Convertible Notes are described in note 17 to these financial statements.

Upon completion of the acquisition, the Group issued a £220.0 million Accreting Convertible Note to DT in consideration for: Eurobell's entire issued share capital, £71.7 million, the assignment of an inter-company loan previously owed by Eurobell to DT, £128.3 million, and a cash payment remitted to Eurobell by DT shortly after the acquisition, £20.0 million. Subsequently, on 15 January 2001 DT remitted a further cash payment, £30.0 million, to Eurobell and the Group issued an additional Accreting Convertible Note to DT for £30.0 million.

In addition under the terms of the acquisition, the Group is obliged to provide deferred consideration, contingent on Eurobell's turnover for the year ended 31 December 2000 exceeding a certain target. As a result, an additional £3.5 million Accreting Convertible Note will be issued to DT in April 2001. This deferred consideration has been accrued for at 31 December 2000. Following this latest issue, total costs for the acquisition of the equity shares of Eurobell will be £76.5 million, comprising of £75.2 million incurred for the acquisition of the share capital and £1.3 million in acquisition expenses.

The results of Eurobell from 1 November 2000 to 31 December 2000 have been consolidated within the Group profit and loss account. The acquisition has been accounted for using the acquisition method of accounting.

The fair value of the assets and liabilities of Eurobell at the date of acquisition was as follows:

| | BOOK VALUE AT ACQUISITION £M | FAIR VALUE ADJUSTMENTS £M | FAIR VALUE £M |
|---|---|---|---|
| FIXED ASSETS | 262.3 | (46.3) | 216.0 |
| INTANGIBLES | 0.5 | – | 0.5 |
| DEBTORS | 16.7 | (1.3) | 15.4 |
| CASH | 1.9 | – | 1.9 |
| CREDITORS | (157.6) | (0.6) | (158.2) |
| NET ASSETS ACQUIRED | 123.8 | (48.2) | 75.6 |
| GOODWILL | | | 0.9 |
| CONSIDERATION | | | 76.5 |
| SATISFIED BY: | | | |
| DEBT | | | 75.2 |
| CASH | | | 1.3 |
| | | | 76.5 |

After acquisition Eurobell accounting policies were aligned with those of the Group. The result of the alignment was an increase in the bad debt provision of £1.3 million and an increase in the depreciation provision of £46.3 million following a review of the remaining useful lives of Eurobell's analogue assets and equipment.

The goodwill arising on acquisition of Eurobell is being amortised over 20 years, which is the average remaining useful life of the network assets acquired with Eurobell.

The summarised profit and loss account of Eurobell from 1 January 2000, the beginning of its financial year, to the date of acquisition was as follows:

| | £M |
|---|---|
| TURNOVER | 45.9 |
| OPERATING LOSS | (30.8) |
| LOSS BEFORE TAX | (45.1) |
| TAX | – |
| MINORITY INTEREST | 0.3 |
| LOSS AFTER TAX AND MINORITY INTEREST | (44.8) |

For the year ended 31 December 1999 Eurobell made losses after tax and minority interest of £13.9 million.

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

The acquired business contributed £2.2 million to the Group's net operating cash flows and utilised £7.0 million for capital expenditure.

## 14 STOCKS

| | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|
| RAW MATERIALS AND CONSUMABLES | **1.7** | **–** | 0.2 | – |
| EQUIPMENT FOR RE-SALE | **36.1** | **–** | – | – |
| | **37.8** | **–** | 0.2 | – |

## 15 DEBTORS

| | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|
| **Due within one year** | | | | |
| TRADE DEBTORS | **115.5** | **–** | 90.3 | – |
| OTHER DEBTORS | **69.2** | **8.2** | 35.3 | 4.4 |
| PREPAYMENTS AND ACCRUED INCOME | **55.6** | **–** | 32.6 | – |
| | **240.3** | **8.2** | 158.2 | 4.4 |
| **Due after more than one year** | | | | |
| OTHER DEBTORS | **4.3** | **4.3** | – | – |
| AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS | **–** | **3,546.9** | – | 2,223.6 |
| | **–** | **3,551.2** | – | 2,223.6 |
| | **244.6** | **3,559.4** | 158.2 | 2,228.0 |

## 16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|
| SENIOR SECURED FACILITY | **690.0** | **–** | – | – |
| FLEXTECH FACILITY | **116.0** | **–** | – | – |
| BANK LOANS | **0.5** | **–** | 145.8 | – |
| OTHER LOANS | **21.3** | **–** | – | – |
| OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS | **47.2** | **1.8** | 25.0 | 1.4 |
| TRADE CREDITORS | **95.6** | **–** | 41.2 | – |
| TAXATION AND SOCIAL SECURITY | **10.5** | **–** | 6.6 | – |
| OTHER CREDITORS | **35.7** | **–** | 24.9 | 12.4 |
| ACCRUALS AND DEFERRED INCOME | **325.6** | **70.2** | 262.3 | 16.4 |
| | **1,342.4** | **72.0** | 505.8 | 30.2 |

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

In 1999 bank loans included £100.0 million, 6.0568% preference shares issued by a subsidiary and guaranteed by the Group, which were included within creditors in the consolidated financial statements in accordance with FRS 4. £90.0 million was deposited with the parent company of the preference shareholder (an authorised banking institution), which had, in the 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 was also set against the dividend payable on the preference shares in the profit and loss account. On 25 May 2000 the Group redeemed the preference shares and the authorised banking institution repaid the £90.0 million.

In addition the Group has a standby credit facility of £2.0 million made available by Vivendi SA which is due to be repaid on 19 April 2001.

| 17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | GROUP 2000 £M | COMPANY 2000 £M | GROUP 1999 £M | COMPANY 1999 £M |
|---|---|---|---|---|
| SENIOR DEBENTURES DUE 2006 | **200.6** | **200.6** | 184.9 | 184.9 |
| SENIOR DISCOUNT DEBENTURES DUE 2007 | **1,076.9** | **1,076.9** | 891.2 | 891.2 |
| SENIOR NOTES DUE 2008 | **230.0** | **230.0** | 210.6 | 210.6 |
| SENIOR CONVERTIBLE NOTES DUE 2007 | **294.7** | **294.7** | 293.0 | 293.0 |
| SENIOR DISCOUNT NOTES DUE 2009 | **462.3** | **462.3** | 418.6 | 418.6 |
| SENIOR NOTES DUE 2010 | **382.2** | **382.2** | – | – |
| SENIOR DISCOUNT NOTES DUE 2010 | **171.3** | **171.3** | – | – |
| SENIOR CONVERTIBLE NOTES DUE 2005 | **326.5** | **–** | – | – |
| ACCRETING CONVERTIBLE NOTES DUE 2003 | **225.3** | **225.3** | – | – |
| SENIOR SECURED FACILITY | **–** | **–** | 935.3 | – |
| BANK LOANS | **8.0** | **–** | 3.5 | – |
| OTHER LOANS | **–** | **–** | 3.1 | – |
| OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS | **198.4** | **16.4** | 112.8 | 18.1 |
| AMOUNTS OWED TO GROUP UNDERTAKINGS | **–** | **740.2** | – | 412.9 |
| OTHER CREDITORS | **4.2** | **–** | 8.0 | – |
| | **3,580.4** | **3,799.9** | 3,061.0 | 2,429.3 |

**Senior Debentures due 2006**

The Group has issued $300.0 million 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 Foreign Currency Swaps, which expire on 1 October 2002, to hedge its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Debentures. The terms of the Swaps provide for the Group to make initial exchanges of principal of $300.0 million in exchange for £196.3 million. During the term of the Swaps, the Group is to make Sterling fixed-rate interest payments at 9.12% and is to receive US Dollar fixed-rate interest payments at 9.63% 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 $1,537 million principal amount at maturity of Senior Discount Debentures (the “Senior Discount Debentures”) with a yield to maturity of 11%. The Senior Discount Debentures became cash interest payable on 1 October 2000 and mature on 1 October 2007. Interest on the Senior Discount Debentures accrues semi-annually and is payable in arrears on 1 April and 1 October each year commencing 1 April 2001. The Senior Discount Debentures are redeemable, in whole or in part plus accrued interest, at the option of the Group at any time.

The foreign exchange forwards to purchase $1,415.0 million at an average rate of $1.56:£1 expired on 2 October 2000. The remaining $122.0 million sterling put option expired on 28 September 2000. These were replaced with $1,402 million of foreign exchange forwards, with various maturities from 1 April 2001 to 1 October 2002, and two foreign exchange contingent forwards expiring 1 April 2002 and 1 October 2003. The terms of the foreign exchange forward contracts provide for the Group to purchase $1,402.0 million at expiry at an average rate of $1.4234: £1. The terms of the contingent forwards provide for the Group to purchase $135 million at the spot rate on expiry provided the exchange rate has not traded through upper barriers during the period of the transactions. If the barriers have been breached, the Group is able to purchase $135 million at expiry at a rate between $1.40 – $1.50:£1.

The Senior Discount Debentures are unsecured liabilities of the Group.

**Senior Notes due 2008**

On 9 November 1998 the Group issued $350.0 million 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 on 1 May and 1 November each year. 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.

**17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR** CONTINUED

On 2 October 2000, existing Foreign Exchange Forwards, transacted to hedge exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Notes, expired. These were replaced by two new Foreign Exchange Forwards, expiring on 3 November 2003, allowing for the Group to purchase $350 million at expiry at an average rate of $1.50:£1.

The Senior Notes are unsecured liabilities of the Group.

**Senior Convertible Notes due 2005**

On 7 July 2000 the Group issued $500 million principal amount of Senior Convertible Notes (the "Convertible Notes") with a yield to maturity of 6%. Consideration received was £330.2 million. The Convertible Notes mature on 7 July 2005 with interest accruing semi-annually payable in arrears on 7 January and 7 July of each year. The Convertible Notes are convertible into 114.2 million ordinary shares of the Group at a conversion price of 288p 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 7 July 2003 or at any time when at least 90% of the notes issued have been purchased by the Group and cancelled or converted.

The Group has entered into a series of forward exchange contracts which expire on 7 July 2003 to hedge its exposure to adverse fluctuations in exchange rates on interest payment dates. The effective exchange rate is $1.52:£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 decided not to hedge the principal amount of the Convertible Notes as the expectation is that the Notes will convert before or on the maturity date, or would be refinanced in US Dollars before the maturity date.

The Convertible Notes are unsecured liabilities of the Group.

**Senior Convertible Notes due 2007**

On 19 February 1999 the Group issued £300.0 million 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 a conversion price of 325p 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.

The Convertible Notes are unsecured liabilities of the Group.

**Senior Discount Notes due 2009**

On 15 April 1999 the Group issued £325.0 million and $500.0 million principal amount of Senior Discount Notes (the "Senior Discount Notes") with a yield to maturity of 9.875% for the Sterling Notes and 9.25% for the US Dollar Notes. Total consideration received was £390.0 million. The Senior Discount Notes mature on 15 April 2009. Interest on the Senior Discount Notes accrues semi-annually. Cash interest will not accrue on the Senior Discount Notes prior to 15 April 2004 and is thereafter payable in arrears on 15 April and 15 October of each year, commencing 15 October 2004. The Senior Discount Notes are redeemable, in whole or in part, at any time on or after 15 April 2004. At 31 December 2000 the unamortised portion of the discount on issue was £171.7 million.

The Group has entered into a series of foreign exchange forward contracts, which expires on 15 April 2004, to hedge its exposure to adverse fluctuations in exchange rates on the accreting principal amount of the US Dollar tranche of the Senior Discount Notes. The terms of the these contracts fully hedge the bond into sterling.

The Senior Discount Notes are unsecured liabilities of the Group.

**Senior Notes and Senior Discount Notes 2010**

On 25 January 2000 the Group issued $450.0 million principal amount at maturity of Senior Discount Notes (the "Senior Discount Notes") and £180.0 million and $350.0 million principal amount of Senior Notes (the "Senior Notes") for an aggregate consideration of £543.5 million. The $450.0 million Senior Discount Notes have a yield to maturity of 11.375%. The £180.0 million Senior Notes and the $350.0 million Senior Notes both have a yield to maturity of 9.875%. The Senior Notes and Senior Discount Notes mature on 1 February 2010.

Interest on the Senior Discount Notes accrues semi-annually. Cash interest will not accrue on the Senior Discount Notes prior to 1 February 2005 and is thereafter payable in arrears on 1 February and 1 August of each year, commencing 1 August 2005. The Senior Discount Notes are redeemable, in whole or in part, at any time on or after 1 February 2005. At 31 December 2000 the unamortised portion of the discount on issue was £111.2 million.

Interest on the Senior Notes accrues semi-annually and is payable in arrears commencing 1 August 2000. The Senior Notes are redeemable, in whole or in part, at any time on or after 1 February 2005.

The Group has entered into a series of foreign exchange forward contracts, expiring on 1 February 2005, to hedge its exposure to adverse fluctuations in exchange rates on the Senior Notes and Senior Discount Notes. The terms of these contracts fully hedge the bond principal and coupon payments into sterling.

The Senior Notes and Senior Discount Notes are unsecured liabilities of the Group.

**17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR** CONTINUED

**Accreting Convertible Notes due 2003**

On 1 November 2000 the Group issued £220.0 million initial principal amount of Accreting Convertible Notes (the "Accreting Convertible Notes") with a yield to maturity of 5.0%. The Accreting Convertible Notes were issued to finance the purchase of Eurobell (Holdings) PLC ("Eurobell") from Deutsche Telekom. In consideration the Group received Eurobell's entire issued share capital, £71.7 million, the assignment of an inter-company loan previously owed by Eurobell to Deutsche Telekom, £128.3 million, and a cash payment remitted to Eurobell by Deutsche Telekom shortly after the acquisition, £20.0 million. Subsequently, on 15 January 2001 Deutsche Telekom remitted a further cash payment, £30.0 million, to Eurobell and the Group issued an additional Accreting Convertible Note for the same amount. In addition under the terms of the acquisition, the Group is obliged to provide deferred consideration, contingent on Eurobell's turnover for the year ended 31 December 2000 exceeding a certain target. As a result, an additional £3.5 million Accreting Convertible Note will be issued to Deutsche Telekom in April 2001. The Accreting Convertible Notes are convertible into ordinary shares of the Group at an initial conversion price of 156.56p per ordinary share. Conversion of the shares is at maturity at the holder's option but the Group can elect to settle in cash, in whole (but not in part) at the option of the Group at any time at 100% of the accreted value thereof provided that for a certain 10-day period prior to redemption, the price per Ordinary share has been at least 130% of the average conversion price in effect on each day during the 10-day period.

The Accreting Convertible Notes are unsecured liabilities of the Group.

**Senior Secured Facility**

At 31 December 2000 the Group had a Senior Secured credit facility (the "Senior Secured facility") with a syndicate of banks. On 16 March 2001, this facility was replaced by a new Senior Secured credit facility with a syndicate of banks for £2.0 billion. The first drawdown under the facility was used to repay the old Group facility and the Flextech facility. There is also the ability under the terms of the loan agreement to raise a further £250.0 million from institutional investors.

Borrowings under the new Senior Secured credit facility are secured on the assets of the Group including the partnership interests and shares of subsidiaries and bear interest at 0.5% to 2.25% over LIBOR (depending on the ratio of borrowings to quarterly, annualised, consolidated net operating cash flow).

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

Interest rate risk on the Senior Secured credit facility is managed with the use of interest rate swaps. The effective dates of the interest rate swap agreements are between 23 December 1996 and 29 December 2000, and the agreements mature between 31 December 2001 and 31 March 2004. The aggregate notional principal amount of the swaps is a maximum of £1,127 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%.

**Flextech Facility**

Following the Group's acquisition of Flextech, the Group took over an existing Senior Secured credit facility of up to £200 million with a syndicate of banks which had been entered into on 25 January 2000. Flextech's ability to borrow under the facility was subject to compliance with financial and other covenants and borrowing conditions therein. At 31 December 2000, Flextech was in compliance with the covenants and conditions. The amount outstanding under the facility at 31 December 2000 was £116 million. On 16 March 2001, all borrowings under the facility were repaid from the proceeds of the new £2.0 billion Senior Secured credit facility, and the Flextech facility was cancelled.

In July 2000, Telewest Communications Networks Limited assigned an interest rate swap to Flextech in order to manage interest rate risk on the Flextech bank facility. The effective date of the interest rate swap is 23 December 1996 and the agreement matures on 23 December 2001. The aggregate notional principal amount of the swap is £128 million. In accordance with the swap agreements, Flextech receives interest at the three month LIBOR rate and pays a fixed interest of 7.7825% semi-annually. On 16 March 2001, the interest rate swap was assigned back to Telewest Communications Networks Limited following cancellation of the Flextech facility which was replaced by the new Senior Secured credit facility entered into on 16 March 2001.

**Other loans**

On acquisition of Flextech the Group took over a £10 million loan facility granted by Liberty Media International Inc. Interest on the loan is charged at 2% per annum above the Nat West Bank rate and is repayable on demand.

**Bank loans**

The bank loans are property loans secured on certain freehold and long leasehold land and buildings held by the Group.

## 18 FINANCIAL INSTRUMENTS

The Group holds or issues financial instruments to finance its operations and to manage the interest rate and currency risks arising from its sources of finance. In addition, various financial assets and liabilities, for example trade debtors, prepayments, trade creditors and accruals, arise directly from the Group's operations. The Group has taken advantage of the exemption under FRS 13 to exclude short-term debtors and short-term creditors from disclosures of financial assets and liabilities. Disclosure focuses on those financial instruments which play a significant medium to long-term role in the financial risk profile of the Group.

The Group finances its operations by a mixture of bank borrowings and other long-term debt. The Group borrows in the major debt markets in sterling and US Dollars at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest rate basis. The derivatives used for this purpose are principally interest rate swaps, foreign exchange forward contracts and a foreign currency swap.

The main risks arising from the Group's financial instruments are interest rate risk and currency risk.

### Finance and interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings is managed by using interest rate swaps. The minimum proportion fixed is higher in the near-term than in the longer term, with the aim of reducing the volatility of short-term interest costs whilst maintaining the opportunity to benefit from the movements in longer-term rates. The interest rate profile of the financial liabilities, after taking account of derivative financial instruments of the Group as at 31 December 2000 was:

| | **2000 STERLING £M** | **2000 US DOLLAR £M** | 1999 STERLING £M | 1999 US DOLLAR £M |
|---|---|---|---|---|
| FLOATING RATE LIABILITIES | **824.0** | **–** | 1,102.9 | – |
| FIXED RATE LIABILITIES | **2,859.8** | **527.1** | 711.5 | 1,286.7 |
| TOTAL | **3,683.8** | **527.1** | 1,814.4 | 1,286.7 |
| FIXED RATE FINANCIAL LIABILITIES: | | | | |
| WEIGHTED AVERAGE INTEREST RATE | **9.577%** | **7.38%** | 7.788% | 10.843% |
| WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED (YEARS) | **7** | **5** | 9 | 8 |

The benchmark rate for floating rate liabilities is LIBOR.

