# Hello. Welcome to the big book of Telewest facts and figures.*

*This book is 514kb and downloads in only one second on Telewest's broadband internet, compared with 11 seconds on traditional dial-up internet.

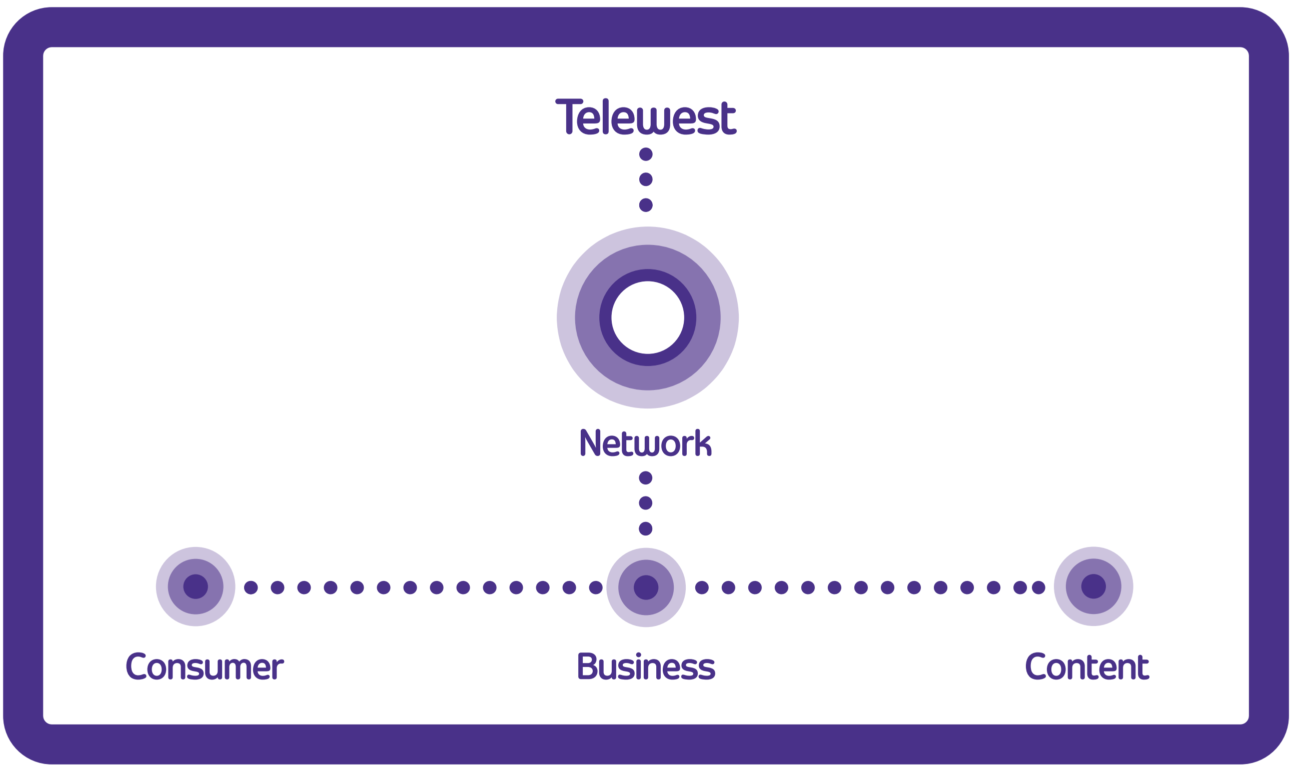
Telewest

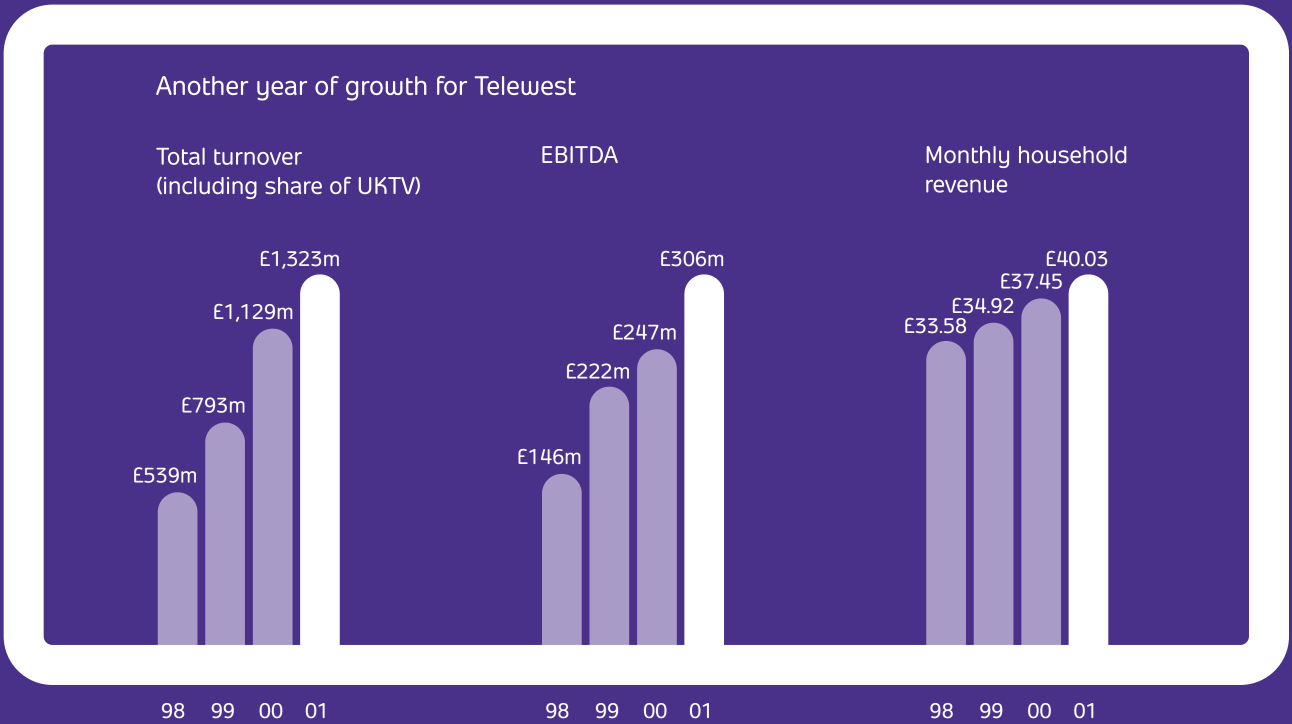
Telewest is a broadband communications and media group.

We are creating a broadband world that makes our customers' lives and businesses better.

Only our broadband expertise, to create and deliver content at the speed of light, allows our customers to do more.

Our vision is to become the broadband communications provider of choice.




Another year of growth for Telewest
Total turnover
(including share of UKTV)
£539m
£793m
£1,129m
£1,323m
EBITDA
£146m
£222m
£247m
£306m
Monthly household
revenue
£33.58
£34.92
£37.45
£40.03
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# Chairman's Statement

2001 was a year in which Telewest progressed considerably as a business despite an uncertain economic climate and great turbulence in the telecoms, media and technology sector. Unfortunately, this operational improvement has not been reflected in the financial market's perception of the company. Anxiety about debt levels and increasingly tight capital markets have limited the room to manoeuvre for highly leveraged companies like ours. But all our key operational indicators showed consistently improving trends. Sales and revenue per customer accelerated, while churn – the number of customers lost – declined dramatically.

This performance was achieved by rigorous attention to detail at the operational level. There was a continuous programme of improvement to the network, which has enabled us to offer the full range of digital products to virtually all our homes passed. The reliability of the network has also been improved, which – together with better customer service – has helped reduce churn and attract new customers.

We have also made tremendous progress in the broadband arena, having installed 107,000 subscribers to blueyonder broadband internet by 28 February 2002.

It is also increasingly clear that cable's unique advantage – the triple play – is a winner. Our suite of digital products – telephone, multichannel television and internet, provided from a single network – is an appealing offering to consumers that cannot be matched by satellite or a traditional telecommunications company.

It is not only the network side of the business that has performed well in difficult conditions. Flextech, our content business, has done a remarkable job in increasing advertising sales during a period widely acknowledged to be the worst recession in advertising for many years.

All of these achievements attest to the quality and dedication of Telewest's excellent employees, who tirelessly continued to try harder despite the speculation surrounding the company's funding and the doom and gloom that has surrounded the sector in which they work.

Thus, the board and management rightly take pride in the fact that Telewest's underlying operational strength improved greatly throughout 2001, reflected in rising revenues and EBITDA, relatively flat costs and falling capital expenditure. That progress has continued into 2002, with strong trading in the first two months of the year. We continue to have access to our bank facility and are focused on maximising our operational performance; executing well despite the difficult capital markets.

This turbulence and market uncertainty has also led to a general decline in asset values. As a result, the group has taken a non-cash impairment charge in respect of the Flextech assets acquired for Telewest shares in 2000 of £1.1 billion. Together with a higher interest charge in 2001, following the planned increase in the level of group debt, we report an increase in the overall net loss for the year. No impairment charge was required in the carrying value of our cable assets.

Clearly it is distressing that the share price of our company has fallen so much in a market uncertain about telecoms operators in general and cable companies in particular. It is also undeniable that a business model that relies on large amounts of debt financing is considered unacceptable in this financial climate. Your directors share your inevitable feelings of frustration and distress over the share price.

**Cob Stenham**
Chairman
28 February 2002

# Open, Optimistic, Passionate, Innovative.

# Telewest is a leader in broadband technology and the largest provider of basic channels to the UK pay-TV market.

## Network

A highly advanced broadband communication network with the capability to provide high-speed data and IP services. Combining a high-bandwidth two-way fibre-coaxial local network with an ultra-high capacity fibre-optic national network. This network built over the past decade passes 4.9 million homes.

## Products and services

**Consumer**

Offering residential customers a triple play of internet, telephone and television services.

blueyonder internet

- high-speed internet, always-on, fixed cost cable modem connection.
- blueyonder SurfUnlimited fixed fee dial-up internet.
- blueyonder pay-as-you-go dial-up internet.

Telephone

- Talk Unlimited: fixed price telephone service allowing unlimited local and national calls.
- 321FREE our standard telephone service with a simple pricing structure.

Broadband digital TV

- four packages which combine a range of broadband digital channels with access to premium channels and pay-as-you-go channels.

**Business**

Offering businesses a range of voice solutions, data solutions and broadband internet access.

- blueyonder workwise: high-speed internet service for SMEs with a dedicated business portal offering e-mail, website creation, web hosting, e-commerce and hosted Microsoft Exchange services like Microsoft Outlook.
- Centrex: advanced telephone services hosted and managed by Telewest's digital Central Exchange.
- Endeavour: dedicated travel industry extranet.
- Carrier services: providing wholesale capacity and managed bandwidth solutions.

**Content**

Creator and supplier of entertainment, information and interactive content and services to the UK multichannel television and on-line markets.

- wholly owned channels: Trouble, Bravo, LivingTV and ChallengeTV.
- 50% partner in UKTV, a joint venture with BBC Worldwide. UKTV has nine channels: UK Gold, UK Gold 2, UK Style, UK Style +1, UK Horizons, UK Horizons +1, UK Drama, UK Food and PLAYUK.
- ids (interactive digital sales) is the ad-sales house selling across television, web and interactive media.

# Chief Executive's Review

2001 was about operational performance – every single person in Telewest strove to improve service and revenues and their efforts are in the results for the full year we announced on 1 March. In so many ways, Telewest is operating better than it ever has. All the key indicators by which a business like this should be judged are positive: Revenue and EBITDA are rising; subscriber numbers are growing; churn is falling; operating costs are relatively flat and capital expenditure is declining.

Of course this is not reflected in the share price, which has suffered from the anxiety in the markets surrounding highly leveraged telecoms operators. Furthermore, the general decline of asset values within the telecoms and media sectors has meant that in 2001 we have taken a non-cash impairment charge of £1.1 billion for the Flextech assets acquired in 2000 resulting in a higher net loss for the year.

We have remained focused on improving the operating performance of the business, but we have also had to recognise how the climate change in the capital markets affects us. Finance is clearly at a premium and therefore we are focused on spending our capital wisely. There are many worthy projects which would ultimately enhance the business, such as introducing new information technology, which while desirable are not essential in the short term. In this climate, we will allow capital spending only on projects that are vital to the immediate health of the business.

The fruit of our focus on operations can be seen across Telewest, but I would like to single out the excellent growth in high-speed internet connections. As of 28 February, we had 107,000 installed subscribers to our blueyonder broadband service. Growth in 2001 was ten-fold, proving there is a need for speed. We shall compete not only on price, but will use our better network to go for speed, launching a 1Mb broadband service later this year. That is twice as fast as any DSL service offered over BT's network and twenty times the speed of dial-up internet.

Seventy per cent of our broadband customers take three services, clearly demonstrating that our bundle of television, telephone and internet wins. This time last year, we were selling 380 broadband connections a day on average. Today we are averaging 900 sales a day.

This is Telewest's advantage; our multichannel TV competitors don't provide phone and fast internet, and our telephone competitors don't provide television. As the consumer is bombarded with ever more, they want it ever more simplified and available from one supplier.

Currently, we are continuing to execute well and we have seen strong subscriber growth in the first months of this year.

In the two years I have been chief executive, what I have learnt is that the most important thing is to make this technically complicated multi-product, signal distribution business simple, so that staff and customers alike understand what we do. Every time you change the management structure or pricing or product, you have to enthuse and take 10,500 people with you. We are a better operating company not because we are cleverer or smarter but because we have worked hard at being stable and consistent.

And we have forged a great team of 10,500 people who have accomplished a great deal. I am proud to be associated with them.

Turning now to the individual divisions.

## CONSUMER DIVISION

2001 was a year in which Telewest Broadband continued to lead the development of true broadband Britain. From January our 512 kbps broadband services were available to over 4.3 million homes throughout our franchise areas. In May we launched our new telephony product Talk Unlimited, specifically tailored to attract high value customers. In September we launched our blueyonder website offering a range of high-speed orientated music, entertainment and games features.

Consumer Division revenues grew by 16% to £857 million in 2001. This was attributable to a 7% increase in average monthly revenue per household to £40.03 and 6% growth in household penetration to 37.5%.

### Television

During the year we continued to build upon the success of our broadband TV services, comprising of 150 TV and radio channels, pay-per-view movies, interactive services and TV e-mail. A product campaign promoting a best value bundled TV and telephone offer boosted sales in the last quarter, increasing our TV penetration to 28.5% from 26.1%.

We also enhanced our interactive TV services which allow customers to shop, bank and use other similar services via their TV screens. We added pay-per-play games to our offer and began trialling Living Health and iSeeTV.

### Internet

Consumer demand for our internet services has remained buoyant throughout the year. A two-month joint broadband marketing initiative with NTL in August and September contributed to a ten-fold increase in our installed blueyonder broadband base from 7,000 to 85,000 by the end of the year. This service is successfully attracting new customers to Telewest Broadband. Additionally 70% of blueyonder broadband customers are also taking television and telephone and are spending on average £65 per month.

Our dial-up internet base taking SurfUnlimited (our unmetered internet service) and blueyonder pay-as-you-go has also continued to grow, increasing our customer base by 8% to 303,329 customers.

### Telephony

Residential telephony remains a core revenue provider for our business with over 1.6 million customers at the year end, having added 77,669 customers during the year. In May, we launched Talk Unlimited a fixed fee telephone service – the UK's only telephone service offering unlimited local and national calls 24 hours a day. This now accounts for around 10% of all our telephony subscribers.

### 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.

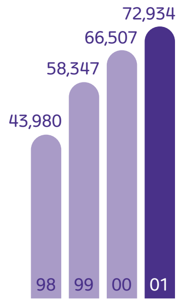
We have reduced the number of call centres from 14 to 8 and have made them better working environments. We now give our call centre staff a minimum of 10 days training per year, and have provided web-based intranet technology that gives quicker, better customer details to our customer service representatives and makes them more productive.

During 2001 we introduced round-the-clock, 24-7, fault reporting. No other cable company offers that service.

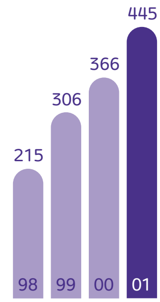
### Marketing

As part of our drive to build strong customer loyalty, the company rebranded in November 2001, by bringing all

# Chief Executive's Review
continued



Business customer accounts



Business customer lines (000s)

our regional companies under one new, simple identity, Telewest Broadband. The company has also undertaken an intensive internal programme, with every employee undergoing a one-day training programme, designed to communicate one vision and a shared set of core values.

**BUSINESS DIVISION**

Telewest Business provides voice, data, internet, e-commerce and carrier services which we market through focused sales teams to the following sectors: government, education and health (GEH); travel; small and medium size enterprises (SMEs); corporate; and carrier services.

During the year, we launched the first hosted Microsoft Exchange service by any network operator in Europe, consistent with our strategy of delivering relevant remote applications to the SME market. This service, available through the blueyonder workwise business portal, has already attracted 3,500 licences. New customers generated by this product include the Everton and Sheffield United football clubs, The Touchstone Group, VIS Interactive and the Federation of Small Businesses.

Other activities in the applications arena included the acquisition of Rapid Travel Solutions, the travel sector software specialist. Combined with our established business Endeavour, this acquisition makes Telewest Business the leader in communications solutions for the travel sector.

Telewest Business has also continued expansion in the corporate and GEH sectors. Notable wins during the year include the provision of services to West Midlands Police with a £4.5 million contract and signings with Wolverhampton, Liverpool and Medway Councils. In addition, we are providing Bristol City Council with high bandwidth broadband internet solutions for the city's schools. We also won a large contract with Genesys Conferencing to provide circuits and lines for their growing conference call business.

The number of business customer accounts has grown by 10% during the year to 73,000, the number of business lines has increased by 22% to 445,000 and the average annualised revenue per customer account has also risen to £3,137.

The Business Division revenues for the year totalled £274 million. Excluding Carrier Services, the division's revenues have increased by 16% year-on-year to £213 million. Consistent with other network operators and our expectations, revenues from Carrier Services declined from £88 million to £61 million in 2001. This revenue is derived from a small number of contracts and can fluctuate from year-to-year.

In summary, Telewest Business is now an established sector player, evidenced by its customer satisfaction rating of joint first in the Communication Management Association's Market Report 2001 and its leadership in the deployment of broadband for the business community.

**CONTENT DIVISION**

The Content Division's turnover, including its share of UKTV, and before elimination of inter-divisional trading increased by 13% on a pro forma basis to £206 million. The increases were driven by UK multichannel subscriber growth of 10% to 10.5 million homes at the year end and improved advertising sales. Our advertising revenue (including 50% of UKTV) is up 6% from the previous year. This is a significant achievement given a 10% decline in the overall TV advertising market year-on-year.

Throughout the year, we have increased our commitment to invest in original British productions across all the wholly owned channels. Already this strategy is delivering increased audience ratings and revenue. Additionally, it is providing opportunities to exploit these assets in other territories and media.

Bravo's new original production Travel Sick has been nominated for several industry awards, including the Broadcast Awards, and most recently the Golden Rose at Montreux.

Trouble, the youth channel within our portfolio, achieved its highest ever ratings with its original production Cruel Summer.

ChallengeTV, our game show service, has launched a number of original productions including Defectors and TV Scrabble which have both boosted the channel's performance during the year. The channel will relaunch in 2002 to become a fully interactive games network and both of these formats will be adapted to provide interactivity and pay-to-play programming.

The UKTV business continued to grow successfully, with our share of revenues increasing 21% to £63 million in 2001 on a pro forma basis. On 5 November 2001, UKTV launched a new channel, UK Food, a channel dedicated to celebrating the finest food and the nation's favourite chefs. Initial audiences have been very encouraging.

**Broadband**
In June, we launched Living Health, a joint initiative between the NHS and Telewest to pilot the UK's first and largest government-backed broadband health care service. NHS Direct inVision, launched in September as the second stage of Living Health, allows patients to conduct face-to-face consultations with NHS Direct nurses via their TV.

The service was one of four government-backed pilots looking into the viability of digital TV services to provide health care. 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.

During the year, we announced an agreement to combine Telewest's broadband network with Sony's PlayStation®2. This will enable consumers to sample a broad range of services, from games and playable level downloads, to applications such as lifestyle and gaming editorial content. We commenced trials of Europe's first PlayStation®2 broadband network in January 2002.

2001 saw the launch of our blueyonder website, specifically designed for the broadband PC platform. The site features rich audiovisual content covering the best in entertainment, music and gaming created in-house by David Docherty's broadband content team and through partnering with some of the best broadband content creators in the UK. The blueyonder site has received much industry praise and was voted "Site of the Month" by Internet magazine in January 2002.

**Adam Singer**
Group Chief Executive
28 February 2002

# Financial Review

total turnover £1.3

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 40 to 71, financial statements prepared under US GAAP can be found on pages 73 to 104.

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

**INTRODUCTION**

While the share price performance was disappointing, reflecting turmoil in the Telecommunications, Media and Technology ("TMT") sector, Telewest had a strong year with record turnover and EBITDA (earnings before interest, tax, depreciation and amortisation). Our operating performance reflected our continuing success in the marketplace where our bundled broadband product set offers unrivalled quality and value. Consequently, our subscriber growth was strong across our cable television ("CATV"), telephony and blueyonder broadband internet services and we achieved record low levels of customer churn. Despite the weakening economy and the competitive pressures we face, revenues across all consumer products have grown and margins have improved. The introduction of Talk Unlimited, our innovative flat-rate telephony service providing unlimited local and national calls, has lifted telephony margin, whilst price increases and a change in package mix helped contribute to a 4% growth in CATV margin. Growth was achieved in our Business Division, where, excluding Carrier Services, revenues increased by 16% on 2000; including Carrier Services, revenues were up slightly by 1%. The softening economy has impacted the UK advertising sector and other broadcasters have typically seen their revenues fall, however, Flextech (including our proportionate share of our joint venture with the BBC, UKTV) increased both its advertising revenues and its number of subscribers.

Following the requirements of UK and US Accounting Standards, the Group has performed impairment tests on its tangible and intangible fixed assets and investments. The impairment tests have resulted in an exceptional non-cash charge totalling £1,130 million, (US GAAP £968 million) against the Content Division's goodwill and its investments in UKTV and SMG plc ("SMG"). No impairment was required in the carrying value of the cable assets.

**REGULATORY**

**Broadcast**

In December 2001, following a year long investigation, the Office of Fair Trading ("OFT") announced that it proposed to make a decision that BSkyB has acted contrary to the provisions of the Competition Act 1998, with specific regard to their wholesale supply of premium channels to the cable companies and ITV Digital. The OFT's key findings centre on the extent to which rate card discounts act against competition, at both the platform and channel producer levels.

The OFT has stated that it has presented its case to BSkyB for comment. It is expected that the OFT will make a final decision before Summer 2002. If the OFT maintains its position regarding the proposed decision and the findings above, the OFT may force BSkyB to change the level and structure of its wholesale prices for premium channels. We would expect this to have a positive effect on our business.

**Telecommunications**

In the interconnect area, in September 2001, Oftel announced that it intended to impose an annual price cap of RPI less 12% on mobile call termination charges, this applies from March 2002 for a period of four years. Telewest originates a significant volume of calls to mobiles and it is anticipated that this decision will, if made final, have a considerable downward effect on the costs we incur in delivering these calls to mobile operators. In December

# 23bn

2001, the mobile operators indicated that they would not accept this Oftel proposal. Consequently, in January 2002, Oftel referred this issue to the Competition Commission for resolution.

In December 2001, the European Commission concluded the new package of Telecommunications Directives covering regulatory areas such as licensing and access. While these Directives have yet to be implemented into UK law, we view them as well balanced and do not anticipate that they will have an adverse effect on Telewest.

**REVENUE**

The Group's total turnover increased by £194 million or 17% to £1,323 million in 2001 from £1,129 million in 2000. This was due to the continuing strong revenue increases in our Consumer Division and in Business Services along with the full-year impact in 2001 of the acquisitions of Flextech and Eurobell. These acquisitions accounted for £74 million and £58 million, respectively, of the total increase in revenue.

Excluding our share of joint ventures' turnover, group turnover under UK GAAP totalled £1,260 million. Total revenue under US GAAP increased by £185 million or 17% to £1,254 million in 2001 from £1,069 million in 2000. Total revenue under US GAAP differs from group turnover under UK GAAP primarily due to the different revenue recognition treatments within the Business Division for Carrier Services contracts.

**CONSUMER DIVISION**

The Consumer Division revenues increased by £117 million or 16% to £857 million in 2001 from £740 million in 2000. This increase was mainly attributable to an 8% increase in the average number of customer homes connected due to the Eurobell acquisition, penetration increases and an increase in average revenue per household of 7% to £40.03 per month.

Total customer homes connected increased to 1,765,619 as at 31 December 2001, up 4% from 1,691,341 homes at 31 December 2000, equivalent to household penetration of 37.5% as at 31 December 2001. The increase in homes connected is a result of the successful take-up of blueyonder broadband – our high-speed internet product; customers attracted by our unique telephony service Talk Unlimited providing unlimited, local and national calls for a flat fee of £25 per month and the continued attraction of our bundle of competitively priced digital TV, telephony and internet packages. The percentage of subscribers taking two or more services, grew to 69% at 31 December 2001 from 65% a year earlier.

**Cable television**

CATV revenues increased by £50 million or 18% to £329 million in 2001, from £279 million in 2000, following retail price increases from 1 July coupled with growth in subscribers, continued analogue to digital migration and a full year's inclusion of Eurobell. Retail prices increased by an average of £2 on all packages except our Starter package which increased by 60 pence. Average CATV revenue per customer increased by 6% during the year to £20.75 per month from £19.50 per month in 2000. Price rises were partially offset by a reduction in the number of Sky premium channels sold and a change in mix of television packages selected.

As at 31 December 2001, total CATV subscribers had increased by 7% to 1,341,784 from 1,249,610 at 31 December 2000. CATV penetration increased to 28.5% by the end of 2001 from 26.1% in 2000. This increase in penetration resulted from continued subscriber take-up of digital TV packages and a reduction in CATV subscriber churn. At the year end we had an installed subscriber base of 724,000 digital customers. Excluding the Eurobell areas, where we currently only offer analogue services, our digital TV services are now taken by 57% of our CATV subscribers. We will begin rolling

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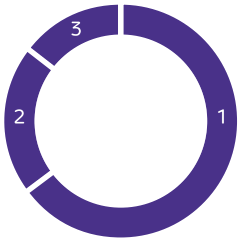
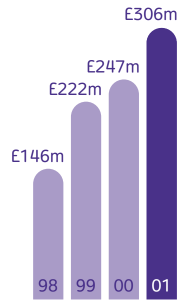



1 Consumer Division £857m
2 Business Division £274m
3 Content Division £192m
(inc. share of joint ventures)

Revenue segmentation




EBITDA

out digital services to the Eurobell franchises in the third quarter of 2002. CATV subscriber churn improved by 7.3 percentage points during the year to 18.7%. This reduction in churn is principally attributed to reduction in our digital TV fault rate which has fallen from an average of 32% in 2000 to below 9% by the end of 2001, as well as improved customer service and satisfaction and better perceived customer value.