The Group held the following financial assets as part of the financing arrangements of the Group at 31 December 2000:

| **CURRENCY** | **CASH £M** |
|---|---|
| STERLING | **59.6** |

### Liquidity risk

The Group manages borrowings with respect to both interest and financing risk. Accordingly there are a range of maturities of debt from one year to ten years. Financial flexibility was provided during the year via the £1.5 billion Senior Secured facility and the £200 million Flextech facility of which £690 million and £116 million, respectively, were drawn at the year end. As described in note 17, the Group entered into a new Senior Secured credit facility of up to £2.25 billion on 16 March 2001, which replaced these two facilities.

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 2000 was:

| **Finance lease obligations:** | **GROUP 2000 £M** | GROUP 1999 £M | **COMPANY 2000 £M** | COMPANY 1999 £M |
|---|---|---|---|---|
| WITHIN ONE YEAR | **47.2** | 25.0 | **1.8** | 1.4 |
| BETWEEN ONE AND TWO YEARS | **38.3** | 22.3 | **2.4** | 1.8 |
| BETWEEN TWO AND FIVE YEARS | **94.5** | 51.2 | **11.0** | 8.5 |
| IN FIVE OR MORE YEARS | **65.6** | 39.3 | **3.0** | 7.8 |
| TOTAL | **245.6** | 137.8 | **18.2** | 19.5 |

## 18 FINANCIAL INSTRUMENTS CONTINUED

**Loans and notes:**

| | GROUP 2000 £M | GROUP 1999 £M | COMPANY 2000 £M | COMPANY 1999 £M |
|---|---|---|---|---|
| WITHIN ONE YEAR | **827.8** | 147.0 | **–** | – |
| BETWEEN ONE AND TWO YEARS | **–** | 2.5 | **–** | – |
| BETWEEN TWO AND FIVE YEARS | **551.8** | 571.4 | **225.3** | – |
| IN FIVE OR MORE YEARS | **2,826.0** | 2,404.7 | **2,817.9** | 2,022.4 |
| TOTAL | **4,205.6** | 3,125.6 | **3,043.2** | 2,022.4 |

The maturity profile of the Group's undrawn committed borrowing facilities at 31 December 2000 was:

| | £M |
|---|---|
| WITHIN ONE YEAR | **894.0** |

**Fair values of financial assets and liabilities**

The estimated fair value of the Group's financial instruments are summarised below:

| | 2000 CARRYING AMOUNT £M | 2000 ESTIMATED FAIR VALUE £M | 1999 CARRYING AMOUNT £M | 1999 ESTIMATED FAIR VALUE £M |
|---|---|---|---|---|
| PRIMARY FINANCIAL INSTRUMENTS ISSUED TO FINANCE THE GROUP'S OPERATIONS | | | | |
| BANK DEBT | **(814.8)** | **(814.8)** | (950.0) | (950.0) |
| LONG-TERM DEBT INSTRUMENTS | **(3,377.8)** | **(2,736.3)** | (1,998.3) | (2,036.2) |
| CASH | **59.6** | **59.6** | 77.2 | 77.2 |
| DERIVATIVE FINANCIAL INSTRUMENTS USED TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE | | | | |
| INTEREST RATE SWAPS – LIABILITIES | **–** | **(33.5)** | – | (17.0) |
| INTEREST RATE COLLAR | **–** | **–** | – | – |
| FORWARD FOREIGN EXCHANGE CONTRACTS – ASSETS | **–** | **49.5** | 2.6 | 3.9 |
| FORWARD FOREIGN EXCHANGE CONTRACTS – LIABILITIES | **(2.0)** | **(64.4)** | (18.6) | (25.2) |
| FOREIGN CURRENCY OPTION CONTRACT | **–** | **–** | – | 1.1 |
| FOREIGN CURRENCY SWAP | **4.3** | **7.4** | (10.3) | (13.5) |

**Cash at bank and in hand and short-term borrowings**

The carrying value approximates fair value either because of the short maturity or because the interest rate on short-term borrowings is reset after periods not greater than six months.

**Long-term borrowings**

The fair value is based on quoted market prices, with the exception of the Accreting Convertible Notes 2003. The directors consider that the fair value of these Notes is not materially different from the carrying amount, as the Notes may not be traded and must be held until maturity by the original holder.

**Interest rate swaps, collars and currency swaps**

The fair value of interest rate swaps, collars and currency swaps is the estimated amount which the Group expects to pay or receive on the termination of the agreement, taking into consideration current interest rates and the current credit worthiness of the counterparties. The nominal value of the interest rate and currency swaps at 31 December 2000 was £1,403.1 million (1999: £1,586.7 million). The nominal value of the interest rate collar at 31 December 2000 was £40.3 million (1999: £40.3 million).

**Forward foreign exchange contracts**

The value of these contracts is the estimated amount which the Group would expect to pay or receive on the termination of the contracts, taking into consideration current exchange rates. The nominal value of the forward foreign exchange contracts at 31 December 2000 was £2,391.2 million (1999: £1,052.6 million).

**18 FINANCIAL INSTRUMENTS** CONTINUED

**Currency risk**

The Group has significant sources of finance denominated in US Dollars which have been hedged back into sterling using various financial instruments including options, forwards and cross currency swaps.

| **Net foreign currency monetary assets and liabilities were as follows:** | **2000 £M** | 1999 £M |
|---|---|---|
| CASH: US DOLLAR DEPOSITS | **2.5** | 0.6 |
| DEBT: US DOLLAR DENOMINATED DEBT INSTRUMENTS | **(527.1)** | (1,286.7) |
| NET MONETARY LIABILITIES | **(524.6)** | (1,286.1) |

Gains and losses on instruments for which hedge accounting has been used are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on such instruments and the movements thereon are as follows:

| | GAINS £M | LOSSES £M | TOTAL £M |
|---|---|---|---|
| AS AT 1 JANUARY 2000 | 1.6 | (6.5) | (4.9) |
| GAINS AND LOSSES ARISING IN THE YEAR THAT WERE NOT RECOGNISED IN THE YEAR | 47.9 | (56.0) | (8.1) |
| UNRECOGNISED GAINS AND LOSSES AT 31 DECEMBER 2000 | 49.5 | (62.5) | (13.0) |
| GAINS AND LOSSES EXPECTED TO BE REALISED IN 2001 | – | – | – |
| GAINS AND LOSSES EXPECTED TO BE REALISED IN 2002 OR LATER | – | – | – |

**19 DEFERRED TAXATION**

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

| | **GROUP 2000 £M** | GROUP 1999 £M |
|---|---|---|
| TAX EFFECT OF TIMING DIFFERENCES DUE TO: | | |
| OTHER | **–** | 1.5 |
| TRADING LOSSES | **–** | (1.5) |
| | | |

As at 31 December 2000, the Group estimates that it has, subject to Inland Revenue agreement, £1,340.1 million (1999: £1,028.0 million), of tax losses available to relieve future profits. Accumulated tax losses at 31 December 2000 and 1999 have been adjusted to exclude capital allowances on assets which were available to the Group, but had not been claimed. These allowances are available for future periods.

**20 MINORITY INTERESTS**

At 31 December 2000, the minority interests comprised the following: 15,000 ordinary shares of £1 each and 10,000 cumulative convertible preference shares of £1 each in Cable Guide Limited; 787,400 A ordinary shares of 10p each, 150,000 B ordinary shares of 10p each and 62,600 C ordinary shares of 10p each in Home Shopping Network Direct International Limited; 453,288 A ordinary shares of £1 each and 113,322 B ordinary shares of £1 each in Flextech Homeshopping Limited; 853 A ordinary shares of 25p each and 388 B ordinary shares of 50p each in Way Ahead Group Limited; 760 ordinary shares of £1 each in MatchCo Limited, together with the relevant minority shares of the profits or losses of such entities.

| **21 CALLED UP SHARE CAPITAL** | ORDINARY SHARES OF 10P EACH NUMBER – MILLIONS | LIMITED VOTING CONVERTIBLE ORDINARY SHARES OF 10P EACH NUMBER – MILLIONS | ORDINARY SHARES OF 10P EACH £M | LIMITED VOTING CONVERTIBLE ORDINARY SHARES OF 10P EACH £M | TOTAL £M |
|---|---|---|---|---|---|
| **Authorised** | | | | | |
| AT 31 DECEMBER 2000 | **4,300.0** | **300.0** | **430.0** | **30.0** | **460.0** |
| AT 31 DECEMBER 1999 | 3,561.0 | 300.0 | 356.1 | 30.0 | 386.1 |
| **Allotted, called up and fully paid** | | | | | |
| AT 1 JANUARY 2000 | 2,281.0 | 62.5 | 228.1 | 6.2 | 234.3 |
| ISSUED DURING THE YEAR | 605.0 | – | 60.5 | – | 60.5 |
| AT 31 DECEMBER 2000 | **2,886.0** | **62.5** | **288.6** | **6.2** | **294.8** |

**21 CALLED UP SHARE CAPITAL** CONTINUED

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

| CONSIDERATION RECEIVED | NUMBER OF SHARES ISSUED |
|---|---|
| RECEIPT OF £3.4 MILLION FROM EMPLOYEES ON EXERCISE OF SHARE OPTIONS | 4.1 |
| ISSUED SHARE CAPITAL OF FLEXTECH Plc | 600.9 |
| | 605.0 |

**Creation of limited voting convertible ordinary shares**

The Company previously reported that on 6 May 1999, MediaOne Group, Inc. ("MediaOne") and AT&T Corporation ("AT&T") announced that they had entered into a definitive merger agreement pursuant to which MediaOne merged with and into a subsidiary of AT&T. On 4 October 1999, MediaOne and Microsoft Corporation ("Microsoft") entered into an agreement for the acquisition, subject to certain conditions, by members of the Microsoft Group of MediaOne's interest in the Company. The consummation of either of these transactions might have constituted a change of control under the Senior Debentures due 2006 and the Senior Discount Debentures due 2007, and, in respect of the acquisition by Microsoft of MediaOne's interest in the Company, the Senior Discount Notes due 2008, the Senior Convertible Notes due 2007 and the Senior Discount Notes due 2009 (together, with the Senior Debentures due 2006 and the Senior Discount Debentures due 2007, "the Notes").

The indentures governing the Notes provide generally that, in the event of a change of control of the Company and the occurrence within six months thereafter of a specified decline in the credit rating of the Notes, the Company is required to make an offer to repurchase such Notes at 100% or 101% of their accreted value or principal amount (as applicable). A change of control involves, inter alia, the acquisition by any person or group (subject to certain exceptions) of beneficial ownership of more than 50% of the shares entitled to vote for the election of the Company's directors (i.e. ordinary shares).

The Company received advice that, if Microsoft had purchased all of the ordinary shares now held indirectly by MediaOne, then this, coupled with Microsoft's entry into the New Relationship Agreement with Liberty Media, could have constituted a change of control of the Company for the purposes of the Notes.

Owing to the provisions of the indentures described above the Company, MediaOne, the MediaOne Affiliates and TW Holdings agreed to re-designate (as described below) 57,312,938 ordinary shares held by MediaOne as limited voting convertible ordinary shares. This re-designation was approved by shareholders on 27 October 1999. These limited voting convertible ordinary shares, along with 581.0 million out of MediaOne's interest of 620.8 million ordinary shares in the Company, were acquired by members of the Microsoft Group upon completion of their acquisition of MediaOne's interest in the Company on 7 July 2000.

The ordinary shares and the limited voting convertible ordinary shares have the same rights, except that the limited voting convertible ordinary shares do not confer the right to vote on resolutions to appoint, re-appoint, elect or remove directors of Telewest. No application will be made for the limited voting convertible ordinary shares to be listed or dealt in on any stock exchange and, immediately prior to the re-designation, the Company applied to the London Stock Exchange for the cancellation of the listing of those ordinary shares that were re-designated. Holders of limited voting convertible ordinary shares are entitled to convert all or some of their limited voting convertible ordinary shares into fully paid ordinary shares, provided that the conversion would not result in a change of control of the Company for the purposes of the indentures governing the Notes. The limited voting convertible ordinary shares will be convertible into ordinary shares at our option at any time, subject to certain conditions.

In addition, a special resolution was approved by shareholders to allow members of the Liberty Media Group and/or the Microsoft Group to re-designate all or any of their ordinary shares into limited voting convertible ordinary shares. This is to ensure that, on any future purchase of ordinary shares by members of the Microsoft Group and/or members of the Liberty Media Group, they will, at that time, be able to re-designate such number of their then existing holding of ordinary shares so as to avoid a change of control of the Company for the purposes of the Notes.

Future purchases of ordinary shares and/or limited voting convertible ordinary shares by members of the Liberty Media Group and/or Microsoft Group will, however, be subject to Rule 9 of the UK's City Code on Takeovers and Mergers because both classes of shares are treated as voting shares for that purpose. Under Rule 9, when any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more (but less than 50%) of the voting rights of a public company, that person is normally required to make a general offer to shareholders for the entire share capital of the company then in issue. Any person, or group of persons acting in concert, owning shares carrying 50% or more of the voting rights of a public company, subject to their own individual limits, is free to acquire further shares in that public company without giving rise to the requirement to make a general offer for the entire issued share capital of that company.

**21 CALLED UP SHARE CAPITAL** CONTINUED

**Employee share schemes**

Details of the employee share schemes operated by the Company are set out on page 41 of the Report of the Board on Directors' Remuneration.

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 2000, 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.

| **Executive share option schemes** DATE OF GRANT | EXERCISE PRICE PER SHARE | EXERCISE PERIOD | NUMBER OF SHARES UNDER OPTION |
|---|---|---|---|
| 12 MAY 1995 | 142.9p | 12/5/1998-8/11/2002 | 610,429 |
| 19 JUNE 1995 | 99.9p | 19/6/1998-18/6/2005 | 566,999 |
| 9 NOVEMBER 1995 | 160.5p | 9/11/1998-8/11/2005 | 180,627 |
| 11 MARCH 1996 | 130.4p | 11/3/1999-10/3/2006 | 268,086 |
| 4 APRIL 1996 | 133.1p | 4/4/1999-3/4/2006 | 151,199 |
| 30 OCTOBER 1996 | 124.9p | 30/10/1999-29/10/2006 | 40,938 |
| 13 MARCH 1997 | 108.7p | 13/3/2000-12/3/2007 | 800,542 |
| 13 MARCH 1997 | 109.1p | 13/3/2000-12/3/2007 | 27,486 |
| 30 MAY 1997 | 140.9p | 30/5/2000-29/5/2007 | 1,627,779 |
| 1 OCTOBER 1997 | 76.8p | 1/10/2000-30/9/2004 | 2,096,620 |
| 1 OCTOBER 1997 | 76.3p | 1/10/2000-30/9/2007 | 819,806 |
| 31 OCTOBER 1997 | 67.5p | 31/10/2000-30/10/2004 | 1,901,352 |
| 31 OCTOBER 1997 | 65.7p | 31/10/2000-30/10/2007 | 488,976 |
| 20 MARCH 1998 | 84.6p | 20/3/2001-19/3/2008 | 212,682 |
| 20 MARCH 1998 | 88.3p | 20/3/2001-19/3/2005 | 3,008,087 |
| 5 MAY 1998 | 125.9p | 5/5/2001-4/5/2008 | 633,149 |
| 7 AUGUST 1998 | 158.1p | 7/8/2001-6/8/2008 | 18,978 |
| 7 AUGUST 1998 | 156.6p | 7/8/2000-6/8/2005 | 30,652 |
| 22 OCTOBER 1998 | 140.2p | 22/6/2000-21/4/2002 | 763,415 |
| 19 NOVEMBER 1998 | 120.2p | 19/11/2001-18/11/2008 | 474,373 |
| 19 NOVEMBER 1998 | 125.1p | 19/11/2001-18/11/2005 | 2,117,326 |
| 29 MARCH 1999 | 202.4p | 29/3/2002-28/3/2009 | 584,010 |
| 8 APRIL 1999 | 203.0p | 8/4/2002-7/4/2009 | 28,349 |
| 17 MAY 1999 | 274.3p | 17/5/2002-16/5/2009 | 32,808 |
| 17 MAY 1999 | 276.5p | 17/5/2002-16/5/2009 | 349,002 |
| 6 AUGUST 1999 | 249.4p | 6/8/2002-5/8/2009 | 101,612 |
| 6 AUGUST 1999 | 231.7p | 6/8/2002-5/8/2009 | 157,796 |
| 27 SEPTEMBER 1999 | 238.2p | 27/9/2002-26/9/2009 | 102,422 |
| 15 NOVEMBER 1999 | 294.8p | 15/11/2002-14/11/2009 | 152,670 |
| 15 NOVEMBER 1999 | 289.0p | 15/11/2002-14/11/2009 | 275,860 |
| 22 MAY 2000 | 237.3p | 22/5/2003-21/5/2010 | 364,470 |
| 22 MAY 2000 | 228.3p | 22/5/2003-21/5/2010 | 2,972,522 |
| 30 JUNE 2000 | 235.0p | 30/6/2003-29/6/2010 | 5,713,946 |
| 30 JUNE 2000 | 228.0p | 30/6/2003-29/6/2010 | 16,797,795 |
| 7 AUGUST 2000 | 160.0p | 7/8/2003-6/8/2010 | 552,587 |
| 7 AUGUST 2000 | 170.0p | 7/8/2003-6/8/2010 | 931,172 |
| 21 NOVEMBER 2000 | 116.0p | 21/11/2003-20/11/2010 | 1,204,388 |
| 21 NOVEMBER 2000 | 114.0p | 21/11/2003-20/11/2010 | 2,406,336 |
| 4 DECEMBER 2000 | 107.5p | 4/12/2003-3/12/2010 | 27,906 |
| 4 DECEMBER 2000 | 109.0p | 4/12/2003-3/12/2010 | 2,908,257 |
| **Total options outstanding at 31 December 2000** | | | 52,503,409 |

## 21 CALLED UP SHARE CAPITAL CONTINUED

**Sharesave option schemes**

| DATE OF GRANT | EXERCISE PRICE PER SHARE | EXERCISE PERIOD | NUMBER OF SHARES UNDER OPTION |
|---|---|---|---|
| 12 DECEMBER 1994 | 138.7p | 1/2/2000-31/7/2000 | 12,433 |
| 1 SEPTEMBER 1995 | 83.6p | 1/9/2000-28/2/2001 | 14,017 |
| 12 DECEMBER 1995 | 123.9p | 1/2/2001-31/7/2001 | 198,781 |
| 1 AUGUST 1996 | 112.7p | 1/8/2001-31/1/2002 | 54,775 |
| 1 JULY 1997 | 128.6p | 1/7/2002-31/12/2002 | 33,242 |
| 11 DECEMBER 1997 | 53.6p | 1/2/2001-31/7/2001 | 4,218,212 |
| 1 JUNE 1998 | 115.9p | 1/6/2003-30/11/2003 | 104,863 |
| 18 DECEMBER 1998 | 103.9p | 1/2/2002-31/7/2002 | 2,908,550 |
| 1 JUNE 1999 | 161.9p | 1/6/2004-30/11/2004 | 54,391 |
| 1 DECEMBER 1999 | 191.0p | 1/12/2004-31/5/2005 | 51,875 |
| 17 DECEMBER 1999 | 236.5p | 1/2/2003-31/7/2003 | 1,037,062 |
| 19 DECEMBER 2000 | 88.3p | 1/2/2004-31/7/2004 | 17,946,934 |
| **Total options outstanding at 31 December 2000** | | | 26,635,135 |

The savings contracts associated with the options granted on 19 December 2000 became effective from 1 February 2001.

**Telewest Restricted Share Scheme ("RSS")**
At 31 December 2000, awards over 358,000 shares were outstanding.
The exercise period of these awards is from 13 January 1998 to 3 October 2009.

**Telewest Long Term Incentive Plan ("LTIP")**
At 31 December 2000, awards over 2,715,000 shares were outstanding.
The exercise period of these awards is from 20 March 2001 to 10 August 2010.

**Telewest Equity Participation Plan ("EPP")**
At 31 December 2000, awards over 1,194,000 shares were outstanding.
The exercise period of these awards is from 20 March 1998 to 26 March 2007.

## 22 RESERVES

| | GROUP | | | | COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | SHARE PREMIUM £M | MERGER RESERVE £M | OTHER RESERVES £M | PROFIT AND LOSS £M | SHARE PREMIUM £M | MERGER RESERVE £M | OTHER RESERVE £M | PROFIT AND LOSS £M |
| AT 1 JANUARY 2000 | 1,245.4 | 534.3 | 270.2 | (1,530.3) | 1,245.4 | – | 483.5 | 1.4 |
| ISSUE OF ORDINARY SHARES NET OF ISSUE COSTS | 3.2 | 2,234.5 | – | – | 3.2 | 2,234.5 | – | – |
| UNREALISED GAIN ON INTRA GROUP SALE OF INVESTMENTS | – | – | – | – | – | – | 768.3 | – |
| UNREALISED GAIN ON DEEMED PARTIAL DISPOSAL OF INVESTMENT | – | – | 7.1 | – | – | – | – | – |
| ACCRUED SHARE BASED COMPENSATION COSTS | – | – | – | 1.8 | – | – | – | 1.8 |
| (LOSS)/PROFIT FOR THE FINANCIAL YEAR | – | – | – | (705.6) | – | – | – | 16.1 |
| AT 31 DECEMBER 2000 | **1,248.6** | **2,768.8** | **277.3** | **(2,234.1)** | **1,248.6** | **2,234.5** | **1,251.8** | **19.3** |

Prior to the introduction of Financial Reporting Standard 10 the cumulative amount of positive goodwill eliminated against reserves in previous years was £487.4 million and the cumulative amount of negative goodwill added to reserves in prior years was £270.2 million.

## 23 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:

| | 2000 £M | 1999 £M |
|---|---|---|
| CONTRACTED | **43.3** | 21.1 |

The Company has no capital commitments.

### (II) Leasing commitments

Obligations of the Group in respect of finance leases, net of interest, are shown in note 18 to the financial statements.

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

| | 2000 LAND AND BUILDINGS £M | 2000 OTHER ASSETS £M | 1999 LAND AND BUILDINGS £M | 1999 OTHER ASSETS £M |
|---|---|---|---|---|
| WITHIN ONE YEAR | **0.3** | **–** | 1.3 | 0.1 |
| IN THE SECOND TO FIFTH YEAR INCLUSIVE | **2.5** | **9.1** | 2.2 | 0.1 |
| OVER FIVE YEARS | **10.0** | **1.6** | 13.6 | – |
| | **12.8** | **10.7** | 17.1 | 0.2 |

The Company has no operating lease commitments.

### (III) Other Commitments

At 31 December 2000 the Group is committed to providing funding to Imagine Broadband Limited and to UKTV amounting to £16.0 million and £70.0 million respectively.

### (IV) Contingencies

The General Cable Group has provided security for leasing obligations of £12.0 million (1999: £12.0 million) 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 £7.3 million (1999: £7.3 million).

## 24 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2000 £M | 1999 £M |
|---|---|---|
| OPERATING LOSS | **(294.0)** | (181.1) |
| DEPRECIATION | **398.7** | 354.3 |
| AMORTISATION OF GOODWILL | **142.4** | 48.6 |
| (INCREASE)/DECREASE IN STOCKS | **(24.2)** | 0.1 |
| (INCREASE) IN DEBTORS | **(9.7)** | (27.6) |
| (DECREASE)/INCREASE IN CREDITORS | **(19.6)** | 3.3 |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | **193.6** | 197.6 |

## 25 ANALYSIS OF CHANGES IN NET DEBT

| | AT 1 JANUARY 2000 £M | CASH FLOW £M | ACQUISITIONS £M | OTHER NON-CASH MOVEMENTS £M | EXCHANGE MOVEMENTS £M | AT 31 DECEMBER 2000 £M |
|---|---|---|---|---|---|---|
| CASH AT BANK, IN HAND | 13.7 | 18.5 | 8.2 | – | – | **40.4** |
| SHORT TERM DEPOSITS | 51.5 | (32.3) | – | – | – | **19.2** |
| RESTRICTED CASH DEPOSITS | 12.0 | – | – | – | – | **12.0** |
| DEBT DUE AFTER ONE YEAR | (2,940.2) | (617.4) | (114.0) | 436.1 | (142.3) | **(3,377.8)** |
| DEBT DUE WITHIN ONE YEAR | (145.8) | 146.1 | (16.6) | (811.5) | – | **(827.8)** |
| FINANCE LEASE | (137.8) | 35.3 | (86.6) | (56.5) | – | **(245.6)** |
| TOTAL NET DEBT | (3,146.6) | (449.8) | (209.0) | (431.9) | (142.3) | **(4,379.6)** |

## 25 ANALYSIS OF CHANGES IN NET DEBT CONTINUED

**Reconciliation of net cash flow to movement in net debt**

| | 2000 £M | 1999 £M |
|---|---|---|
| INCREASE/(DECREASE) IN CASH IN THE YEAR | **18.5** | (11.7) |
| CASH INFLOW FROM INCREASE IN DEBT AND LEASE FINANCING | **(436.0)** | (234.5) |
| CASH (INFLOW)/OUTFLOW FROM CHANGES IN LIQUID RESOURCES | **(32.3)** | 33.6 |
| CASH OUTFLOW FROM RESTRICTED DEPOSITS | **–** | (175.4) |
| CHANGE IN NET DEBT RESULTING FROM CASH FLOWS | **(449.8)** | (388.0) |
| ACQUISITIONS | **(209.0)** | (174.0) |
| NEW FINANCE LEASES | **(56.5)** | (25.6) |
| TRANSLATION ADJUSTMENTS | **–** | 0.2 |
| VALUATION ADJUSTMENTS | **(142.3)** | (49.3) |
| AMORTISATION OF ISSUE COSTS AND ISSUE DISCOUNT | **(156.1)** | (129.9) |
| WRITE OFF ISSUE COSTS | **(15.8)** | (13.6) |
| CONVERSION OF DEBT | **–** | 0.5 |
| DEBT ISSUED TO ACQUIRE EUROBELL | **(203.5)** | – |
| MOVEMENT IN NET DEBT IN YEAR | **(1,233.0)** | (779.7) |
| NET DEBT AT 1 JANUARY 2000 | **(3,146.6)** | (2,366.9) |
| NET DEBT AT 31 DECEMBER 2000 | **(4,379.6)** | (3,146.6) |

**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 £55.1 million. To fund its acquisitions of Flextech and Eurobell, the Group issued 600.9 million ordinary shares of 10p each and issued £220 million Accreting Convertible Notes 2003 respectively.

## 26 RELATED PARTY TRANSACTIONS

**Identity of relevant related parties**

Liberty Media, Inc (“Liberty”), MediaOne International (“MediaOne”) and Microsoft are related parties of the Group, in that they control or controlled, directly or indirectly, more than 20% of the voting rights of the Group in 2000 and 1999.

Cable London plc (the “former Associate”) up to its acquisition on 23 November 1999 was a related party of the Group by virtue of its status as an associated company. Flextech up to its acquisition on 19 April 2000 was a related party of the Group as Liberty owned more than 20% of the voting rights of Flextech.

**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 Flextech. Such programming is purchased on commercially available terms. Total purchases in the period to acquisition amounted to £3.8 million (1999: £9.0 million). The amount due to Flextech at 31 December 1999 was £2.7 million.

The Group had management agreements with Liberty and MediaOne. The amounts charged under these agreements during the year and total amounts due at 31 December 2000 are set out below.

| | AMOUNTS CHARGED UNDER MANAGEMENT AGREEMENTS | | TOTAL AMOUNTS DUE AT 31 DECEMBER | |
|---|---|---|---|---|
| | 2000 £M | 1999 £M | 2000 £M | 1999 £M |
| MEDIAONE | **–** | 0.4 | **–** | 1.8 |

The Group has made a loan to the former Associate. Interest charged on this loan in 2000 and 1999 was £nil and £2.7 million, respectively.

The Group has charged management fees to UKTV of £3.0 million. In addition the Group has recharged overheads and costs incurred on their behalf to UKTV and to TVTS of £6.9 million and £10.3 million respectively. The Group has also made a loan to UKTV. Interest charged on this loan was £14.7 million. Amounts due from UKTV and TVTS at 31 December 2000 were £229.1 million and £30.6 million respectively.

In the normal course of its business the Group purchases programming on normal commercial terms from UKTV. Purchases in the year ended 31 December 2000 were £4.2 million. The balance due to UKTV at 31 December 2000 was £0.2 million.

The Group also has a £10.0 million loan facility with Liberty. Interest charged on this loan was £1.4 million. The balance due to Liberty at 31 December 2000 was £17.4 million.

**26 RELATED PARTY TRANSACTIONS** CONTINUED

**NATURE OF TRANSACTIONS** CONTINUED

Additionally the Group purchases software and consultancy services from Microsoft, on normal commercial terms. Purchases in the year ended 31 December 2000 amount to £1.5 million. The balance outstanding in respect of such purchases was £nil.

**27 POST BALANCE SHEET EVENTS**

As described in note 17, on 16 March 2001, the Group signed a new Senior Secured credit facility of £2.0 billion. This facility replaces the separate Telewest and Flextech credit facilities. In addition the Group has the ability under the terms of the facility to raise a further £250.0 million from institutional investors.

On 5 March 2001, the Group announced its intention to invest £14.8 million into sit-up Limited ("sit-up"). In return sit-up will buy Screenshop's business for £10.0 million. The Group will have a 38% stake in the enlarged sit-up business.

**28 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 and companies indicated by **, which are registered in Jersey. 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 or otherwise involved in the UK telecommunications industry. The principal activities of companies marked *** are engaged in the supply of entertainment content, interactive and transactional services.

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

**Companies:**

Southwestern Bell International Holdings Limited
(Holding Company)
Telewest Communications Cable Limited
(Holding Company)
Telewest Communications Holdco Limited
(Holding Company) (directly held)
Telewest Communications Holdings Limited
(Holding Company)
Telewest Communications Networks Limited
(Management Company) (directly held)
Theseus No. 1 Limited (Holding Company)
Theseus No. 2 Limited (Holding Company)
Cable Adnet Limited
Cable Guide Limited (Publisher)
(The Company owns indirectly 85% of the ordinary shares and 80% of the cumulative convertible preference shares)
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 (North East) Limited
Telewest Communications (North West) Limited
Telewest Communications (Publications) 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 (Southport) Limited
Telewest Communications (South West) Limited
Telewest Communications (St. Helens & Knowsley) Limited
Telewest Communications (Telford) Limited
Telewest Communications (Wigan) Limited
Telewest Communications (Worcester) Limited
General Cable Limited
General Cable Holdings Limited
General Cable Investments Limited
General Cable Group Limited
(Management Company)

**28 PRINCIPAL SUBSIDIARY UNDERTAKINGS** CONTINUED

**Companies:**

General Cable Programming Limited
Telewest Limited
Cable Finance Limited (Jersey)**
(The Company owns indirectly 50.0025% of the ordinary shares of 50p each and 100% of the nominal shares of £1 each)
The Cable Corporation Limited (Holding Company)
Middlesex Cable Limited
Windsor Television Limited
The Cable Corporation Equipment Limited
Chariot Collection Services Limited
European Business Network Limited
The Yorkshire Cable Group Limited (Holding Company)
Barnsley Cable Communications Limited
Bradford Cable Communications Limited
Doncaster Cable Communications Limited
Halifax Cable Communications Limited
Rotherham Cable Communications Limited
Sheffield Cable Communications Limited
Wakefield Cable Communications Limited
Yorkshire Cable Limited
Yorkshire Cable Telecom Limited
Yorkshire Cable Communications Limited
Yorkshire Cable Finance Limited
Yorkshire Cable Properties Limited (Property Company)
Northern Credit Limited
Mayfair Way Management Limited (Property Company) (The Company owns indirectly 83% of the ordinary shares)
Filegale Limited (Holding Company)
Imminus Limited
Birmingham Cable Corporation Limited (Holding Company)
Birmingham Cable Limited
Central Cable Limited
Central Cable Holdings Limited
West Midlands Credit Limited
Central Cable Sales Limited
Birmingham Cable Finance Limited (Jersey)**
Cable London Limited (Holding Company)
Cable Camden Limited
Cable Hackney and Islington Limited
Cable Haringey Limited
Cable Enfield Limited
Telewest Finance (Jersey) Limited**
Telewest Workwise Limited
Action Stations (2000) Limited***
(The Company owns indirectly 92.5% of the ordinary shares)
Action Stations (Lakeside) Limited***
(The Company owns indirectly 92.5% of the ordinary shares)
Bravo TV Limited***
Flextech (1992) Limited***
Flextech Communications Limited***
Flextech Digital Broadcasting Limited***
Flextech Homeshopping Limited***
(The Company owns indirectly 80% of the ordinary shares)
Flextech Interactive Limited***
Flextech Investments (Jersey) Limited**
Flextech IVS Limited***
Flextech Living Health Limited***
Flextech Limited***
Flextech Rights Limited***
Flextech Television Limited***
Flextech Travel Channel Limited***
Florida Homeshopping Limited***
(The Company owns indirectly 80% of the ordinary shares)
HSN Direct (Europe) Limited***
(The Company owns indirectly 62.96% of the ordinary shares)
HSN Direct International Limited***
(The Company owns indirectly 62.96% of the ordinary shares)
Maidstone Broadcasting***
Maidstone Studios Limited***
Minotaur International Limited***
Screenshop Limited***
Starstream Limited***
Supporthaven PLC***
(The Company owns indirectly 92.5% of the ordinary shares)
The Way Ahead Group Limited***
(The Company owns indirectly 77.5% of the 25p “A” shares and 83.8% of the 50p “B” shares)
TVS Limited***
UK Living Limited***
United Artist Investments Limited***
Eurobell (Holdings) PLC
Eurobell (Sussex) Limited
Eurobell (South West) Limited
Eurobell (West Kent) Limited
Eurobell (IDA) Limited
Eurobell Internet Services Limited
Eurobell CPE Limited
Eurobell Limited
EMS Investments Limited
Eurobell (No.2) Limited
Eurobell (No.3) Limited
Eurobell (No.4) Limited
MatchCo Limited
(The Company owns indirectly 76% of the ordinary shares)

| Partnerships: | Principal place of business |
|---|---|
| Avon Cable Limited Partnership | Bristol |
| Cotswolds Cable Limited Partnership | Cheltenham |
| Edinburgh Cable Limited Partnership | Edinburgh |
| Estuaries Cable Limited Partnership | Basildon |
| London South Cable Partnership | Croydon |
| Telewest Communications (North East) Partnership | Newcastle |
| Telewest Communications (South East) Partnership | Basildon |
| Tyneside Cable Limited Partnership | Newcastle |
| United Cable (London South) Limited Partnership | Croydon |

## 29 PRINCIPAL ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

**Joint ventures:**

| | |
|---|---|
| Avon Cable Limited Partnership and Telewest Communications (South West) Limited Joint Venture | Bristol |
| London South Cable Partnership and Telewest Communications (London South) Limited Joint Venture | Croydon |
| Telewest Communications (Cotswolds) Venture | Cheltenham |
| Telewest Communications (Scotland) Venture | Edinburgh |

**Principal associated undertakings and joint ventures**

| | BUSINESS | CLASS OF SHARES | GROUP HOLDING | COUNTRY OF INCORPORATION |
|---|---|---|---|---|
| Front Row Television Limited | Pay per view television | Ordinary | 53% | England and Wales |

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

| | | | | |
|---|---|---|---|---|
| Blueyonder Workwise Limited | Business internet services | Ordinary | 70% | England and Wales |

The Group accounts for Blueyonder Workwise as a joint venture as the shareholder agreement restricts the ability of the Group to control Blueyonder Workwise

| | | | | |
|---|---|---|---|---|
| SmashedAtom Limited | Internet content services | Ordinary | 60% | England and Wales |

The Group accounts for SmashedAtom as a joint venture as the shareholder agreement restricts the ability of the Group to control SmashedAtom

| | | | | |
|---|---|---|---|---|
| Kindernet CV | Operation of a television channel | Ordinary | 31.1% | Netherlands |
| Scottish Media Group Limited | Channel 3 television franchise operator | Ordinary | 18.50% | Scotland |
| TV Travel Shop Limited | Operation of a transactional travel services business | Ordinary | 37% | England and Wales |
| UK Channel Management Limited | Operation of a television channel | Ordinary | 50% | England and Wales |
| UK Gold Holdings Limited | Operation of a portfolio of television channels | Ordinary | 50% | England and Wales |
| Xrefer.com Limited | Operation of a web-site | Ordinary | 25% | England and Wales |
| Multi Media Mapping | Operation of an on line mapping service | Ordinary | 25% | England and Wales |

**Principal investments**

Unless otherwise stated, all principal investments operate in the United Kingdom, are incorporated in Great Britain and are registered in England and Wales.

| | | | | |
|---|---|---|---|---|
| Imagine Broadband Limited | Broadband internet consultancy | Preference | 11.1% | England and Wales |
| Rapture Television Limited | Operation of a television channel | Ordinary | 4% | England and Wales |
| Grouptrade Limited | Procurement services | Ordinary | 10% | England and Wales |
| Recommend.com Limited | Internet content provider | Ordinary | 10% | England and Wales |

# Auditor's 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, 2000 and 1999, 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, 2000. 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 Kingdom and 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 79 to 109 present fairly, in all material respects, the financial position of Telewest Communications plc and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with generally accepted accounting principles in the United States of America.