**Residential telephony**

Residential telephony revenues increased by £43 million or 10% to £488 million in 2001 from £445 million in 2000.

Telephony revenues were impacted by the inclusion of Eurobell, £31 million, increased call volumes, selected price increases and an increase in incoming call revenue, offset by shifts in mix of calls and free local calls. Average monthly revenue per line decreased marginally to £22.79 in 2001 from £22.93 in 2000. Usage increased nearly 34% year-on-year with the average revenue per minute decreasing by approximately 26%. 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 new Freephone ISPs at lower retail rates (or at no charge in the case of SurfUnlimited customers) and free cable-to-cable local calls.

Residential telephony subscribers grew by 5% to 1,615,809 at 31 December 2001 from 1,538,140 at 31 December 2000. Residential telephony subscribers' penetration increased to 34.3% as at 31 December 2001 from 32.2% at 31 December 2000. Total residential telephony lines increased by 3% to 1,762,312 from 1,706,159. The smaller increase in line growth reflects a fall in second line penetration from 10.9% in 2000 to 9.1% in 2001, in part due to price increases for second lines during 2001 and customers migrating from our dial-up internet product to blueyonder broadband internet. As with CATV, telephony subscriber churn improved during the year and fell by 3.3 percentage points to 16.5% compared to 19.8% in 2000.

**Internet and other revenues**

Internet and other revenues included within our Consumer Division have increased by 150% to £40 million in 2001 from £16 million in 2000. This increase related entirely to internet income to which our blueyonder broadband product contributed significantly. Blueyonder broadband subscribers grew ten-fold from 7,000 to 85,000 subscribers by the end of 2001 and reached 107,000 subscribers at 28 February 2002. This demonstrates the acceptance of our high-speed internet service. Blueyonder broadband is also successfully attracting new customers with 23% of our high-speed internet subscribers being new to Telewest. Additionally, 70% of these subscribers are also taking CATV and telephony and are spending on average over £65 per month.

Other revenues were derived from the sales of cable publications.

**BUSINESS DIVISION**

The Business Division which had total revenues for 2001 of £274 million comprises Business Services and Carrier Services. The revenues of Business Services are generated from the sale of voice and data services, primarily to SMEs and increased by £30 million or 16% to £213 million in 2001 from £183 million in 2000.

Business telephony lines in 2001 increased by 22% to 444,998 from 365,535 in 2000. Revenue increased as a result of total line growth and the inclusion of Eurobell's full year results, but was partially offset by a 9% decrease in average monthly revenue per line during 2001.

Carrier Services offers our fibre optic national network to other carriers and operators for handling both voice and data communications. Revenues from Carrier Services tend to be derived from a relatively small number of high value, short and long-term contracts and therefore can fluctuate from year-to-year. Revenues from this unit fell by £27 million to £61 million in 2001 from £88 million in 2000.

In the Business Division the difference between UK and US GAAP revenues is primarily due to the revenue recognition conventions on certain Carrier Services contracts. Accordingly, our Business Division revenues under US GAAP increased by £20 million or 8% to £268 million in 2001 from £248 million in 2000.

**CONTENT DIVISION (Flextech)**

Our Content Division's turnover for the year, including its share of UKTV's turnover and before elimination of inter-divisional trading, was £206 million, compared with £182 million on a pro forma basis for last year and £125 million for the period from its acquisition on 19 April 2000. The increases were driven by multichannel subscriber growth year-on-year of 10% to 10.5 million homes at 31 December 2001 and also by improved advertising sales.

In a market where other broadcasters have seen advertising revenue fall and where we have seen the multichannel market continue to fragment, our advertising revenue (including 50% of UKTV) is up 6% from the previous year. This is a significant achievement given a 10% decline in the overall TV advertising market year-on-year, and an increasingly competitive multichannel market where the number of basic TV channels increased to 115 in 2001 from 96 in 2000.

The UKTV business continued to grow successfully, with our share of revenues increasing 21% to £63 million in 2001 on a pro forma basis. On 5 November 2001, UKTV launched a new channel, UK Food, a channel dedicated to celebrating the finest food and the nation's favourite chefs. Initial audiences have been very encouraging.

The Content Division's own EBITDA on an unconsolidated basis grew to £8 million in 2001 from £3 million in 2000 on a pro forma basis, before inter-company eliminations of £14 million and £11 million in 2001 and 2000, respectively.

**OPERATING EXPENSES (before depreciation and amortisation)**

Operating expenses, which consist of selling, general and administrative expenses ("SG&A"), costs of programming, interconnect and the acquisition of programming content for our Content Division increased by £108 million or 13% to £954 million in 2001 from £846 million in 2000. This increase arises principally because of the full year impact of the acquisitions of Flextech and Eurobell and programming expenses.

Consumer programming expenses increased by £10 million or 8% to £142 million in 2001 from £132 million in 2000. Price increases from BSkyB, inflation increases and the overall size of our customer base were partially reduced by a full year's inter-company elimination. As a percentage of CATV revenue, programming expenses improved to 43% from 47% in 2000. 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 rate-card.

Telephony expenses at £238 million in 2001 increased 1% from £235 million in 2000. 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, expenses improved to 31% in 2001 from 33% in 2000.

# Financial Review
continued

The Content Division's cost of sales for the year 2001 was £83 million or 40% of the Content Division's revenues, including share of joint ventures' turnover and before inter-company elimination. This compares with £46 million or 39% for the period from acquisition to 31 December 2000.

SG&A expenses at £491 million in 2001 increased from £433 million in 2000. The acquisitions of Flextech and Eurobell added £32 million of the increase. On a pro forma basis, SG&A increased by only 1% from £485 million in 2000 to £491 million in 2001. Expressed as a percentage of total turnover, these expenses decreased to 37% in 2001 from 38% in 2000, reflecting, in part, cost efficiencies being achieved across the Group. Staff costs increased by £28 million to £257 million (after capitalisation) from £229 million in 2000, reflecting an increase in the average number of employees of some 1,350 on a base of 9,300 in 2000. This increase in employees reflects the enlarged Group, continuing focus on customer service and staffing requirements to support high-speed internet and digital TV, offset by a reduction in the use of contractors for installation.

Operating expenses before depreciation, amortisation and impairment of goodwill under US GAAP increased by £99 million or 12% to £957 million in 2001. The difference between UK and US GAAP is due primarily to the treatment of SG&A. SG&A under US GAAP totalled £497 million in 2001 (£445 million in 2000). This difference is due mainly to different accounting conventions in respect of telephony installation costs of £6 million and share compensation cost of £2 million under US GAAP in 2001.

**EBITDA**

The Group's consolidated EBITDA (Group operating profit before deducting depreciation of fixed assets and amortisation of goodwill) increased by £59 million or 24% to £306 million in 2001 from £247 million in 2000. This increase in EBITDA was due to increased subscribers in the Consumer and Business Divisions, higher margins on both CATV and telephony, offset by increased SG&A expenses in introducing new products and improving the quality of service to our customers.

EBITDA under US GAAP was £297 million in 2001, up 41% from £211 million in 2000.

**DEPRECIATION AND AMORTISATION**

Depreciation expense increased 12% to £445 million in 2001 from £399 million in 2000. This increase of £46 million is principally attributable to the additional capital expenditure on digital TV and high-speed data equipment and the full-year impact of the acquisition of the Eurobell franchises.

Depreciation expense under US GAAP increased 11% to £469 million in 2001 from £423 million 2000 due to the factors noted above.

Amortisation of goodwill increased by £38 million to £181 million in 2001 from £143 million in 2000, principally as a result of the impact of the Flextech acquisition. In addition, as stated earlier, the Group performed a post-acquisition impairment test on its Content business goodwill which resulted in an exceptional non-cash charge of £992 million.

Amortisation expense under US GAAP in respect of goodwill and intangibles increased to £183 million in 2001 from £147 million in 2000 primarily as a result of the Flextech acquisition referred to above. Additionally, a charge of £766 million was recorded in 2001 in respect of the impairment test referred to above. The impairment charge under US GAAP is lower than the charge under UK GAAP primarily due to a lower US GAAP valuation placed on the shares issued to acquire Flextech and higher net assets under US GAAP on acquisition of Flextech.

## OTHER INCOME AND EXPENSE

Interest payable and similar charges totalled £494 million in 2001, an increase of £70 million compared with 2000. This consisted of interest expense of £453 million in 2001 (£372 million in 2000), net foreign currency exchange losses of £15 million in 2001 (£17 million in 2000) and other financing costs of £26 million in 2001 (£35 million in 2000), primarily relating to fees incurred for the issuance of financing instruments and share of interest of associated undertakings and joint ventures. The increase in interest payable was primarily a result of additional borrowing to fund the roll-out of digital TV and high-speed internet products and general working capital.

Interest receivable and similar income totalled £15 million in 2001 (£16 million in 2000).

The foreign currency losses primarily relate to exchange differences on the translation of the US dollar-denominated debentures and notes to pounds sterling using the 31 December 2001 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 2001.

Interest expense under US GAAP increased to £472 million in 2001 from £385 million in 2000 as a result of additional borrowings as described above. There were no net foreign exchange losses in 2001 (£15 million loss in 2000) but an extraordinary charge of £15 million was recorded in 2001 relating to the write-off of deferred financing costs in connection with our former senior secured credit facility. Under UK GAAP, this charge was recorded in 2000.

Amounts written off investments comprise exceptional non-cash impairment charges of £138 million under UK GAAP on the Group's investments in UKTV and SMG. The charge under US GAAP against these investments is included in share of net losses of affiliates and impairment and amounts to £202 million. The charge under US GAAP is larger due to higher values assigned to these investments under US GAAP when the Group acquired Flextech.

## NET LOSS

Net loss for the year before exceptional items was £801 million compared to £706 million in 2000, reflecting higher interest payable and increased depreciation and goodwill amortisation due to the larger size of the Group. As a result of the exceptional non-cash impairment charges of £992 million relating to Content business goodwill and £138 million relating to amounts written off investments, and a £4 million loss on disposal of investments, the final net loss for the year was £1,935 million.

Similarly under US GAAP, the goodwill impairment charge of £766 million and a charge for the impairment of affiliates of £202 million led to a final net loss for the year of £1,741 million.

## FINANCING

The Group had gross debt of £5,132 million (£4,451 million in 2000), of which £5,025 million (£3,576 million in 2000) represents long-term borrowings falling due after one year. There was £1,324 million of bank debt, £261 million of leasing and vendor financing, £45 million of other loans and £3,502 million consisting of a series of long-term bonds and convertible obligations. The estimated fair value of this £3,502 million of long-term debt instruments is £2,578 million, based on quoted market prices, and reflects wider credit spreads for TMT sector companies generally prevailing at the year end.

Operating cash inflow under UK GAAP was £348 million and £194 million in 2001 and 2000, respectively. Net cash outflow to fund investing activities totalled £570 million in 2001 and £579 million in 2000. £546 million of this total in 2001 (£545 million in 2000) related to capital expenditures.

# Financial Review
continued

This level of capital expenditures was due to the full-year impact of the Eurobell acquisition, the roll-out of digital TV services, new product development and the upgrade of certain parts of the network.

During 2001, we used a mix of syndicated bank facilities, leasing and vendor finance as sources of financing. In total, net cash inflow from financing activities was £572 million (£569 million in 2000).

As of 31 December 2001, the Group had cash balances of £14 million (excluding £12 million that is restricted as to use to providing security for leasing obligations and £8 million that is restricted to guaranteeing a temporary overdraft for one of our associates, TV Travel Shop).

On 16 March 2001, the Group entered into new senior secured credit facilities with a syndicate of 26 banks for £2 billion. Under these facilities we are also able to raise a further £250 million from institutional investors of which a £125 million tranche was drawn down at 31 December 2001.

### CAPITAL EXPENDITURES

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. Additions to fixed assets in 2001 totalled £653 million, an increase over 2000 of £39 million. The increase was principally a result of the increased size of the Group following the Eurobell acquisition, together with network upgrades and new digital set-top boxes and modems in connection with our roll-out of digital TV and high-speed internet services.

As at 31 December 2001, our broadband network was capable of providing 78% of the homes in our franchises with both our CATV and telephony services. We have substantially completed all network upgrades necessary for delivery of our digital TV and high-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

On 24 April 2001 the Group invested £14.8 million into sit-up Limited ("sit-up") and sold Screenshop, a wholly owned television shopping service, to sit-up for £10 million. As a result of these transactions, the Group has a 36% stake in the enlarged sit-up business and accounts for its share of the results of that business as an affiliate.

On 30 May 2001 the Group acquired 51% of Rapid Travel Solutions Limited ("Rapid Travel") and was granted a series of call options by and granted a series of put options to the vendors in respect of the balance of 49%. Assuming that either party exercises these options, the Group will acquire the remainder of the share capital in tranches ending on 30 November 2003. Consequently, Rapid Travel's results are included in our accounts from the date of acquisition.

### 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 US dollar-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

Our outstanding long-term bank debt is denominated in pounds sterling and bears interest at variable rates. We seek to reduce our exposure to adverse interest rate fluctuations on borrowings under 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 5.70% to 7.835%) and the receipt of payments based on a variable rate of interest. The swaps have maturities ranging from 28 March 2002 to 1 January 2005. The aggregate notional principal amount of these hedging arrangements is £900 million. At 31 December 2001, the aggregate amount outstanding under the senior secured credit facilities was £1,324 million, (£1,360 million under US GAAP due to different classification of bank financing costs).

### Foreign currency exchange risk

At 31 December 2001, 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 £2,655 million.

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.

## GOING CONCERN

The Group regularly monitors its ongoing ability to draw down under the facilities, which is dependent on satisfying financial covenants. As with most growth businesses, further increases in business performance and profitability are necessary to ensure continued compliance with the terms of the covenants. However, as with any forecast information, the principal assumptions are clearly subject to a degree of risk, in particular, the Group's ability to increase revenues in accordance with its plans.

The Group's existing business plans and projections demonstrate that the forecast growth in business performance will be sufficient to allow the Group to continue to meet its current covenant obligations for a period of at least twelve months from the date of approval of these financial statements.

**Charles Burdick**
Group Finance Director
28 February 2002

# Operating Statistics

Unaudited

| | Actual net additions 2001 | Pro forma[1] net additions 2000 |
|---|---|---|
| **CONSUMER DIVISION** | | |
| Household customers | **74,278** | 42,426 |
| Cable television subscribers | **92,174** | 57,114 |
| Telephony subscribers | **77,669** | 62,118 |
| Telephone lines | **56,153** | 59,362 |
| Blueyonder broadband internet subscribers | **78,229** | 6,893 |

| | As at 31 December 2001 Actual | As at 31 December 2000 Pro forma[1] |
|---|---|---|
| Homes passed | **4,914,155** | 4,922,191 |
| Homes passed and marketed | **4,713,937** | 4,789,451 |
| Dual or triple service subscribers[2] | **1,218,294** | 1,096,409 |
| Cable television only subscribers | **138,053** | 153,201 |
| Residential telephony only subscribers | **401,286** | 441,731 |
| Internet only subscribers | **7,986** | – |
| Total residential subscribers | **1,765,619** | 1,691,341 |
| Household penetration | **37.5%** | 35.3% |
| Percentage of dual or triple service subscribers[2] | **69.0%** | 64.8% |
| Monthly revenue per subscriber[3] | **£40.03** | £37.50 |
| **Cable television** | | |
| Cable television subscribers | **1,341,784** | 1,249,610 |
| Active Digital subscribers | **723,826** | 339,195 |
| Penetration rate[4] | **28.5%** | 26.1% |
| Average subscriber churn rate[5] | **18.7%** | 26.0% |
| Average monthly revenue per subscriber[6] | **£20.75** | £19.48 |
| **Residential telephony** | | |
| Residential telephony subscribers | **1,615,809** | 1,538,140 |
| Residential telephony penetration[7] | **34.3%** | 32.2% |
| Residential telephone lines | **1,762,312** | 1,706,159 |
| Second line penetration | **9.1%** | 10.9% |
| Average subscriber churn rate[8] | **16.5%** | 19.8% |
| Average monthly revenue per line[9] | **£22.79** | £22.93 |
| Average monthly revenue per subscriber[10] | **£25.09** | £25.55 |
| **Internet subscribers** | | |
| Blueyonder SurfUnlimited | **184,034** | 104,983 |
| Blueyonder pay-as-you-go | **119,295** | 175,387 |
| Blueyonder broadband | **85,122** | 6,893 |
| Total Internet subscribers | **388,451** | 287,263 |
| **Blueyonder broadband** | | |
| Average monthly revenue per subscriber[11] | **£25.21** | n/a |
| Average subscriber churn rate[12] | **7.5%** | n/a |

| | As at 31 December 2001 Actual | As at 31 December 2000 Pro forma[1] |
|---|---|---|
| **BUSINESS DIVISION** | | |
| Business customer accounts | **72,934** | 66,507 |
| Business telephony lines | **444,998** | 365,535 |
| Average business lines per customer account[13] | **6.1** | 5.5 |
| Average monthly revenue per business line[14] | **£44.12** | £48.44 |
| Annualised revenue per customer account[15] | **£3,137** | £3,093 |
| **CONTENT DIVISION** | | |
| Multichannel subscribers | **10,504,118** | 9,565,325 |
| Flextech share of basic viewing[16] | **20.4%** | 23.1% |
| Share of total TV advertising revenues[17] | **3.0%** | 2.7% |
| Unique users to Flextech interactive applications[18] | **2,618,000** | 1,666,000 |

**Notes**

[1] Operating statistics and financial data on a pro forma basis assume the Eurobell and Flextech acquisitions had taken place on 1 January 2000.

[2] Dual or triple service subscribers are those subscribers who take any two or all of our cable television, residential telephony and high-speed internet services.

[3] Monthly revenue per subscriber (often referred to as "ARPU") represents (i) the average monthly revenue of residential customers for such period, divided by (ii) the average number of residential customers in such period.

[4] Cable television penetration rate at a specified date represents (i) the total number of cable television subscribers at such date, divided by (ii) the total number of homes passed and marketed for cable television at such date.

[5] Average cable television subscriber churn rate for the period is calculated on a rolling 12 month basis and represents (i) the total number of cable television subscribers who terminated basic services or whose services were terminated during such period, divided by (ii) the average number of cable television subscribers in such period.

[6] Average monthly revenue per cable television subscriber for each period represents (i) the average monthly cable television revenue for such period, divided by (ii) the average number of cable television subscribers in such period.

[7] Residential telephony penetration rate at a specified date represents (i) the total number of residential cable telephony subscribers at such date divided by (ii) the total number of homes passed and marketed for residential cable telephony at such date.

[8] Average residential telephony subscriber churn rate for the period is calculated on a rolling 12 month basis and represents (i) the total number of residential cable telephony subscribers who terminated telephony services or whose services were terminated during such period, divided by (ii) the average number of residential cable telephony subscribers in such period.

[9] Average monthly revenue per residential telephony line for each period represents (i) the average monthly residential cable telephony revenue for such period, divided by (ii) the average number of residential cable telephony lines in such period.

[10] Average monthly revenue per residential telephony subscriber for each period represents (i) the average monthly residential cable telephony revenue for such period, divided by (ii) the average number of residential cable telephony subscribers in such period.

[11] Average monthly revenue per blueyonder broadband subscriber for each period represents (i) the average monthly blueyonder broadband revenue for such period, divided by (ii) the average number of blueyonder broadband subscribers in such period.

[12] Average blueyonder broadband subscriber churn rate for the period is calculated on a rolling 12 month basis and represents (i) the total number of blueyonder broadband subscribers who terminated their services or whose services were terminated during such period, divided by (ii) the average number of blueyonder broadband subscribers in such period.

[13] Average number of business lines per customer account at a specified date represents (i) the number of business cable telephony lines at such date, divided by (ii) the average number of business cable telephony customer accounts at such date.

[14] Average monthly revenue per business line for each period represents (i) the average monthly business cable telephony revenue for such period, divided by (ii) the average number of business cable telephony lines in such period.

[15] Average annualised revenue per customer account for each period represents (i) the average monthly business services revenue for each period divided by (ii) the average number of business services customer accounts in such period, multiplied by twelve months.

[16] Basic viewing over 24 hours.

[17] Includes Flextech wholly owned channels and UKTV advertising revenues.

[18] Unique visitors to Flextech interactive applications on internet, and interactive TV.

# Board of Directors

**ANTHONY (COB) STENHAM**
**Non-executive chairman[2] (70)**
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 and The Management Consultancy.

**ADAM SINGER**
**Group chief executive[2] (50)**
Appointed chief executive and a director of Telewest in April 2000 upon 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 ("TCI"), now renamed Liberty Media International ("LMI"). He joined the Tele-Communications group of companies in 1988 as a vice president of United Artists Programming. Before joining 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 is also a member of the nomination committee.

**CHARLES BURDICK**
**Group finance director (50)**
Appointed group finance director in February 1997. He was acting group finance director from September 1996. Prior to this he was vice president of 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**
**Group strategy director and general counsel (41)**
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 & 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.

**MARK LUIZ**
**Chief executive, content division (48)**
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 multichannel television industry, having been closely involved with the launch of channels such as UK Gold and Living. 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.

**DENISE KINGSMILL CBE**
**Non-executive director[1,2,3] (54)**
Appointed a non-executive director in June 2001. Ms Kingsmill has been deputy chair of the Competition Commission since 1997. She was an advisor to Denton Wilde Sapte from 1994 to 2000 and specialised in employment law and corporate governance. Ms Kingsmill is a non-executive director of Manpower and of the Home Office, a trustee of the Design Museum as well as a member of the Advisory Board of the Cambridge Business School (The Judge Institute).

**ANTHONY RICE**
**Non-executive director[1,2,3] (49)**
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 held the following positions at BAe between July 1991 and 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**
**Non-executive director(1,2,3) (67)**
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 Henderson Eurotrust Plc, Park Place Capital Ltd, Manek Investment Management Ltd and deputy chairman of the ABC International Bank plc 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**
**Non-executive director (43)**
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, a position he has held since April 1997. 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 Liberty Livewire Corporation, Liberty Satellite & Technology Inc, Discovery Communications Inc, USA Networks Inc, and many of Liberty's other affiliated companies.

**MIRANDA CURTIS**
**Non-executive director(2,3) (46)**
Appointed a non-executive director in September 1998. 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, Multithematiques SA and Princes Holding Ltd.

**DENNIS DURKIN**
**Non-executive director(1,3) (31)**
Appointed as a non-executive director in August 2001. He has been European director at Microsoft since 1999, managing Microsoft's European strategic acquisitions and alliances. He also serves on the board of directors of Carpoint LLC.

**GRAHAM HOLLIS**
**Non-executive director(1) (50)**
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, Multithematiques SA and Princes Holding Ltd.

**SALMAN ULLAH**
**Non-executive director (38)**
Appointed as a non-executive director in August 2000. Mr Ullah is a managing director in the Corporate Development and Strategy group at Microsoft. He joined Microsoft in 1997 as a senior business manager in MSN. From 1993 to 1997 he was an 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 1993 and the University of Virginia between 1989 and 1991.

**HENRY VIGIL**
**Non-executive director(2) (44)**
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 a 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.

(1) Member of the audit committee
(2) Member of the nomination committee
(3) Member of the remuneration committee

# Social Responsibility

## OUR PEOPLE

**Doing the right thing for our people – a year of progress**

Telewest has a fundamental belief that the route to excellent customer service and strong financial performance is through highly engaged people. The last year has seen a concerted effort to build people engagement throughout the Group, bringing formerly separate parts of the business together to produce a common purpose and consistency.

Prior to the recent launch of Telewest's new brand identity, the Group ensured that its employees were familiarised with the Company vision and brand values, through a nationwide programme of workshops called "The Right Thing Experience". The programme recently won the Internal Visual Communication Association (IVCA) Gold Award for effective communication.

Telewest has a well-defined two-way internal communications approach that includes a team briefing system, regular staff opinion surveys, roadshows and Broadtalk – a regular live webchat event for employees with the group chief executive and other members of senior management.

A central focus during 2001 has been building a culture recognising the value of customer service, and we now have seven-day working in our field operations and contact centres using flexible working patterns. We have also introduced a new pay and reward accreditation system, which encourages our people to develop their knowledge, skills and behaviour in line with their role and our brand. This is the first such scheme in the UK to be formally recognised by the Institute of Customer Service.

The Group continues to work towards improving and maintaining good employee relations. An example of this is a programme of workshops for all line managers to build an understanding of employee relations, which was launched during 2001. Employee forums are also being established across the organisation. We are committed to equal opportunities and to enhancing the diversity of our workforce, based on performance and capability. Through our policies, we ensure that we do not discriminate, giving fair consideration to all.

We invest in the development and training of our people, encouraging them to focus their learning around business needs and to pursue other appropriate development opportunities. We also aim to ensure that our managers are equipped to lead their teams effectively through leadership and management development programmes.

## HEALTH AND SAFETY

Telewest strongly supports and is committed to the maintenance and review of the Company's health and safety management systems. This is reflected by a team of dedicated health and safety professionals who provide specialist advice and support to all areas of the business. Telewest has a nominated board director, Mark Luiz, who has specific responsibility for overseeing health and safety management across the organisation.

## COMMUNITY

As a rule, we do not make large financial donations to charities, but seek to support our communities in other ways. An example of this is the Telewest Time To Read project, a partnership between our Woking office and a local primary school, where Telewest employees help children with their reading skills. Another recent example is the provision of broadband internet, voice and data services to a community learning centre project in Newcastle.

We are planning a series of initiatives to encourage and support employee involvement in their communities and have a payroll-giving scheme as the first stage of this activity.

The Group made total charitable donations of £15,979 in the year (2000: £36,829).

**ENVIRONMENT**

Telewest is committed to developing and maintaining good environmental standards. A committee, reporting to Charles Burdick, group finance director, meets on a quarterly basis and is responsible for monitoring the Company's environmental performance and setting targets for improvement.

The majority of Telewest's network is now complete. However, we have signed up to the Streetwise Charter – a public commitment from utility companies to safety, best practice, improved communication and the development of practical solutions to street works' problems, which will be applicable for any remaining build and maintenance.

We have now turned our attention to the Group's offices and are introducing initiatives such as Green Transport Plans, as well as making sure that new property acquisitions are environmentally friendly.

We have focused on the areas of reduction in $CO_2$ emissions, waste and water usage, in line with UK Government recommendations. We consider $CO_2$ emissions and waste to be the two areas where Telewest's activities have most environmental impact.

A primary objective has been to rationalise our data gathering methods across the Group. This will allow us to measure our environmental impacts more accurately during the course of 2002 and to set targets for improvement.

**REDUCTION IN GREENHOUSE GAS EMISSIONS**

**Transport**

Our estimate of total miles travelled within the business across the UK in 2001 is 38.1 million. This is the equivalent of 8,854 tonnes of $CO_2$.