KPMG Audit Plc

KPMG AUDIT Plc
Chartered Accountants
Registered Auditor
London, England

22 March 2001

US GAAP

## *Consolidated Statements of Operations* (YEARS ENDED DECEMBER 31)

| | NOTES | (NOTE 2) 2000 $M | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|---|---|
| **REVENUE – CONTINUING OPERATIONS** | | | | | |
| CABLE TELEVISION | | **416.8** | **278.7** | 258.3 | 201.9 |
| CONSUMER TELEPHONY | | **665.2** | **444.8** | 333.7 | 232.5 |
| BUSINESS SERVICES | | **371.3** | **248.3** | 176.5 | 84.2 |
| CONTENT | | **120.8** | **80.8** | – | – |
| OTHER (INCLUDING £NIL £0.3 AND £3.3 IN 2000, 1999, 1998, RESPECTIVELY, FROM RELATED PARTIES) | | **24.2** | **16.2** | 17.0 | 20.6 |
| | | **1,598.3** | **1,068.8** | 785.5 | 539.2 |
| **OPERATING COSTS AND EXPENSES** | | | | | |
| CONSUMER PROGRAMMING EXPENSES | | **(197.9)** | **(132.3)** | (131.9) | (103.0) |
| BUSINESS AND CONSUMER TELEPHONY EXPENSES | | **(350.8)** | **(234.6)** | (158.0) | (82.3) |
| CONTENT EXPENSES | | **(68.0)** | **(45.5)** | – | – |
| SELLING, GENERAL AND ADMINISTRATIVE (INCLUDING £NIL, £0.1 AND £2.0) IN 2000, 1999 AND 1998, RESPECTIVELY, FROM RELATED PARTIES) | | **(665.0)** | **(444.7)** | (307.2) | (207.9) |
| DEPRECIATION | | **(632.9)** | **(423.2)** | (305.3) | (223.6) |
| AMORTIZATION OF GOODWILL | | **(220.9)** | **(147.7)** | (61.6) | (36.2) |
| | | **(2,135.5)** | **(1,428.0)** | (964.0) | (653.0) |
| **OPERATING LOSS** | | **(537.2)** | **(359.2)** | (178.5) | (113.8) |
| **OTHER INCOME/(EXPENSE)** | | | | | |
| INTEREST INCOME (INCLUDING £11.1, £2.7 AND £3.1 IN 2000, 1999 AND 1998, RESPECTIVELY, FROM RELATED PARTIES) | | **22.7** | **15.2** | 7.2 | 15.0 |
| INTEREST EXPENSE (INCLUDING AMORTIZATION OF DEBT DISCOUNT) | | **(575.9)** | **(385.1)** | (293.2) | (206.0) |
| FOREIGN EXCHANGE LOSSES, NET | | **(21.8)** | **(14.6)** | (49.3) | (11.9) |
| SHARE OF NET LOSSES OF AFFILIATES | | **(22.0)** | **(14.7)** | (6.2) | (18.7) |
| OTHER | | **(4.3)** | **(2.9)** | (0.7) | 1.6 |
| MINORITY INTERESTS IN LOSS/(PROFITS) OF CONSOLIDATED SUBSIDIARIES NET | | **0.6** | **0.4** | (0.1) | 1.1 |
| **LOSS BEFORE INCOME TAXES** | | **(1,137.9)** | **(760.9)** | (520.8) | (332.7) |
| INCOME TAX BENEFIT | 15 | **8.7** | **5.8** | – | – |
| **NET LOSS BEFORE EXTRAORDINARY ITEM** | | **(1,129.2)** | **(755.1)** | (520.8) | (332.7) |
| EXTRAORDINARY LOSS ON EXTINGUISHMENT OF DEBT | | **–** | **–** | (20.1) | – |
| **NET LOSS** | | **(1,129.2)** | **(755.1)** | (540.9) | (332.7) |

| **YEARS ENDED DECEMBER 31** | 2000 M | 2000 M | 1999 M | 1998 M |
|---|---|---|---|---|
| **BASIC AND DILUTED LOSS PER ORDINARY SHARE** | | | | |
| WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING | **2,705.1** | **2,705.1** | 2,197.0 | 1,422.3 |
| **BASIC AND DILUTED LOSS PER ORDINARY SHARE** | | | | |
| NET LOSS BEFORE EXTRAORDINARY ITEM | **$(0.42)** | **£(0.28)** | £(0.24) | £(0.23) |
| EXTRAORDINARY LOSS | **–** | **–** | £(0.01) | – |
| NET LOSS | **$(0.42)** | **£(0.28)** | £(0.25) | £(0.23) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## *Consolidated Balance Sheets* (YEARS ENDED DECEMBER 31)

| | NOTE | (NOTE 2) 2000 $M | 2000 £M | 1999 £M |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CASH AND CASH EQUIVALENTS | | **89.1** | **59.6** | 65.2 |
| SECURED CASH DEPOSITS RESTRICTED FOR MORE THAN ONE YEAR | 18 | **18.0** | **12.0** | 12.0 |
| TRADE RECEIVABLES (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS OF £18.7 AND £13.1) | 10 | **172.7** | **115.5** | 82.1 |
| OTHER RECEIVABLES | 7 | **161.8** | **108.2** | 62.0 |
| PREPAID EXPENSES | | **55.2** | **36.9** | 7.6 |
| INVESTMENTS IN AFFILIATES, ACCOUNTED FOR UNDER THE EQUITY METHOD, AND RELATED RECEIVABLES | 8 | **1,171.9** | **783.6** | 4.0 |
| PROPERTY AND EQUIPMENT (LESS ACCUMULATED DEPRECIATION OF £1,400.3 AND £989.1) | 9 | **4,919.4** | **3,289.5** | 2,818.1 |
| GOODWILL (LESS ACCUMULATED AMORTIZATION OF £291.1 AND £162.1) | | **4,191.5** | **2,802.7** | 1,474.4 |
| OTHER INTANGIBLES | | **0.7** | **0.5** | – |
| PROGRAMMING INVENTORY | | **46.4** | **31.0** | – |
| INVENTORY | 12 | **56.5** | **37.8** | 0.2 |
| OTHER ASSETS (LESS ACCUMULATED AMORTIZATION OF £35.5 AND £22.6) | 11 | **70.0** | **46.8** | 41.9 |
| **TOTAL ASSETS** | | **10,953.2** | **7,324.1** | 4,567.5 |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | | |
| ACCOUNTS PAYABLE | | **143.0** | **95.6** | 41.2 |
| OTHER LIABILITIES | 13 | **601.3** | **402.1** | 304.6 |
| DEFERRED TAX | 15 | **273.2** | **182.7** | – |
| DEBT | 14 | **6,361.4** | **4,253.7** | 3,130.6 |
| CAPITAL LEASE OBLIGATIONS | | **367.1** | **245.5** | 137.8 |
| **TOTAL LIABILITIES** | | **7,746.0** | **5,179.6** | 3,614.2 |
| **MINORITY INTERESTS** | | **(3.1)** | **(2.1)** | 0.5 |
| **SHAREHOLDERS' EQUITY** | | | | |
| ORDINARY SHARES, 10P PAR VALUE; 4,300.0 MILLION AND 3,561.0 MILLION AUTHORIZED; 2,886.0 MILLION AND 2,281.0 ISSUED AND OUTSTANDING IN 2000 AND 1999 RESPECTIVELY | | **431.6** | **288.6** | 228.1 |
| LIMITED VOTING SHARES 10P PAR VALUE; 300.0 MILLION AUTHORIZED AND 62.5 MILLION ISSUED AND OUTSTANDING IN 2000 AND 1999 | | **9.3** | **6.2** | 6.2 |
| ADDITIONAL PAID IN CAPITAL | | **6,306.2** | **4,216.8** | 2,328.8 |
| ACCUMULATED DEFICIT | | **(3,534.3)** | **(2,363.3)** | (1,608.2) |
| | | **3,212.8** | **2,148.3** | 954.9 |
| ORDINARY SHARES HELD IN TRUST FOR THE TELEWEST RESTRICTED SHARE SCHEME AND THE TELEWEST LONG-TERM INCENTIVE PLAN | 17 | **(2.5)** | **(1.7)** | (2.1) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **3,210.3** | **2,146.6** | 952.8 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **10,953.2** | **7,324.1** | 4,567.5 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## *Consolidated Statements of Cash Flows* (YEARS ENDED DECEMBER 31)

| | (NOTE 2) 2000 $M | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| NET LOSS | **(1,129.2)** | **(755.1)** | (540.9) | (332.7) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| DEPRECIATION | **632.9** | **423.2** | 305.3 | 223.6 |
| AMORTIZATION OF GOODWILL | **220.9** | **147.7** | 61.6 | 36.2 |
| AMORTIZATION OF DEFERRED FINANCING COSTS AND ISSUE DISCOUNT ON SENIOR DISCOUNT DEBENTURES | **219.8** | **147.0** | 147.5 | 88.0 |
| UNREALIZED LOSS ON FOREIGN CURRENCY TRANSLATION | **30.4** | **20.3** | 49.0 | 14.1 |
| NON-CASH ACCRUED SHARE BASED COMPENSATION COST | **7.3** | **4.9** | 26.4 | – |
| TERMINATION OF SALE AND LEASEBACK | **–** | **–** | 8.9 | – |
| EXTRAORDINARY LOSS ON EXTINGUISHMENT OF DEBT | **–** | **–** | 20.1 | – |
| SHARE OF NET LOSSES OF AFFILIATES | **22.0** | **14.7** | 6.2 | 18.7 |
| LOSS/(GAIN) ON DISPOSAL OF ASSETS | **–** | **–** | 0.7 | (1.6) |
| MINORITY INTERESTS IN (LOSS)/PROFITS OF CONSOLIDATED SUBSIDIARIES | **(0.6)** | **(0.4)** | 0.1 | (1.1) |
| CHANGES IN OPERATING ASSETS AND LIABILITIES NET OF EFFECT OF ACQUISITION OF SUBSIDIARIES: | | | | |
| CHANGE IN RECEIVABLES | **(28.0)** | **(18.7)** | (19.4) | 28.2 |
| CHANGE IN PREPAID EXPENSES | **(29.0)** | **(19.4)** | 10.9 | (10.3) |
| CHANGE IN ACCOUNTS PAYABLE | **(3.1)** | **(2.1)** | (22.5) | (6.4) |
| CHANGE IN OTHER LIABILITIES | **102.0** | **68.2** | 34.8 | (36.4) |
| CHANGE IN OTHER ASSETS | **(67.3)** | **(45.0)** | (54.2) | (11.4) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **(21.9)** | **(14.7)** | 34.5 | 8.9 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| CASH PAID FOR PROPERTY AND EQUIPMENT | **(789.8)** | **(528.1)** | (468.1) | (257.1) |
| CASH PAID FOR ACQUISITION OF SUBSIDIARIES | **(48.2)** | **(32.2)** | (395.3) | (394.0) |
| CASH ACQUIRED WITH SUBSIDIARY UNDERTAKINGS | **12.3** | **8.2** | 2.2 | 16.9 |
| ADDITIONAL INVESTMENTS IN AND LOANS TO AFFILIATES | **(15.7)** | **(10.5)** | (2.4) | (5.7) |
| REPAYMENT OF LOANS MADE TO JOINT VENTURES | **21.5** | **14.4** | – | – |
| PROCEEDS FROM DISPOSAL OF ASSETS | **3.6** | **2.4** | 4.7 | 6.1 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(816.3)** | **(545.8)** | (858.9) | (633.8) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| REPAYMENT OF BORROWINGS | **(22.9)** | **(15.3)** | (45.1) | (0.4) |
| PROCEEDS FROM PRE-EMPTIVE ISSUE | **–** | **–** | – | 241.1 |
| PROCEEDS FROM RIGHTS ISSUE | **–** | **–** | 415.5 | – |
| PROCEEDS FROM EXERCISE OF SHARE OPTIONS | **5.1** | **3.4** | 12.5 | 0.6 |
| PROCEEDS FROM BRIDGE LOAN | **–** | **–** | – | 136.6 |
| SHARE ISSUE COSTS | **(18.8)** | **(12.6)** | (2.5) | (3.3) |
| PROCEEDS FROM ISSUE OF SENIOR NOTES 2008 | **–** | **–** | – | 210.3 |
| PROCEEDS FROM ISSUE OF SENIOR DISCOUNT NOTES 2009 | **–** | **–** | 399.2 | – |
| PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES 2007 | **–** | **–** | 300.0 | – |
| PROCEEDS FROM ISSUE OF SENIOR DISCOUNT NOTES AND SENIOR NOTES 2010 | **812.8** | **543.5** | – | – |

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## *Consolidated Statements of Cash Flows* (YEARS ENDED DECEMBER 31) CONTINUED

| | (NOTE 2) 2000 $M | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|---|
| PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES 2005 | **493.8** | **330.2** | – | – |
| PROCEEDS FROM ISSUE OF ACCRETING CONVERTIBLE NOTES 2003 | **29.9** | **20.0** | – | – |
| REPAYMENT OF BRIDGE LOAN | **–** | **–** | – | (138.5) |
| NET PROCEEDS FROM MATURITY OF FORWARD CONTRACTS | **160.0** | **107.0** | – | – |
| RELEASE OF RESTRICTED DEPOSITS (NET) | **–** | **–** | 175.4 | 5.5 |
| NET (REPAYMENTS)/PROCEEDS FROM BORROWINGS UNDER OLD BANK FACILITIES | **(188.5)** | **(126.0)** | (538.5) | 206.1 |
| REPAYMENT OF OLD FACILITIES UPON REFINANCING | **–** | **–** | (597.0) | – |
| NET (REPAYMENT)/PROCEEDS FROM BORROWINGS UNDER NEW BANK FACILITY | **(388.8)** | **(260.0)** | 951.0 | – |
| CAPITAL ELEMENT OF FINANCE LEASE REPAYMENTS | **(52.8)** | **(35.3)** | (221.8) | (21.8) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **829.8** | **554.9** | 848.7 | 636.2 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(8.4)** | **(5.6)** | 24.3 | 11.3 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **97.5** | **65.2** | 40.9 | 29.6 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **89.1** | **59.6** | 65.2 | 40.9 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## *Consolidated Statements of Shareholders' Equity*

| | CONVERTIBLE PREFERENCE SHARES £M | ORDINARY SHARES £M | LIMITED VOTING SHARES £M | SHARES HELD IN TRUST £M | ADDITIONAL PAID-IN CAPITAL £M | ACCUMULATED DEFICIT £M | TOTAL £M |
|---|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 1997** | 49.6 | 92.8 | – | (2.0) | 1,332.9 | (734.6) | 738.7 |
| ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS | – | – | – | – | 0.6 | – | 0.6 |
| ORDINARY SHARES ISSUED UNDER THE PRE-EMPTIVE ISSUE | – | 26.1 | – | – | 215.0 | – | 241.1 |
| ORDINARY SHARES ISSUED TO GENERAL CABLE SHAREHOLDERS | – | 45.4 | – | – | 348.3 | – | 393.7 |
| CONVERSION OF PREFERENCE SHARES | (49.6) | 49.6 | – | – | – | – | – |
| ACCRUED EMPLOYEE COMPENSATION COST RELATING TO THE TELEWEST RESTRICTED SHARE SCHEME | – | – | – | (0.3) | | – | (0.3) |
| NET LOSS | – | – | – | – | – | (332.7) | (332.7) |
| **BALANCE AT DECEMBER 31, 1998** | – | 213.9 | – | (2.3) | 1,896.8 | (1,067.3) | 1,041.1 |
| ORDINARY SHARES ISSUED IN EXERCISE OF SHARE OPTIONS | – | 0.9 | – | – | 11.6 | – | 12.5 |
| REDESIGNATION OF ORDINARY SHARES | – | (5.7) | 5.7 | – | – | – | – |
| SHARES ISSUED UNDER THE RIGHTS ISSUE TO FUND ACQUISITION OF CABLE LONDON PLC | – | 19.0 | 0.5 | – | 393.5 | – | 413.0 |
| ORDINARY SHARES ISSUED ON CONVERSION OF SENIOR CONVERTIBLE NOTES 2007 | – | – | – | – | 0.5 | – | 0.5 |
| ACCRUED EMPLOYEE COMPENSATION COST RELATING TO THE TELEWEST RESTRICTED SHARE SCHEME | – | – | – | 0.2 | – | – | 0.2 |
| ACCRUED SHARE BASED COMPENSATION COST | – | – | – | – | 26.4 | – | 26.4 |
| NET LOSS | – | – | – | – | – | (540.9) | (540.9) |
| **BALANCE AT DECEMBER 31, 1999** | – | 228.1 | 6.2 | (2.1) | 2,328.8 | (1,608.2) | 952.8 |
| ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS | – | 0.4 | – | – | 3.0 | – | 3.4 |
| SHARES ISSUED TO ACQUIRE FLEXTECH PLC | – | 60.1 | – | – | 1,873.0 | – | 1,933.1 |
| ACCRUED EMPLOYEE COMPENSATION COST RELATING TO THE TELEWEST RESTRICTED SHARE SCHEME | – | – | – | 0.4 | – | – | 0.4 |
| ACCRUED SHARE BASED COMPENSATION COST | – | – | – | – | 4.9 | – | 4.9 |
| UNREALISED GAIN ON DEEMED DISPOSAL OF SHARES OF AN AFFILIATE | – | – | – | – | 7.1 | – | 7.1 |
| NET LOSS | – | – | – | – | – | (755.1) | (755.1) |
| **BALANCE AT DECEMBER 31, 2000** | **–** | **288.6** | **6.2** | **(1.7)** | **4,216.8** | **(2,363.3)** | **2,146.6** |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# *Notes to the Consolidated Financial Statements* (YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998)

## 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 2000 for approximately 26% and 65%, respectively, of the Company’s revenue.

In addition, since the acquisition of Flextech Plc in April 2000, the Company is also engaged in broadcast media activities, being the supply of entertainment content, interactive and transactional services to the UK pay TV and internet markets. The Company operates a portfolio of thematic subscription and transactional channels. It also operates on the internet and has additional investments in production facilities and programming. The Content division accounts in 2000 for approximately 7% of the Company’s revenue.

## 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 financial statements have been prepared on a going concern basis. The terms of the Group’s borrowings require compliance with a range of financial covenants. Whilst the Group was not in compliance with certain of its covenants under the senior credit facility towards the end of 2000, a waiver was granted by the Group’s bankers.

On March 16, 2001 the Group agreed a new senior secured credit facility and the directors expect the Group to be in compliance with the financial covenants in respect of the new facility for the remainder of 2001.

The economic environment and currency 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, 2000 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 $1.4955 = £1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2000. 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 its 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.

The Company applies 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. The Company believes that no material impairment exists at December 31, 2000.

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. 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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** CONTINUED

**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 has used 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 risk on the principal amount and related call premium of certain foreign currency borrowings up to the first call date or anticipated repayment date for such borrowings.

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.

The Company uses a series of forward contracts or cross currency interest rate swaps to reduce its exposure to adverse changes in foreign currency exchange rates associated with the interest payments on certain foreign currency borrowings. Such forward contracts or cross currency interest rate swaps are accounted for using the accruals method.

Net income or expense from interest rate swap agreements entered into to manage interest rate risk on the Company’s borrowings resulting from the differential between exchanging floating and fixed rate interest payments is recorded on an accruals basis from the effective date of the agreement. Other interest rate swaps, which do not qualify as hedges, 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 collar agreement which is designated as a hedge (i.e. to limit interest cost) of a long-term debt is accounted for on an accruals basis. Amounts receivable under the agreement are recognized 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 £38.1 million, £27.3 million and £20.5 million for the years ended December 31, 2000, 1999, and 1998, 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 |

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Company accounts for costs, expenses and revenues applicable to the construction and operation of its cable systems in accordance with Statement of Financial Accounting Standards ("SFAS") No. 51 "Financial Reporting by Cable Television Companies".

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

**Franchise costs**

Expenditure incurred on successful applications for franchise licences 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**

Revenues are recognized as network communication services are provided. Credit risk is managed by disconnecting services to customers who are delinquent. Connection and activation fees relating to cable television are recognized in the period of connection to the extent that such fees are less than direct selling costs. All other up-front fees are deferred and recognized over the estimated average period that the customers are expected to remain connected to the system. Following the introduction of SAB 101 in 2000, connection fees specific to telephony and data installations are recognized over the period that the customers are expected to remain connected to the system.

Occasionally, the Company sells capacity on its network to other telecommunications providers. Sales of capacity are accounted for as sales-type leases, operating leases, or service agreements depending on the terms of the transaction. Revenue for sales of capacity which meet the criteria of a sales-type are recognized as revenue using the percentage-of-completion method. If title is not transferred or if the other requirements of sales-type lease accounting are not met, revenues are recognized ratably over the term of the agreement.

Programming revenues are recognized based on subscriber numbers for that period. Revenue on transactional and interactive sales are recognized as and when the services are delivered. Advertising sales revenue is recognized at estimated realizable values when the advertising is aired.

**Recognition of contract costs**

Certain of the sales of network capacity referred to above involve the Company constructing new capacity. Where the Company retains some of this new capacity, either for subsequent resale or for use within the business, then an element of the construction costs is retained within inventory or equipment, respectively. The allocation of construction cost between costs expensed to the profit and loss account and costs capitalized within inventory or equipment is based upon the ratio of capacity sold and retained.

**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 expenses in 2000, 1999 and 1998 of £8.0 million, £4.8 million, and £3.0 million, respectively, represents the contributions payable to the selected schemes in respect of the relevant accounting periods.

### 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 fixed plan 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. Compensation cost for variable plan share options is measured each period using the intrinsic value method until the variable or performance features of the plan become fixed. Compensation expense is recognized over the applicable vesting period.

Shares purchased by the trustees in connection with the Telewest Restricted Share Scheme and certain LTIP awards, 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 year. Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding during the year for all dilutive potential ordinary shares outstanding during the year 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 for employee share options and convertible debt are not included in the computation as their effect would be to decrease the loss per share. The number of potential ordinary shares was 464.1 million, 82.1 million and nil in 2000, 1999 and 1998, respectively.

**Inventories**

Inventories of equipment, held for use in the maintenance and expansion of the Company's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Inventories for resale are stated at the lower of cost and net realizable value.

**New Accounting Standards Applicable to the Company**

**SAB 101 – Revenue Recognition in Financial Statements**

The Company has applied SAB 101 – Revenue Recognition in Financial Statements from January 1, 2000. The principal impact of the adoption of SAB 101 has been to spread the recognition within revenue of connection fees specific to telephony and data services over the estimated average period that the customer is expected to remain connected to the network.

The effect of applying SAB 101 in the year ended December 31, 2000 was to reduce turnover by £5.5 million, however this has been broadly offset by the deferral of direct selling costs over the expected contract life of the customer.

The Company believes that the cumulative impact of applying SAB 101 retrospectively is not material.

## 4 FINANCIAL INSTRUMENTS

**Foreign currency option contract**

At December 31, 1999, the Company held a Pounds Sterling put option ("Foreign Currency Option") to purchase $0.5 billion to reduce its exposure to adverse fluctuations in exchange rates on that part of the principal amount at maturity of its US Dollar-denominated Senior Discount Debentures due 2007. The expiration date of this option contract was September 28, 2000. The put option had a strike price at expiration of £1.00 = US$1.4520. Prior to September 28, 2000 the Company sold the option at fair market value.

**Foreign currency swaps**

The Company has entered into a series of foreign currency swaps to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of its US Dollar-denominated Senior Debentures due 2006. The terms of these contracts provide for the Company to make an initial exchange of principal of $300.0 million in exchange for £196.3 million. On expiration on October 1, 2002, the initial principal amounts will be re-exchanged. The interest element of the Foreign Currency Swap requires the Company to make 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, 2000.

**Foreign exchange forward contracts**

The Company has entered into a Foreign Currency Swap to reduce its exposure to adverse fluctuations in exchange rates on the interest payment dates of its Senior Notes due 2008 through November 3, 2003. The aggregate notional amount is $350.0 million. The result of this Foreign Currency Swap is that during the term of the agreement 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 entered into two foreign exchange forward contracts, expiring on November 3, 2003, to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Notes due 2008. The terms of the contracts provide for the Company to purchase $350.0 million at expiry at an average rate of $1.50/£1.

The Company has entered into a foreign exchange forward contract through April 15, 2004 to reduce its exposure to fluctuations in exchange rates on the principal amount of its US Dollar-denominated Senior Discount Notes due 2009. The aggregate notional principal amount is $523.1 million including the call premium. The terms of the contract allow for the Company to purchase the call amount of US Dollars on the call date at a fixed rate of $1.58/£1.

The Company has entered into a series of foreign exchange forward contracts through February 1, 2005, to hedge its exposure to adverse fluctuations in exchange rates on the interest payment dates of its US Dollar-denominated Senior Notes due 2010, issued January 19, 2000. The aggregate notional amount is $367.3 million including the call premium. The result of this Foreign Currency Swap is that during the term of the agreement 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 $1.646/£1.

The Company has also entered into a foreign exchange forward contract through February 1, 2005 to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of its US Dollar-denominated Senior Discount Notes due 2010 also issued on January 19, 2000. The aggregate notional principal amount is $475.6 million including the call premium. The terms of the contract allow for the Company to purchase the call amount of US Dollars on the call date at a fixed rate of $1.60/£1. The Company has entered into foreign exchange forward contracts with a number of banks, expiring at various dates to October 1, 2003, to reduce its exposure to adverse fluctuations in exchange rates on that part of the principal amount at maturity of its US Dollar-denominated Senior Discount Debentures due 2007. The terms of the contracts provide for the Company to purchase $1,402 million at expiry at an average rate of $1.4234/£1.

The Company has also entered into foreign exchange contingent forward contracts with two banks, expiring on April 2, 2002 and October 1, 2003, to reduce its exposure to adverse fluctuations in exchange rates on the final part of the principal amount at maturity of its US Dollar-denominated Senior Discount Debentures due 2007. The terms of the contracts provide for the Company to purchase $135 million at expiry at the spot rate up to a maximum rate of $1.50/£1 and minimum rate of $1.40/£1, so long as the exchange rate has not traded above certain barriers during the period of the transactions. If the barrier is breached the Company is able to purchase $135 million at $1.40/£1.

**4 FINANCIAL INSTRUMENTS** CONTINUED

On October 1, 2000 the Senior Discount Debentures due 2007 became cash interest payable. As a result of this, the Company has entered into a series of foreign exchange forward contracts to reduce its exposure to adverse fluctuations in exchange rates on the interest payment dates through October 1, 2002. The aggregate notional amount is $340.0 million. The result of these foreign exchange forward contracts is that during the term of the agreements the Company is to make the equivalent of sterling fixed-rate interest payments and receive the equivalent US Dollar fixed-rate interest payments at an average rate of $1.42/£1.

Finally, the Company has entered into a series of foreign exchange forward contracts to reduce its exposure to adverse fluctuations in exchange rates on the interest payment dates of its Senior Convertible Notes due 2005 through July 7, 2003. The aggregate notional amount is $500.0 million. The result of these foreign exchange forward contracts is that during the term of the agreement 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 $1.52/£1.

**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 two 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 | £750.0m | 6-month LIBOR | 7.175%-7.910% |
| | 12/23/1996 | 12/23/2001 | £128.0m | 3-month LIBOR | 7.79% |
| | 6/2/1997 | 7/7/2001 | £79.0m | 6-month LIBOR | 7.34%-7.344% |
| FLEXTECH | 12/23/1996 | 12/23/2001 | £128.0m | 3-month LIBOR | 7.7825% |

**Interest rate collar**

The Company has an interest rate collar agreement over a principal amount of £40.3 million to hedge against adverse fluctuations in interest rates. The agreement entitles the Company to receive interest at the six month LIBOR rate and pay a fixed interest of 6% for LIBOR fixings below 6%, and receive interest at the six month LIBOR rate and pay a fixed interest of 9% for LIBOR fixings above 9%. The effective date is June 2, 1997, and the agreement matures on July 9, 2001.

**Fair value of financial instruments**

SFAS No. 119 "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" requires disclosure of an estimate of the fair values of certain financial instruments. 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 judgement, and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

At December 31, 2000, 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 Collar, 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.

| 4 **FINANCIAL INSTRUMENTS** CONTINUED | AT DECEMBER 31, 2000 CARRYING AMOUNT £M | FAIR VALUE £M | AT DECEMBER 31, 1999 CARRYING AMOUNT £M | FAIR VALUE £M |
|---|---|---|---|---|
| **FINANCIAL INSTRUMENTS – ASSETS:** | | | | |
| FOREIGN CURRENCY OPTION CONTRACT | **–** | **–** | 1.1 | 1.1 |
| FOREIGN CURRENCY SWAP | **7.4** | **7.4** | – | – |
| INTEREST RATE COLLAR | **–** | **–** | – | – |
| **FINANCIAL INSTRUMENTS – LIABILITIES:** | | | | |
| INTEREST RATE SWAP AGREEMENTS | **–** | **(33.5)** | – | (17.0) |
| FOREIGN EXCHANGE FORWARD CONTRACTS | **(7.7)** | **(12.9)** | (22.5) | (21.3) |
| FOREIGN CURRENCY SWAP | **–** | **–** | (13.5) | (13.5) |
| **DEBT OBLIGATIONS:** | | | | |
| SENIOR DISCOUNT DEBENTURES 2007 | **1,078.9** | **919.9** | 894.7 | 885.9 |
| SENIOR DEBENTURES 2006 | **200.6** | **172.5** | 185.8 | 185.8 |
| SENIOR NOTES 2008 | **234.6** | **207.1** | 215.4 | 229.7 |
| SENIOR CONVERTIBLE NOTES 2005 | **334.3** | **233.6** | – | – |
| SENIOR CONVERTIBLE NOTES 2007 | **299.5** | **178.9** | 299.5 | 344.4 |
| SENIOR DISCOUNT NOTES 2009 | **472.3** | **311.5** | 431.5 | 390.4 |
| SENIOR NOTES 2010 | **388.1** | **352.1** | – | – |
| SENIOR DISCOUNT NOTES 2010 | **177.6** | **135.4** | – | – |
| ACCRETING CONVERTIBLE NOTES 2003 | **225.3** | **225.3** | – | – |
| SENIOR SECURED FACILITY | **690.0** | **690.0** | 950.0 | 950.0 |
| CABLE LONDON FACILITY | **–** | **–** | 126.0 | 126.0 |
| FLEXTECH FACILITY | **116.0** | **116.0** | – | – |
| OTHER DEBT | **36.5** | **36.5** | 27.7 | 27.7 |

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 debentures and notes 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. The directors consider that the fair value of the Accreting Convertible Notes 2003 is not materially different from the carrying value, as the Notes may not be traded and the Notes must be held until maturity by the original holder.

**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, 2000, the Company had no significant concentration of credit risk.

The Company’s cable television business is substantially dependent upon contracts with a small group of companies for the right to broadcast their programmes. The loss of any one of these contracts could have a material adverse effect on the business of the Company.

In 2000, the Company was dependent on a single supplier of digital set-top boxes. However, in February 2001, the Company announced that it has secured an additional supplier of digital set-top boxes.

## 5 BUSINESS COMBINATIONS

On April 19, 2000 the Company acquired the entire issued share capital of Flextech Plc (“Flextech”), a company engaged in broadcast media activities, for a total consideration of £1,977.5 million. This comprised 600.9 million shares of 10p each and acquisition costs of £31.4 million. The value attributed to the shares issued was 323.85p per share, being the average share market price for a five day period around December 17, 1999, the day the terms of the acquisitions were agreed to and announced. The goodwill arising on acquisition of Flextech was £1,382.4 million which is being amortized over its estimated useful life of 20 years. In determining the estimated useful life, the Company reviewed key distribution and advertising agency relationships within the acquired business, and considers that the value of these relationships support an amortization period of 20 years. .

On November 1, 2000 the Company completed its acquisition of the entire issued share capital of Eurobell (Holdings) PLC (“Eurobell”), from Deutsche Telekom (“DT”) and agreed to pay initial and deferred consideration to DT, (as discussed below), in the form of 5% Accreting Convertible Notes due 2003. The aggregate principal amount of such Notes, following agreement of the deferred consideration will be £253.5 million. The terms of the Accreting Convertible Notes are described in note 14 to these financial statements.

Upon completion of the acquisition, the Company issued a £220.0 million Accreting Convertible Note to DT in consideration for: Eurobell’s entire issued share capital, £71.7 million, the assignment of an inter-company loan previously owned by Eurobell to DT, £128.3 million, and a cash payment remitted to Eurobell by DT shortly after the acquisition, £20.0 million. Subsequently, on January 15, 2001 DT remitted a further cash payment, £30.0 million, to Eurobell and the Company issued an additional Accreting Convertible Note to DT for 30.0 million.

In addition under the terms of the acquisition, the Company is obliged to provide deferred consideration, contingent on Eurobell’s turnover for the year ended December 31, 2000 exceeding a certain target. As a result, an additional £3.5 million Accreting Convertible Note will be issued to DT in April 2001. This deferred consideration has been accrued for at December 31, 2000. Following this latest issue, total costs for the acquisition of the equity shares of Eurobell will be £76.5 million, comprising of £75.2 million incurred for the acquisition of the share capital and £1.3 million in acquisition expenses.

Goodwill of £0.9 million arose on the acquisition which is being amortized over 20 years, which is the average remaining useful life of the network assets acquired with Eurobell.

The following unaudited proforma financial information presents the consolidated results of the operations of the Company as if the acquisition of Flextech and Eurobell had occurred at the beginning of the applicable period, after giving effect to certain adjustments including the amortization of goodwill arising as a result of the acquisitions.

| | 2000<br>£M | 1999<br>£M |
|---|---|---|
| REVENUE | **1,156.5** | 941.9 |
| NET LOSS | **(819.6)** | (681.0) |
| LOSS PER SHARE | **£(0.28)** | £(0.24) |

On November 23, 1999 the Company acquired the remaining 50% of the issued share capital of Cable London PLC which it did not already own, for cash consideration of £389.0 million plus acquisition costs of £4.6 million and assumption of debt of £39.0 million. The acquisition has been accounted for using the purchase method of accounting. The goodwill arising on acquisition was £438.5 million 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 £164.5 million, £123.8 million and £119.4 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Significant non-cash investing activities of the Company are described below. The amounts stated for 2000 represent the purchase of Flextech and Eurobell as described in note 5 to the Consolidated Financial Statements.

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | **2000** | 1999 | 1998 |
| | **£M** | £M | £M |
| ACQUISITIONS: | | | |
| ASSETS | **1,103.7** | 179.5 | 988.3 |
| LIABILITIES ASSUMED | **(172.3)** | (117.2) | (364.9) |
| DEBT ASSUMED | **(260.8)** | (125.7) | (464.5) |
| NET ASSETS/(LIABILITIES) ACQUIRED (CONTRIBUTED) | **670.6** | (63.4) | 158.9 |
| LESS: | | | |
| MINORITY INTEREST IN BIRMINGHAM CABLE ARISING | **–** | – | (8.8) |
| LESS: | | | |
| PREVIOUSLY ACCOUNTED FOR: | | | |
| EQUITY INVESTMENT IN CABLE LONDON | **–** | (32.0) | – |
| EQUITY INVESTMENT IN THE CABLE CORPORATION | **–** | – | (19.7) |
| EQUITY INVESTMENT IN BIRMINGHAM CABLE | **–** | – | (38.3) |
| SHARE OF CUMULATIVE LOSSES OF CABLE LONDON | **–** | 50.5 | – |
| SHARE OF CUMULATIVE LOSSES OF BIRMINGHAM CABLE | **–** | – | 24.9 |
| GOODWILL ARISING | **1,383.3** | 438.5 | 547.8 |
| | **2,053.9** | 393.6 | 664.8 |

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | **2000** | 1999 | 1998 |
| | **£M** | £M | £M |
| SHARE CONSIDERATION/CAPITAL CONTRIBUTION | **1,946.1** | – | 397.0 |
| DEBT CONSIDERATION | **75.2** | – | – |
| PURCHASE OF SHARES | **–** | 389.0 | 243.9 |
| COSTS OF ACQUISITION | **32.6** | 4.6 | 23.9 |
| | **2,053.9** | 393.6 | 664.8 |

Of this goodwill, £114.0 million has been allocated to investments in affiliates.
The Company entered into capital lease obligations with a total capital value of £56.5 million.