We are working on improvements in our inter-office communications and home working capability. This has included the installation of video and audioconferencing units in an effort to reduce travel within the Group. In 2001, approximately eight million minutes of audioconferencing facilities were used. In addition, an improved digital fault rate, a reduction in infrastructure problems in our network, and the location of remote stores for equipment throughout our operating areas will all help to reduce our total business mileage.

Following successful trials, we have introduced 60 Liquid Petroleum Gas (LPG) Ford Transits, approximately 6% of the Light Commercial Vehicle (LCV) fleet. This move to LPG has generated an approximate reduction in $CO_2$ emissions of 58 tonnes, a 27% reduction, compared to our standard diesel equivalent.

We launched our first Green Transport Plan, aimed at minimising the dependency on private cars for commuter journeys and providing alternative modes of transport, supporting our Sheffield contact centre. We now have one operating in Plymouth and two more are currently being developed for Liverpool and Birmingham.

We already offer subsidised public transport options in certain locations, an example of this is the Travel Wise scheme in Birmingham.

**Energy/fuel**
We estimate that we consumed approximately 137 million kWh of electricity, which is equivalent to 59,000 tonnes of $CO_2$ emissions. We now have a system in place that will allow us to report separately on gas consumption for next year and hence set targets for total $C0_2$ emissions.

**Refrigerants**
All work relating to air conditioning systems is carried out by REFCOM accredited engineers. We have also introduced a system across all of our mechanical service contractors that establishes the quantity of refrigerant, by type, reclaimed, charged and lost, and will be able to publish full-year data for 2002.

Detailed plans are in place to replace all Halon and NAFF Gas systems by the end of 2002. FM200 or Inergen alternatives will replace these systems.

**WASTE**
We believe that we have now established a robust method for tracking total tonnage and volumes of all commercial waste products, segregated into landfill and recycled office-based products. Based on initial data, we estimate that our total waste output for 2001 is 7,860 tonnes. We shall track this data throughout 2002 quantifying our total Group impact by the end of the year, not only by total volume, but also by proportion recycled. This will enable us to set targets for 2003 for both reduction in waste output and an improvement in our recycled contribution.

Our hazardous waste is negligible and any disposal complies with current legislation.

**Paper**
The process of introducing single billing for customers using more than one of our services is almost complete and we have recently started to roll out electronic billing and payment. It is anticipated that this will save 50.6 million A4 sheets of paper, 32.3 million A4 envelopes and 10.7 million business reply envelopes between 2002 and 2004.

**Computer equipment**
The length of usage of computer equipment within the Group means that it does not reach the minimum specification requirement for passing on to the voluntary sector at the end of its life cycle within the Group. We are currently developing a process for environmentally friendly disposal of computer equipment.

**WATER**
We now have a new data gathering system for water consumption in place allowing us to gather data and set targets for 2003.

**PROCUREMENT ACTIVITIES**
We are currently reviewing our purchasing policy with a view to including an environmental performance requirement in supplier contracts and tendering processes.

We ensure that all new property acquisitions are rated to the equivalent of BREEAM "good" or "very good". Our new National Credit Services Centre is located in the Mailbox, a regeneration project in Birmingham.

# Report of the Directors

**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 2001.

The UK GAAP consolidated financial statements are set out on pages 40 to 71 and the Auditor's report thereon, on page 39. The US GAAP consolidated financial statements are set out on pages 73 to 104 and the Auditor's report thereon, on page 72.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Chairman's Statement on page 2, the Chief Executive's Review on pages 6 to 9 and the Financial Review on pages 10 to 17 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.

**POST BALANCE SHEET EVENTS**

There were no material post balance sheet events between the end of the financial year and the date of this report.

**DIVIDENDS**

The directors do not recommend the payment of a dividend for the financial year ended 31 December 2001. No dividend was recommended for payment during the financial year ended 31 December 2000.

**BOARD OF DIRECTORS**

Details of all the directors of the Company appear on pages 20 and 21.

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 reappointment.

Details of directors' interests in the share capital of the Company are set out in the Directors' Remuneration Report on pages 36 and 37.

During the year, and to the date of this report, the following were appointed as directors of the Company: Denise Kingsmill on 22 June 2001 and Dennis Durkin representing Microsoft on 2 August 2001. The following resigned as directors of the Company: Lord Borrie on 21 June 2001; Neil Holloway representing Microsoft on 2 August 2001 and Robert Fuller on 31 August 2001.

There have been no contracts 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.

**BOARD COMMITTEES**

Details of the audit committee, the nomination committee and the remuneration committee appear on page 29.

**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 27 to 31. The Directors' Remuneration Report is on pages 32 to 37.

# Report of the Directors
continued

## SHARE CAPITAL
As at 28 February 2002, there were 2,873,226,315 issued ordinary shares, 82,507,747 issued convertible limited voting shares and 38,277 holders and 2,715,200 issued American Depositary Shares ("ADS") and 15 American Depositary Receipt ("ADR") 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 22 to the UK GAAP consolidated financial statements.

As at 21 June 2001, 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.

## SUBSTANTIAL SHAREHOLDINGS
As at 28 February 2002, 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 | 722,205,225 | 22,185,093 | 25.2 |
| Microsoft Corporation | 636,056,024 | 60,322,654 | 23.6 |
| The Capital Group Companies Inc | 190,920,901 | – | 6.5 |

As at 28 February 2002, the Company had not been notified of any other interests of 3% or more in its ordinary share capital.

## 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 2001 were an average of 48 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 therefore not be meaningful.

## SOCIAL RESPONSIBILITY
The Group's employment and environmental practices are detailed in the Social Responsibility statement on pages 22 to 24.

## DONATIONS
Details of the Group's charitable donations appear on page 23. During the year, the Group incurred expenditure of £4,400, relating to the cost of hosting a table at the Labour Party conference dinner, which is deemed to be a political donation (2000: £nil).

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

## 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
28 February 2002

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") annexed to the Listing Rules of the UK Listing Authority.

Throughout the year ended 31 December 2001 the Group has complied with the majority of the Principles with the exception of certain Combined Code provisions which are described below. Such exceptions largely reflect the shareholder arrangements between the Company, Liberty Media and Microsoft, 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. Revisions to this agreement were also approved by the independent shareholders on 21 June 2001.

**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 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 an agreed procedure in place for directors to take independent professional advice, if necessary, at the Group's expense.

**BOARD BALANCE**

Details of the current directors are given on pages 20 and 21. Changes to board composition during the year have been identified in the Report of the Directors on pages 25 and 26.

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

Combined Code provision A.3.2 provides that a majority of the non-executive directors should be independent. As noted above, the majority of the non-executive directors represent the Company's major corporate shareholders, Liberty Media and Microsoft, and are therefore not considered to be independent. The balance of the board is reflective of the arrangement between the Company and the major corporate shareholders as described herein.

**CORPORATE SHAREHOLDER ARRANGEMENTS**

The shareholder arrangements between the Company and its corporate shareholders have been modified several times since the Company's flotation in 1994.

In addition, in July 2000, Microsoft gave undertakings as to how and whether to exercise certain of its rights, unless required by Liberty Media to do otherwise in accordance with the shareholder arrangements.

Liberty Media and Microsoft have also agreed that any arrangement to which the Company is a party which gives rise to a conflict between the interests of the Company and those of Liberty Media or Microsoft requires the prior approval of the independent directors and the directors appointed by the non-conflicted shareholder.

# Corporate Governance
continued

**Board appointments and voting**
The shareholder arrangements provide that the board shall consist of no more than 16 directors (unless otherwise agreed) and that each of Liberty Media and Microsoft is entitled to appoint two directors to the board if it holds 5% or more of the Company's shares or three directors to the board if it holds 12.5% or more. Any committee appointed by the board shall include one Liberty Media director, and one Microsoft director (unless otherwise agreed), provided that a majority of the members of the committee are independent directors.

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. In addition, Microsoft has undertaken that it will cause its designated directors to vote (subject to their fiduciary duties) as the independent directors recommend, unless either Microsoft has a conflict of interest (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 be most likely to maintain the status quo as described above.

**Shareholder rights**
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, they will vote together in the 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. Notwithstanding this provision, Microsoft has undertaken that it will exercise its votes in all matters as the independent directors recommend, unless Microsoft has a conflict of interest (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 be most likely to maintain the status quo as described above.

Liberty Media and Microsoft have agreed that, for as long as Liberty Media or Microsoft hold 15% or more of the Company's shares, the consent of Liberty Media and/or Microsoft (as appropriate) must be obtained by the Company before:

i) making any material acquisition or disposal outside the ordinary course of business including any Class 2 transaction for the purposes of the Listing Rules of the UK Listing Authority;

ii) incurring new borrowings or indebtedness in excess of £50 million in aggregate;

iii) allotting or issuing shares or securities convertible into shares or granting options;

iv) appointing or removing the group chief executive officer of the Company; or

v) increasing the number of directors holding office beyond 16.

Microsoft has undertaken that it will not exercise its right to withhold its consent to any appointment or removal of the group chief executive officer of the Company. Microsoft has also undertaken that, provided certain conditions are satisfied, it will not exercise its right to withhold its consent in the circumstances described in paragraphs i) and ii) above.

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

## 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 Combined Code, the majority are independent non-executive directors, namely Tony Rice (Chairman), Denise Kingsmill and Stanislas Yassukovich. Liberty Media and Microsoft are represented by Graham Hollis and Dennis Durkin 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, group chief executive, and group finance director 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.

## 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), Denise Kingsmill, 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).

## 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), Denise Kingsmill and Tony Rice (each of the aforesaid being an independent non-executive director); and Miranda Curtis and Dennis Durkin who are non-executive directors and represent Liberty Media and Microsoft respectively. These arrangements do not comply with the Combined Code provision B.2.2 which states that remuneration committees should consist entirely of independent non-executive directors. However, as described herein, this arrangement is reflective of the relationship between the Company and the major corporate shareholders.

Further details about the Company's remuneration policy can be found in the Directors' Remuneration Report on pages 32 to 37 together with details of the Company's departures from certain of the provisions of the Combined Code.

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

## 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 advisers. 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 also encouraged to visit the Company's website at www.telewest.co.uk.

# Corporate Governance
continued

**INTERNAL CONTROL**
The board is ultimately responsible for the effectiveness of 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 control 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. The Group's internal control procedures do not cover our major joint ventures and associates. These entities are subject to their own system of internal control. Governance of these entities is achieved through board representation.

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

**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.

**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 UK Listing Authority and the Securities and Exchange Commission. Key issues on financial management and treasury are also reported regularly to the audit committee and the board.

**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.

**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:

- monthly and managers' 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, business continuity, revenue assurance, treasury, purchasing and logistics along with fraud investigators to review and manage risks identified within these spheres;

- the monitoring performed by the internal audit team and reported on a quarterly basis; and

- short-term measures to mitigate the risk of bank covenant breaches are continually evaluated including deferring of capital expenditure, pricing changes and monetisation of assets.

## GOING CONCERN

The directors consider that the current credit facilities of the Group which were approved in March 2001, provide sufficient funding to finance its existing business plans, satisfy working capital requirements and pay interest on existing debt instruments for at least twelve months from the date of approval of these financial statements.

The Group regularly monitors its ongoing ability to draw down under the facilities, which is dependent on satisfying financial covenants. As with most growth businesses, further increases in business performance and profitability are necessary to ensure continued compliance with the terms of the covenants. However, as with any forecast information, the principal assumptions are clearly subject to a degree of risk, in particular, the Group's ability to increase revenues in accordance with its plans.

The Group's existing business plans and projections demonstrate that the forecast growth in business performance will be sufficient to allow the Group to continue to meet its current covenant obligations for a period of at least twelve months from the date of approval of these financial statements.

The directors have considered all of 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 these financial statements.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibilities of the directors are set out on page 38.

# Directors' Remuneration Report

## 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. The group chief executive is not present when his 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 advisers both within the Company and externally. The committee chairman and senior executives maintain contact when appropriate with the Company's principal shareholders to discuss the 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 operational 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, Charles Burdick, 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 EBITDA for the Group, the achievement of personal targets and share price growth.

Also, for the year under review, a special non-recurring bonus was paid to Charles Burdick in respect of his contribution to the negotiations in obtaining the new senior secured credit facilities.

For 2002, each of the executive directors will participate in a bonus scheme under which the level of bonus payable will be based on EBITDA for the Group and the achievement of personal and team targets. The total bonus payable under this scheme will be 40% of salary for achieving all targets, rising to a maximum of 65% of salary for exceeding targets.

Details of bonuses paid for the year to 31 December, 2001 are given on page 35. 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 which have been granted 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. The remuneration committee has the ability to vary the performance condition for future grants of options. 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. The committee intends to continue its policy of making grants of options on a phased basis up to 100% of base salary.

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 to make phased grants of options under the Company's executive share option schemes and does not intend to make awards under the LTIP, except in exceptional circumstances.

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. This scheme is used for one off awards only 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 shares in the Company ("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 shares in the Company (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 shares in the Company 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.

# Directors' Remuneration Report
continued

vi) **The Telewest 2000 All Employee Share Scheme**
The Company has established a share incentive plan, the Telewest 2000 All Employee Share Scheme, in line with the proposals issued by the Government. All employees will be eligible to participate in this scheme when it is introduced by the Company.

Details of options or awards granted to directors under any of the above schemes are shown on pages 36 and 37.

**d) Pensions**
The Company operates a Money Purchase Occupational Pension Plan. The Company and members pay predetermined or defined levels of contributions in order to fund future pension benefits.

This plan is offered to all 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 match twice 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.

Each of the executive directors receives a contribution towards their personal pension scheme as shown on page 35. Directors do not participate in the Company pension plan.

## EXECUTIVE DIRECTORS' AGREEMENTS
Charles Burdick, Stephen Cook 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 EXECUTIVE DIRECTORS AND COMPENSATION FOR LOSS OF OFFICE
Robert Fuller resigned as a director on 31 August 2001. He received no compensation for loss of office.

## DIRECTORS' REMUNERATION
The aggregate remuneration for directors during the year was as follows:

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| Fees to non-executive directors | **0.3** | 0.3 |
| Remuneration for executive directors: | | |
| Basic salary, allowances and benefits | **2.0** | 1.4 |
| Performance-related bonuses | **0.7** | 1.3 |
| Pension contributions | **0.2** | 0.2 |
| Compensation for loss of office | **–** | 1.0 |
| Total in respect of year | **3.2** | 4.2 |

## Directors' compensation

| Directors' compensation | Salaries/Fees 2001 £000 | Salaries/Fees 2000 £000 | Benefits 2001 £000 | Benefits 2000 £000 | Performance-related bonuses 2001 £000 | Performance-related bonuses 2000 £000 | Compensation for loss of office 2001 £000 | Compensation for loss of office 2000 £000 | Total emoluments excluding pensions 2001 £000 | Total emoluments excluding pensions 2000 £000 | Pension contributions[1] 2001 £000 | Pension contributions[1] 2000 £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | | | | | |
| C J Burdick | **377** | 319 | **11** | 16 | **283**[2] | 189[3] | **–** | – | **671** | 524 | **14** | 13 |
| S S Cook (app 19.4.00) | **355** | 245 | **3** | 1 | **112** | 195[3] | **–** | – | **470** | 441 | **70** | 48 |
| R Fuller (app 1.12.00) (res 31.8.01) | **273** | 33 | **10** | 1 | **–** | 250[3] | **–** | – | **283** | 284 | **61** | 7 |
| P B Harman (app 19.4.00) (res 14.7.00) | **–** | 98 | **–** | 7 | **–** | – | **–** | – | **–** | 105 | **–** | 10 |
| V M Hull (res 18.8.00) | **–** | 143 | **–** | 5 | **–** | 238[3] | **–** | 302 | **–** | 688 | **–** | 12 |
| A K Illsley (res 19.4.00) | **–** | 169 | **–** | 6 | **–** | 168[3] | **–** | 669 | **–** | 1,012 | **–** | 46 |
| M W Luiz (app 16.11.00) | **338** | 38 | **14** | 1 | **109** | 88 | **–** | – | **461** | 127 | **40** | 4 |
| A N Singer (app 19.4.00) | **575** | 340 | **18** | 23 | **186** | 141 | **–** | – | **779** | 504 | **58** | 34 |
| **Non-executive** | | | | | | | | | | | | |
| Lord Borrie (res 21.6.01) | **17** | 35 | **–** | – | **–** | – | **–** | – | **17** | 35 | **–** | – |
| D P Kingsmill (app 22.6.01) | **18** | – | **–** | – | **–** | – | **–** | – | **18** | – | **–** | – |
| W A Rice | **35** | 35 | **–** | – | **–** | – | **–** | – | **35** | 35 | **–** | – |
| A W P Stenham[4] | **175** | 214 | **15** | – | **–** | – | **–** | – | **190** | 214 | **–** | – |
| S M Yassukovich (app 19.4.00) | **41** | 29 | **–** | – | **–** | – | **–** | – | **41** | 29 | **–** | – |
| | **2,204** | 1,698 | **71** | 60 | **690** | 1,269 | **–** | 971 | **2,965** | 3,998 | **243** | 174 |

The following non-executive directors did not receive any remuneration from the Company in either 2001 or 2000 for their services: A G Ames (res 4.8.00), R R Bennett, S Boyd (res 4.8.00), S Brych-Nourry (res 4.8.00), M T C Curtis, D Durkin, G Hollis, N Holloway (res 2.8.01), S Ullah and H P Vigil.

**Notes**

[1] 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.

[2] £170,000 within the figure shown for C J Burdick was paid as a special bonus in respect of his contribution to the negotiations in obtaining the new senior secured credit facilities.

[3] For the year ended December 2000, C J Burdick and S S Cook were each paid a special bonus of £100,000 and A K Illsley was paid a special bonus of £85,000 in respect of their contributions to the completion of the acquisition of Flextech in April 2000. Also for the year ended December 2000, V M 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. R Fuller was paid an initial bonus of £250,000 on joining the Company in December 2000.

[4] A W P Stenham receives an annual fee of £175,000 and support services or compensation in lieu of, up to a maximum of £75,000.

### 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 reappointment 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' Remuneration Report
continued

**Directors' interests**
Beneficial and family interests in ordinary shares of the Company are as follows:

| | 2000 (or at date of appointment) | **2001** |
|---|---|---|
| C J Burdick | 167,971 | **294,201** |
| D P Kingsmill | – | **30,983** |
| M W Luiz | 20,631 | **20,631** |
| W A Rice | 27,120 | **27,120** |
| A N Singer | 194,508 | **194,508** |
| A W P Stenham | 40,000 | **40,000** |
| S M Yassukovich | 24,297 | **47,513** |

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 December 2000 | Granted/(lapsed) during 2001 | Date of grant/lapse | Note | Number of shares under option at 31 December 2001 | Exercise period | Exercise price per share (pence) |
|---|---|---|---|---|---|---|---|
| C J Burdick | 27,486 | – | – | a | **27,486** | 13/3/2000 – 12/3/2007 | 109.1 |
| | 800,542 | – | – | b | **800,542** | 13/3/2000 – 12/3/2007 | 108.7 |
| | 1,192,982 | – | – | b | **1,192,982** | 30/6/2003 – 29/6/2010 | 228.0 |
| | – | 583,333 | 7/6/01 | b | **583,333** | 7/6/2004 – 6/6/2011 | 120.0 |
| | – | 233,333 | 16/11/01 | b | **233,333** | 16/11/2004 – 15/11/2011 | 75.0 |
| **Totals** | 2,021,010 | 816,666 | | | **2,837,676** | | |
| S S Cook | 21,394 | – | – | a | **21,394** | 22/6/2000 – 21/4/2002 | 140.2 |
| | 742,021 | – | – | b | **742,021** | 22/6/2000 – 21/4/2002 | 140.2 |
| | 982,456 | – | – | b | **982,456** | 30/6/2003 – 29/6/2010 | 228.0 |
| | 421,052 | – | – | b | **421,052** | 21/11/2003 – 20/11/2010 | 114.0 |
| | 10,977 | – | – | c | **10,977** | 1/2/2004 – 31/7/2004 | 88.3 |
| | – | 583,333 | 7/6/01 | b | **583,333** | 7/6/2004 – 6/6/2011 | 120.0 |
| | – | 233,333 | 16/11/01 | b | **233,333** | 16/11/2004 – 15/11/2011 | 75.0 |
| **Totals** | 2,177,900 | 816,666 | | | **2,994,566** | | |
| M W Luiz | 169,223 | – | – | a | **169,223** | 19/6/1998 – 18/6/2005 | 99.9 |
| | 397,776 | – | – | b | **397,776** | 19/6/1998 – 18/6/2002 | 99.9 |
| | 1,052,631 | – | – | b | **1,052,631** | 30/6/2003 – 29/6/2010 | 228.0 |
| | 10,977 | – | – | c | **10,977** | 1/2/2004 – 31/7/2004 | 88.3 |
| | – | 583,333 | 7/6/01 | b | **583,333** | 7/6/2004 – 6/6/2011 | 120.0 |
| | – | 233,333 | 16/11/01 | b | **233,333** | 16/11/2004 – 15/11/2011 | 75.0 |
| **Totals** | 1,630,607 | 816,666 | | | **2,447,273** | | |
| A N Singer | 12,765 | – | – | a | **12,765** | 30/6/2003 – 29/6/2010 | 235.0 |
| | 1,741,229 | – | – | b | **1,741,229** | 30/6/2003 – 29/6/2010 | 228.0 |
| | 8,414 | (8,414) | 30/11/01 | c | **–** | – | – |
| | – | 1,000,000 | 7/6/01 | b | **1,000,000** | 7/6/2004 – 6/6/2011 | 120.0 |
| | – | 400,000 | 16/11/01 | b | **400,000** | 16/11/2004 – 15/11/2011 | 75.0 |
| | – | 3,247 | 14/12/01 | c | **3,247** | 1/2/2005 – 31/7/2005 | 58.5 |
| **Totals** | 1,762,408 | 1,394,833 | | | **3,157,241** | | |
| A W P Stenham | 10,977 | – | – | c | **10,977** | 1/2/2004 – 31/7/2004 | 88.3 |
| **Totals** | 10,977 | – | | | **10,977** | | |

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

Other entitlements to ordinary shares of the Company:

Telewest Long Term Incentive Plan:

| | Number of shares at 31 December 2000 | Lapsed during 2001 | Transferred during 2001 | **Number of shares at 31 December 2001** | Transfer dates | Details of shares transferred: Market price per share on transfer pence | Date of transfer | Gross gain on transfer £ |
|---|---|---|---|---|---|---|---|---|
| C J Burdick | 116,365 | – | (116,356) | **9** | – | 74 | 16/11/01 | 86,100 |
| | 132,211 | – | (66,099) | **66,112** | From 20/3/02 | 119 | 23/3/01 | 78,660 |
| | 185,116 | (185,116) | – | **–** | – | – | – | – |
| | 51,546 | – | – | **51,546** | 50% from 30/3/03, 50% from 30/3/04 | – | – | – |
| **Totals** | 485,238 | (185,116) | (182,455) | **117,667** | | | | 164,760 |

The Telewest Equity Participation Plan:

| | Number of bonus shares at 31 December 2000 | Matching allocation as at 31 December 2000 | Transferred during 2001 | **Number of shares at 31 December 2001** | Transfer dates | Details of shares transferred: Market price per share on transfer pence | Date of transfer | Gross gain on transfer of matching allocation £ |
|---|---|---|---|---|---|---|---|---|
| C J Burdick | 14,180 | 14,180 | (28,360) | **–** | – | 119 | 23/3/01 | 16,880 |
| | 14,989 | 25,401 | – | **40,390** | From 22/3/02 | – | – | – |
| **Totals** | 29,169 | 39,581 | (28,360) | **40,390** | | | | 16,880 |

The Telewest Restricted Share Scheme:

| | Number of shares at 31 December 2000 | Awarded during 2001 | **Number of shares at 31 December 2001** | Transfer dates |
|---|---|---|---|---|
| C J Burdick | – | 185,915 | **185,915** | From 12/6/04 |
| **Total** | – | 185,915 | **185,915** | |

The middle market price on 31 December 2001, was 62 pence and the range during the year was 161 pence to 23 pence. Further information on share price movements during the year is given in the Shareholder Information on page 106.

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 2001.

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 28 February 2002, the Telewest 1994 Employees' Share Ownership Plan Trust held 1,098,793 ordinary shares. Each of the executive directors is deemed 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 auditor's report.