**7 OTHER RECEIVABLES**

| | AT DECEMBER 31 | |
|---|---|---|
| | **2000** | 1999 |
| | **£M** | £M |
| VALUE ADDED TAX REFUND | **4.1** | 3.7 |
| INTERCONNECTION RECEIVABLES | **6.4** | 2.1 |
| INTEREST RECEIVABLE | **–** | 7.1 |
| ACCRUED INCOME | **59.9** | 25.0 |
| OTHER | **30.4** | 24.1 |
| FOREIGN CURRENCY SWAP | **7.4** | – |
| | **108.2** | 62.0 |

Accrued income primarily represents telephone calls made by subscribers and income accrued under commercial services contracts 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, 2000 and 1999 as follows:

| | PERCENTAGE OWNERSHIP AT DECEMBER 31 | |
|---|---|---|
| | **2000** | 1999 |
| FRONT ROW TELEVISION LIMITED | **53.0%** | 53.0% |
| LONDON INTERCONNECT LIMITED | **16.67%** | 16.67% |
| UK TV | **50.0%** | – |
| SCOTTISH MEDIA GROUP | **17.16%** | – |
| SMASHED ATOM | **60.0%** | – |

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

| | AT DECEMBER 31 | |
|---|---|---|
| | **2000** | 1999 |
| | **£M** | £M |
| **COMBINED FINANCIAL POSITION** | | |
| PROPERTY AND EQUIPMENT, NET | **57.6** | 0.5 |
| INTANGIBLE ASSETS, NET | **359.8** | – |
| OTHER ASSETS, NET | **267.6** | 3.7 |
| TOTAL ASSETS | **685.0** | 4.2 |
| DEBT | **–** | – |
| OTHER LIABILITIES | **625.6** | 3.3 |
| OWNERS' EQUITY | **59.4** | 0.9 |
| TOTAL LIABILITIES AND EQUITY | **685.0** | 4.2 |

| | YEAR ENDED DECEMBER 31 | |
|---|---|---|
| | **2000** | 1999 |
| | **£M** | £M |
| **COMBINED OPERATIONS** | | |
| REVENUE | **406.0** | 9.7 |
| OPERATING EXPENSES | **(342.7)** | (9.4) |
| OPERATING PROFIT | **63.3** | 0.3 |
| INTEREST EXPENSE | **(29.8)** | – |
| NET PROFIT | **33.5** | 0.3 |

| | AT DECEMBER 31 | |
|---|---|---|
| | **2000** | 1999 |
| | **£M** | £M |
| **THE COMPANY'S INVESTMENTS IN AFFILIATES ARE COMPRISED AS FOLLOWS:** | | |
| GOODWILL | **114.0** | – |
| LOANS | **267.0** | 4.0 |
| SHARE OF NET ASSETS | **402.6** | – |
| | **783.6** | 4.0 |

Included within investments in affiliates is £148.0 million in respect of listed investments. The aggregate market value of these listed investments at December 31, 2000 was £146.0 million.

US GAAP

***Notes to the Consolidated Financial Statements*** (YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998)

## 9 PROPERTY AND EQUIPMENT

| | LAND £M | BUILDINGS £M | CABLE AND DUCTING £M | ELECTRONIC EQUIPMENT £M | OTHER EQUIPMENT £M | TOTAL £M |
|---|---|---|---|---|---|---|
| **ACQUISITION COSTS** | | | | | | |
| BALANCE AT JANUARY 1, 2000 | 6.1 | 99.9 | 2,266.5 | 1,063.1 | 371.6 | 3,807.2 |
| ON ACQUISITION | – | 3.8 | 187.8 | 91.8 | 17.1 | 300.5 |
| ADDITIONS | 0.3 | 14.7 | 176.4 | 238.9 | 165.0 | 595.3 |
| DISPOSALS | – | – | (0.6) | (0.8) | (1.7) | (3.1) |
| BALANCE AT DECEMBER 31, 2000 | 6.4 | 118.4 | 2,630.1 | 1,393.0 | 552.0 | 4,699.9 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| BALANCE AT JANUARY 1, 2000 | – | 27.5 | 398.2 | 408.8 | 154.6 | 989.1 |
| CHARGE FOR THE YEAR | – | 8.0 | 147.6 | 196.5 | 71.1 | 423.2 |
| DISPOSALS | – | – | (0.3) | (0.8) | (0.8) | (1.9) |
| BALANCE AT DECEMBER 31, 2000 | – | 35.5 | 545.5 | 604.5 | 224.9 | 1,410.4 |
| **2000 NET BOOK VALUE** | **6.4** | **82.9** | **2,084.6** | **788.5** | **327.1** | **3,289.5** |
| **ACQUISITION COSTS** | | | | | | |
| BALANCE AT JANUARY 1, 1999 | 5.9 | 82.7 | 1,966.2 | 873.5 | 224.1 | 3,152.4 |
| RECLASSIFICATION | – | – | (13.9) | (1.0) | 14.9 | – |
| ON ACQUISITION | – | 4.7 | 92.4 | 60.6 | 9.3 | 167.0 |
| ADDITIONS | 0.2 | 12.5 | 221.8 | 135.1 | 130.5 | 500.1 |
| DISPOSALS | – | – | – | (5.1) | (7.2) | (12.3) |
| BALANCE AT DECEMBER 31, 1999 | 6.1 | 99.9 | 2,266.5 | 1,063.1 | 371.6 | 3,807.2 |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| BALANCE AT JANUARY 1, 1999 | – | 18.7 | 260.3 | 317.2 | 99.1 | 695.3 |
| RECLASSIFICATION | – | – | (4.8) | – | 4.8 | – |
| CHARGE FOR THE YEAR | – | 8.8 | 142.7 | 96.7 | 57.1 | 305.3 |
| DISPOSALS | – | – | – | (5.1) | (6.4) | (11.5) |
| BALANCE AT DECEMBER 31, 1999 | – | 27.5 | 398.2 | 408.8 | 154.6 | 989.1 |
| **1999 NET BOOK VALUE** | **6.1** | **72.4** | **1,868.3** | **654.3** | **217.0** | **2,818.1** |

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 £15.6 million and £17.8 million as of December 31, 2000 and 1999, 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 £M | ACQUISITION OF SUBSIDIARIES £M | ADDITIONS CHARGED TO COSTS AND EXPENSES £M | DEDUCTIONS £M | BALANCE AT DECEMBER 31 £M |
|---|---|---|---|---|---|---|
| 2000 | DEFERRED TAX VALUATION ALLOWANCES | 490.9 | 38.5 | 203.8 | – | 733.2 |
| | ALLOWANCE FOR DOUBTFUL ACCOUNTS | 13.1 | 5.1 | 13.6 | (13.1) | 18.7 |
| 1999 | DEFERRED TAX VALUATION ALLOWANCES | 369.4 | 38.6 | 82.9 | – | 490.9 |
| | ALLOWANCE FOR DOUBTFUL ACCOUNTS | 14.3 | 2.1 | 14.2 | (17.5) | 13.1 |
| 1998 | DEFERRED TAX VALUATION ALLOWANCES | 247.4 | – | 122.0 | – | 369.4 |
| | ALLOWANCE FOR DOUBTFUL ACCOUNTS | 6.5 | 9.6 | 9.2 | (11.0) | 14.3 |

## 11 OTHER ASSETS

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

| | AT DECEMBER 31 2000 £M | 1999 £M |
|---|---|---|
| DEFERRED FINANCING COSTS OF DEBENTURES | **32.1** | 24.2 |
| DEFERRED FINANCING COSTS OF SENIOR SECURED FACILITY | **14.7** | 15.9 |
| FOREIGN CURRENCY OPTION CONTRACT | **–** | 1.1 |
| OTHER | **–** | 0.7 |
| | **46.8** | 41.9 |

As described in note 14, the Company entered into a new Senior Secured credit facility on March 16, 2001. As a result the deferred financing costs included within other assets at December 31, 2000 were subsequently written off.

## 12 INVENTORY

| | 2000 £M | 1999 £M |
|---|---|---|
| RAW MATERIALS AND CONSUMABLES | **1.7** | 0.2 |
| EQUIPMENT FOR RE-SALE | **36.1** | – |
| | **37.8** | 0.2 |

## 13 OTHER LIABILITIES

Other liabilities are summarised as follows:

| | AT DECEMBER 31 2000 £M | 1999 £M |
|---|---|---|
| AMOUNTS DUE TO OTHER RELATED PARTIES | **0.2** | 2.5 |
| DEFERRED INCOME | **83.3** | 39.9 |
| ACCRUED CONSTRUCTION COSTS | **30.0** | 24.9 |
| ACCRUED PROGRAMMING COSTS | **32.3** | 27.2 |
| ACCRUED INTERCONNECT COSTS | **37.3** | 33.0 |
| ACCRUED INTEREST | **84.9** | 22.8 |
| ACCRUED STAFF COSTS | **23.5** | 15.9 |
| ACCRUED EXPENSES AND DEFERRED INCOME | **66.5** | 98.6 |
| FOREIGN CURRENCY SWAP | **–** | 13.5 |
| OTHER LIABILITIES | **44.1** | 26.3 |
| | **402.1** | 304.6 |

## 14 DEBT

Debt is summarized as follows at December 31, 2000 and 1999:

| | WEIGHTED AVERAGE INTEREST RATE 2000 | 1999 | 2000 £M | 1999 £M |
|---|---|---|---|---|
| SENIOR DEBENTURES 2006 | **9.625%** | 9.625% | **200.6** | 185.8 |
| SENIOR DISCOUNT DEBENTURES 2007 | **11.00%** | 11.00% | **1,078.9** | 894.7 |
| SENIOR NOTES 2008 | **11.25%** | 11.25% | **234.6** | 215.4 |
| SENIOR CONVERTIBLE NOTES 2007 | **5.25%** | 5.25% | **299.5** | 299.5 |
| SENIOR DISCOUNT NOTES 2009 | **9.25%** | 9.25% | **236.7** | 216.6 |
| SENIOR DISCOUNT NOTES 2009 | **9.875%** | 9.875% | **235.6** | 214.9 |
| SENIOR NOTES 2010 | **9.875%** | – | **177.6** | – |
| SENIOR DISCOUNT NOTES 2010 | **11.375%** | – | **388.1** | – |
| SENIOR CONVERTIBLE NOTES 2005 | **6.000%** | – | **334.3** | – |
| ACCRETING CONVERTIBLE NOTES 2003 | **5.000%** | – | **225.3** | – |
| SENIOR SECURED FACILITY | **7.553%** | 8.777% | **690.0** | 950.0 |
| CABLE LONDON FACILITY | **–** | 6.684% | **–** | 126.0 |
| FLEXTECH FACILITY | **6.712%** | – | **116.0** | – |
| OTHER DEBT | **7.432%** | 7.5% | **36.5** | 27.7 |
| | | | **4,253.7** | 3,130.6 |

**Senior Debentures 2006**

In October 1995, the Company issued US$300.0 million principal amount of Senior Debentures with a yield to maturity of 9.625%. The cash consideration received at the date of issue was £188.7 million. 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.

**14 DEBT** CONTINUED

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 £157.9 million 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, 2000.

The Company has entered into two foreign currency swaps to reduce its exposure to adverse fluctuations in exchange rates on the principal amount which will be outstanding on October 1, 2002, and the associated interest payments of the Senior Debentures. The terms of the foreign currency swaps 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 $1,536.4 million 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 £566.1 million ($900.0 million). The Senior Discount Debentures mature on October 1, 2007. The discounted amount of the Senior Discount Debentures has accreted at an annual rate of 11% compounded semi-annually to October 1, 2000. Thereafter, interest on the Senior Discount Debentures accrues semi-annually and is 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 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, 2000.

As described in note 4, the Company entered into various foreign exchange forwards to reduce its exposure to adverse fluctuations in exchange rates on the principal amount which will be outstanding at various dates to October 1, 2003. The terms of these foreign currency contracts 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 $350.0 million 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 £210.3 million. The Senior Notes mature on November 1, 2008. Interest on the Senior Notes accrues semi-annually and is payable in arrears on May 1 and November 1 each year. 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.

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 raised 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, 2000.

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 has also entered into two forward exchange contracts to purchase $350.0 million on November 3, 2003 to reduce its exposure to adverse fluctuations in exchange rates on the principal amounts of the Senior Notes 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.

**14 DEBT** CONTINUED

**Senior Convertible Notes 2007**

On February 19, 1999 the Company issued £300.0 million 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 a conversion price of 325p 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 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.

To date £0.5 million principal amount has been converted into 0.1 million ordinary shares.

The Convertible Notes were issued to temporarily repay indebtedness under certain revolving credit facilities. The indentures under which the Senior Convertible Notes were issued contain various covenants which, amongst 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, 2000.

The Convertible Notes are unsecured liabilities of the Company.

**Senior Discount Notes 2009**

On April 15, 1999, the Company issued £325.0 million principal amount at maturity of Senior Discount Notes with a yield to maturity of 9.875% and US$500.0 million principal amount at maturity of Senior Discount Notes with a yield to maturity of 9.25%. The cash consideration received at the date of issue was £390.3 million (US$625.4 million). At December 31, 2000, the unamortized portion of the discount on issue was £171.7 million. The Senior Discount Notes mature on April 15, 2009. The discounted amount of the Senior Discount Notes accretes at an annual rate of 9.875% and 9.25% for sterling and US dollars respectively, compounded semi-annually to April 15, 2004. Thereafter, interest on the Senior Discount Notes accrues semi-annually and is payable in arrears on April 15 and October 15 of each year. The Senior Discount Notes are redeemable, in whole or in part, at the option of the Company at any time on or after April 15, 2004.

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

The indentures under which the Senior Discount Notes were issued contain various covenants which, amongst 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, 2000.

The Company has entered into foreign exchange forward contracts to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Discount Notes that will be outstanding on April 15, 2004, the earliest redemption date. The terms of the foreign currency forward contracts are described in note 4 to the consolidated financial statements.

The Senior Discount Notes are unsecured liabilities of the Company.

**Senior Notes and Senior Discount Notes 2010**

On January 25, 2000, the Company issued £180.0 million principal amount of Senior Notes with a yield to maturity of 9.875%, US$350.0 million principal amount of Senior Notes with a yield to maturity of 9.875%, and US$450.0 million principal amount at maturity of Senior Discount Notes with a yield to maturity of 11.375%. The cash consideration received at the date of issue was £543.5 million (US$879.7 million). The Senior Notes and Senior Discount Notes mature on February 1, 2010. The discounted amount of the Senior Discount Notes accretes at an annual rate of 11.375%, compounded semi-annually to February 1, 2005. Thereafter, interest on the Senior Discount Notes accrues semi-annually and is payable in arrears on February 1 and August 1 of each year. At December 31, 2000 the unamortized portion of the discount on issue was £111.2 million. Interest on the Senior Notes accrues semi-annually and is payable in arrears commencing August 1, 2000. The Senior Notes and Senior Discount Notes are redeemable, in whole or in part, at the option of the Company at any time on or after February 1, 2005.

The Senior Notes and Senior Discount Notes were issued to finance the accelerated roll-out of the digital platform and high speed internet projects, and also to repay the Senior Secured Facility acquired as part of the Cable London transaction.

The indentures under which the Senior Notes and Senior Discount Notes were issued contain various covenants which, amongst 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, 2000.

The Company has entered into foreign exchange forward contracts to reduce its exposure to adverse fluctuations in exchange rates on the principal amount of the Senior Notes and Senior Discount Notes which will be outstanding on February 1, 2005,

**14 DEBT** CONTINUED

the earliest redemption date. The terms of the foreign exchange forward contracts are described in note 4 to the consolidated financial statements.

The Senior Notes and Senior Discount Notes are unsecured liabilities of the Company.

**Senior Convertible Notes 2005**

On July 7, 2000 the Company issued US$500.0 million principal amount of Senior Convertible Notes (the “Convertible Notes”) with a yield to maturity of 6.0% for consideration of £330.2 million. The Convertible Notes mature on July 7, 2005 with interest accruing semi-annually payable in arrears on July 7 and January 7 each year. The Convertible Notes are convertible into the ordinary shares of the Company after September 15, 2000 and up to the close of business on June 22, 2005 at a conversion price of 288p 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 interest at any time on or after July 7, 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 revolving bank debt and for general corporate purposes.

The indentures under which the Senior Convertible Notes were issued contained various covenants which, amongst 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, 2000.

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 of the Convertible Notes. The terms of these contracts are described in note 4 to the consolidated financial statements. The Company has decided not to hedge the principal amount of the Convertible Notes as the expectation is that the Notes will convert before or on the maturity date or refinanced in US Dollars before the maturity date.

The Convertible Notes are unsecured liabilities of the Company.

**Accreting Convertible Notes 2003**

On November 1, 2000 the Company issued £220.0 million initial principal amount of Accreting Convertible Notes (the “Accreting Convertible Notes”) with a yield to maturity of 5.0%. The Accreting Convertible Notes were issued to finance the purchase of Eurobell (Holdings) PLC (“Eurobell”), from Deutsche Telekom. In consideration the Company received Eurobell’s entire issued share capital, £71.7 million, the assignment of an inter-company loan previously owed by Eurobell to Deutsche Telekom, £128.3 million, and a cash payment remitted to Eurobell by Deutsche Telekom shortly after the acquisition, £20.0 million. Subsequently, on January 15, 2001 Deutsche Telekom remitted a further cash payment, £30.0 million, to Eurobell and the Company issued an additional Accreting Convertible Note for the same amount. In addition under the terms of the acquisition, the Company is obliged to provide deferred consideration, contingent on Eurobell’s turnover for the year ended December 31, 2000 exceeding a certain target. As a result, an additional £3.5 million Accreting Convertible Note will be issued to Deutsche Telekom in April 2001.

The Accreting Convertible Notes are convertible into ordinary shares of the Company at an initial conversion price of 156.56p per ordinary share. Conversion of the shares is at maturity at the holder’s option but the Company can elect to settle in cash, in whole (but not in part) at the option of the Company at any time at 100% of the accreted value thereof provided that for a certain 10 day period prior to redemption, the price per ordinary share has been at least 130% of the average conversion price in effect on each day during the 10 day period.

The Accreting Convertible Notes are unsecured liabilities of the Company.

**Senior Secured Facility**

At December 31, 2000 the Company had a £1.5 billion senior secured credit facility (the “Senior Secured facility”) with a syndicate of banks. On March 16, 2001 the Company entered into a new Senior Secured credit facility with a syndicate of banks for £2.0 billion. The first drawdown under the facility was used to repay the old Group facility and the Flextech facility. There is also the ability under the terms of the loan agreement to raise a further £250.0 million from institutional investors.

Borrowings under the new Senior Secured credit facility are secured on the assets of the Company, including the partnership interests and shares of subsidiaries, and bear interest at between 0.5% and 2.25% above LIBOR (depending on the ratio of borrowings to quarterly annualized consolidated net operating cash flow.

The terms of the old and new facilities restrict transfers or disposals of assets from certain subsidiary companies. These restrictions relate to the type and value of the consideration that can be accepted.

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. Whilst at the end of 2000 the Company was not in compliance with certain of its covenants, a waiver was granted by the Company’s bankers.

Commitment fees charged amounted to £3.6 million.

**14 DEBT** CONTINUED

Interest rate risk on the Senior Secured facility is managed with the use of interest rate swaps. The effective dates of the interest rate swap agreements are between December 23, 1996 and December 19, 2000, and the agreements mature between December 31, 2001 and March 31, 2004. The aggregate notional principal amount of the swaps is a maximum of £1,127 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%.

**Flextech Facility**

Following the Group's acquisition of Flextech, the Group took over an existing Senior Secured credit facility of up to £200.0 million with a syndicate of banks. The amount outstanding under the facility at December 31, 2000 was £116.0 million. On March 16, 2001, all borrowings under the facility were repaid from the proceeds of the new £2.0 billion Senior Secured credit facility, and the facility was cancelled.

In July 2000, Telewest Communications Networks Limited assigned an interest rate swap to Flextech in order to manage interest rate risk on the Flextech bank facility. The effective date of the interest rate swap is December 23, 1996 and the agreement matures on December 23, 2001. The aggregate notional principal amount of the swap is £128.0 million.

In accordance with the swap agreements, Flextech receives interest at the three month LIBOR rate and pays a fixed interest of 7.7825% semi-annually.

**Other debt**

Other debt includes property loans which are secured on freehold land and buildings held by the Company which mature from 2001 onwards. The property loans bear interest at a rate of between 1.00% and 2.25% above LIBOR.

On May 25, 2000 the General Cable Limited preference share scheme was wound up. £90.0 million which had been deposited with the parent company of the preference shareholder (an authorized banking institution) was repaid to the Company and £100.0 million of 6.0568% preference shares were redeemed.

In addition, a subsidiary has a standby credit facility of £2.0 million made available by Vivendi S.A., a former shareholder of General Cable Limited, which is due to be repaid on April 19, 2001. The loan carries interest at 1% over LIBOR.

The Maturity Profile of the Company's long-term debt is as follows:

| | **2000 £M** |
|---|---|
| 2001 | **834.5** |
| 2002 | **–** |
| 2003 | **225.3** |
| 2004 | **–** |
| 2005 | **334.3** |
| 2006 AND THEREAFTER | **2,859.6** |
| | **4,253.7** |

**15 INCOME TAXES**

Loss before income taxes is solely attributable to the UK:
The provisions for income taxes follow:

| | **2000 £M** | 1999 £M | 1998 £M |
|---|---|---|---|
| INCOME TAX BENEFIT/(EXPENSE) | **–** | – | – |
| DEFERRED TAX BENEFIT | **5.8** | – | – |
| | **5.8** | – | – |

A reconciliation of income taxes determined using the statutory UK rate of 30.0% (1999: 30.25%) to the effective rate of income tax is as follows:

| | YEAR ENDED DECEMBER 31 | | |
|---|---|---|---|
| | **2000 %** | 1999 % | 1998 % |
| CORPORATE TAX AT UK STATUTORY RATES | **(30.0)** | (30.25) | (31.0) |
| PERMANENT DIFFERENCES | **(0.5)** | 0.3 | – |
| CHANGE IN VALUATION ALLOWANCE | **31.3** | 29.95 | 31 |
| | **0.8** | – | – |

**15 INCOME TAXES** CONTINUED

Deferred income tax assets and liabilities at December 31, 2000 and 1999 are summarized as follows:

| | 2000 £M | 1999 £M |
|---|---|---|
| DEFERRED TAX ASSETS RELATING TO: | | |
| FIXED ASSETS | **304.5** | 183.8 |
| NET OPERATING LOSS CARRIED FORWARD | **402.0** | 308.4 |
| OTHER | **26.7** | 0.3 |
| DEFERRED TAX ASSET | **733.2** | 492.5 |
| VALUATION ALLOWANCE | **(733.2)** | (490.9) |
| | **–** | 1.6 |
| INVESTMENT IN AFFILIATE | **(182.7)** | (1.6) |
| **DEFERRED TAX LIABILITY PER BALANCE SHEET** | **(182.7)** | – |

At December 31, 2000 the Company estimates that it has, subject to Inland Revenue agreement, net operating losses ("NOLs") of £1,340.1 million 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.

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.

**16 SHAREHOLDERS' EQUITY**

**Movement in share capital**

On July 28, 1998, the authorized share capital of the Company was increased to £356.1 million, being 2.9 billion ordinary shares of 10 pence each and 661.0 million convertible preference shares of 10 pence each.

During 1998 the Company issued 260.7 million ordinary shares of 10 pence each for £241.1 million and 454.8 million shares of 10 pence each in consideration for the entire issued share capital of General Cable PLC, and 0.4 million ordinary shares of 10 pence each in consideration of £0.6 million on exercise of employee share options

On September 8, 1998 all 496.1 million convertible preference shares of 10 pence each were converted into the same number of ordinary shares of 10 pence each.

On November 23, 1999, the Company completed its acquisition of the 50% of Cable London PLC ("Cable London") not already owned from NTL (Bermuda) Limited, a subsidiary of NTL Communications Corporation. The acquisition was mainly funded by the proceeds of a rights issue to existing Telewest shareholders. Under the terms of the rights issue shareholders were able to acquire one new ordinary share for every 11 shares held, at a price of 213 pence per new share. Under the rights issue 190.0 million ordinary shares and 5.0 million Limited Voting Shares were issued.

On March 31, 2000 the authorized share capital of the Company was increased to £460.0 million divided into 4,300.0 million ordinary shares of 10p each and 300.0 million limited voting convertible ordinary shares of 10p each.

On April 19 the Company issued 600.9 million ordinary shares of 10 pence each in consideration for the entire issued share capital of Flextech Plc, and 4.1 million ordinary shares of 10 pence each in consideration of £3.4 million on exercise of share options.

**Creation of limited voting convertible ordinary shares**

The Company previously reported that on May 6, 1999, MediaOne Group, Inc. ("MediaOne") and AT&T Corporation ("AT&T") announced that they had entered into a definitive merger agreement pursuant to which MediaOne merged with and into a subsidiary of AT&T. On October 4, 1999, MediaOne and Microsoft Corporation ("Microsoft") entered into an agreement for the acquisition, subject to certain conditions, by members of the Microsoft Group of MediaOne's interest in the Company. The consummation of either of these transactions might have constituted a change of control under the Senior Debentures due 2006 and the Senior Discount Debentures due 2007, and, in respect of the acquisition by Microsoft of MediaOne's interest in the Company, the Senior Discount Notes due 2008, the Senior Convertible Notes due 2007 and the Senior Discount Notes due 2009 (together, with the Senior Debentures due 2006 and the Senior Discount Debentures due 2007, "the Notes").

The indentures governing the Notes provide generally that, in the event of a change of control of the Company and the occurrence within six months thereafter of a specified decline in the credit rating of the Notes, then the Company is required to make an offer to repurchase such Notes at 100% or 101% of their accreted value or principal amount (as applicable). A change of control involves, *inter alia,* the acquisition by any person or group (subject to certain exceptions) of beneficial ownership of more than 50% of the shares entitled to vote for the election of the Company's directors (i.e. ordinary shares).

**16 SHAREHOLDERS' EQUITY** CONTINUED

The Company received advice that, if Microsoft had purchased all of the ordinary shares then held indirectly by MediaOne, then this, coupled with Microsoft's entry into the New Relationship Agreement with Liberty Media, could have constituted a change of control of the Company for the purposes of the Notes.

Owing to the provisions of the indentures described above the Company, MediaOne, the MediaOne Affiliates and TW Holdings agreed to re-designate (as described below) 57.3 million ordinary shares then held by MediaOne as limited voting convertible ordinary shares. This re-designation was approved by shareholders on October 27, 1999. These limited voting convertible ordinary shares, along with the 581.0 million out of MediaOne's interest of 620.8 million ordinary shares in the Company, were acquired by members of the Microsoft Group upon completion of their acquisition of MediaOne's interest in the Company.

The ordinary shares and the limited voting convertible ordinary shares have the same rights, except that the limited voting convertible ordinary shares do not confer the right to vote on resolutions to appoint, re-appoint, elect or remove directors of Telewest. No application will be made for the limited voting convertible ordinary shares to be listed or dealt in on any stock exchange and, immediately prior to the re-designation, the Company applied to the London Stock Exchange for the cancellation of the listing of those ordinary shares that were re-designated. Holders of limited voting convertible ordinary shares are entitled to convert all or some of their limited voting convertible ordinary shares into fully paid ordinary shares, provided that the conversion would not result in a change of control of the Company for the purposes of the indentures governing the Notes. The limited voting convertible ordinary shares will be convertible into ordinary shares at our option at any time, subject to certain conditions.

In addition, a special resolution was approved by shareholders to allow members of the Liberty Media Group and/or the Microsoft Group to re-designate all or any of their ordinary shares into limited voting convertible ordinary shares. This is to ensure that, on any future purchase of ordinary shares by members of the Microsoft Group and/or members of the Liberty Media Group, they will, at that time, be able to re-designate such number of their then existing holding of ordinary shares so as to avoid a change of control of the Company for the purposes of the Notes.

Future purchases of ordinary shares and/or limited voting convertible ordinary shares by members of the Liberty Media Group and/or Microsoft Group will, however, be subject to Rule 9 of the UK's City Code on Takeovers and Mergers because both classes of shares are treated as voting shares for that purpose. Under Rule 9, when any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more (but less than 50%) of the voting rights of a public company, that person is normally required to make a general offer to shareholders for the entire share capital of the company then in issue. Any person, or group of persons acting in concert, owning shares carrying 50% or more of the voting rights of a public company, subject to their own individual limits, is free to acquire further shares in that public company without giving rise to the requirement to make a general offer for the entire issued share capital of that company.

**17 SHARE-BASED COMPENSATION PLANS**

At December 31, 2000, the Company operated five types of share-based compensation plans: the Executive Share Option Schemes, the Sharesave Schemes, the Telewest Restricted Share Scheme, 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.

**17 SHARE-BASED COMPENSATION PLANS** CONTINUED

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

| | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|
| RESTRICTED SHARE SCHEME | **0.3** | 0.1 | 0.1 |
| LTIP | **4.7** | 1.0 | 0.5 |
| EXECUTIVE SHARE OPTION SCHEME | **2.0** | 22.9 | 3.5 |
| EPP | **0.5** | 0.4 | 0.2 |
| | **7.5** | 24.4 | 4.3 |

Compensation paid to executive directors in the year is disclosed in the Report of the Board on Directors' Remuneration on pages 40 to 45.

If compensation costs for share option grants and 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 2000, 1999 and 1998 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:

| | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|
| NET LOSS – AS REPORTED | **(755.1)** | (540.9) | (332.7) |
| – PRO FORMA | **(756.9)** | (519.0) | (340.0) |

| | 2000 £ | 1999 £ | 1998 £ |
|---|---|---|---|
| BASIC AND DILUTED LOSS PER SHARE – AS REPORTED | **(0.28)** | (0.25) | (0.23) |
| – PRO FORMA | **(0.28)** | (0.24) | (0.24) |

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 5.8%, 6.8% and 5.4% for grants in 2000, 1999 and 1998 respectively, and an expected volatility of 30%. 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 1995 (No. 1) Executive Share Option Scheme and the 1995 (No. 2) Executive Share Option Scheme. Under both plans, certain officers and 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 FTSE100 Index over any three-year period preceding exercise. The Company may grant options for up to 92.0 million ordinary shares.

A summary of the status of the Company's performance-based share option plans as of December 31, 2000, 1999 and 1998 and changes during the years ended on those dates is presented below:

| | 2000 NUMBER OF SHARES | 2000 WEIGHTED AVERAGE EXERCISE PRICE | 1999 NUMBER OF SHARES | 1999 WEIGHTED AVERAGE EXERCISE PRICE | 1998 NUMBER OF SHARES | 1998 WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|---|---|
| OUTSTANDING AT BEGINNING OF YEAR | **17,028,622** | **110.0p** | 26,165,744 | 118.9p | 19,028,431 | 120.6p |
| ADJUSTMENTS DURING THE YEAR | **4,457,322** | **143.8p** | 1,365,978 | 105.0p | – | – |
| GRANTED | **35,154,239** | **205.1p** | 1,163,027 | 265.4p | 8,643,845 | 114.7p |
| EXERCISED | **(2,501,964)** | **114.9p** | (8,566,437) | 136.0p | – | – |
| FORFEITED | **(1,634,810)** | **208.8p** | (3,099,690) | 108.4p | (1,506,532) | 115.7p |
| OUTSTANDING AT END OF YEAR | **52,503,409** | **173.2p** | 17,028,622 | 110.0p | 26,165,744 | 118.9p |
| OPTIONS EXERCISABLE AT YEAR END | **14,938,772** | **129.8p** | 2,386,230 | 116.8p | 5,289,415 | 143.0p |
| WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR | **33.9p** | **–** | 201.4p | – | 99.2p | – |

**17 SHARE-BASED COMPENSATION PLANS** CONTINUED

The adjustments during the year arose as a result of the transfer in of former Flextech outstanding options. (1999-compensating option holders for the dilutive effect of the rights issue in that year.)

The following table summarizes information about the Company's performance-based share option plans outstanding at December 31, 2000.

| | | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT DECEMBER 31, 2000 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT DECEMBER 31, 2000 | WEIGHTED AVERAGE EXERCISE PRICE |
| 65.7 – 76.8p | 5,306,754 | 4.5 yrs | 72.4p | 5,306,754 | 72.4p |
| 84.6 – 99.9p | 3,787,768 | 4.5 yrs | 89.8p | 1,262,637 | 93.4p |
| 107.5 – 109.1p | 3,764,191 | 9.1 yrs | 108.9p | 828,028 | 108.7p |
| 114.0 – 125.9p | 6,876,510 | 8.0 yrs | 119.4p | 1,147,691 | 124.1p |
| 130.4 – 142.9p | 3,420,908 | 4.3 yrs | 139.9p | 2,657,493 | 139.8p |
| 156.6 – 170.0p | 1,714,016 | 9.0 yrs | 165.4p | 262,857 | 160.0p |
| 202.4 – 203.0p | 612,359 | 8.3 yrs | 202.4p | 372,330 | 202.4p |
| 228.0 – 235.0p | 25,642,059 | 9.5 yrs | 229.6p | 2,940,589 | 228.6p |
| 237.3 – 249.4p | 568,504 | 9.1 yrs | 239.6p | 79,086 | 244.7p |
| 274.3 – 276.5p | 381,810 | 8.4 yrs | 276.3p | 19,978 | 275.3p |
| 289.0 – 294.8p | 428,530 | 8.8 yrs | 291.1p | 61,329 | 291.9p |
| 65.7 – 294.8p | 52,503,409 | 8.0 yrs | 173.2p | 14,938,772 | 129.8p |

**Fixed share option compensation plans**

The Company also operates the Sharesave Scheme, a fixed share option compensation scheme. Under this plan, the Company grants options to employees to purchase ordinary shares at up to 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 commencement of the savings contracts.

A summary of the status of the Company's fixed share option plan as of December 31, 2000, 1999, and 1998 and the changes during the years ended on those dates is presented below:

| | | **2000** | | 1999 | | 1998 |
|---|---|---|---|---|---|---|
| | **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 | **11,679,289** | **116.9p** | 9,460,336 | 84.7p | 6,968,175 | 72.1p |
| ADJUSTMENTS DURING THE YEAR | **654,868** | **126.2p** | 469,470 | 67.9p | – | – |
| GRANTED | **17,946,934** | **88.3p** | 2,775,602 | 236.5p | 4,155,655 | 105.5p |
| EXERCISED | **(876,216)** | **98.1p** | (30,719) | 88.8p | – | – |
| FORFEITED | **(2,769,740)** | **187.6p** | (995,400) | 88.2p | (1,663,494) | 83.9p |
| OUTSTANDING AT END OF YEAR | **26,635,135** | **91.1p** | 11,679,289 | 116.9p | 9,460,336 | 84.7p |
| OPTIONS EXERCISABLE AT YEAR END | **4,443,443** | **57.1p** | – | – | – | – |
| WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR | **39.1p** | **–** | 153.4p | – | 88.4p | – |

The adjustments during the year arose as a result of the transfer in of former Flextech outstanding options. (1999-compensating option holders for the dilutive effect of the rights issue in that year.)

**17 SHARE-BASED COMPENSATION PLANS** CONTINUED

The following table summarizes information about the Company's fixed share options outstanding at December 31, 2000.

| | | OPTIONS OUTSTANDING |
|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT DECEMBER 31, 2000 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE |
| 53.6p | **4,218,212** | 0.6 yrs |
| 83.6 – 88.3p | **17,960,951** | 3.6 yrs |
| 103.9 – 115.9p | **3,068,188** | 1.6 yrs |
| 123.9 – 133.7p | **244,456** | 0.7 yrs |
| 161.9 – 191.0p | **106,266** | 4.2 yrs |
| 236.5p | **1,037,062** | 2.6 yrs |
| 53.6 – 236.5p | **26,635,135** | 2.8 yrs |

**Telewest Restricted Share Scheme**

The Company operates the Telewest Restricted Share Scheme in conjunction with an employment trust, the Telewest 1994 Employees' Share Ownership Plan Trust (the "Telewest ESOP"), which has been designed to provide incentives to executives 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 4.0 million 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, 2000, 1999 and 1998 and changes during the years ended on those dates is presented below:

| | **2000 NUMBER OF SHARES** | 1999 NUMBER OF SHARES | 1998 NUMBER OF SHARES |
|---|---|---|---|
| OUTSTANDING AT BEGINNING OF YEAR | **576,333** | 416,186 | 1,747,162 |
| ADJUSTMENTS DURING THE YEAR | **–** | 21,612 | – |
| GRANTED | **–** | 447,532 | – |
| EXERCISED | **(131,394)** | (122,157) | (1,306,853) |
| FORFEITED | **(86,623)** | (186,840) | (24,123) |
| OUTSTANDING AT END OF YEAR | **358,316** | 576,333 | 416,186 |
| AWARDS EXERCISABLE AT YEAR END | **86,989** | 33,283 | 250,157 |
| WEIGHTED AVERAGE FAIR VALUE OF AWARDS GRANTED DURING THE YEAR | **–** | £2.18 | – |

The adjustments during 1999 compensated option holders for the dilutive effect of the rights issue in that year.

At December 31, 2000, the 358,316 awards outstanding and the 86,989 awards exercisable have weighted average remaining contractual lives of 8.1 years and 6.2 years respectively.