# Independent Auditor's Report

to the members of Telewest Communications plc

We have audited the financial statements on pages 40 to 71.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the Annual Report. As described on page 38 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 1985. 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 27 to 31 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 2001 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

28 February 2002

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# Consolidated Profit and Loss Account

for the year ended 31 December 2001

| | Notes | 2001 Before exceptional items £ million | 2001 Exceptional items £ million | 2001 Total £ million | 2000 Total £ million |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Existing operations | 2 | **1,260** | **–** | **1,260** | 1,093 |
| Share of joint ventures' turnover | 2 | **63** | **–** | **63** | 36 |
| **Total turnover – continuing operations** | | **1,323** | **–** | **1,323** | 1,129 |
| Less: share of joint ventures' turnover | | **(63)** | **–** | **(63)** | (36) |
| **Group turnover** | | **1,260** | **–** | **1,260** | 1,093 |
| **Total operating expenses** | 3 | **(1,580)** | **(992)** | **(2,572)** | (1,387) |
| **Group operating loss – continuing operations** | | **(320)** | **(992)** | **(1,312)** | (294) |
| Group turnover | | **1,260** | **–** | **1,260** | 1,093 |
| Operating expenses before depreciation and amortisation | | **(954)** | **–** | **(954)** | (846) |
| **EBITDA** | 1 | **306** | **–** | **306** | 247 |
| Depreciation and amortisation | | **(626)** | **(992)** | **(1,618)** | (541) |
| Group operating loss | | **(320)** | **(992)** | **(1,312)** | (294) |
| Loss on disposal of investments | 7 | **–** | **(4)** | **(4)** | – |
| Share of operating profits/(losses)of joint ventures | 14 | **9** | **–** | **9** | (2) |
| Share of operating (losses)/profits of associated undertakings | 14 | **(7)** | **–** | **(7)** | 3 |
| **Total operating loss: Group and share of joint ventures and associated undertakings** | | **(318)** | **(996)** | **(1,314)** | (293) |
| Interest receivable and similar income | 8 | **15** | **–** | **15** | 16 |
| Amounts written off investments | 14 | **–** | **(138)** | **(138)** | – |
| Interest payable and similar charges | 9 | **(494)** | **–** | **(494)** | (424) |
| **Loss on ordinary activities before taxation** | | **(797)** | **(1,134)** | **(1,931)** | (701) |
| Tax on loss on ordinary activities | 10 | **(5)** | **–** | **(5)** | (5) |
| **Loss on ordinary activities after taxation** | | **(802)** | **(1,134)** | **(1,936)** | (706) |
| Minority interests | 21 | **1** | **–** | **1** | – |
| **Loss for the financial year** | | **(801)** | **(1,134)** | **(1,935)** | (706) |
| **Basic and diluted loss per ordinary share (pence)** | 11 | **(27.8)** | **(39.4)** | **(67.2)** | (26.1) |

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# Consolidated Balance Sheet

as at 31 December 2001

| | Notes | 2001 £ million | 2001 £ million | 2000 £ million | 2000 £ million |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | | **1,743** | | 2,878 |
| Tangible assets | 13 | | **3,498** | | 3,290 |
| Investments in associated undertakings and participating interests | 14 | | **107** | | 172 |
| Investments in joint ventures: | | | | | |
| Share of gross assets | | **30** | | 34 | |
| Goodwill | | **330** | | 428 | |
| Share of gross liabilities | | **(138)** | | (142) | |
| Loans to joint ventures | | **218** | | 229 | |
| | 14 | | **440** | | 549 |
| Other investments | 14 | | **1** | | 2 |
| | | | **5,789** | | 6,891 |
| **Current assets** | | | | | |
| Stocks | 15 | | **67** | | 69 |
| Debtors | 16 | | **239** | | 244 |
| Secured cash deposits restricted for more than one year | | | **20** | | 12 |
| Cash at bank and in hand | | | **14** | | 60 |
| | | | **340** | | 385 |
| Creditors: amounts falling due within one year | 17 | | **(670)** | | (1,343) |
| **Net current liabilities** | | | **(330)** | | (958) |
| **Total assets less current liabilities** | | | **5,459** | | 5,933 |
| Creditors: amounts falling due after more than one year (includes convertible debt of £904 million and £847 million in 2001 and 2000 respectively) | 17 | | **(5,031)** | | (3,580) |
| Minority interests | 21 | | **(1)** | | 2 |
| **Net assets** | | | **427** | | 2,355 |
| **Capital and reserves** | | | | | |
| Called up share capital | 22 | | **287** | | 288 |
| Limited voting shares | 22 | | **8** | | 6 |
| Share premium account | 23 | | **1,254** | | 1,249 |
| Merger reserve | 23 | | **2,769** | | 2,769 |
| Other reserves | 23 | | **279** | | 277 |
| Profit and loss account | 23 | | **(4,170)** | | (2,234) |
| **Equity shareholders' funds** | | | **427** | | 2,355 |

The financial statements were approved by the board of directors on 28 February 2002 and signed on its behalf by:

**A N Singer**
Director

**C J Burdick**
Director

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# Company Balance Sheet

as at 31 December 2001

| | Notes | **2001 £ million** | 2000 £ million |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 14 | **3,953** | 5,345 |
| **Current assets** | | | |
| Debtors | 16 | **3,898** | 3,560 |
| Cash at bank and in hand | | **–** | 16 |
| | | **3,898** | 3,576 |
| Creditors: amounts falling due within one year | 17 | **(72)** | (72) |
| **Net current assets** | | **3,826** | 3,504 |
| **Total assets less current liabilities** | | **7,779** | 8,849 |
| Creditors: amounts falling due after more than one year (includes convertible debt of £565 million and £520 million in 2001 and 2000 respectively) | 17 | **(3,968)** | (3,800) |
| **Net assets** | | **3,811** | 5,049 |
| **Capital and reserves** | | | |
| Called up share capital | 22 | **287** | 288 |
| Limited voting shares | 22 | **8** | 6 |
| Share premium account | 23 | **1,254** | 1,249 |
| Merger reserve | 23 | **2,235** | 2,235 |
| Other reserves | 23 | **1,252** | 1,252 |
| Profit and loss account | 23 | **(1,225)** | 19 |
| **Equity shareholders' funds** | | **3,811** | 5,049 |

The financial statements were approved by the board of directors on 28 February 2002 and signed on its behalf by:

**A N Singer**
Director

**C J Burdick**
Director

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# Consolidated Cash Flow Statement

for the year ended 31 December 2001

| | Notes | 2001 £ million | 2000 £ million |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25 | **348** | 194 |
| **Dividends received from associated undertakings** | | **3** | 3 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **5** | 7 |
| Interest paid | | **(335)** | (164) |
| Interest element of finance lease payments | | **(20)** | (14) |
| Issue costs of Notes and credit facility arrangement costs | | **(41)** | (21) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(391)** | (192) |
| **Capital expenditure** | | | |
| Purchase of tangible fixed assets | | **(548)** | (547) |
| Sale of tangible fixed assets | | **2** | 2 |
| **Net cash outflow for capital expenditure** | | **(546)** | (545) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertakings | | **(6)** | (32) |
| Disposal of a subsidiary undertaking | | **10** | – |
| Cash acquired with subsidiary undertakings | | **–** | 8 |
| Cash disposed of with a subsidiary undertaking | | **(2)** | – |
| Investments in associated undertakings and other participating interests | | **(26)** | (10) |
| **Net cash outflow from acquisitions and disposals** | | **(24)** | (34) |
| **Net cash outflow before use of liquid resources and financing** | | **(610)** | (574) |
| **Management of liquid resources** | | | |
| Net decrease in fixed and secured deposits | | **11** | 32 |
| **Financing** | | | |
| Net repayment of borrowings under old credit facilities | | **(824)** | (141) |
| Net proceeds/(repayments) from borrowings under new credit facilities | | **1,393** | (260) |
| Share issue costs | | **–** | (13) |
| Repayments of loans made to joint ventures (net) | | **21** | 14 |
| Proceeds from issue of Accreting Convertible Notes 2003 | | **30** | 20 |
| Proceeds from issue of Senior Convertible Notes 2005 | | **–** | 330 |
| Proceeds from issue of Senior Discount Notes and Senior Notes 2010 | | **–** | 544 |
| Net proceeds from maturity of forward contracts | | **–** | 107 |
| Proceeds from exercise of share options | | **6** | 3 |
| Capital element of finance lease payments | | **(54)** | (35) |
| **Net cash inflow from financing** | | **572** | 569 |
| **(Decrease)/increase in cash in the year** | 26 | **(27)** | 27 |

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# Reconciliation of Movements in Equity Shareholders' Funds for the year ended 31 December 2001

| | Notes | Group 2001 £ million | Company 2001 £ million | Group 2000 £ million | Company 2000 £ million |
|---|---|---|---|---|---|
| **Opening equity shareholders' funds** | | **2,355** | **5,049** | 754 | 1,965 |
| (Loss)/profit for the financial year | 23 | **(1,935)** | **(1,243)** | (706) | 16 |
| Unrealised gain on intra group sale of investments | | **–** | **–** | – | 768 |
| Unrealised gain on deemed partial disposal of investment in a subsidiary undertaking | 23 | **1** | **–** | 7 | – |
| Gain on retranslation of investment in an overseas subsidiary undertaking | 23 | **1** | **–** | – | – |
| Accrued share based compensation cost | 23 | **(1)** | **(1)** | 2 | 2 |
| Issue of shares | 22, 23 | **6** | **6** | 2,298 | 2,298 |
| **Closing equity shareholders' funds** | | **427** | **3,811** | 2,355 | 5,049 |

# Statement of Total Recognised Gains and Losses

for the year ended 31 December 2001

| | Notes | Group 2001 £ million | Company 2001 £ million | Group 2000 £ million | Company 2000 £ million |
|---|---|---|---|---|---|
| **(Loss)/profit for the financial year** | 23 | **(1,935)** | **(1,243)** | (706) | 16 |
| Unrealised gain on deemed partial disposal of investment in a subsidiary undertaking | 23 | **1** | **–** | 7 | – |
| Unrealised gain on intra group sale of investments | | **–** | **–** | – | 768 |
| **Total recognised gains and losses relating to the financial year** | | **(1,934)** | **(1,243)** | (699) | 784 |

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# Notes to the Accounts

For the year ended 31 December 2001

## 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 following accounting standards are effective for the first time this year and have been adopted by the Group:

FRS 17 **Retirement benefits:** the transitional arrangements of FRS 17 require certain additional disclosures to be given which, where applicable, are included in note 19 to the financial statements. There is no effect on the results or financial position of the Group, as the transitional provisions require only disclosures to be made.

FRS 18 **Accounting policies:** FRS 18 requires the directors to adopt the most appropriate accounting policies having regard to factors including normal industry practice and comparability with other entities in the same sector. The directors have considered the Group's accounting policies in the light of these requirements and have concluded that no changes are currently needed.

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. The directors expect the Group to be in compliance with the financial covenants for a period of at least twelve months following the date of approval of these financial statements. Further details of the directors' analysis of going concern are included in the Corporate Governance report on page 31.

The directors have decided to publish EBITDA in addition to the statutory financial information 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 group operating profit before deducting depreciation of fixed assets and amortisation of goodwill.

### Basis of consolidation

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 or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. An associate is an undertaking in which the Group has a long-term interest usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits and losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in the consolidated balance sheet.

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not presented a profit and loss account. The loss of the Company for the financial year is disclosed in note 23 to these financial statements.

### Investments

Investments in subsidiary and associated undertakings and joint ventures are stated in the Company balance sheet at cost less provision for impairment in value.

# Notes to the Accounts

continued

## 1 ACCOUNTING POLICIES (CONTINUED)

### Goodwill

Purchased goodwill on the acquisition of subsidiary and associated undertakings and joint ventures represents the excess of the fair value of the consideration and associated acquisition costs 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. The useful economic life is assessed for each acquisition after having regard to the future economic benefits expected to be generated by the acquisition and any legal or other restrictions that may exist. Goodwill on acquisitions since 1 January 1998 are being amortised over a 20-year period. On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill. Any impairment charge on subsidiary undertakings is included within operating loss and any impairment charge on joint ventures and associated undertakings is included within amounts written off investments.

### Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. At 31 December 2001, the Group's liquid resources comprise short-term money market deposits.

### Capitalisation of overheads and staff costs

The Group capitalises that proportion of overheads and staff costs which are directly attributable 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 |

### Foreign currencies

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

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

**Turnover**
Revenues are recognised as network communication services are provided. Connection and activation fees relating to cable television, telephony and internet 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, is recognised as revenue using the percentage-of-completion method. If the requirements of finance 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 costs 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 comprises fees paid for film licences and film distribution rights and is stated at cost less accumulated amortisation and any provision for impairment 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.

# Notes to the Accounts

continued

**1 ACCOUNTING POLICIES (CONTINUED)**

**Taxation**

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual asset or liability will crystallise. The charge for taxation also includes a 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 11 to the financial statements.

**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.

**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 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. On maturity the principal elements are re-exchanged.

The Group also uses foreign exchange forward contracts to hedge against adverse changes in foreign currency exchange rates associated with principal 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 principal amounts where the maturity of the hedging instrument matches the first call date of the bonds which they hedge. Where hedge accounting is permitted by accounting rules, the hedged obligation is translated at the forward contracted rate. Where hedge accounting is not permitted by accounting rules, 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.

Where hedged transactions are not likely to occur or the derivative financial instruments cease to be regarded as hedges, then the derivatives are recorded on the balance sheet at their market values with changes in the market values recorded in the profit and loss account.

**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, telephony and internet services in the United Kingdom, which the directors consider to be the same class of business and, accordingly, no further 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:

| | **2001 Existing operations £ million** | **2001 Inter-divisional turnover £ million** | **2001 Total £ million** | 2000 Total £ million |
|---|---|---|---|---|
| **Consumer Division** | | | | |
| Cable television | **329** | **–** | **329** | 279 |
| Telephony | **488** | **–** | **488** | 445 |
| Internet and other | **40** | **–** | **40** | 16 |
| | **857** | **–** | **857** | 740 |
| **Business Division** | **274** | **–** | **274** | 271 |
| **Total Cable Division** | **1,131** | **–** | **1,131** | 1,011 |
| **Content Division** | | | | |
| Programming, transactional and interactive revenues | **143** | **(14)** | **129** | 82 |
| Share of joint ventures' turnover | **63** | **–** | **63** | 36 |
| **Total Content Division** | **206** | **(14)** | **192** | 118 |
| **Total turnover** | **1,337** | **(14)** | **1,323** | 1,129 |
| Less: share of joint ventures' turnover | **(63)** | **–** | **(63)** | (36) |
| **Group turnover** | **1,274** | **(14)** | **1,260** | 1,093 |

Internet and other revenue comprises internet sales and sales of cable publications.

# Notes to the Accounts
continued

## 2 SEGMENTAL INFORMATION (CONTINUED)

| | 2001 Cable £ million | 2001 Content £ million | 2001 Inter-divisional £ million | 2001 Total £ million | 2000 Cable £ million | 2000 Content £ million | 2000 Inter-divisional £ million | 2000 Total £ million |
|---|---|---|---|---|---|---|---|---|
| **Segmental analysis of operating results** | | | | | | | | |
| Group turnover | **1,131** | **143** | **(14)** | **1,260** | 1,011 | 89 | (7) | 1,093 |
| Operating expenses before depreciation and amortisation | **(833)** | **(135)** | **14** | **(954)** | (763) | (90) | 7 | (846) |
| **EBITDA** | **298** | **8** | **–** | **306** | 248 | (1) | – | 247 |
| Depreciation of tangible fixed assets | **(429)** | **(16)** | **–** | **(445)** | (368) | (31) | – | (399) |
| Amortisation of goodwill and intangible assets | **(68)** | **(1,105)** | **–** | **(1,173)** | (67) | (75) | – | (142) |
| Other operating expenses | **(833)** | **(135)** | **14** | **(954)** | (763) | (90) | 7 | (846) |
| **Total operating expenses** | **(1,330)** | **(1,256)** | **14** | **(2,572)** | (1,198) | (196) | 7 | (1,387) |
| **Group operating loss** | **(199)** | **(1,113)** | **–** | **(1,312)** | (187) | (107) | – | (294) |
| Loss on disposal of investments | **–** | **(4)** | **–** | **(4)** | – | – | – | – |
| Share of operating (losses)/profits of joint ventures | **(2)** | **11** | **–** | **9** | (6) | 4 | – | (2) |
| Share of operating (losses)/profits of associated undertakings | **(4)** | **(3)** | **–** | **(7)** | – | 3 | – | 3 |
| **Total operating loss** | **(205)** | **(1,109)** | **–** | **(1,314)** | (193) | (100) | – | (293) |
| Amounts written off investments | | | | **(138)** | | | | – |
| Net interest payable | | | | **(479)** | | | | (408) |
| **Loss on ordinary activities before taxation** | | | | **(1,931)** | | | | (701) |

| | 2001 £ million | 2000 £ million |
|---|---|---|
| **Net assets** | | |
| Cable Division | **4,372** | 4,351 |
| Content Division (includes £538 million (2000: £714 million) of joint ventures and associated undertakings) | **1,178** | 2,444 |
| Other investments | **10** | 9 |
| Debt (including finance lease obligations) | **(5,132)** | (4,451) |
| Minority interests | **(1)** | 2 |
| **Total net assets** | **427** | 2,355 |

## 3 OPERATING EXPENSES

| | 2001 Existing operations £ million | 2001 Inter-divisional charges £ million | 2001 Total £ million | 2000 Existing operations £ million | 2000 Inter-divisional charges £ million | 2000 Total £ million |
|---|---|---|---|---|---|---|
| **Cost of sales** | | | | | | |
| Consumer programming expenses | **153** | **(11)** | **142** | 139 | (7) | 132 |
| Business and consumer telephony expenses | **238** | **–** | **238** | 235 | – | 235 |
| Content Division expenses | **83** | **–** | **83** | 46 | – | 46 |
| Prime cost of sales (cost of sales before depreciation) | **474** | **(11)** | **463** | 420 | (7) | 413 |
| Depreciation of tangible fixed assets | **445** | **–** | **445** | 399 | – | 399 |
| | **919** | **(11)** | **908** | 819 | (7) | 812 |
| **Administration expenses** | | | | | | |
| Selling, general and administrative expenses | **494** | **(3)** | **491** | 433 | – | 433 |
| Amortisation of goodwill and intangible assets | **1,173** | **–** | **1,173** | 142 | – | 142 |
| | **1,667** | **(3)** | **1,664** | 575 | – | 575 |
| **Total operating expenses** | **2,586** | **(14)** | **2,572** | 1,394 | (7) | 1,387 |

The Group has carried out an impairment review of goodwill arising on acquisitions of subsidiary undertakings, joint ventures and associated undertakings. The impairment review was carried out in accordance with FRS 11 **Impairment of Fixed Assets and Goodwill** to ensure that goodwill is stated at no more than its recoverable amount being the higher of net realisable value and value in use. The impairment loss restated goodwill to its value in use and was determined using an average pre-tax discount rate of 11.5%. As a result an exceptional charge of £992 million has been included within amortisation of goodwill and intangible assets, in respect of goodwill impairment relating to the Group's acquired subsidiaries. A further £138 million of goodwill was written off in respect of associated undertakings and joint ventures (see note 14).

## 4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2001 £ million | 2000 £ million |
|---|---|---|
| Loss on ordinary activities before taxation is stated after charging: | | |
| Auditor's remuneration: | | |
| Audit | **1** | 1 |
| Other services – auditor and its associates | **1** | 3 |
| Depreciation and other amounts written off tangible fixed assets: | | |
| Owned | **400** | 335 |
| Leased | **45** | 64 |
| Amortisation of goodwill (including exceptional impairment charge of £992 million) | **1,173** | 143 |
| Amounts written off investments | **138** | – |
| Exchange losses | **15** | 17 |
| Hire of plant and machinery – rentals payable under operating leases | **7** | 5 |
| Hire of other assets – operating leases | **12** | 11 |

The auditor's remuneration for audit services to the Company was £39,000 (2000: £40,000).

Other fees paid to the auditor and its associates in 2001 for other services derive principally from the Group's quarterly financial reporting obligations and from taxation advice.

In 2000 the auditor received £1 million in respect of fees which were capitalised as acquisition costs relating to the Flextech and Eurobell transactions.

# Notes to the Accounts
continued

## 5 REMUNERATION OF DIRECTORS

| | 2001 £ million | 2000 £ million |
|---|---|---|
| Fees to non-executive directors | – | – |
| Remuneration for executive directors: | | |
| Basic salary, allowances and benefits | 2 | 2 |
| Performance-related bonuses | 1 | 1 |
| Pension contributions | – | – |
| Compensation for loss of office | – | 1 |
| **Total in respect of the year** | **3** | **4** |
| The remuneration of the highest paid director was as follows: | | |
| Basic salary, allowances and benefits | 1 | – |
| Performance-related bonuses | – | – |
| Pension contributions | – | – |
| Compensation for loss of office | – | 1 |
| **Total in respect of the year** | **1** | **1** |

A detailed analysis of directors' remuneration, including salaries and benefits, and performance-related bonuses is set out in the Directors' Remuneration Report on pages 32 to 35. Details of directors' interests in the share capital of the Company are set out in the Directors' Remuneration Report on pages 36 and 37.

## 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:

| | 2001 Number | 2000 Number |
|---|---|---|
| Sales and customer services | 5,160 | 4,129 |
| Construction and operations | 3,756 | 3,647 |
| Administration | 1,745 | 1,526 |
| | 10,661 | 9,302 |

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

| | 2001 £ million | 2000 £ million |
|---|---|---|
| Wages and salaries | 290 | 238 |
| Social security costs | 32 | 25 |
| Other pension costs | 10 | 8 |
| | 332 | 271 |

## 7 LOSS ON DISPOSAL OF INVESTMENTS

During the year, the Group closed its Florida based subsidiary HSNDI incurring an exceptional loss of £4 million.

## 8 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2001 £ million | 2000 £ million |
|---|---|---|
| On bank deposits and short-term investments | **3** | 5 |
| On loans made to associated undertakings and joint ventures | **12** | 11 |
| | **15** | 16 |

## 9 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2001 £ million | 2000 £ million |
|---|---|---|
| On bank loans: | | |
| Wholly repayable within five years | **22** | 79 |
| Wholly or partly repayable in more than five years | **83** | – |
| Finance costs of Notes and Debentures | **329** | 289 |
| Finance charges payable in respect of finance leases and hire purchase contracts | **19** | 4 |
| Exchange losses on foreign currency translation, net | **15** | 17 |
| Share of interest of associated undertakings and joint ventures | **11** | 9 |
| Extinguishment of debt | **–** | 15 |
| Other | **15** | 11 |
| | **494** | 424 |

## 10 TAX ON LOSS ON ORDINARY ACTIVITIES

| | 2001 £ million | 2000 £ million |
|---|---|---|
| Share of tax of joint ventures | **3** | 3 |
| Share of tax of associated undertakings | **2** | 2 |
| | **5** | 5 |

## 11 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:

| | 2001 million | 2000 million |
|---|---|---|
| Weighted average number of equity shares used for basic and diluted loss per share | **2,880** | 2,705 |

Diluted earnings per share are the same as earnings per share, as the effect of the inclusion of potential ordinary shares is to reduce the loss per share.

# Notes to the Accounts

continued

## 12 INTANGIBLE ASSETS

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| **Positive purchased goodwill** | | |
| **Cost** | | |
| At 1 January | **3,065** | 1,367 |
| Purchased goodwill on Flextech | **–** | 2,255 |
| Allocated to associates and joint ventures | **–** | (557) |
| Purchased goodwill on Eurobell | **–** | 1 |
| Adjustments to goodwill on purchase of Cable London | **–** | (1) |
| Additions | **11** | – |
| At 31 December | **3,076** | 3,065 |
| **Provision for amortisation** | | |
| At 1 January | **187** | 63 |
| Impairment charge (note 3) | **992** | – |
| Amortisation charge | **154** | 124 |
| At 31 December | **1,333** | 187 |
| **Net book value** | **1,743** | 2,878 |

Additions in 2001 relate principally to the acquisition of Rapid Travel (see note 14).

## 13 TANGIBLE FIXED ASSETS

| **Group** | Freehold land £ million | Freehold and long leasehold land and buildings £ million | Cable and ducting £ million | Electronic equipment £ million | Other equipment £ million | Total £ million |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2001 | 6 | 119 | 2,649 | 1,393 | 548 | 4,715 |
| Additions | – | 14 | 556 | 31 | 52 | 653 |
| Disposals | – | – | – | – | (7) | (7) |
| At 31 December 2001 | 6 | 133 | 3,205 | 1,424 | 593 | 5,361 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2001 | – | 36 | 535 | 629 | 225 | 1,425 |
| Charge for the year | – | 10 | 348 | 32 | 55 | 445 |
| Disposals | – | – | – | – | (7) | (7) |
| At 31 December 2001 | – | 46 | 883 | 661 | 273 | 1,863 |
| **Net book value at 31 December 2001** | **6** | **87** | **2,322** | **763** | **320** | **3,498** |
| Net book value at 31 December 2000 | 6 | 83 | 2,114 | 764 | 323 | 3,290 |

Included in the net book value of electronic equipment and other equipment is £103 million and £66 million, respectively, (2000: £107 million and £68 million respectively) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets was £45 million (2000: £64 million). The Company does not have any tangible fixed assets.

## 14 FIXED ASSET INVESTMENTS

### Group

### Investment in associated undertakings and other participating interests

| | Share of net assets £ million | Goodwill £ million | Loans £ million | Total – associated undertakings £ million | Other participating interests £ million | Total £ million |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2001 | 9 | 114 | 39 | 162 | 7 | 169 |
| Additions | 11 | – | 6 | 17 | 3 | 20 |
| Repayments received | – | – | (3) | (3) | – | (3) |
| At 31 December 2001 | 20 | 114 | 42 | 176 | 10 | 186 |
| **Share of post acquisition losses** | | | | | | |
| At 1 January 2001 | 7 | – | – | 7 | – | 7 |
| Share of operating losses | (7) | – | – | (7) | – | (7) |
| Share of interest payable (note 9) | (5) | – | – | (5) | – | (5) |
| Share of taxation (note 10) | (2) | – | – | (2) | – | (2) |
| At 31 December 2001 | (7) | – | – | (7) | – | (7) |
| **Provision** | | | | | | |
| At 1 January 2001 | – | (4) | – | (4) | – | (4) |
| Charge for the year | – | (6) | – | (6) | (1) | (7) |
| Amounts written off investments | – | (61) | – | (61) | – | (61) |
| At 31 December 2001 | – | (71) | – | (71) | (1) | (72) |
| **Net investments** | | | | | | |
| **At 31 December 2001** | **13** | **43** | **42** | **98** | **9** | **107** |
| At 31 December 2000 | 16 | 110 | 39 | 165 | 7 | 172 |

Included within investments in associated undertakings and other participating interests is £80 million in respect of listed investments. The aggregate market value of these listed investments at 31 December 2001 was £80 million. In addition, as described in note 17, £18 million of the investment in SMG plc provides security for a loan.

# Notes to the Accounts

continued

## 14 FIXED ASSET INVESTMENTS (CONTINUED)

**Investments in joint ventures**

| | Share of net assets £ million | Goodwill £ million | Loans £ million | Total £ million |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2001 | (100) | 443 | 229 | 572 |
| Additions | – | – | 47 | 47 |
| Repayments received | – | – | (58) | (58) |
| At 31 December 2001 | (100) | 443 | 218 | 561 |
| **Share of post acquisition losses** | | | | |
| At 1 January 2001 | (8) | – | – | (8) |
| Share of operating profits | 9 | – | – | 9 |
| Share of interest payable (note 9) | (6) | – | – | (6) |
| Share of taxation (note 10) | (3) | – | – | (3) |
| At 31 December 2001 | (8) | – | – | (8) |
| **Provision** | | | | |
| At 1 January 2001 | – | (15) | – | (15) |
| Charge for the year | – | (21) | – | (21) |
| Amounts written off investments | – | (77) | – | (77) |
| At 31 December 2001 | – | (113) | – | (113) |
| **Net investments** | | | | |
| **At 31 December 2001** | **(108)** | **330** | **218** | **440** |
| At 31 December 2000 | (108) | 428 | 229 | 549 |

As described in note 3 the Group undertook an impairment review of goodwill arising on its acquisitions of subsidiary undertakings, joint ventures and associated undertakings. As a result £61 million has been written off goodwill on associated undertakings and £77 million has been written off goodwill on joint ventures.

**Other investments**

**Own shares held**

| | £ million |
|---|---|
| **Cost** | |
| At 1 January 2001 | 2 |
| Exercised in year | (1) |
| At 31 December 2001 | 1 |
| **Provision** | |
| At 1 January 2001 | – |
| Charge for the year | (1) |
| Exercised in year | 1 |
| At 31 December 2001 | – |
| **Net investments** | |
| **At 31 December 2001** | **1** |
| At 31 December 2000 | 2 |
| **Total investments** | |
| **At 31 December 2001** | **548** |
| At 31 December 2000 | 723 |

**Company**

| | Shares in subsidiary undertakings £ million | Participating interests £ million | Own shares held £ million | Total £ million |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2001 | 5,340 | 10 | 2 | 5,352 |
| Additions | – | 3 | – | 3 |
| Exercised in year | – | – | (1) | (1) |
| Disposals | (99) | – | – | (99) |
| At 31 December 2001 | 5,241 | 13 | 1 | 5,255 |
| **Provision** | | | | |
| At 1 January 2001 | – | (7) | – | (7) |
| Charge for the year | – | (3) | (1) | (4) |
| Exercised in year | – | – | 1 | 1 |
| Amounts written off investments | (1,292) | – | – | (1,292) |
| At 31 December 2001 | (1,292) | (10) | – | (1,302) |
| **Net investments** | | | | |
| **At 31 December 2001** | **3,949** | **3** | **1** | **3,953** |
| At 31 December 2000 | 5,340 | 3 | 2 | 5,345 |

The Company has undertaken an impairment review of the carrying value of its investments in subsidiary undertakings. The review was carried out on the same basis as described in note 3. As a result, £1,292 million was written off investments in subsidiary undertakings.

**Own shares held – Group and Company**

At 31 December 2001, own shares held comprised 702,072 ordinary shares of 10 pence each held by the Telewest 1994 Employees Share Ownership Plan (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 pages 33 and 34 of the Directors' Remuneration Report.

The market value at 31 December 2001 of the shares held was 62.0 pence per share; the carrying value of the shares held is 156.3 pence per share, being the weighted average cost of the shares acquired by the Telewest ESOP.

At 31 December 2001, 530,855 and 9 ordinary shares were reserved for existing awards to executives of the Group under the RSS and LTIP, respectively, leaving the remaining 171,208 shares available for future awards to eligible executives. The provision made against own shares held represents the awards earned by executives in respect of services to the Group.

The Telewest ESOP received an interest-free loan of £7 million from the Group to subscribe for the ordinary shares to establish the Telewest ESOP. The loan is to be repaid by way of contributions made to the ESOP Trustees by subsidiary undertakings of the Group. At 31 December 2001, the Telewest ESOP owed £2 million to the Group.

# Notes to the Accounts
continued

## 14 FIXED ASSET INVESTMENTS (CONTINUED)

### Acquisitions

### Rapid Travel Solutions Limited

On 30 May 2001, the Group acquired 51% of the issued share capital of Rapid Travel Solutions Limited ("Rapid Travel") and was granted a series of call options by and granted a series of put options to the vendors in respect of the balance of 49%. Assuming that either party exercises these options, the Group will acquire the remainder of the share capital in tranches ending on 30 November 2003, at an aggregate cost of £4 million.

The results of Rapid Travel from the acquisition date to 31 December 2001 have been consolidated within the Group profit and loss account. The acquisition has been accounted for using the acquisition method of accounting.

Rapid Travel's net liabilities on acquisition were £0.5 million. There were no material fair value adjustments. Goodwill arising on the acquisition was £7 million.

Rapid Travel made a net loss after taxation and minority interests of £1 million for the period from 1 January 2001, the beginning of its financial year, to the date of acquisition. For the year ended 31 December 2000 Rapid Travel made a loss after tax and minority interest of £nil.

## 15 STOCKS

| | **Group 2001 £ million** | **Company 2001 £ million** | Group 2000 £ million | Company 2000 £ million |
|---|---|---|---|---|
| Raw materials and consumables | **1** | **–** | 2 | – |
| Equipment for re-sale | **36** | **–** | 36 | – |
| Programming inventory | **30** | **–** | 31 | – |
| | **67** | **–** | 69 | – |

## 16 DEBTORS

| | **Group 2001 £ million** | **Company 2001 £ million** | Group 2000 £ million | Company 2000 £ million |
|---|---|---|---|---|
| **Due within one year** | | | | |
| Trade debtors | **117** | **–** | 115 | – |
| Other debtors | **62** | **15** | 73 | 12 |
| Prepayments and accrued income | **60** | **–** | 56 | – |
| Amounts owed by subsidiary undertakings | **–** | **3,883** | – | 3,548 |
| **Total debtors** | **239** | **3,898** | 244 | 3,560 |

## 17 CREDITORS

### Amounts falling due within one year

| | Group 2001 £ million | Company 2001 £ million | Group 2000 £ million | Company 2000 £ million |
|---|---|---|---|---|
| Old senior secured facility | – | – | 690 | – |
| Flextech facility | – | – | 116 | – |
| SMG equity swap loan | 33 | – | – | – |
| Bank loans | 3 | – | 1 | – |
| Other loans | 2 | – | 21 | – |
| Vendor financing | 22 | – | – | – |
| | 60 | – | 828 | – |
| Obligations under finance leases and hire purchase contracts | 47 | 2 | 47 | 2 |
| Trade creditors | 108 | – | 96 | – |
| Taxation and social security | 6 | – | 10 | – |
| Other creditors | 12 | – | 36 | – |
| Accruals and deferred income | 437 | 70 | 326 | 70 |
| | 670 | 72 | 1,343 | 72 |
| **Amounts falling due after more than one year** | | | | |
| Accreting Convertible Notes 2003 | 268 | 268 | 225 | 225 |
| Senior Convertible Notes 2005 | 339 | – | 327 | – |
| Senior Debentures 2006 | 206 | 206 | 201 | 201 |
| Senior Convertible Notes 2007 | 297 | 297 | 295 | 295 |
| Senior Discount Debentures 2007 | 1,072 | 1,072 | 1,077 | 1,077 |
| Senior Notes 2008 | 231 | 231 | 230 | 230 |
| Senior Discount Notes 2009 | 511 | 511 | 462 | 462 |
| Senior Notes 2010 | 384 | 384 | 382 | 382 |
| Senior Discount Notes 2010 | 194 | 194 | 171 | 171 |
| Senior Secured Facility | 1,324 | – | – | – |
| Bank loans | 7 | – | 8 | – |
| Vendor financing | 1 | – | – | – |
| | 4,834 | 3,163 | 3,378 | 3,043 |
| Obligations under finance leases and hire purchase contracts | 191 | 14 | 198 | 16 |
| Amounts owed to group undertakings | – | 791 | – | 741 |
| Other creditors | 6 | – | 4 | – |
| | 5,031 | 3,968 | 3,580 | 3,800 |
| **Total creditors** | 5,701 | 4,040 | 4,923 | 3,872 |

### Notes and debentures

| | | Principal at maturity million | Maturity date | Earliest redemption date | Interest rate % |
|---|---|---|---|---|---|
| Accreting Convertible Notes 2003 | GBP | 294 | 1 November 2003 | 1 November 2003 | 5 |
| Senior Convertible Notes 2005 | USD | 500 | 7 July 2005 | 7 July 2003 | 6 |
| Senior Debentures 2006 | USD | 300 | 1 October 2006 | 1 October 2000 | 9.625 |
| Senior Convertible Notes 2007 | GBP | 300 | 19 February 2007 | 9 March 2003 | 5.25 |
| Senior Discount Debentures 2007 | USD | 1,537 | 1 October 2007 | 1 October 2000 | 11 |
| Senior Notes 2008 | USD | 350 | 1 November 2008 | 1 November 2003 | 11.25 |
| Senior Discount Notes 2009 | GBP | 325 | 15 April 2009 | 15 April 2004 | 9.875 |
| Senior Discount Notes 2009 | USD | 500 | 15 April 2009 | 15 April 2004 | 9.25 |
| Senior Notes 2010 | GBP | 180 | 1 February 2010 | 1 February 2005 | 9.875 |
| Senior Notes 2010 | USD | 350 | 1 February 2010 | 1 February 2005 | 9.875 |
| Senior Discount Notes 2010 | USD | 450 | 1 February 2010 | 1 February 2005 | 11.375 |

**17 CREDITORS (CONTINUED)**

The Debentures and Notes are unsecured liabilities of the Group. Early redemption is at the Group's option.

The Senior Convertible Notes 2005 are convertible into 114 million ordinary shares of the Group at a conversion price of 288 pence per ordinary share. Conversion is at the holders' option at any time up to the close of business on 22 June 2005. The Senior Convertible Notes 2007 are convertible into 92 million ordinary shares of the Group at a conversion price of 325 pence per ordinary share. Conversion is at the holders' option at any time up to close of business on 2 February 2007. If Notes are called for redemption prior to maturity, each holder has the right to convert Notes into ordinary shares. The Accreting Convertible Notes are convertible into 162 million ordinary shares of the Group at an initial conversion price of 156.56 pence per ordinary share. Conversion is at maturity, at the holder's option but the Group can elect to settle in cash, in whole but not in part, at any time at 100% of the accreted value 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.

On 15 January 2001, Deutsche Telekom remitted a cash payment of £30 million to its former subsidiary Eurobell (Holdings) PLC, under the terms of the acquisition of Eurobell by the Group on 1 November 2000. In consideration the Group issued an additional Accreting Convertible Note 2003 for the same amount. In addition, under the terms of the acquisition, the Group was 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, dated 2 April 2001, was issued to Deutsche Telekom.

The unamortised portion of the discounts on issue of the £325 million Senior Discount Notes due 2009, $500 million Senior Discount Notes 2009 and $450 million Senior Discount Notes due 2010 was £64 million, £60 million and £84 million respectively.

The Group hedges its exposure to movements in the USD:GBP exchange rate through the use of foreign currency swaps and foreign exchange forward contracts. These contracts are typically designed to match the first call date of the debt or, where this date has already passed, a specified date in the future. Details of these derivative instruments are disclosed in note 18.

**Senior Secured Facility**

On 16 March 2001 the Group entered into a new senior secured credit facility (the "Senior Secured Facility") with a syndicate of banks for £2 billion, of which £1,235 million was drawn down at 31 December 2001. The Group is also able to raise a further £250 million from institutional investors (the "Institutional Tranche") of which £125 million was drawn down at 31 December 2001. The first draw downs under the Senior Secured Facility were used to repay amounts owed under the old senior secured credit facilities.

Borrowings under the Senior Secured 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). Borrowings under the Institutional Tranche bear interest at up to 4% above LIBOR.

The Group's ability to borrow under the Senior Secured Facility and the Institutional Tranche is subject to, amongst other things, its compliance with the financial and borrowing conditions contained therein. At 31 December 2001, the Group was in compliance with these covenants and conditions.

**Vendor financing**

The Group has entered into vendor financing arrangements to fund its purchase of equipment from certain suppliers. Under the terms of these arrangements the Group defers payment for periods up to 36 months. Interest is charged on these arrangements at a rate that is fixed for the life of the arrangements.

**SMG loan**

On 11 July 2001, the Group entered into a contract with Toronto Dominion Bank ("TD"), whereby TD provides a loan to the Group, in return for security over 55% of the Group's shareholding in SMG plc. The arrangement matures after one year, but can be extended for up to three years by mutual agreement.

**Bank loans**

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

**Other loans**
At 31 December 2000 the Group had a credit facility with Liberty Media. The balance at that date was £17 million. The Group also had a standby credit facility of £2 million made available by Vivendi SA. These two loans were repaid during the year.

## 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 under the Senior Secured Facility is managed by using interest rate swaps. The effective dates of the interest rate swaps are between 2 January 1997 and 1 April 2002, and the agreements mature between 28 March 2002 and 1 January 2005. The aggregate notional principal amount of the swaps is a maximum of £900 million.

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 2001 was:

| | **2001 Sterling £ million** | **2001 US Dollar £ million** | 2000 Sterling £ million | 2000 US Dollar £ million |
|---|---|---|---|---|
| Floating rate liabilities | **1,366** | **–** | 824 | – |
| Fixed rate liabilities | **2,983** | **545** | 2,860 | 527 |
| **Total** | **4,349** | **545** | 3,684 | 527 |
| Fixed rate financial liabilities: | | | | |
| Weighted average interest rate | **9.510%** | **7.372%** | 9.577% | 7.380% |
| Weighted average period for which rate is fixed (years) | **6** | **4** | 7 | 5 |

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 2001:

| **Currency** | Cash £ million |
|---|---|
| Sterling | 14 |

**Liquidity risk**
The Group manages borrowings with respect to both interest and financing risk. Accordingly there is a range of maturities of debt from one year to nine years. Financial flexibility was provided during the year via the £2.25 billion Senior Secured Facility of which £1.4 billion was drawn at the year end.

# Notes to the Accounts

continued

## 18 FINANCIAL INSTRUMENTS (CONTINUED)

The maturity profile of the Group's and Company's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 2001 was:

| | **Group 2001 £ million** | Group 2000 £ million | **Company 2001 £ million** | Company 2000 £ million |
|---|---|---|---|---|
| **Finance lease obligations** | | | | |
| Within one year | **47** | 47 | **2** | 2 |
| Between one and two years | **42** | 38 | **3** | 2 |
| Between two and five years | **102** | 95 | **11** | 11 |
| In five or more years | **47** | 65 | **–** | 3 |
| | **238** | 245 | **16** | 18 |

| | **Group 2001 £ million** | Group 2000 £ million | **Company 2001 £ million** | Company 2000 £ million |
|---|---|---|---|---|
| **Loans and notes** | | | | |
| Within one year | **60** | 828 | **–** | – |
| Between one and two years | **269** | – | **268** | – |
| Between two and five years | **904** | 552 | **206** | 225 |
| In five or more years | **3,661** | 2,826 | **2,689** | 2,818 |
| Total | **4,894** | 4,206 | **3,163** | 3,043 |

The maturity profile of the Group's undrawn committed borrowing facilities at 31 December 2001 was:

| | £ million |
|---|---|
| Between two and five years | 388 |
| In five or more years | 353 |
| **Total** | **741** |

### Fair values of financial assets and liabilities

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

| | **2001 Carrying amount £ million** | **2001 Estimated fair value £ million** | 2000 Carrying amount £ million | 2000 Estimated fair value £ million |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Forward foreign exchange contracts | **2** | **131** | – | 50 |
| Cash | **14** | **14** | 60 | 60 |
| Foreign currency swap | **10** | **15** | 4 | 7 |
| | **26** | **160** | 64 | 117 |
| **Financial liabilities** | | | | |
| Bank debt | **(1,334)** | **(1,334)** | (815) | (815) |
| Short-term debt instruments | **(57)** | **(57)** | (21) | (21) |
| Long-term debt instruments | **(3,503)** | **(2,578)** | (3,368) | (2,737) |
| Interest rate swaps | **–** | **(25)** | – | (33) |
| Forward foreign exchange contracts | **–** | **(5)** | (2) | (64) |
| | **(4,894)** | **(3,999)** | (4,206) | (3,670) |

**Cash at bank and in hand, short-term borrowings and bank debt**
The carrying value approximates fair value either because of the short maturity or because the interest rates on short-term borrowings and bank debt are 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 and currency swaps**
The fair value of interest rate swaps 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 2001 was £1,106 million (2000: £1,403 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 2001 was £2,470 million (2000: £2,391 million).

**Currency risk**
The Group has significant sources of finance denominated in US Dollars, which have been hedged back into sterling using various financial instruments as follows:

| | Financial instrument | Notional principal amount $ million | Weighted average USD:GBP rate | Maturity date |
|---|---|---|---|---|
| **Hedge accounting permitted** | | | | |
| Senior Debenture 2006 | | | | |
| – principal and interest | Foreign currency swap | 300 | $1.53 | 1 October 2002 |
| Senior Discount Debenture 2007 | | | | |
| – principal | Forward contracts | 1,402 | $1.4288 | 2 April 2002 – 1 October 2003 |
| – interest | Forward contracts | 170 | $1.4218 | 2 April 2002 – 1 October 2002 |
| Senior Notes 2008 | | | | |
| – principal | Forward contracts | 350 | $1.4982 | 3 November 2003 |
| – interest | Forward contracts | 79 | $1.64 | 3 November 2003 |
| Senior Convertible Notes 2005 | | | | |
| – interest | Forward contracts | 60 | $1.52 | 7 July 2003 |
| Senior Discount Notes 2009 | | | | |
| – principal | Forward contracts | 523 | $1.581 | 15 April 2004 |
| Senior Notes 2010 | | | | |
| – principal and interest | Forward contracts | 367 | $1.646 | 1 February 2005 |
| Senior Discount Notes 2010 | | | | |
| – principal | Forward contracts | 476 | $1.6025 | 1 February 2005 |
| Total | | 3,727 | | |
| **Hedge accounting not permitted** | | | | |
| Senior Discount Debenture 2007 | Contingent forward contracts | 135 | $1.40 – $1.50 | 1 April 2002 – 1 October 2003 |

The fair market value of the foreign exchange contingent forwards was £2 million at 31 December 2001.

# Notes to the Accounts
continued

## 18 FINANCIAL INSTRUMENTS (CONTINUED)

The Group has decided not to hedge the principal amount of the Senior Convertible Notes 2005 as the expectation is that the Notes will convert before the maturity date or would be refinanced in US Dollars before the maturity date.

Taking into account the effect of the above hedges on the foreign currency profile of the Group's assets and liabilities, net foreign currency assets and liabilities were as follows:

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| Cash: US Dollar deposits | **–** | 3 |
| Debt: US Dollar denominated debt instruments | **(545)** | (527) |
| Net monetary liabilities | **(545)** | (524) |

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 £ million | Losses £ million | Total £ million |
|---|---|---|---|
| As at 1 January 2001 | 50 | (63) | (13) |
| Gains and losses arising in the year that were recognised in the year | – | (11) | (11) |
| Gains and losses arising in the year that were not recognised in the year | 84 | 68 | 152 |
| Unrecognised gains and losses at 31 December 2001 | 134 | (6) | 128 |
| Gains and losses expected to be realised in 2002 | – | (3) | (3) |
| Gains and losses expected to be realised in 2003 or later | 134 | (3) | 131 |

## 19 RETIREMENT BENEFITS

The Group operates a defined contribution pension scheme (the Telewest Communications plc Pension Trust) and contributes to third-party schemes on behalf of employees. The amount charged to the profit and loss account in the period was £10 million (2000: £8 million). At 31 December 2001, outstanding contributions were £1 million (2000: £1 million).

## 20 DEFERRED TAXATION

The amount provided, and the full potential liability, in respect of deferred taxation is £nil at 31 December 2001 and 2000.

As at 31 December 2001, the Group estimates that it has, subject to Inland Revenue agreement, £1,550 million (2000: £1,340 million), of tax losses available to relieve future profits. Accumulated tax losses at 31 December 2001 and 2000 have been adjusted to exclude capital allowances on assets, which were available to the Group, but had not been claimed. These allowances which are available for future periods amounted to £4,410 million at 31 December 2001 (2000: £4,027 million).

## 21 MINORITY INTERESTS

| **Company** | Class of share | Number of shares |
|---|---|---|
| Cable Guide Limited | Ordinary shares of £1 each | 15,000 |
| | Cumulative convertible preference shares of £1 each | 10,000 |
| Way Ahead Group Limited | A ordinary shares of 25p each | 247 |
| | B ordinary shares of 50p each | 75 |
| MatchCo Limited | Ordinary shares of £1 each | 240 |
| Flextech Home Shopping Limited | B ordinary shares of £1 each | 113 |
| Flextech Living Health Limited | B ordinary shares of 10p each | 350 |
| Start Games Limited | Ordinary shares of 10p each | 3,000 |
| Rapid Travel Solutions Limited | Ordinary shares of £1,000 each | 3,981 |

## 22 CALLED UP SHARE CAPITAL

| | Ordinary shares of 10 pence each number – millions | Limited voting convertible ordinary shares of 10 pence each number – millions | Ordinary shares of 10 pence each £ million | Limited voting convertible ordinary shares of 10 pence each £ million | Total £ million |
|---|---|---|---|---|---|
| **Authorised** | | | | | |
| At 31 December 2001 | **4,300** | **300** | **430** | **30** | **460** |
| At 31 December 2000 | 4,300 | 300 | 430 | 30 | 460 |
| **Allotted, called up and fully paid** | | | | | |
| At 1 January 2001 | 2,886 | 62 | 288 | 6 | 294 |
| Issued during the year | 7 | – | 1 | – | 1 |
| Converted into limited voting convertible ordinary shares | (20) | 20 | (2) | 2 | – |
| **At 31 December 2001** | **2,873** | **82** | **287** | **8** | **295** |

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

| Consideration received | Number of shares issued millions |
|---|---|
| Receipt of £6 million from employees on exercise of share options | 7 |

**Limited voting convertible ordinary shares**

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, reappoint, 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. 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 certain Notes and Debentures. The limited voting convertible ordinary shares are convertible into ordinary shares at our option at any time, subject to certain conditions. The sole holders of the limited voting convertible ordinary shares are Liberty Media and Microsoft.

Members of the Liberty Media Group and/or the Microsoft Group can 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 and Debentures.

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.

In May 2001 Liberty Media increased its shareholdings in the Company as a result of the purchase of 20 million ordinary shares of 10 pence each. Prior to the increase in shareholding, Liberty Media redesignated 20 million ordinary shares of 10 pence each as limited voting convertible ordinary shares of 10 pence each. As a result Liberty Media and Microsoft's combined shareholdings remained below 50% of the issued ordinary share capital, above which level a change of control for the purposes of the Group's debt securities may occur.

**Employee share schemes**

Details of the employee share schemes operated by the Company are set out on pages 33 and 34 of the Directors' Remuneration Report.

# Notes to the Accounts

continued

## 22 CALLED UP SHARE CAPITAL (CONTINUED)

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 2001, 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

At 31 December 2001, awards over 97,700,000 shares were outstanding. The options have exercise prices between 65.7 pence and 294.8 pence and are exercisable between 12 May 1998 and 20 November 2011.

### Share-save option schemes

At 31 December 2001, awards over 21,519,000 shares were outstanding. The options have exercise prices between 53.6 pence and 236.5 pence and are exercisable between 1 February 2001 and 31 July 2005.

### Telewest Restricted Share Scheme

At 31 December 2001, awards over 531,000 shares were outstanding. The exercise period of these awards is from 13 January 1998 to 11 June 2011.

### Telewest Long Term Incentive Plan

At 31 December 2001, awards over 1,567,000 shares were outstanding. The exercise period of these awards is from 20 March 2001 to 12 June 2011.

### Telewest Equity Participation Plan

At 31 December 2001, awards over 572,000 shares were outstanding. The exercise period of these awards is from 20 March 1998 to 26 March 2007.

## 23 RESERVES

| | Group | | | |
|---|---|---|---|---|
| | Share premium £ million | Merger reserve £ million | Other reserves £ million | Profit and loss £ million |
| At 1 January 2001 | 1,249 | 2,769 | 277 | (2,234) |
| Issue of ordinary shares net of issue costs | 5 | – | – | – |
| Gain on retranslation of investment in an overseas subsidiary undertaking | – | – | 1 | – |
| Unrealised gain on deemed partial disposal of investment in a subsidiary undertaking | – | – | 1 | – |
| Accrued share based compensation cost | – | – | – | (1) |
| Loss for the financial year | – | – | – | (1,935) |
| **At 31 December 2001** | **1,254** | **2,769** | **279** | **(4,170)** |

| | Company | | | |
|---|---|---|---|---|
| | Share premium £ million | Merger reserve £ million | Other reserves £ million | Profit and loss £ million |
| At 1 January 2001 | 1,249 | 2,235 | 1,252 | 19 |
| Issue of ordinary shares net of issue costs | 5 | – | – | – |
| Accrued share based compensation cost | – | – | – | (1) |
| Loss for the financial year | – | – | – | (1,243) |
| **At 31 December 2001** | **1,254** | **2,235** | **1,252** | **(1,225)** |

Prior to the introduction of FRS 10 **Goodwill and Intangible Assets** the cumulative amount of positive goodwill eliminated against reserves in previous years was £487 million and the cumulative amount of negative goodwill added to reserves in prior years was £270 million.

## 24 COMMITMENTS AND CONTINGENCIES

### 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:

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| Contracted | **28** | 43 |

In addition the Group has contracted to buy £14 million of programming rights for which the license period has not yet started.

Also under the terms of the investment agreement relating to the Group's investment in Imagine Broadband, the Group committed itself to spend £17 million on Imagine Broadband services on or before 30 June 2003. At the year end the unspent balance of this commitment was £4 million.

The Company has no capital commitments.

### Leasing commitments

Obligations of the Group in respect of finance leases, net of interest, are shown in note 17 to the financial statements.

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

| | **2001 Land and buildings £ million** | **2001 Other assets £ million** | 2000 Land and buildings £ million | 2000 Other assets £ million |
|---|---|---|---|---|
| Within one year | **–** | **–** | – | – |
| In the second to fifth year inclusive | **2** | **8** | 3 | 9 |
| Over five years | **12** | **1** | 10 | 2 |
| | **14** | **9** | 13 | 11 |

The Company has no operating lease commitments.

### Other Commitments

At 31 December 2001 the Group is committed to providing funding to its joint ventures and associates as follows:

| | **Committed cash £ million** |
|---|---|
| Blueyonder workwise | **3** |
| iSee Ventures | **1** |
| Vis iTV | **1** |
| | **5** |

As described in note 14, the Group has been granted a series of call options by and granted a series of put option for the 49% of the issued share capital of Rapid Travel which the Group does not already own. The maximum potential cost to the Group is £4 million.

### Restricted cash

At 31 December 2001, the Group has cash restricted as to use of £20 million. Of this amount, £12 million provides security for leasing obligations and £8 million guarantees a temporary overdraft of TV Travel Group Limited, an associated undertaking.

### Contingencies

The Group has provided performance bonds in respect of its national licence and to local authorities up to a maximum amount of £7 million (2000: £7 million).

HM Customs and Excise have raised an assessment against the Group for £8 million. Independent legal counsel has advised that the assessment is likely to be set aside on appeal. Accordingly no provision has been made in these accounts.

The Group is a party to various other 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.

# Notes to the Accounts

continued

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

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| Group operating loss | **(1,312)** | (294) |
| Depreciation of tangible fixed assets | **445** | 399 |
| Amortisation of goodwill | **181** | 142 |
| Impairment of goodwill | **992** | – |
| Decrease/(increase) in stocks and programming inventory | **2** | (24) |
| Decrease/(increase) in debtors | **23** | (10) |
| Increase/(decrease) in creditors | **17** | (19) |
| **Net cash inflow from operating activities** | **348** | 194 |

## 26 ANALYSIS OF CHANGES IN NET DEBT

| | At 1 January 2001 £ million | Cash flow £ million | Other non-cash movements £ million | Exchange movements £ million | **At 31 December 2001 £ million** |
|---|---|---|---|---|---|
| Cash at bank, in hand | 41 | (27) | – | – | **14** |
| Short term deposits | 19 | (19) | – | – | **–** |
| Restricted cash deposits | 12 | 8 | – | – | **20** |
| Debt due after one year | (3,378) | (1,350) | (96) | (10) | **(4,834)** |
| Debt due within one year | (828) | 792 | (24) | – | **(60)** |
| Finance leases | (245) | 54 | (47) | – | **(238)** |
| **Total net debt** | (4,379) | (542) | (167) | (10) | **(5,098)** |

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

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| (Decrease)/increase in cash in the year | **(27)** | 19 |
| Cash inflow from increase in debt and lease financing | **(504)** | (436) |
| Cash inflow from changes in liquid resources | **(19)** | (32) |
| Cash outflow from restricted deposits | **8** | – |
| Change in net debt resulting from cash flows | **(542)** | (449) |
| Acquisitions | **–** | (209) |
| New finance leases | **(47)** | (56) |
| Valuation adjustments | **(10)** | (142) |
| Amortisation of issue costs and issue discount | **(120)** | (156) |
| Write off issue costs | **–** | (16) |
| Debt issued to acquire Eurobell | **–** | (204) |
| Movement in net debt in year | **(719)** | (1,232) |
| Net debt at 1 January 2001 | **(4,379)** | (3,147) |
| **Net debt at 31 December 2001** | **(5,098)** | (4,379) |

### 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 £47 million. In addition the Group entered into vendor financing arrangements, with certain suppliers, with a value on inception of £47 million.