**17 SHARE-BASED COMPENSATION PLANS** CONTINUED

**Long Term Incentive Plan ("LTIP")**

The Telewest Long Term Incentive Plan ("LTIP") 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.

| | **2000 NUMBER OF SHARES** | 1999 NUMBER OF SHARES | 1998 NUMBER OF SHARES |
|---|---|---|---|
| OUTSTANDING AT BEGINNING OF YEAR | **4,005,075** | 3,796,733 | 574,309 |
| ADJUSTMENTS DURING THE YEAR | **–** | 188,468 | – |
| GRANTED | **816,175** | 196,139 | 4,101,826 |
| EXERCISED | **(1,152,826)** | – | – |
| FORFEITED | **(953,872)** | (176,265) | (879,402) |
| OUTSTANDING AT END OF YEAR | **2,714,552** | 4,005,075 | 3,796,733 |
| AWARDS EXERCISABLE AT YEAR END | **1,058,542** | – | – |
| WEIGHTED AVERAGE FAIR VALUE OF AWARDS GRANTED DURING THE YEAR | **£0.24** | £1.93 | £1.14 |

The adjustments in 1999 compensated award holders for the dilutive effect of the rights issue in that year.

At December 31, 2000, the 2,714,552 awards outstanding and the 1,058,542 awards exercisable have weighted average remaining contractual lives of 2.0 years and 1.6 years respectively.

**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, 2000, 1999 and 1998 and the movements during the years ended on those dates is presented below:

| | **2000 NUMBER OF SHARES** | 1999 NUMBER OF SHARES | 1998 NUMBER OF SHARES |
|---|---|---|---|
| OUTSTANDING AT BEGINNING OF YEAR | **1,074,150** | 676,504 | – |
| ADJUSTMENTS DURING THE YEAR | **–** | 57,664 | – |
| GRANTED | **267,524** | 495,964 | 725,992 |
| EXERCISED | **(130,576)** | (67,336) | (30,053) |
| FORFEITED | **(17,259)** | (88,646) | (19,435) |
| OUTSTANDING AT END OF YEAR | **1,193,839** | 1,074,150 | 676,504 |
| AWARDS EXERCISABLE AT YEAR END | **288,253** | 312,718 | 338,252 |
| WEIGHTED AVERAGE FAIR VALUE OF AWARDS GRANTED DURING THE YEAR | **£2.49** | £1.83 | £1.07 |

At December 31, 2000, the 1,193,839 awards outstanding and 288,253 awards exercisable have weighted average remaining contractual lives of 5.0 years and 4.3 years respectively.

### 18 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 were secured by guarantees and a 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 a cash collateralized letter of credit facilities.

Total cash restricted as to use by providing backing for security to lessors amounted to £12 million at December 31, 2000 and 1999 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.

On March 31, 1999 the sale and leaseback arrangements of The Cable Corporation and Yorkshire Cable were terminated at the request of the Group. This was part of the overall refinancing of the Company. As part of the cost of terminating the sale and leaseback arrangements, secured cash deposits amounting to £187.4 million were transferred to the lessor companies together with a termination fee of £20 million.

**Other Commitments**

At December 31, 2000 the Company was committed to providing funding to Imagine Broadband Limited and UKTV of £16.0 million and £70.0 million respectively.

**Capital and operating leases**

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

| | ACQUISITION COSTS £M | ACCUMULATED DEPRECIATION £M | NET BOOK VALUE £M |
|---|---|---|---|
| AT DECEMBER 31, 2000 | | | |
| ELECTRONIC EQUIPMENT | 267.6 | (160.7) | 106.9 |
| OTHER EQUIPMENT | 103.8 | (35.8) | 68.0 |
| AT DECEMBER 31, 1999 | | | |
| ELECTRONIC EQUIPMENT | 73.6 | (33.7) | 39.9 |
| OTHER EQUIPMENT | 79.3 | (32.7) | 46.6 |

Depreciation charged on these assets was £64.2 million and £21.4 million for the years ended 31 December, 2000 and 1999 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 £16.8 million, £7.1 million, and £4.1 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Future minimum lease payments under capital and operating leases are summarized as follows as of December 31, 2000:

| | CAPITAL LEASES £M | OPERATING LEASES £M |
|---|---|---|
| 2001 | 68.5 | 12.9 |
| 2002 | 47.7 | 11.9 |
| 2003 | 45.7 | 11.7 |
| 2004 | 36.5 | 10.8 |
| 2005 | 36.3 | 10.0 |
| 2006 AND THEREAFTER | 71.8 | 91.2 |
| | 306.5 | |
| IMPUTED INTEREST | (61.0) | |
| | 245.5 | |

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

**18 COMMITMENTS AND CONTINGENCIES** CONTINUED

**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 £12 million (1999: £12 million) 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 £7.3 million (1999: £7.3 million).

**19 RELATED PARTY TRANSACTIONS**

Liberty Media, Inc ("Liberty") Microsoft and MediaOne International ("MediaOne") are related parties of the Company, in that they control or controlled, directly or indirectly, more than 20% of the voting rights of the Company in 2000, 1999 and 1998. Cable London plc and Birmingham Cable Limited (the "former affiliates") up to their acquisitions on November 23, 1999 and September 1, 1998, respectively, were related parties of the Company by virtue of their status as associated companies. Flextech up to its acquisition on April 19, 2000 was a related party of the Company as Liberty controlled more than 20% of the voting rights of Flextech.

The Company, in the normal course of providing cable television services, purchases certain of its programming from Flextech. Such programming is purchased on commercially-available terms. Total purchases in the period to acquisition in 2000 and on the year ended December 31, 1999 and 1998 amounted to £3.8 million, £9 million and £11.3 million.

The Company had management agreements with Liberty and MediaOne under which amounts are paid by the Company relating to Liberty and MediaOne employees who have been seconded to the Company. For the years ended December 31, 2000, 1999 and 1998, fees charged to the Company under the agreements were £Nil, £0.4 million and £1.6 million, respectively. The Company had similar management agreements with Cox Communications, Inc and SBC Communications, Inc which were terminated in 1999. For the years ended December 31, 2000, 1999 and 1998, fees charged to the Company under these agreements were £Nil, £Nil and £0.1 million, respectively.

The Company had consulting agreements with the former affiliates pursuant to which the Company provides consulting services related to telephony operations. Under the agreements, the Company received an annual fee from each former affiliate based upon the former affiliate's revenues. Fees received for the years ended December 31, 2000, 1999 and 1998 were £Nil, £0.1 million and £1.8 million, respectively. The former affiliates' banking agreements contained certain deferred payment arrangements for these fees. The Company also received a fee for providing switching support services, comprising of 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, 2000, 1999 and 1998, were £Nil, £0.2 million and £1.3 million, respectively. The Company also made sales of cable publications to the former affiliates. For the years ended December 31, 2000, 1999 and 1998, sales were £nil, £nil and £0.3 million, respectively.

The Company has also made loans to the former affiliates. Interest charged on these loans in the years ended December 31, 2000, 1999 and 1998 was £nil, £2.7 million and £3.1million, respectively.

The Group has charged management fees to UKTV of £3.0 million. In addition the Group has recharged overheads and costs incurred on their behalf to UKTV and to TVTS of £6.9 million and £10.3 million respectively. The Group has also made a loan to UKTV. Interest charged on this loan was £14.7 million. Amounts due from UKTV and TVTS at December 31, 2000 were £229.1 million and £30.6 million, respectively.

In the normal course of its business the Group purchases programming from UKTV. Purchases in the year ended December 31, 2000 were £4.2 million. The balance due to UKTV at December 31, 2000 was £0.2 million.

The Group also has a £10.0 million loan facility with Liberty. Interest charged on this loan was £1.4 million. The balance due to Liberty at December 31, 2000 was £17.4 million.

Additionally, the Company purchases software and consultancy services from Microsoft, on normal commercial terms. Purchases in the year ended December 31, 2000 amounted to £1.5 million. The balance outstanding in respect of these purchases was £ nil.

**20 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

| | 2000 TOTAL £M | FOURTH QUARTER £M | THIRD QUARTER £M | SECOND QUARTER £M | FIRST QUARTER £M |
|---|---|---|---|---|---|
| REVENUE | **1,068.8** | **288.9** | **279.9** | **264.3** | **235.7** |
| OPERATING LOSS | **(359.2)** | **(146.6)** | **(75.2)** | **(61.2)** | **(76.2)** |
| FINANCE EXPENSES, NET | **(384.5)** | **(66.2)** | **(105.4)** | **(100.9)** | **(112.0)** |
| NET LOSS | **(755.1)** | **(225.7)** | **(178.3)** | **(162.9)** | **(188.2)** |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | **(28p)** | **(6p)** | **(8p)** | **(6p)** | **(8p)** |

| | 1999 TOTAL £M | FOURTH QUARTER £M | THIRD QUARTER £M | SECOND QUARTER £M | FIRST QUARTER £M |
|---|---|---|---|---|---|
| REVENUE | 785.5 | 209.2 | 196.1 | 192.6 | 187.6 |
| OPERATING LOSS | (178.5) | (65.1) | (29.8) | (34.0) | (49.6) |
| FINANCE EXPENSES, NET | (336.0) | (76.7) | (73.5) | (83.7) | (102.1) |
| NET LOSS BEFORE EXTRAORDINARY LOSS | (520.8) | (142.6) | (104.8) | (119.6) | (153.8) |
| EXTRAORDINARY LOSS | (20.1) | – | – | (20.1) | – |
| NET LOSS AFTER EXTRAORDINARY LOSS | (540.9) | (142.6) | (104.8) | (139.7) | (153.8) |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | | | | | |
| – BEFORE EXTRAORDINARY LOSS | (24p) | (6p) | (5p) | (6p) | (7p) |
| EXTRAORDINARY LOSS | (1p) | – | – | (1p) | – |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | | | | | |
| – AFTER EXTRAORDINARY LOSS | (25p) | (6p) | (5p) | (7p) | (7p) |

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.

**21 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 operates in two main segments: cable and content. The cable segment is managed by four reportable units: Cable Television, Consumer Telephony, Business Services and Other. The Other unit includes sale of internet subscriptions to Telewest’s ISP, SurfUnlimited, the sale of cable publications and sales of advertising airtime. The content segment provides entertainment content, interactive and transactional services to the UK Pay-TV and internet markets.

**21 SEGMENTAL INFORMATION** CONTINUED

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 expenditure and depreciation and amortization is not meaningful.

| | 2000 £M | 1999 £M | 1998 £M |
|---|---|---|---|
| **REVENUE FROM THIRD PARTIES** | | | |
| CABLE TELEVISION | **278.7** | 258.3 | 201.9 |
| CONSUMER TELEPHONY | **444.8** | 333.7 | 232.5 |
| BUSINESS SERVICES | **248.3** | 176.5 | 84.2 |
| CONTENT | **80.8** | – | – |
| OTHER | **16.2** | 17.0 | 20.6 |
| CONSOLIDATED THIRD PARTY REVENUE | **1,068.8** | 785.5 | 539.2 |
| **CONTRIBUTION** | | | |
| CABLE TELEVISION | **146.4** | 126.4 | 98.8 |
| CONSUMER TELEPHONY | **294.5** | 230.4 | 175.9 |
| BUSINESS SERVICES | **164.0** | 121.8 | 58.6 |
| CONTENT | **35.3** | – | – |
| OTHER | **8.1** | 8.4 | 5.3 |
| **SEGMENTAL CONTRIBUTION** | **648.3** | 487.0 | 338.6 |
| LESS: | | | |
| OPERATING EXPENSES (INCLUDING £89.8 MILLION RELATING TO THE CONTENT SEGMENT) | **(436.6)** | (298.6) | (192.6) |
| DEPRECIATION | **(423.2)** | (305.3) | (223.6) |
| AMORTIZATION | **(147.7)** | (61.6) | (36.2) |
| CONSOLIDATED OPERATING LOSS | **(359.2)** | (178.5) | (113.8) |

**22 SUBSEQUENT EVENTS**

As described in note 14, on March 16, 2001, the Group signed a new senior secured credit facility of £2.0 billion. This facility replaces the separate Telewest and Flextech credit facilities. In addition the Group has the ability under the terms of the facility to raise a further £250.0 million from institutional investors.

On March 5, 2001, the Group announced its intention to invest £14.8 million into sit-up Limited ("Sit-Up"). In return sit-up will buy Screenshop's business for £10.0 million. The Group will have a 38% stake in the enlarged sit-up business.

US GAAP

## *Supplementary Financial Information – Five Year Summary* (YEARS ENDED DECEMBER 31, 2000, 1999, 1998, 1997 AND 1996)

| | COMPANY 2000[3] £M | 1999[2] £M | 1998[1] £M | 1997 £M | 1996 £M |
|---|---|---|---|---|---|
| **BALANCE SHEET DATA** | | | | | |
| PROPERTY AND EQUIPMENT (NET) | **3,289.5** | 2,818.1 | 2,457.1 | 1,705.5 | 1,447.2 |
| TOTAL ASSETS | **7,324.1** | 4,567.5 | 3,977.7 | 2,413.4 | 2,241.9 |
| INVESTMENT IN AFFILIATES | **783.6** | 4.0 | 26.6 | 59.7 | 69.4 |
| TOTAL DEBT AND CAPITAL LEASES[4] | **4,499.2** | 3,268.4 | 2,626.3 | 1,448.6 | 933.7 |
| EQUITY | **2,146.6** | 952.8 | 1,041.1 | 738.8 | 1,070.8 |
| **INCOME STATEMENT DATA** | | | | | |
| CABLE TELEVISION | **278.7** | 258.3 | 201.9 | 160.0 | 121.2 |
| CONSUMER TELEPHONY | **444.8** | 333.7 | 232.5 | 166.6 | 125.0 |
| BUSINESS SERVICES | **248.3** | 176.5 | 84.2 | 43.9 | 34.6 |
| CONTENT | **80.8** | – | – | – | – |
| OTHER | **16.2** | 17.0 | 20.6 | 16.0 | 9.5 |
| **TOTAL REVENUE** | **1,068.8** | 785.5 | 539.2 | 386.5 | 290.3 |
| **OPERATING COSTS AND EXPENSES** | | | | | |
| CONSUMER PROGRAMMING EXPENSES | **(132.3)** | (131.9) | (103.0) | (93.4) | (69.9) |
| BUSINESS AND CONSUMER TELEPHONY EXPENSES | **(234.6)** | (158.0) | (82.3) | (50.1) | (52.6) |
| CONTENT EXPENSES | **(45.5)** | – | – | – | – |
| SELLING, GENERAL AND ADMINISTRATIVE | **(444.7)** | (307.2) | (207.9) | (193.3) | (167.3) |
| DEPRECIATION | **(423.2)** | (305.3) | (223.6) | (177.3) | (129.7) |
| AMORTIZATION | **(147.7)** | (61.6) | (36.2) | (26.4) | (26.2) |
| **OPERATING LOSS** | **(359.2)** | (178.5) | (113.8) | (154.0) | (155.4) |
| SHARE OF LOSS OF AFFILIATES | **(14.7)** | (6.2) | (18.7) | (21.7) | (16.0) |
| FINANCIAL EXPENSES, NET | **(384.5)** | (336.0) | (201.3) | (156.3) | (90.8) |
| EXTRAORDINARY LOSS | **–** | (20.1) | – | – | – |
| NET LOSS | **(755.1)** | (540.9) | (332.7) | (332.4) | (262.4) |
| BASIC AND DILUTED LOSS PER ORDINARY SHARE | | | | | |
| BEFORE EXTRAORDINARY LOSS | **(28p)** | (24p) | (23p) | (32p) | (26p) |
| EXTRAORDINARY LOSS | **–** | (1p) | – | – | – |
| NET LOSS | **(28p)** | (25p) | (23p) | (32p) | (26p) |

[1] Includes results with respect to General Cable and Birmingham Cable beginning September 1, 1998 (the date Telewest acquired General Cable and its interest in Birmingham Cable).

[2] Includes results with respect to Cable London beginning November 23, 1999 (the date it was acquired by the Company).

[3] Includes results with respect to Flextech from April 19, 2000 and Eurobell from November 1, 2000 (the date they were acquired by the Company).

[4] See note 14 (Debt) and note 18 (Commitments and contingencies) to the US GAAP Consolidated Financial Statements.

## *Shareholder Information*

**PROPOSED FINANCIAL CALENDAR 2001**

| | |
|---|---|
| First Quarter operating statistics and financial results | May, 2001 |
| Announcement of interim results for 2001 | August, 2001 |
| Third Quarter operating statistics and financial results | November, 2001 |

**Debentures – interest payments**

9⅝% Senior Debentures due 2006, interest is payable semi-annually on April 1, and October 1. 11% Senior Discount Debentures due 2007, interest is payable semi-annually on April 1, and October 1, commencing on April 1, 2001. 11¼% Senior Notes due 2008, interest is payable semi-annually on May 1, and November 1. 5¼% Convertible Notes due 2007, interest is payable semi-annually on February 19, and August 19. 9¼% Senior Discount Notes due 2009, and 9⅞% Senior Discount Notes due 2009, interest is payable semi-annually on April 15 and October 15, commencing on October 15, 2004. 9⅞% Senior Notes due 2010, interest is payable semi-annually on February 1 and August 1, commencing August 1, 2000. 11⅜% Senior Discount Notes due 2010, interest is payable semi-annually on February 1 and August 1 commencing on August 1, 2005. 6% Convertible Notes due 2005, interest is payable semi-annually on January 7 and July 7, commencing on January 7, 2001.

**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 |
| 1999 FIRST QUARTER | 280.3p | 173.5p | $47.25 | $28.25 |
| SECOND QUARTER | 319.3p | 252.8p | $52.00 | $41.56 |
| THIRD QUARTER | 319.3p | 208.0p | $50.50 | $34.50 |
| FOURTH QUARTER | 351.3p | 221.8p | $58.00 | $36.50 |
| 2000 FIRST QUARTER | 563.0p | 307.5p | $87.88 | $50.00 |
| SECOND QUARTER | 481.5p | 228.0p | $84.50 | $33.50 |
| THIRD QUARTER | 258.0p | 132.0p | $39.00 | $19.50 |
| FOURTH QUARTER | 142.5p | 103.25p | $20.88 | $14.00 |

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.

## *Shareholder Information*

**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 ADS programme and all enquiries regarding ADS 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.

**Shareholders**
As at 22 March 2001, the Company had 32,798 shareholders holding 2,890,208,519 ordinary shares of which 4,494 shareholders, holding 1,614,217,057 ordinary shares, held their shares in the CREST settlement system.

**Enquiries**
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Telephone: (020) 7299 5571

For all other enquiries please contact:
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Genesis Business Park, Albert Drive, Woking, Surrey GU21 5RW

Telephone: (020) 7299 5537
Facsimile: (020) 7299 5650

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Design: Pauffley London
Typesetting/Graphic Manipulation: Generator, London
Printed: Royle's Corporate Print
Printed on Naturalis Arctic White Matt, supplied by Premier Paper

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