## 27 RELATED PARTY TRANSACTIONS

### Identity of relevant related parties

Liberty Media, Inc ("Liberty") and Microsoft are related parties of the Group, in that they control directly or indirectly, more than 20% of the voting rights of the Group in 2001 and 2000.

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.

UKTV is a related party of the Group, as the Group owns 50% of the voting rights.

TV Travel Group Limited ("TVT") is a related party of the Group, as the Group owns 37.95% of the voting rights.

During the year Screenshop Limited ("Screenshop") became a related party when the Group sold its shareholding in Screenshop to sit-up Limited in return for a 36.36% shareholding in sit-up Limited.

### Nature of transactions

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

The Group has charged management fees to UKTV of £nil (2000: £3 million). In addition the Group has recharged overheads and costs incurred on their behalf to UKTV, TVT and Screenshop of £8 million, £3 million and £1 million respectively (2000: £7 million, £10 million and £nil respectively). The Group has also made a loan to UKTV. Interest charged on this loan was £12 million (2000: £15 million). Amounts due from UKTV, TVT and Screenshop at 31 December 2001 were £217 million, £28 million and £nil respectively (2000: £229 million, £31 million and £nil 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 2001 were £5 million (2000: £4 million). The balance due to UKTV at 31 December 2001 was £2 million (2000: £1 million).

At 31 December 2000 the Group also had a £10 million loan facility with Liberty which was repaid in the year. Interest charged on this loan was £nil (2000: £1 million). The balance due to Liberty at 31 December 2000 was £17 million.

Additionally the Group purchases software and consultancy services from Microsoft, on normal commercial terms. Purchases in the year ended 31 December 2001 amount to £2 million (2000: £2 million). The balance outstanding in respect of such purchases was £nil at 31 December 2001 and 2000.

# Notes to the Accounts
continued

### 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 certain 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**

Telewest Communications Holdco Limited
(Holding Company) (directly held)
Telewest Communications Networks Limited
(Management Company) (directly held)
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 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) Limited*
Telewest Communications (South East) Limited
Telewest Communications (South Thames Estuary) Limited
Telewest Communications (Southport) Limited
Telewest Communications (South West) Limited
Flextech Living Health Limited***
Flextech Limited***
Flextech Rights Limited***
Telewest Communications (St. Helens & Knowsley) Limited
Telewest Communications (Telford) Limited
Telewest Communications (Wigan) Limited
Telewest Communications (Worcester) Limited
Birmingham Cable Limited
Middlesex Cable Limited
Windsor Television Limited
Cable Camden Limited
Cable Hackney & Islington Limited
Cable Haringey Limited
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
Imminus Limited
Cable Enfield Limited
Telewest Finance (Jersey) Limited**
Eurobell (Sussex) Limited
Eurobell (South West) Limited
Eurobell (West Kent) Limited
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***
The Way Ahead Group Limited***
(The Company owns indirectly 77.5% of the 25p "A" shares and 83.8% of the 50p "B" shares)

**Companies (continued)**

Flextech Television Limited***
Flextech Travel Channel Limited***
Florida Homeshopping Limited***
(The Company owns indirectly 80% of the ordinary shares)
TVS Limited***
UK Living Limited***

| **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 |

| **Joint ventures** | Principal place of business |
|---|---|
| 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 |

## 29 PRINCIPAL ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

| | Business | Class of shares | Group holding | Country of incorporation |
|---|---|---|---|---|
| Front Row Television Limited | Pay per view television | Ordinary | 50% | England and Wales |
| 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

| | Business | Class of shares | Group holding | Country of incorporation |
|---|---|---|---|---|
| SMG plc | Channel 3 television franchise operator | Ordinary | 16.92% | Scotland |
| TV Travel Group Limited | Operation of a transactional travel service | Ordinary | 37.95% | 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 |

## 30 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.

| | Business | Class of shares | Group holding | Country of incorporation |
|---|---|---|---|---|
| Imagine Broadband Limited | Broadband systems integrator | Preference | 10% | England and Wales |
| Vis Entertainment Plc | Interactive games developer | Preference | 9% | Scotland |
| Grouptrade.com Limited | Procurement services | Ordinary | 10.8% | England and Wales |
| Recommend Limited | Internet content provider | Ordinary | 9.27% | 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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2001. 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 73 to 104 present fairly, in all material respects, the financial position of Telewest Communications plc and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with generally accepted accounting principles in the United States of America.

As discussed in note 3 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

KPMG Audit Plc

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

28 February 2002

US GAAP

# Consolidated Statements of Operations

years ended December 31

| | Notes | (Note 2) 2001 $ million | 2001 £ million | 2000 £ million | 1999 £ million |
|---|---|---|---|---|---|
| **Revenue – continuing operations** | | | | | |
| Cable television | | **478** | **329** | 279 | 258 |
| Consumer telephony | | **710** | **488** | 445 | 334 |
| Internet and other | | **58** | **40** | 16 | 17 |
| **Total Consumer Division** | | **1,246** | **857** | 740 | 609 |
| Business Services Division | | **390** | **268** | 248 | 177 |
| **Total Cable Division** | | **1,636** | **1,125** | 988 | 786 |
| Content Division | | **188** | **129** | 81 | – |
| **Total revenue** | | **1,824** | **1,254** | 1,069 | 786 |
| **Operating costs and expenses** | | | | | |
| Consumer programming expenses | | **(206)** | **(142)** | (132) | (132) |
| Business and consumer telephony expenses | | **(342)** | **(235)** | (235) | (158) |
| Content expenses | | **(121)** | **(83)** | (46) | – |
| Selling, general and administrative expenses | | **(723)** | **(497)** | (445) | (307) |
| Depreciation | | **(682)** | **(469)** | (423) | (305) |
| Amortization of goodwill | | **(266)** | **(183)** | (147) | (62) |
| Impairment of goodwill | | **(1,114)** | **(766)** | – | – |
| | | **(3,454)** | **(2,375)** | (1,428) | (964) |
| **Operating loss** | | **(1,630)** | **(1,121)** | (359) | (178) |
| **Other income/(expense)** | | | | | |
| Interest income (including £12 million, £15 million and £3 million in 2001, 2000 and 1999, respectively, from related parties) | 21 | **22** | **15** | 15 | 7 |
| Interest expense (including amortization of debt discount) | | **(686)** | **(472)** | (385) | (293) |
| Foreign exchange losses, net | | **–** | **–** | (15) | (49) |
| Share of net losses of affiliates and impairment | | **(314)** | **(216)** | (15) | (6) |
| Other, net | | **(4)** | **(3)** | (3) | (1) |
| Minority interests in losses/(profits) of consolidated subsidiaries, net | | **1** | **1** | 1 | (1) |
| **Loss before income taxes** | | **(2,611)** | **(1,796)** | (761) | (521) |
| Income tax benefit | 16 | **102** | **70** | 6 | – |
| **Net loss before extraordinary item** | | **(2,509)** | **(1,726)** | (755) | (521) |
| Extraordinary loss on extinguishment of debt | | **(22)** | **(15)** | – | (20) |
| **Net loss after extraordinary item** | | **(2,531)** | **(1,741)** | (755) | (541) |
| Basic and diluted loss per ordinary share | | | | | |
| Net loss before extraordinary item | | **$(0.86)** | **£(0.59)** | £(0.28) | £(0.24) |
| Extraordinary loss | | **$(0.01)** | **£(0.01)** | – | £(0.01) |
| Net loss after extraordinary item | | **$(0.87)** | **£(0.60)** | £(0.28) | £(0.25) |
| Weighted average number of ordinary shares outstanding (millions) | | **2,880** | **2,880** | 2,705 | 2,197 |

All income is derived from continuing operations.

See accompanying notes to the consolidated financial statements.

US GAAP

# Consolidated Balance Sheet

years ended December 31

| | Note | (Note 2) 2001 $ million | 2001 £ million | 2000 £ million |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | **20** | **14** | 60 |
| Secured cash deposits restricted for more than one year | 20 | **29** | **20** | 12 |
| Trade receivables (net of allowance for doubtful accounts of £16 million and £19 million) | 11 | **169** | **116** | 115 |
| Other receivables | 8 | **163** | **112** | 108 |
| Prepaid expenses | | **48** | **33** | 37 |
| Total current assets | | **429** | **295** | 332 |
| Investment in affiliates, accounted for under the equity method, and related receivables | 9 | **795** | **547** | 784 |
| Property and equipment (less accumulated depreciation of £1,873 million and £1,411 million) | 10 | **5,051** | **3,473** | 3,289 |
| Goodwill (less accumulated amortization of £382 million and £291 million) | 5 | **2,752** | **1,892** | 2,803 |
| Inventory | 13 | **98** | **67** | 69 |
| Other assets (less accumulated amortization of £47 million and £36 million) | 12 | **84** | **58** | 47 |
| **Total assets** | | **9,209** | **6,332** | 7,324 |
| **Liabilities and shareholders' funds** | | | | |
| Accounts payable | | **159** | **109** | 96 |
| Other liabilities | 14 | **762** | **524** | 403 |
| Total current liabilities | | **921** | **633** | 499 |
| Deferred tax | 16 | **164** | **113** | 183 |
| Debt | 15 | **7,122** | **4,897** | 4,254 |
| Capital lease obligations | | **346** | **238** | 245 |
| **Total liabilities** | | **8,553** | **5,881** | 5,181 |
| **Minority interests** | | **–** | **–** | (2) |
| **Shareholders' equity** | | | | |
| Ordinary shares, 10 pence par value; 4,300 million authorized; 2,873 million and 2,886 million issued in 2001 and 2000 respectively | | **417** | **287** | 288 |
| Limited voting convertible ordinary shares 10 pence par value; 300 million authorized and 82 million and 63 million outstanding in 2001 and 2000 respectively | | **12** | **8** | 6 |
| Additional paid in capital | | **6,143** | **4,224** | 4,216 |
| Accumulated deficit | | **(5,968)** | **(4,104)** | (2,363) |
| Accumulated other comprehensive income | | **53** | **37** | – |
| | | **657** | **452** | 2,147 |
| Ordinary shares held in trust for the Telewest Restricted Share Scheme and the Telewest Long Term Incentive Plan; 1 million shares in 2001 and 2000 | 18 | **(1)** | **(1)** | (2) |
| **Total shareholders' equity** | | **656** | **451** | 2,145 |
| **Total liabilities and shareholders' equity** | | **9,209** | **6,332** | 7,324 |

See accompanying notes to the consolidated financial statements.

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# Consolidated Statements of Cash Flows

years ended December 31

| | (Note 2) 2001 $ million | 2001 £ million | 2000 £ million | 1999 £ million |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net loss | **(2,531)** | **(1,741)** | (755) | (541) |
| Adjustments to reconcile net loss to net cash provided/(utilized) by operating activities | | | | |
| Depreciation | **682** | **469** | 423 | 305 |
| Amortization and impairment of goodwill | **1,380** | **949** | 147 | 62 |
| Amortization of deferred financing costs and issue discount on Senior Discount Debentures | **144** | **99** | 147 | 147 |
| Deferred tax credit | **(102)** | **(70)** | – | – |
| Unrealized (gain)/loss on foreign currency translation | **(15)** | **(10)** | 20 | 49 |
| Non-cash accrued share based compensation cost | **1** | **1** | 5 | 26 |
| Termination of sale and leaseback | **–** | **–** | – | 9 |
| Extraordinary loss on extinguishment of debt | **22** | **15** | – | 20 |
| Share of net losses of affiliates and impairment | **314** | **216** | 15 | 6 |
| Loss on disposal of assets | **6** | **4** | – | 1 |
| Minority interests in (losses)/profits of consolidated subsidiaries | **(1)** | **(1)** | (1) | 1 |
| Changes in operating assets and liabilities net of effect of acquisition of subsidiaries | | | | |
| Change in receivables | **19** | **13** | (19) | (20) |
| Change in prepaid expenses | **9** | **6** | (19) | 11 |
| Change in accounts payable | **4** | **3** | (2) | (22) |
| Change in other liabilities | **68** | **47** | 70 | 35 |
| Change in other assets | **1** | **1** | (46) | (55) |
| **Net cash provided/(utilized) by operating activities** | **1** | **1** | (15) | 34 |
| **Cash flows from investing activities** | | | | |
| Cash paid for property and equipment | **(797)** | **(548)** | (527) | (468) |
| Cash paid for acquisition of subsidiaries, net of cash acquired | **(8)** | **(6)** | (24) | (393) |
| Additional investments in and loans to affiliates | **(38)** | **(26)** | (10) | (3) |
| Repayment of loans made to joint ventures (net) | **30** | **21** | 14 | – |
| Proceeds from disposal of assets | **3** | **2** | 2 | 5 |
| Disposal of subsidiary undertaking, net of cash disposed | **12** | **8** | – | – |
| **Net cash used in investing activities** | **(798)** | **(549)** | (545) | (859) |

# Consolidated Statements of Cash Flows

continued

| | (Note 2) 2001 $ million | 2001 £ million | 2000 £ million | 1999 £ million |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Proceeds from rights issue | **–** | **–** | – | 416 |
| Proceeds from exercise of share options | **8** | **6** | 3 | 13 |
| Share issue costs | **–** | **–** | (13) | (3) |
| Proceeds from issue of Senior Discount Notes 2009 | **–** | **–** | – | 399 |
| Proceeds from issue of Senior Convertible Notes 2007 | **–** | **–** | – | 300 |
| Proceeds from issue of Senior Discount Notes and Senior Notes 2010 | **–** | **–** | 544 | – |
| Proceeds from issue of Senior Convertible Notes 2005 | **–** | **–** | 330 | – |
| Proceeds from issue of Accreting Convertible Notes 2003 | **44** | **30** | 20 | – |
| Issue costs of Notes and credit facility arrangement costs | **(59)** | **(41)** | – | – |
| Net proceeds from maturity of forward contracts | **–** | **–** | 107 | – |
| (Placement)/release of restricted deposits | **(12)** | **(8)** | – | 175 |
| Repayments from borrowings under old credit facilities | **(1,198)** | **(824)** | (141) | (583) |
| Repayment of old facilities upon refinancing | **–** | **–** | – | (597) |
| Proceeds/(repayment) from borrowings under new credit facility | **2,025** | **1,393** | (260) | 951 |
| Capital element of finance lease repayments | **(78)** | **(54)** | (35) | (222) |
| **Net cash provided by financing activities** | **730** | **502** | 555 | 849 |
| Net (decrease)/increase in cash and cash equivalents | **(67)** | **(46)** | (5) | 24 |
| Cash and cash equivalents at beginning of year | **87** | **60** | 65 | 41 |
| **Cash and cash equivalents at end of year** | **20** | **14** | 60 | 65 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Shareholders' Equity and Comprehensive Income

| | Ordinary shares £ million | Limited voting shares £ million | Shares held in trust £ million | Additional paid-in capital £ million | Other comprehensive income £ million | Accumulated deficit £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 1998** | 214 | – | (2) | 1,896 | – | (1,067) | 1,041 |
| Ordinary shares issued on exercise of share options | 1 | – | – | 12 | – | – | 13 |
| Redesignation of ordinary shares | (6) | 6 | – | – | – | – | – |
| Shares issued under the rights issue to fund acquisition of Cable London plc | 19 | – | – | 394 | – | – | 413 |
| Ordinary shares issued on conversion of Senior Convertible Notes 2007 | – | – | – | 1 | – | – | 1 |
| Accrued share based compensation cost | – | – | – | 25 | – | – | 25 |
| Net loss | – | – | – | – | – | (541) | (541) |
| **Balance at December 31, 1999** | 228 | 6 | (2) | 2,328 | – | (1,608) | 952 |
| Ordinary shares issued on exercise of share options | – | – | – | 3 | – | – | 3 |
| Shares issued to acquire Flextech Plc net of issue costs | 60 | – | – | 1,873 | – | – | 1,933 |
| Accrued share based compensation cost | – | – | – | 5 | – | – | 5 |
| Unrealised gain on deemed disposal of shares in an affiliate | – | – | – | 7 | – | – | 7 |
| Net loss | – | – | – | – | – | (755) | (755) |
| **Balance at December 31, 2000** | **288** | **6** | **(2)** | **4,216** | **–** | **(2,363)** | **2,145** |
| Unrealised gain/(loss) on derivative financial instruments: | | | | | | | |
| Cumulative effects of accounting change | – | – | – | – | (16) | – | (16) |
| Amounts reclassified into earnings | – | – | – | – | (5) | – | (5) |
| Current period increase in fair value | – | – | – | – | 57 | – | 57 |
| Net loss | – | – | – | – | – | (1,741) | (1,741) |
| **Total comprehensive loss** | | | | | | | **(1,705)** |
| Unrealised gain on deemed partial disposal of investment | – | – | – | – | 1 | – | 1 |
| Ordinary shares issued on exercise of share options | 1 | – | 1 | 6 | – | – | 8 |
| Gain on retranslation of investment in an overseas subsidiary | – | – | – | 1 | – | – | 1 |
| Redesignation of ordinary shares | (2) | 2 | – | – | – | – | – |
| Accrued share based compensation cost | – | – | – | 1 | – | – | 1 |
| **Balance at December 31, 2001** | **287** | **8** | **(1)** | **4,224** | **37** | **(4,104)** | **451** |

There was no other comprehensive income in either the year ended December 31, 1999 or 2000.

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

years ended December 31, 2001, 2000 and 1999

## 1 ORGANIZATION AND HISTORY

Telewest Communications plc (the "Company") and its subsidiary undertakings (together the "Group") provide cable television, telephony and internet services to business and residential customers in the United Kingdom ("UK"). The Group derives its cable television revenues from installation fees, monthly basic and premium service fees and advertising charges. The Group derives its telephony revenues from connection charges, monthly line rentals, call charges, special residential service charges and interconnection fees payable by other operators. The Group derives its internet revenues from installation fees and monthly subscriptions to its ISP. The cable television, telephony and internet services account in 2001 for approximately 26%, 60% and 2%, respectively, of the Group's revenue.

The Group 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 Group 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 2001 for approximately 10% of the Group'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. The Group's significant estimates and assumptions include capitalization of labor and overhead costs; impairment of goodwill and long-lived assets (see note 5); and accounting for debt and financial instruments (see note 4). Actual results could differ from those estimates.

The financial statements have been prepared on a going concern basis. The directors consider that the current credit facilities of the Group which were approved in March 2001, provide sufficient funding to finance its existing business plans, satisfy working capital requirements and pay interest on existing debt instruments for at least twelve months from the date of approval of these consolidated financial statements.

The Group regularly monitors its ongoing ability to draw down under the facilities, which is dependent on satisfying financial covenants. As with most growth businesses, further increases in business performance and profitability are necessary to ensure continued compliance with the terms of the covenants. However, as with any forecast information, the principal assumptions are clearly subject to a degree of risk, in particular the Group's ability to increase revenues in accordance with its plans.

The Group's existing business plan and projections demonstrate that the forecast growth in business performance will be sufficient to allow the Group to continue to meet its current covenant obligations for a period of at least 12 months from the date of approval of these statements.

The directors have considered all of 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.

The Group faces the following significant risks and uncertainties:

- continued ability to raise finance to fund its operations;
- successful execution of its long term business plan, which in turn will affect the Group's ability to raise further finance under the Senior Secured Facility (see note 15);
- the need to meet financial and other covenants relating to debt instruments which have already been issued.

The economic environment and currency in which the Group operates is the UK and hence its reporting currency is Pounds Sterling (£). Certain financial information for the year ended December 31, 2001 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 $1.4543=£1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2001. 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.

### Impairment of long lived assets and goodwill

The Group applies Statement of Financial Accounting Standard ("SFAS") No. 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. Indications of impairment are determined by reviewing undiscounted projected future cash flows. If impairment is indicated, the amount of the impairment is determined by discounting projected future cash flows to calculate a value in use. An impairment charge is made to write assets down to their value in use.

Goodwill, arising from a purchased business combination and 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 Group 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 rate commensurate with the risks associated with the assets.

### 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.

### Derivatives and hedging

At January 1, 2001, the Group adopted SFAS 133, **Accounting for Derivative Instruments and Hedging Activities**, as amended by SFAS 137 and 138. SFAS 133 established accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts and hedging activities. It requires the recognition at fair value of all derivative instruments as assets or liabilities in the Group's balance sheet. The accounting treatment of changes in fair value is dependent on whether or not a derivative instrument is designated a hedge and, if so, the type of hedge and its effectiveness as a hedge.

For derivatives, which are not designated as hedges, changes in fair value are recorded immediately in earnings.

For derivatives designated as cash flow hedges, changes in fair value on the effective portion of a hedge are recorded within other comprehensive income until the hedged transaction occurs and are then recorded within earnings. Changes in the ineffective portion of a hedge are recorded immediately in earnings.

For derivatives designated as fair value hedges, changes in fair value are recorded immediately in earnings. The Group did not have any fair value hedges during the year ended December 31, 2001.

# Notes to the Consolidated Financial Statements

continued

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated or exercised, the derivative is dedesignated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definitions of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

Adoption of SFAS 133 on January 1, 2001 resulting in the Group recording £16 million of decline in fair value to accumulated other comprehensive income, consisting of a decline of £28 million to short-term derivative liabilities and a £12 million gain to long-term derivative assets.

Prior to adoption of SFAS 133 the Group had the following accounting policies in respect of financial instruments: foreign currency forward contracts, options and swaps, which were used to reduce the exchange risk on the principal amounts and early call premiums on certain foreign currency borrowings, were recorded on the balance sheet at their fair value. Gains and losses arising from changes in fair value were recorded immediately within earnings. Such gains and losses were offset to some extent by gains and losses arising from retranslating the principal amounts of the foreign currency borrowings.

The Group also used foreign currency forward contracts and cross currency interest rate swaps to reduce its exposure to adverse changes in exchange rates associated with the interest payments on certain foreign currency borrowings. Such foreign currency forward contracts and cross currency interest rate swaps were accounted for using the accruals method.

The Group also used interest rate swap agreements and an interest rate collar to manage interest rate risk on the Group's borrowings. Net income or expense resulting from the differential between exchanging floating and fixed interest payments was recorded within the consolidated statement of operations on an accruals basis from the effective date of the interest rate swap agreements and interest rate collar.

Other interest rate swaps which did not qualify as hedges, were recorded on the balance sheet at fair value with gains and losses arising from changes in fair value recorded immediately within earnings.

**Investments**

Generally, investments in partnerships, joint ventures and subsidiaries in which the Group's voting interest is 20% to 50%, and others where the Group has significant influence, are accounted for using the equity method. Investments which do not have a readily determinable fair value, in which the Group's voting interest is less than 20%, and in which the Group 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. The Group accounts for certain investments in which the Group's ownership is greater than 50% using the equity method. This method is used for such subsidiaries where the minorities have substantive participating rights such as veto over key operational and financial matters and equal representation on the board of directors.

The Group reviews the carrying values of its investments in affiliates, including any associated goodwill, to ensure that the carrying amount of such investments are stated at no more than their recoverable amounts. The Group assesses the recoverability of its investments by determining whether the carrying value of the investments can be recovered through projected discounted future operating cash flows (excluding interest) of the operations underlying the investments. The assessment of the recoverability of the investments will be impacted if projected future operating cash flows are not achieved. The amount of impairment, if any, is measured based on the projected discounted future operating cash flows using a rate commensurate with the risks associated with the assets.

**Advertising costs**

Advertising costs are expensed as incurred. The amount of advertising costs expensed was £48 million, £38 million, and £27 million for the years ended December 31, 2001, 2000, and 1999, respectively.

**Property and equipment**
Property and equipment is stated at cost. 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 |

The Group accounts for costs, expenses and revenues applicable to the construction and operation of its cable systems in accordance with SFAS 51 **Financial Reporting by Cable Television Companies**.

**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**
Direct 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, telephony and internet are recognized in the period of connection to the extent that such fees are less than direct selling costs.

Occasionally the Group 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 lease, is 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 rateably over the term of the agreement.

Programming revenues are recognized in accordance with Statement of Position ("SOP") 00-2 **Accounting by Producers or Distributors of Films**. Revenue on transactional and interactive sales is recognized as and when the services are delivered. Advertising sales revenue is recognized at estimated realizable values when the advertising is aired.

# Notes to the Consolidated Financial Statements



**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 inventory or equipment, respectively. The allocation of construction cost between costs expensed to the statement of operations and costs capitalized within inventory or equipment is based upon the ratio of capacity sold and retained.

**Pension costs**

The Group operates a defined contribution scheme (the Telewest Communications plc Pension Trust) or contributes to third-party schemes on behalf of employees. The amount included in expenses in 2001, 2000 and 1999 of £10 million, £8 million and £5 million, respectively, represents the contributions payable to the selected schemes in respect of the relevant accounting periods.

**Income taxes**

Under the asset and liability method of SFAS 109 **Accounting for Income Taxes**, 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.

The Group recognises deferred tax assets only where it is more likely than not that the benefit will be realized through future taxable income. Otherwise a valuation allowance is established to provide against deferred tax assets.

**Share-based compensation**

SFAS 123, **Accounting for Stock-Based Compensation**, encourages, but does not require, companies to record compensation costs for share-based employee compensation plans at fair value. The Group has chosen to continue to account for share-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. ("APB") 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 cost and are reflected as a reduction of shareholders' equity in the consolidated balance sheet. This equity account is reduced when the shares are issued to employees based on the original cost of the shares to the trustees.

**Earnings per share**

Basic earnings per share has been computed by dividing net loss 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 loss and number of shares used for basic and diluted net loss 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 393 million, 464 million and 82 million in 2001, 2000 and 1999, respectively.

**Inventories**

Inventories 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. Network capacity and ducting held for resale are stated at the lower of cost and net realizable value.

**New Accounting Standards Applicable to the Group**

**Business Combinations and Goodwill and Other Intangible Assets – SFAS 141 and SFAS 142**

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, **Business Combinations** and SFAS 142, **Goodwill and Other Intangible Assets**. SFAS 141 requires all business combinations undertaken after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill arising from business combinations and intangible assets with indefinite lives are no longer amortized but are subject to annual review for impairment (or more frequently should indications of impairment arise). Goodwill associated with equity method investments will also no longer be amortized upon adoption of SFAS 142, but will be subject to impairment testing as part of the investment to which it relates in accordance with APB 18, **The Equity Method of Accounting for Investments in Common Stock**. Separable intangible assets that do not have indefinite lives will continue to be amortized over their estimated useful lives and will be subject to review for impairment in accordance with SFAS 144 (see below). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. For goodwill and intangible assets acquired prior to July 1, 2001, the Group is required to adopt SFAS 142 effective January 1, 2002. As of January 1, 2002 the Group has £2,199 million of unamortized goodwill, £1,892 million of which relates to business combinations and £307 million of which relates to equity method investments. The Group does not believe that the adoption of this standard will have a material impact on its financial position or results of operations.

**Accounting for Asset Retirement Obligations – SFAS 143**

In July 2001, the FASB issued SFAS 143, **Accounting for Asset Retirement Obligations**. SFAS 143, which is effective for fiscal years beginning after June 15, 2002, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Group is required to adopt this standard from January 1, 2003. The Group has not yet determined the impact, if any, the adoption of this standard will have on its financial position or results of operations.

**Accounting for Impairment or Disposal of Long-Lived Assets – SFAS 144**

In October 2001, the FASB issued SFAS 144, **Accounting for the Impairment or Disposal of Long-Lived Assets**. While SFAS 144 supersedes SFAS 121, **Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of**, it retains many of the fundamental provisions of that Statement. SFAS 144 also supersedes the accounting and reporting provisions of APB 30, **Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions**, for the disposal of a segment and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The Group is required to adopt this standard from January 1, 2002, and has not yet determined the impact, if any, the adoption of this standard will have on its financial position or results of operations.

## 4 FINANCIAL INSTRUMENTS

The Group holds derivative financial instruments solely to hedge specific risks and does not hold such instruments for trading purposes. The derivatives are held to hedge against the variability in cash flows arising from the effect of fluctuations of GBP:USD exchange rate on its US Dollar denominated debt and from changes in interest rates on its variable rate bank debt.

**Cash flow hedges**

**Hedges of US Dollar denominated debt**

The Group has issued US Dollar denominated debt instruments with a range of maturities. The Group generally hedges the principal amounts of these instruments up to their first call dates or other such dates where the Group may at its option redeem the instrument before maturity. This is because the Group expects to either repay or refinance the debt before the debt matures. The exception is the principal amount of the Senior Convertible Notes 2005 for which no forward contracts are in place, as the expectation is that these Notes will convert before the maturity date or be refinanced in US Dollars before the maturity date.

In addition the Group hedges the interest payments on its US Dollar denominated debt, usually up to the first call date of the debt instruments. The Group assesses the effectiveness and ineffectiveness of these derivative instruments on a quarterly basis.

# Notes to the Consolidated Financial Statements
continued

**4 FINANCIAL INSTRUMENTS (CONTINUED)**

Hedges of the US Dollar denominated debt comprise foreign currency swaps, and foreign exchange forward contracts. The aggregate notional principal amounts of these hedges are $2,325 million. The average exchange rates are between $1.418 and $1.646 with maturity dates between October 1, 2002 and February 1, 2005. During the year ended December 31, 2001, these hedges were deemed effective as the critical terms of these hedges matched those of the underlying debt. Therefore gains and losses arising from changes in the fair values of these hedges have been recorded within other comprehensive income for the period. The ineffective portion of these hedges was not significant.

In addition the Group holds derivative financial instruments which have not been designated as hedges. Such instruments comprise foreign exchange forward contracts. These have an aggregate notional principal amount of $1,567 million. The exchange rates are between $1.3696 and $1.4685 and have maturity dates between January 1, 2002 and October 1, 2003.

Of these contracts $1,537 million are associated with the Senior Discount Debenture 2007, but cover a range of dates between April 1, 2002 and October 1, 2003. The Senior Discount Debenture 2007 is callable at any time at the Company's option; these contracts were entered into to provide the Company with flexibility in timing of an early call. The balance of $30 million is associated with forecast purchases of inventory. As these contracts have not been designated hedges, gains or losses arising from the change in fair value of these contracts, are recorded immediately in the statement of operations within foreign exchange gains and losses. For the year ended December 31, 2001, a gain of £47 million was recorded on these contracts.

Amounts recorded within other comprehensive income will be reclassified into earnings where there is ineffectiveness, when the hedged transaction takes place or where there is a change in the Group's circumstances that support the effectiveness of the hedges. An estimated loss of £3 million is expected to be reclassified into earnings within the next 12 months.

**Hedges of variable rate debt**

As described in note 15 to the consolidated financial statements, the Group has a Senior Secured Facility with a syndicate of banks and an Institutional Tranche. Draw downs under the Senior Secured Facility and the Institutional Tranche bear interest at 0.5% to 2.25% above LIBOR and up to 4% above LIBOR respectively, so the Group is exposed to variable cash flows arising from changes in LIBOR. The Group hedges these variable cash flows by the use of interest rate swaps. The interest rate swaps can be summarised as follows:

| Effective dates | Maturities | Notional principal | Receives | Pays % |
|---|---|---|---|---|
| 1/2/1997 – 7/1/2002 | 3/28/2002 – 1/1/2005 | £700 million | 6-month LIBOR | 5.71 – 7.835 |
| 4/1/2002 | 1/1/2005 | £200 million | 3-month LIBOR | 5.7 – 5.75 |

The Group assesses the effectiveness and ineffectiveness of these derivative instruments on a quarterly basis. The ineffective portion of the Group's interest rate swaps was not significant.

Amounts recorded within other comprehensive income will be reclassified into earnings where there is ineffectiveness, when the hedged transaction takes place or where there is a change in the Group's circumstances that support the effectiveness of the hedges. An estimated £2 million is expected to be reclassified into earnings within the next 12 months.

**Fair value of financial instruments**

SFAS 107, **Disclosures about Fair Value of Financial Instruments** requires disclosure of an estimate of the fair values of financial instruments. SFAS 107 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 on 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, 2001 the Group's significant financial instruments include cash and cash equivalents, trade receivables, foreign currency swaps, interest rate swaps, foreign exchange forward contracts, trade payables and long-term borrowings. The following table summarizes the fair value of certain instruments held by and obligations of the Group. The fair value of the other financial instruments held by the Group approximates their recorded carrying amount due to the short maturity of these instruments and these instruments are not presented in the following table:

| | **Carrying amount £ million** | **At December 31, 2001 Fair value £ million** | Carrying amount £ million | At December 31, 2000 Fair value £ million |
|---|---|---|---|---|
| **Financial instruments – assets** | | | | |
| Foreign exchange forward contracts | **131** | **131** | – | – |
| Foreign currency swaps | **15** | **15** | 7 | 7 |
| **Financial instruments – liabilities** | | | | |
| Interest rate swap agreements | **(25)** | **(25)** | – | (33) |
| Foreign exchange forward contracts | **(4)** | **(4)** | (8) | (14) |
| **Debt obligations** | | | | |
| Accreting Convertible Notes 2003 | **268** | **268** | 225 | 225 |
| Senior Convertible Notes 2005 | **344** | **234** | 334 | 234 |
| Senior Debentures 2006 | **206** | **155** | 200 | 173 |
| Senior Convertible Notes 2007 | **300** | **174** | 300 | 179 |
| Senior Discount Debentures 2007 | **1,059** | **803** | 1,078 | 920 |
| Senior Notes 2008 | **226** | **185** | 235 | 207 |
| Senior Discount Notes 2009 | **505** | **308** | 473 | 312 |
| Senior Notes 2010 | **378** | **315** | 388 | 352 |
| Senior Discount Notes 2010 | **185** | **136** | 178 | 135 |
| Senior Secured Facility | **1,360** | **1,360** | 690 | 690 |
| Flextech facility | **–** | **–** | 116 | 116 |
| Other debt | **66** | **66** | 37 | 37 |

The estimated fair values of the financial instruments specified above are based on quotations received from independent, third party financial institutions and represents the net amounts receivable or payable to terminate the position. 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 must be held until maturity.

**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 Group is not exposed to such market risk because gains and losses on the underlying assets and liabilities offset gains and losses on the financial instruments.

The Group may be exposed to potential losses due to the credit risk of non-performance by the financial institution counterparties to its portfolio of derivative financial instruments. However, such losses are not anticipated as these counterparties are major international financial institutions and the portfolio is spread over a wide range of institutions.

Temporary cash investments also potentially expose the Group to concentrations of credit risk, as defined by SFAS 133. The Group 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 Group's customer base. At December 31, 2001, the Group had no significant concentration of credit risk.

# Notes to the Consolidated Financial Statements

continued

### 5 IMPAIRMENT OF ASSETS

During the year ended December 31, 2001, the Group undertook an impairment review of its network assets, of goodwill arising on recent acquisitions and of its investments in affiliates acquired in recent years. The review covered the Cable and Content Divisions. The principal reasons for the review were: a share price decline indicative of a fall in the values of the underlying assets and a softening of the ad-sales market.

The review found evidence of impairment in the value of goodwill arising on the core Content business and in the value of two affiliated undertakings, UKTV and SMG. In order to write these down to their value in use, which was determined using projected future cash flows at a discount rate of 11.5%, commensurate with the risks associated with the assets, a charge of £766 million was taken against goodwill and a charge of £202 million was written off the value of its investment in affiliated undertakings. These charges have been included in the statement of operations within impairment of goodwill and share of net losses of affiliates respectively.

No impairment in the carrying value of the network assets was required.

### 6 BUSINESS COMBINATIONS

On May 30, 2001, the Group acquired 51% of the issued share capital of Rapid Travel Solutions Limited ("Rapid Travel") and was granted a series of call options by and granted a series of put options to the vendors in respect of the balance of 49%. Assuming that either party exercises these options, the Group will acquire the remainder of the share capital in tranches ending on November 30, 2003 for a total consideration of £4 million. The acquisition has been accounted for using the purchase method of accounting. Goodwill arising on the acquisition was £7 million, which is being amortized over 20 years.

If the Group had acquired Rapid Travel at the beginning of 2000 and 2001, the Group's results would not have been materially different from the actual results as disclosed in these financial statements.

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 £1,978 million. This comprised 601 million shares of 10 pence each and acquisition costs of £31 million. The value attributed to the shares issued was 323.85 pence 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 acquisition was accounted for using the purchase method of accounting. The goodwill arising on acquisition of Flextech was £1,382 million, which is being amortized over its estimated useful life of 20 years. As described in note 5, the Group has undertaken an impairment review of goodwill. As a result of the review, a charge of £766 million has been made.

On November 1, 2000 the Company acquired 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 is £254 million. The terms of the Accreting Convertible Notes are described in note 15 to these financial statements.

Upon completion of the acquisition, the Company issued a £220 million Accreting Convertible Note to DT in consideration for: Eurobell's entire issued share capital, £72 million, the assignment of an inter-company loan previously owed by Eurobell to DT, £128 million, and a cash payment remitted to Eurobell by DT shortly after the acquisition, £20 million. Subsequently, on January 15, 2001 DT remitted a further cash payment, £30 million, to Eurobell and the Company issued an additional Accreting Convertible Note to DT for £30 million.

In addition under the terms of the acquisition, the Company was 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, dated April 2, 2001 was issued to DT. This deferred consideration was accrued for at December 31, 2000.

Goodwill of £1 million arose on the acquisition which is being amortized over 20 years.

If the Company had acquired Flextech and Eurobell on January 1, 2000 the Group's net loss of £755 million and loss per share of £0.28 would have been £820 million and £0.28, respectively.

On November 23, 1999 the Company acquired the remaining 50% of the issued share capital of Cable London PLC ("Cable London") which it did not already own, for cash consideration of £389 million plus acquisition costs of £5 million and assumption of debt of £39 million. The acquisition has been accounted for using the purchase method of accounting. The goodwill arising on acquisition was £438 million and is being amortized on a straight-line basis over 20 years which is the average remaining useful life of the network assets acquired with Cable London.

## 7 SUPPLEMENTAL DISCLOSURES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash paid for interest was £335 million, £164 million and £124 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Significant non-cash investing activities are described below. The amounts stated for 2001 represent the purchase of Rapid Travel. The amounts stated for 2000 represent the purchase of Flextech and Eurobell. The amounts stated for 1999 represent the purchase of Cable London. These transactions are described in note 6 to the consolidated financial statements.

| | | Year ended December 31 | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| | **£ million** | £ million | £ million |
| Acquisitions: | | | |
| Assets | **1** | 1,104 | 180 |
| Liabilities assumed | **(2)** | (172) | (117) |
| Debt assumed | **–** | (261) | (126) |
| Net (liabilities)/assets (contributed)/ assumed | **(1)** | 671 | (63) |
| Less: | | | |
| Previously accounted for: | | | |
| Equity investment in Cable London | **–** | – | (32) |
| Share of cumulative losses of Cable London | **–** | – | 51 |
| Goodwill arising | **7** | 1,383 | 438 |
| | **6** | 2,054 | 394 |
| Share consideration/capital contribution | **–** | 1,946 | – |
| Debt consideration | **–** | 75 | – |
| Purchase of shares | **2** | – | 389 |
| Option consideration | **4** | – | – |
| Direct costs of acquisition | **–** | 33 | 5 |
| | **6** | 2,054 | 394 |

In 2001 the Group entered into capital lease obligations with a total capital value of £47 million. In addition the Group entered into vendor financing arrangements, under which it had a remaining financed balance of £23 million at December 31, 2001. At December 31, 2001, the Group had accrued a further £35 million of capital expenditure for property and equipment.

In 2000, £114 million of goodwill was allocated to investments in affiliates.

## 8 OTHER RECEIVABLES

| | | At December 31 |
|---|---|---|
| | **2001** | 2000 |
| | **£ million** | £ million |
| Value Added Tax refund | **–** | 4 |
| Interconnection receivables | **2** | 6 |
| Accrued income | **68** | 60 |
| Other | **27** | 31 |
| Foreign currency swap | **15** | 7 |
| | **112** | 108 |

Accrued income primarily represents telephone calls made by Cable Division subscribers and income accrued under Business Services Division contracts that have not been billed as at the accounting period end.

# Notes to the Consolidated Financial Statements

continued

## 9 INVESTMENTS

The Group has investments in affiliates accounted for under the equity method at December 31, 2001 and 2000 as follows:

| | Percentage ownership at December 31 2001 | 2000 |
|---|---|---|
| Front Row Television Limited | **50.0** | 53.0 |
| Blueyonder Workwise Limited | **70.0** | 70.0 |
| UKTV | **50.0** | 50.0 |
| SMG plc | **16.9** | 17.2 |

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 2001 £ million | 2000 £ million |
|---|---|---|
| **Combined financial position** | | |
| Property and equipment, net | **54** | 57 |
| Intangible assets, net | **112** | 360 |
| Other assets, net | **169** | 268 |
| Total assets | **335** | 685 |
| Debt | **66** | – |
| Other liabilities | **690** | 626 |
| Owners' equity | **(421)** | 59 |
| Total liabilities and equity | **335** | 685 |

| | Year ended December 31 2001 £ million | 2000 £ million | 1999 £ million |
|---|---|---|---|
| **Combined operations** | | | |
| Revenue | **408** | 406 | 10 |
| Operating expenses | **(324)** | (343) | (9) |
| Operating profit | **84** | 63 | 1 |
| Interest expense | **(38)** | (30) | – |
| Net profit | **46** | 33 | 1 |

| | At December 31 2001 £ million | 2000 £ million |
|---|---|---|
| **The Group's investments in affiliates are comprised as follows:** | | |
| Goodwill | **27** | 114 |
| Loans | **260** | 267 |
| Share of net assets | **260** | 403 |
| | **547** | 784 |

Included within investments in affiliates is £80 million (2000: £148 million) in respect of listed investments. The aggregate market value of these listed investments at December 31, 2001 was £80 million (2000: £146 million). In addition, £18 million (2000: £nil) of the investment in SMG plc provides security for a loan.

## 10 PROPERTY AND EQUIPMENT

| | Land £ million | Buildings £ million | Cable and ducting £ million | Electronic equipment £ million | Other equipment £ million | Total £ million |
|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | |
| Balance at January 1, 2001 | 6 | 119 | 2,630 | 1,393 | 552 | 4,700 |
| Additions | – | 14 | 556 | 31 | 52 | 653 |
| Disposals | – | – | – | – | (7) | (7) |
| Balance at December 31, 2001 | 6 | 133 | 3,186 | 1,424 | 597 | 5,346 |
| **Accumulated depreciation** | | | | | | |
| Balance at January 1, 2001 | – | 35 | 546 | 605 | 225 | 1,411 |
| Charge for the year | – | 10 | 348 | 56 | 55 | 469 |
| Disposals | – | – | – | – | (7) | (7) |
| Balance at December 31, 2001 | – | 45 | 894 | 661 | 273 | 1,873 |
| **2001 Net book value** | **6** | **88** | **2,292** | **763** | **324** | **3,473** |
| **Acquisition costs** | | | | | | |
| Balance at January 1, 2000 | 6 | 100 | 2,267 | 1,063 | 372 | 3,808 |
| On acquisition | – | 4 | 188 | 92 | 17 | 301 |
| Additions | – | 15 | 176 | 239 | 165 | 595 |
| Disposals | – | – | (1) | (1) | (2) | (4) |
| Balance at December 31, 2000 | 6 | 119 | 2,630 | 1,393 | 552 | 4,700 |
| **Accumulated depreciation** | | | | | | |
| Balance at January 1, 2000 | – | 28 | 398 | 409 | 155 | 990 |
| Charge for the year | – | 7 | 148 | 197 | 71 | 423 |
| Disposals | – | – | – | (1) | (1) | (2) |
| Balance at December 31, 2000 | – | 35 | 546 | 605 | 225 | 1,411 |
| **2000 Net book value** | **6** | **84** | **2,084** | **788** | **327** | **3,289** |

Cable and ducting consists principally of civil engineering and fiber optic costs. In addition, cable and ducting includes net book value of pre-construction and franchise costs of £14 million and £16 million as of December 31, 2001 and 2000, respectively. Electronic equipment includes the Group's switching, headend and converter equipment. Other equipment consists principally of motor vehicles, office furniture and fixtures and leasehold improvements.

## 11 VALUATION AND QUALIFYING ACCOUNTS

| | | Balance at January 1 £ million | Acquisition of subsidiaries £ million | Additions charged to costs and expenses £ million | Deductions £ million | Balance at December 31 £ million |
|---|---|---|---|---|---|---|
| 2001 | Deferred tax valuation allowances | 733 | – | 168 | – | 901 |
| | Allowance for doubtful accounts | 19 | – | 3 | (6) | 16 |
| 2000 | Deferred tax valuation allowances | 491 | 38 | 204 | – | 733 |
| | Allowance for doubtful accounts | 13 | 5 | 14 | (13) | 19 |
| 1999 | Deferred tax valuation allowances | 369 | 39 | 83 | – | 491 |
| | Allowance for doubtful accounts | 14 | 2 | 14 | (17) | 13 |

# Notes to the Consolidated Financial Statements

continued

## 12 OTHER ASSETS

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

| | | At December 31 |
|---|---|---|
| | **2001** | 2000 |
| | **£ million** | £ million |
| Deferred financing costs of debentures | **22** | 32 |
| Deferred financing costs of Senior Secured Facility | **36** | 15 |
| | **58** | 47 |

As described in note 15, the Group 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 written off.

## 13 INVENTORY

| | **2001** | 2000 |
|---|---|---|
| | **£ million** | £ million |
| Raw materials and consumables | **1** | 2 |
| Inventories of spare capacity and duct held for re-sale | **36** | 36 |
| Programming inventory | **30** | 31 |
| | **67** | 69 |

## 14 OTHER LIABILITIES

Other liabilities are summarized as follows:

| | | At December 31 |
|---|---|---|
| | **2001** | 2000 |
| | **£ million** | £ million |
| Deferred income | **114** | 83 |
| Accrued construction costs | **67** | 30 |
| Accrued programming costs | **24** | 33 |
| Accrued interconnect costs | **39** | 37 |
| Accrued interest | **111** | 85 |
| Accrued staff costs | **35** | 24 |
| Accrued expenses | **41** | 67 |
| Other liabilities | **93** | 44 |
| | **524** | 403 |

## 15 DEBT

Debt is summarized as follows at December 31, 2001 and 2000:

| | Weighted average interest rate 2001 % | 2000 % | 1999 % | 2001 £ million | 2000 £ million |
|---|---|---|---|---|---|
| Accreting Convertible Notes 2003 | **5** | 5 | – | **268** | 225 |
| Senior Convertible Notes 2005 | **6** | 6 | – | **344** | 334 |
| Senior Debentures 2006 | **9.625** | 9.625 | 9.625 | **206** | 200 |
| Senior Convertible Notes 2007 | **5.25** | 5.25 | 5.25 | **300** | 300 |
| Senior Discount Debentures 2007 | **11** | 11 | 11 | **1,059** | 1,078 |
| Senior Notes 2008 | **11.25** | 11.25 | 11.25 | **226** | 235 |
| Senior Discount Notes 2009 | **9.25** | 9.25 | 9.25 | **261** | 237 |
| Senior Discount Notes 2009 | **9.875** | 9.875 | 9.875 | **244** | 236 |
| Senior Notes 2010 | **9.875** | 9.875 | – | **378** | 388 |
| Senior Discount Notes 2010 | **11.375** | 11.375 | – | **185** | 178 |
| Senior Secured Facility | **7.265** | 7.553 | 8.777 | **1,360** | 690 |
| Flextech facility | **–** | 6.712 | – | **–** | 116 |
| Cable London facility | **–** | – | 6.684 | **–** | – |
| Other debt | **6.767** | 7.432 | 7.5 | **66** | 37 |
| | | | | **4,897** | 4,254 |

### Notes and debentures

| | | Principal million | Maturity date | Earliest redemption date | Interest rate % |
|---|---|---|---|---|---|
| Accreting Convertible Notes 2003 | GBP | 294 | November 1, 2003 | November 1, 2003 | 5 |
| Senior Convertible Notes 2005 | USD | 500 | July 7, 2005 | July 7, 2003 | 6 |
| Senior Debentures 2006 | USD | 300 | October 1, 2006 | October 1, 2000 | 9.625 |
| Senior Convertible Notes 2007 | GBP | 300 | February 19, 2007 | March 9, 2003 | 5.25 |
| Senior Discount Debentures 2007 | USD | 1,537 | October 1, 2007 | October 1, 2000 | 11 |
| Senior Notes 2008 | USD | 350 | November 1, 2008 | November 1, 2003 | 11.25 |
| Senior Discount Notes 2009 | GBP | 325 | April 15, 2009 | April 15, 2004 | 9.875 |
| Senior Discount Notes 2009 | USD | 500 | April 15, 2009 | April 15, 2004 | 9.25 |
| Senior Notes 2010 | GBP | 180 | February 1, 2010 | February 1, 2005 | 9.875 |
| Senior Notes 2010 | USD | 350 | February 1, 2010 | February 1, 2005 | 9.875 |
| Senior Discount Notes 2010 | USD | 450 | February 1, 2010 | February 1, 2005 | 11.375 |

The Debentures and Notes are unsecured liabilities of the Group.

The Senior Convertible Notes 2005 are convertible into 114 million ordinary shares of the Group at a conversion price of 288 pence per ordinary share. Conversion is at the holder's option at any time up to the close of business on June 22, 2005. The Senior Convertible Notes 2007 are convertible into 92 million ordinary shares of the Group at a conversion price of 325 pence per ordinary share. Conversion is at the holder's option at any time up to close of business on February 2, 2007. If Notes are called for redemption prior to maturity, each holder has the right to convert Notes into ordinary shares. The Accreting Convertible Notes 2003 are convertible into 162 million ordinary shares of the Group at an initial conversion price of 156.56 pence per ordinary share. Conversion is at maturity, at the holder's option but the Group can elect to settle in cash, in whole but not in part, at any time at 100% of the accreted value 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.

On January 15, 2001, DT remitted a cash payment of £30 million to its former subsidiary Eurobell, under the terms of the acquisition of Eurobell by the Company on November 1, 2000. In consideration the Company issued additional Accreting Convertible Notes 2003 for the same amount. In addition, under the terms of the acquisition, the Company was obliged to provide deferred consideration, contingent on Eurobell's turnover for the year ended December 31, 2000 exceeding a certain target. As a result additional £3.5 million Accreting Convertible Notes 2003, dated April 2, 2001, were issued to DT.

# Notes to the Consolidated Financial Statements



### 15 DEBT (CONTINUED)

The unamortized portion of the discounts on issue on the Senior Discount Notes 2009 and Senior Discount Notes 2010 was £123 million and £101 million respectively. The discount on issue is being amortized up to the first call dates of the bonds, such as to produce a constant rate of return on the carrying amount.

The indentures under which the Debentures and Notes were issued contain various covenants, which among other things, restrict the ability of the Group to incur additional indebtedness, pay dividends, create certain liens, enter into certain transactions with shareholders or affiliates, or sell certain assets. The Group was in compliance with the covenants at December 31, 2001.

The Group hedges its exposure to movements in the USD:GBP exchange rate through the use of foreign currency swaps and foreign exchange forward contracts. These contracts are typically designed to match the first call date of the debt or where this date has already passed, a specified date in the future. Details of these derivative instruments are disclosed in note 4.

**Senior Secured Facility**

On March 16, 2001 the Group entered into a new senior secured credit facility (the "Senior Secured Facility") with a syndicate of banks for £2 billion, of which £1,360 million was drawn down at December 31, 2001. The Group is also able to raise a further £250 million from institutional investors (the "Institutional Tranche") of which £125 million was drawn down at December 31, 2001. The first draw downs under the Senior Secured Facility were used to repay amounts owed under the old senior secured credit facilities.

Borrowings under the Senior Secured 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, annualized, consolidated net operating cash flow). Borrowings under the Institutional Tranche bear interest at up to 4% above LIBOR.

The Group's ability to borrow under the Senior Secured Facility and the Institutional Tranche is subject to, amongst other things, its compliance with the financial and borrowing conditions contained therein. There are three covenants, which are applied as follows:

- interest charged on the senior debt facility compared with earnings before interest, tax, depreciation and amortization ('EBITDA');
- cash-paying interest compared with EBITDA; and
- senior debt compared with EBITDA.

At December 31, 2001, the Group was in compliance with these covenants and conditions and expects to be in compliance throughout 2002.

**Vendor financing**

The Group has entered into vendor financing arrangements to fund its purchase of equipment from certain suppliers. Under the terms of these arrangements the Group defers payment for periods up to 36 months. Interest is charged on these arrangements at a rate that is fixed for the life of the arrangements. The balance on these arrangements at December 31, 2001 was £23 million.

**SMG loan**

On July 11, 2001, the Group entered into a contract with Toronto Dominion Bank ("TD"), whereby TD provides a loan to the Group, in return for security over 55% of the Group's shareholding in SMG plc. The arrangement matures after one year, but can be extended for up to three years by mutual agreement. The balance on the loan at December 31, 2001 was £33 million.

**Bank loans**

Bank loans are property loans secured on certain freehold and long leasehold land and buildings held by the Group. The balance at December 31, 2001 was £10 million.

**Other loans**

At December 31, 2000 the Group had a credit facility with Liberty Media. The balance at that date was £17 million. The Group also had a standby credit facility of £2 million made available by Vivendi SA. These two loans were repaid during the year.

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

| | **2001 £ million** |
|---|---|
| 2002 | **60** |
| 2003 | **268** |
| 2004 | **1** |
| 2005 | **345** |
| 2006 | **598** |
| 2007 and thereafter | **3,625** |
| | **4,897** |

**16 INCOME TAXES**
Loss before income taxes is solely attributable to the UK.

The provisions for income taxes follow:

| | **2001 £ million** | 2000 £ million | 1999 £ million |
|---|---|---|---|
| Income tax benefit/(expense) | **–** | – | – |
| Deferred tax benefit | **70** | 6 | – |
| | **70** | 6 | – |

A reconciliation of income taxes determined using the statutory UK rate of 30% (2000: 30%) to the effective rate of income tax is as follows:

| | | Year ended December 31 | |
|---|---|---|---|
| | **2001 %** | 2000 % | 1999 % |
| Corporate tax at UK statutory rates | **(30)** | (30) | (30) |
| Change in valuation allowance | **34** | 31 | 30 |
| | **4** | 1 | – |

Deferred income tax assets and liabilities at December 31, 2001 and 2000 are summarized as follows:

| | **2001 £ million** | 2000 £ million |
|---|---|---|
| Deferred tax assets relating to: | | |
| Fixed assets | **410** | 304 |
| Net operating loss carried forward | **465** | 402 |
| Other – investments | **26** | 27 |
| Deferred tax asset | **901** | 733 |
| Valuation allowance | **(901)** | (733) |
| | **–** | – |
| Investments in affiliates | **(113)** | (183) |
| **Deferred tax liability per balance sheet** | **(113)** | (183) |

At December 31, 2001 the Group estimates that it has, subject to Inland Revenue agreement, net operating losses ("NOLs") of £1,550 million available to relieve against future profits. This excludes capital allowances on assets which are available to the Group, but have not been claimed, amounting to £4,410 million.

Due to a history of operating losses the Group 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.

# Notes to the Consolidated Financial Statements

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## 17 SHAREHOLDERS' EQUITY

### Movement in share capital

On November 23, 1999, the Company completed its acquisition of the 50% of 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 million ordinary shares were issued. In addition 6 million ordinary shares were redesignated into 6 million limited voting convertible ordinary shares.

On March 31, 2000 the authorized share capital of the Company was increased to £460 million divided into 4,300 million ordinary shares of 10 pence each and 300 million limited voting convertible ordinary shares of 10 pence each.

On April 19, 2000 the Company issued 601 million ordinary shares of 10 pence each in consideration for the entire issued share capital of Flextech. Also in 2000, 4 million ordinary shares of 10 pence each were issued in consideration of £3 million on exercise of employee share options.

During 2001 the Company issued 7 million ordinary shares of 10 pence each upon exercise of employee share options. Total consideration received was £6 million. In addition the Company redesignated 20 million ordinary shares of 10 pence each into 20 million limited voting convertible ordinary shares of 10 pence each.

### Limited voting convertible ordinary shares

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, reappoint, 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. 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 certain Notes and Debentures. The limited voting convertible ordinary shares are convertible into ordinary shares at the Company's option at any time, subject to certain conditions. The sole holders of the limited voting convertible ordinary shares are Liberty Media and Microsoft.

Members of the Liberty Media Group and/or the Microsoft Group can redesignate 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 redesignate 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 and Debentures.

Future purchases of ordinary shares and/or limited voting convertible ordinary shares by members of the Liberty Media Group and/or the Microsoft Group will, however, be subject to Rule 9 of the UK's City Code on Take-overs 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.

In May 2001 Liberty Media increased its shareholding in the Company as a result of the purchase of 20 million ordinary shares of 10 pence each. Prior to the increase in shareholding, Liberty Media redesignated 20 million ordinary shares of 10 pence each as limited voting convertible ordinary shares of 10 pence each. As a result Liberty Media and Microsoft's combined shareholdings remained below 50% of the issued ordinary share capital, above which level a change of control for the purposes of the Group's debt securities may occur.

## 18 SHARE-BASED COMPENSATION PLANS

At December 31, 2001, the Company operated five types of share-based compensation plans: the Executive Share Option Schemes, the Sharesave Schemes, the Telewest Restricted Share Scheme ("RSS"), the Telewest Long Term Incentive Plan ("LTIP") and an Equity Participation Plan ("EPP").

The Company applies APB Opinion Bulletin 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 vesting date or the Balance Sheet date. Compensation cost is recognized for awards over ordinary shares made under the RSS since the awards have no exercise price. Compensation cost is recognized over the estimated service period in respect of the LTIP to the extent that the market value of the Company's ordinary shares exceeds the exercise price at the earlier of the vesting date or the Balance Sheet date.

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

| | **2001 £ million** | 2000 £ million | 1999 £ million |
|---|---|---|---|
| RSS | **–** | – | – |
| LTIP | **–** | 5 | 1 |
| Executive Share Option Schemes | **1** | 2 | 23 |
| EPP | **1** | 1 | – |
| | **2** | 8 | 24 |

If compensation costs for share option grants and awards under the RSS, LTIP, Executive Option Schemes and EPP had been determined based on their fair value at the date of grant for 2001, 2000 and 1999 consistent with the method prescribed by SFAS 123, the Group's net loss and basic and diluted loss per share would have been adjusted to the pro forma amounts set out below:

| | **2001 £ million** | 2000 £ million | 1999 £ million |
|---|---|---|---|
| Net loss: | | | |
| as reported | **(1,741)** | (755) | (541) |
| pro forma | **(1,750)** | (757) | (519) |
| | **£** | £ | £ |
| Basic and diluted loss per share: | | | |
| as reported | **(0.60)** | (0.28) | (0.25) |
| pro forma | **(0.61)** | (0.28) | (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 5.5%, 5.8% and 6.8% for grants in 2001, 2000 and 1999 respectively, and an expected volatility of 55%. The Group does not expect to pay a dividend on its ordinary shares at any time during the expected life of any outstanding option. The Group expects options be held until maturity.

### Performance-based share option compensation plans

The Group 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 FTSE 100 Index over any three-year period preceding exercise. The Company may grant options for up to 295 million ordinary shares.

# Notes to the Consolidated Financial Statements

continued

## 18 SHARE-BASED COMPENSATION PLANS (CONTINUED)

A summary of the status of the Company's performance-based share option plans as of December 31, 2001, 2000 and 1999 and the changes during the years ended on those dates are presented below:

| | Number of shares | 2001 Weighted average exercise price | Number of shares | 2000 Weighted average exercise price | Number of shares | 1999 Weighted average exercise price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of year | **52,503,409** | **173.2p** | 17,028,622 | 110.0p | 26,165,744 | 118.9p |
| Adjustments during the year | **–** | **–** | 4,457,322 | 143.8p | 1,365,978 | 105.0p |
| Granted | **53,709,994** | **98.8p** | 35,154,239 | 205.1p | 1,163,027 | 265.4p |
| Exercised | **(1,210,816)** | **78.2p** | (2,501,964) | 114.9p | (8,566,437) | 136.0p |
| Forfeited | **(7,302,750)** | **134.3p** | (1,634,810) | 208.8p | (3,099,690) | 108.4p |
| Outstanding at end of year | **97,699,837** | **136.4p** | 52,503,409 | 173.2p | 17,028,622 | 110.0p |
| Options exercisable at year end | **16,577,655** | **132.0p** | 14,938,772 | 129.8p | 2,386,230 | 116.8p |
| Weighted average fair value of options granted during the year | **69.7p** | | 33.9p | | 201.4p | |

The adjustments during 2000 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).

Share options are forfeited due to employees leaving the Group before their share options become exercisable.

The following table summarizes information about the Company's performance-based share options outstanding at December 31, 2001.

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | **Number outstanding at December 31, 2001** | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at December 31, 2001 | Weighted average exercise price |
| 65.7 – 76.8p | **14,813,365** | 8.2 yrs | 74.2p | 4,028,801 | 72.1p |
| 81.5 – 82.5p | **2,175,831** | 9.6 yrs | 81.7p | – | – |
| 84.6 – 99.9p | **3,122,542** | 3.5 yrs | 90.2p | 3,122,542 | 90.2p |
| 102.0 – 109.1p | **34,373,272** | 9.2 yrs | 103.7p | 828,028 | 108.7p |
| 114.0 – 125.9p | **12,605,878** | 8.1 yrs | 119.8p | 1,635,814 | 124.6p |
| 130.4 – 142.9p | **2,899,478** | 3.1 yrs | 139.7p | 2,899,478 | 139.7p |
| 156.6 – 170.0p | **1,601,198** | 8.2 yrs | 165.8p | 172,307 | 159.8p |
| 202.4 – 235.0p | **24,794,408** | 8.5 yrs | 228.9p | 3,675,233 | 226.0p |
| 237.3 – 249.4p | **543,216** | 8.1 yrs | 239.7p | 79,086 | 244.7p |
| 274.3 – 276.5p | **381,810** | 8.4 yrs | 276.3p | 19,978 | 275.3p |
| 289.0 – 294.8p | **388,839** | 7.8 yrs | 291.2p | 116,388 | 291.3p |
| 65.7 – 294.8p | **97,699,837** | 8.3 yrs | 136.4p | 16,577,655 | 132.0p |

### 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 compensation scheme as of December 31, 2001, 2000, and 1999 and the changes during the years ended on those dates are presented below:

| | **Number of shares** | **2001 Weighted average exercise price** | Number of shares | 2000 Weighted average exercise price | Number of shares | 1999 Weighted average exercise price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of year | **26,635,135** | **91.1p** | 11,679,289 | 116.9p | 9,460,336 | 84.7p |
| Adjustments during the year | **–** | **–** | 654,868 | 126.2p | 469,470 | 67.9p |
| Granted | **9,205,135** | **60.3p** | 17,946,934 | 88.3p | 2,775,602 | 236.5p |
| Exercised | **(4,380,809)** | **57.3p** | (876,216) | 98.1p | (30,719) | 88.8p |
| Forfeited | **(9,940,127)** | **100.4p** | (2,769,740) | 187.6p | (995,400) | 88.2p |
| Outstanding at end of year | **21,519,334** | **80.5p** | 26,635,135 | 91.1p | 11,679,289 | 116.9p |
| Options exercisable at year end | **72,926** | **98.0p** | 4,443,443 | 57.1p | – | – |
| Weighted average fair value of options granted during the year | **33.3p** | | 39.1p | | 153.4p | |

The adjustments during 2000 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).

Share options are forfeited due to employees leaving the Group before their share options become exercisable.

The following table summarizes information about the Company's fixed share options outstanding at December 31, 2001.

| | Options outstanding | |
|---|---|---|
| | **Number outstanding at December 31, 2001** | Weighted average remaining contractual life |
| 53.6 – 88.3p | **19,178,335** | 3.0 yrs |
| 103.9 – 115.9p | **1,875,842** | 0.6 yrs |
| 128.6 – 161.9p | **76,965** | 1.1 yrs |
| 191.0 – 236.5p | **388,192** | 1.6 yrs |
| 53.6 – 236.5p | **21,519,334** | 2.8 yrs |

**Telewest Restricted Share Scheme ("RSS")**

The Company operates the RSS 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 RSS, 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.

The compensation charge related to each award is based on the share price of the ordinary shares on the date the award was made.

# Notes to the Consolidated Financial Statements

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## 18 SHARE-BASED COMPENSATION PLANS (CONTINUED)

A summary of the status of the RSS at December 31, 2001, 2000 and 1999 and the changes during the years ended on those dates are presented below:

| | **2001 Number of shares** | 2000 Number of shares | 1999 Number of shares |
|---|---|---|---|
| Outstanding at beginning of year | **358,316** | 576,333 | 416,186 |
| Adjustments during the year | **–** | – | 21,612 |
| Granted | **248,595** | – | 447,532 |
| Exercised | **(76,056)** | (131,394) | (122,157) |
| Forfeited | **–** | (86,623) | (186,840) |
| Outstanding at end of year | **530,855** | 358,316 | 576,333 |
| Awards exercisable at year end | **38,338** | 86,989 | 33,283 |
| Weighted average fair value of awards granted during the year | **£1.10** | – | £2.18 |

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

Share options are forfeited due to employees leaving the Group before their share options become exercisable.

At December 31, 2001, the 530,855 awards outstanding and the 38,338 awards exercisable have weighted average remaining contractual lives of 8.4 years and 5.4 years respectively.

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

The 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.

A summary of the status of the Company's LTIP at December 31, 2001, 2000 and 1999 and the changes during the years ended on those dates are presented below:

| | **2001 Number of shares** | 2000 Number of shares | 1999 Number of shares |
|---|---|---|---|
| Outstanding at beginning of year | **2,714,552** | 4,005,075 | 3,796,733 |
| Adjustments during the year | **–** | – | 188,468 |
| Granted | **910,730** | 816,175 | 196,139 |
| Exercised | **(1,220,362)** | (1,152,826) | – |
| Forfeited | **(838,413)** | (953,872) | (176,265) |
| Outstanding at end of year | **1,566,507** | 2,714,552 | 4,005,075 |
| Awards exercisable at year end | **265,939** | 1,058,542 | – |
| Weighted average fair value of awards granted during the year | **£1.09** | £0.24 | £1.93 |

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

Share options are forfeited due to employees leaving the Group before their share options become exercisable or due to performance criteria not being met.

At December 31, 2001, the 1,566,507 awards outstanding and the 265,939 awards exercisable have weighted average remaining contractual lives of 2.5 years and 1.1 years respectively.

Deferred compensation cost relating to the LTIP is £189,000.

**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, 2001, 2000 and 1999 and the changes during the years ended on those dates are presented below:

| | **2001 Number of shares** | 2000 Number of shares | 1999 Number of shares |
|---|---|---|---|
| Outstanding at beginning of year | **1,193,839** | 1,074,150 | 676,504 |
| Adjustments during the year | **–** | – | 57,664 |
| Granted | **–** | 267,524 | 495,964 |
| Exercised | **(579,430)** | (130,576) | (67,336) |
| Forfeited | **(42,356)** | (17,259) | (88,646) |
| Outstanding at end of year | **572,053** | 1,193,839 | 1,074,150 |
| Awards exercisable at year end | **26,443** | 288,253 | 312,718 |
| Weighted average fair value of awards granted during the year | **–** | £2.49 | £1.83 |

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

Share options are forfeited due to employees leaving the Group before their share options become exercisable.

At December 31, 2001, the 572,053 awards outstanding and 26,443 awards exercisable have weighted average remaining contractual lives of 4.5 years and 3.3 years respectively.

Deferred compensation cost relating to the EPP is £419,000.

## 19 ACCUMULATED OTHER COMPREHENSIVE INCOME

| | Gains/(losses) on mark to market of cash flow hedges |
|---|---|
| Balance at January 1, 2001 | – |
| Cumulative effect of accounting change | (16) |
| Amounts reclassified into earnings | (5) |
| Current period (decrease)/increase in fair value | 57 |
| **Balance at December 31, 2001** | **36** |

# Notes to the Consolidated Financial Statements

continued

## 20 COMMITMENTS AND CONTINGENCIES

### Restricted cash

At December 31, 2001, the Group has cash restricted as to use of £20 million. Of this amount, £12 million provides security for leasing obligations and £8 million guarantees a temporary overdraft of TV Travel Group Limited, an affiliate.

### Other commitments

Under the terms of the investment agreement relating to the Group's investment in Imagine Broadband, the Group committed to spend £17 million on Imagine Broadband services on or before June 30, 2003. At the year end the unspent balance of this commitment was £4 million.

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

| | **2001 £m** | 2000 £m |
|---|---|---|
| Contracted | **28** | 43 |

In addition the Group has contracted to buy £14 million of programming rights for which the license period has not yet started.

Also at December 31, 2001 the Group is committed to providing funding to its affiliates as follows:

| | Committed cash £ million |
|---|---|
| **Company** | |
| Blueyonder Workwise | 3 |
| iSee Ventures | 1 |
| Vis iTV | 1 |
| | 5 |

### Capital and operating leases

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

| | Acquisition costs £ million | Accumulated depreciation £ million | Net book value £ million |
|---|---|---|---|
| At December 31, 2001: | | | |
| Electronic equipment | 290 | (187) | 103 |
| Other equipment | 109 | (43) | 66 |
| At December 31, 2000: | | | |
| Electronic equipment | 268 | (161) | 107 |
| Other equipment | 104 | (36) | 68 |

Depreciation charged on these assets was £45 million and £64 million for the years ended December 31, 2001 and 2000 respectively.

The Group leases business offices and uses certain equipment under lease arrangements accounted for as operating leases. Minimum rental expense under such arrangements amounted to £19 million, £17 million and £7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Future minimum lease payments under capital and operating leases are summarized as follows as of December 31, 2001:

| | Capital leases £ million | Operating leases £ million |
|---|---|---|
| 2002 | 63 | 24 |
| 2003 | 55 | 24 |
| 2004 | 47 | 18 |
| 2005 | 43 | 13 |
| 2006 | 33 | 12 |
| 2007 and thereafter | 51 | 96 |
| | 292 | |
| Imputed interest | (54) | |
| | 238 | |

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

The Group leases capacity on its network to other telecommunications companies. These leases are accounted for as operating leases and revenues received are recognized over the life of the leases as follows:

| | £ million |
|---|---|
| 2002 | 4 |
| 2003 | 5 |
| 2004 | 4 |
| 2005 | 4 |
| 2006 | 2 |
| 2007 and thereafter | 15 |

The assets held under these leases are accounted for as follows:

| | Acquisition costs £ million | Accumulated depreciation £ million | NBV £ million |
|---|---|---|---|
| At December 31, 2001: | | | |
| Cable and ducting | 45 | (3) | 42 |
| At December 31, 2000: | | | |
| Cable and ducting | 18 | (1) | 17 |

Depreciation charged on these assets was £2 million and £1 million for the years ended December 31, 2001 and 2000 respectively.

**Contingent liabilities**
The Group has provided performance bonds in respect of its national licence and to local authorities up to a maximum amount of £7 million (2000: £7 million).

HM Customs and Excise have raised an assessment against the Group for £8 million. Independent legal counsel has advised that the assessment is likely to be set aside on appeal. Accordingly no provision has been made in these accounts.

The Group is a party to various other 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.

# Notes to the Consolidated Financial Statements

continued

## 21 RELATED PARTY TRANSACTIONS

### Identity of relevant related parties

Liberty Media, Inc ("Liberty"), Microsoft and MediaOne International ("MediaOne") are related parties of the Group, in that they control or controlled, directly or indirectly, more than 20% of the voting rights of the Company in 2001, 2000 and 1999.

Cable London up to its acquisition on November 23, 1999, was a related party of the Group by virtue of its status as an associated company.

Flextech up to its acquisition on April 19, 2000 was a related party of the Group as Liberty owned more than 20% of the voting rights of Flextech.

UKTV and TV Travel Group Limited ("TVT") became related parties of the Group with the Flextech acquisition as the Group owns 50% and 37.95% of the voting rights respectively.

During the year Screenshop Limited ("Screenshop") became a related party when the Group sold its shareholding in Screenshop to sit-up Limited in return for a 36.36% shareholding in sit-up Limited.

### Nature of transactions

The Group had a £10 million loan facility with Liberty. Interest charged on this loan was £nil (2000: £1 million). The balance due to Liberty at December 31, 2000 was £17 million including accrued interest and was repaid during the year.

Additionally, the Group purchases software and consultancy services from Microsoft, on normal commercial terms. Purchases in the year ended December 31, 2001 amounted to £2 million (2000: £2 million). The balance outstanding in respect of these purchases was £nil at December 31, 2001 and 2000.

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 in 2000 and in the year ended December 31, 1999 amounted to £4 million and £9 million respectively.

The Group made loans to Cable London prior to its acquisition in November 1999. Interest charged on these loans in the year ended December 31, 1999 was £3 million.

The Group has charged management fees to UKTV of £nil (2000: £3 million). In addition the Group has recharged overheads and costs incurred on their behalf to UKTV, TVT and Screenshop of £8 million, £3 million and £1 million (2000: £7 million, £10 million and £nil) respectively. The Group has also made a loan to UKTV. Interest charged on this loan was £12 million (2000: £15 million). Amounts due from UKTV, TVT and Screenshop at December 31, 2001 were £217 million, £28 million and £nil respectively (2000: £229 million, £31 million and £nil respectively).

In the normal course of its business the Group purchases programming from UKTV. Purchases in the year ended December 31, 2001 were £5 million (2000: £4 million, 1999: £2 million). The balance due to UKTV at December 31, 2001 was £2 million (2000: £nil).

## 22 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | 2001 | | | | |
|---|---|---|---|---|---|
| | Total £ million | Fourth quarter* £ million | Third quarter £ million | Second quarter £ million | First quarter £ million |
| Revenue | **1,254** | **329** | **312** | **315** | **298** |
| Operating loss | **(1,121)** | **(844)** | **(83)** | **(87)** | **(107)** |
| Finance expenses, net | **(457)** | **(131)** | **(104)** | **(95)** | **(127)** |
| Net loss after extraordinary item | **(1,741)** | **(1,122)** | **(192)** | **(185)** | **(242)** |
| Basic and diluted loss per ordinary share after extraordinary item | **(60p)** | **(38p)** | **(7p)** | **(6p)** | **(9p)** |

* In the fourth quarter the Group recorded a goodwill impairment charge of £766 million and wrote down the value of its investments in affiliates by £202 million.

| | | | | | 2000 |
|---|---|---|---|---|---|
| | Total £ million | Fourth quarter £ million | Third quarter £ million | Second quarter £ million | First quarter £ million |
| Revenue | 1,069 | 289 | 280 | 264 | 236 |
| Operating loss | (359) | (147) | (75) | (61) | (76) |
| Finance expenses, net | (385) | (67) | (105) | (101) | (112) |
| Net loss after extraordinary item | (755) | (226) | (178) | (163) | (188) |
| Basic and diluted loss per ordinary share after extraordinary item | (28p) | (8p) | (6p) | (6p) | (8p) |

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.

**23 SEGMENTAL INFORMATION**

The Group applies SFAS 131, **Disclosures about Segments of an Enterprise and Related Information**. SFAS 131 establishes standards for reporting information about operating segments in annual financial statements. It also establishes 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 Group'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 in different markets. The Group operates in two main segments: Cable and Content. The Cable segment of our business can be subdivided, for revenue purposes only, between four product ranges: Cable Television, Consumer Telephony, Internet and other, and Business Services. The Internet and other unit comprises internet sales and sales of cable publications. The Content segment provides entertainment content, interactive and transactional services to the UK pay-TV and internet markets.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group has changed the structure of its segmental analysis and certain corresponding information from the previous years has been restated to reflect the change in structure.

The following tables present summarized financial information relating to the reportable segments for each of the three years ended December 31, 2001:

| | **Note 2 2001 $ million** | **2001 £ million** | 2000 £ million | 1999 £ million |
|---|---|---|---|---|
| **CABLE** | | | | |
| Cable television | **478** | **329** | 279 | 258 |
| Consumer telephony | **710** | **488** | 445 | 334 |
| Internet and other | **58** | **40** | 16 | 17 |
| **Total Consumer Division** | **1,246** | **857** | 740 | 609 |
| Business Services Division | **390** | **268** | 248 | 177 |
| **Third party revenue** | **1,636** | **1,125** | 988 | 786 |
| Operating costs and expenses | **(1,196)** | **(822)** | (757) | (597) |
| Depreciation | **(658)** | **(453)** | (392) | (305) |
| Amortization of goodwill | **(119)** | **(82)** | (86) | (62) |
| **Operating loss** | **(337)** | **(232)** | (247) | (178) |
| Additions to property and equipment | **944** | **649** | 587 | 500 |
| Total assets | **7,407** | **5,093** | 5,146 | 4,568 |

# Notes to the Consolidated Financial Statements

continued

## 23 SEGMENTAL INFORMATION (CONTINUED)

| | Note 2 2001 $ million | 2001 £ million | 2000 £ million | 1999 £ million |
|---|---|---|---|---|
| **CONTENT** | | | | |
| Content Division | **208** | **143** | 88 | – |
| Inter-segmental[1] | **(20)** | **(14)** | (7) | – |
| **Third party revenue** | **188** | **129** | 81 | – |
| Operating costs and expenses | **(196)** | **(135)** | (101) | – |
| Depreciation | **(24)** | **(16)** | (31) | – |
| Amortization of goodwill[2] | **(1,261)** | **(867)** | (61) | – |
| **Operating loss** | **(1,293)** | **(889)** | (112) | – |
| Additions to property and equipment | **6** | **4** | 8 | – |
| Total assets | **1,802** | **1,239** | 2,178 | – |
| **TOTAL** | | | | |
| Cable television | **478** | **329** | 279 | 258 |
| Consumer telephony | **710** | **488** | 445 | 334 |
| Internet and other | **58** | **40** | 16 | 17 |
| **Total Consumer Division** | **1,246** | **857** | 740 | 609 |
| Business Services Division | **390** | **268** | 248 | 177 |
| **Total Cable Division** | **1,636** | **1,125** | 988 | 786 |
| Content Division | **208** | **143** | 88 | – |
| Inter-segmental[1] | **(20)** | **(14)** | (7) | – |
| **Total revenue** | **1,824** | **1,254** | 1,069 | 786 |
| Operating costs and expenses | **(1,392)** | **(957)** | (858) | (597) |
| Depreciation | **(682)** | **(469)** | (423) | (305) |
| Amortization of goodwill[2] | **(1,380)** | **(949)** | (147) | (62) |
| **Operating loss** | **(1,630)** | **(1,121)** | (359) | (178) |
| Other expense[2] | **(981)** | **(675)** | (402) | (343) |
| Income tax benefit | **102** | **70** | 6 | – |
| **Net loss before extraordinary loss** | **(2,509)** | **(1,726)** | (755) | (521) |
| Additions to property and equipment | **950** | **653** | 595 | 500 |
| Total assets | **9,209** | **6,332** | 7,324 | 4,568 |

[1] Inter-segmental revenues are revenues from sales in our Content Division which are costs in our Cable Division and are eliminated on consolidation.

[2] In the fourth quarter of 2001, the Group recorded a goodwill impairment charge of £766 million and wrote down the value of its investments in affiliates by £202 million.

# Supplementary Financial Information

Five Year Summary (years ended December 31)

| | Group 2001 £ million | 2000[3] £ million | 1999[2] £ million | 1998[1] £ million | 1997 £ million |
|---|---|---|---|---|---|
| **Balance sheet data** | | | | | |
| Property and equipment (net) | **3,473** | 3,289 | 2,818 | 2,457 | 1,706 |
| Total assets | **6,332** | 7,324 | 4,568 | 3,978 | 2,413 |
| Investment in affiliates | **547** | 784 | 4 | 27 | 60 |
| Total debt and capital leases[4] | **5,135** | 4,499 | 3,268 | 2,626 | 1,449 |
| Equity | **451** | 2,145 | 953 | 1,041 | 739 |
| **Statement of operations data** | | | | | |
| Cable television | **329** | 279 | 258 | 202 | 160 |
| Consumer telephony | **488** | 445 | 334 | 233 | 167 |
| Internet and other | **40** | 16 | 17 | 20 | 16 |
| Business Services Division | **268** | 248 | 177 | 84 | 44 |
| Content Division | **129** | 81 | – | – | – |
| **Total revenue** | **1,254** | 1,069 | 786 | 539 | 387 |
| **Operating costs and expenses** | | | | | |
| Consumer programming expenses | **(142)** | (132) | (132) | (103) | (93) |
| Business and consumer telephony expenses | **(235)** | (235) | (158) | (82) | (50) |
| Content expenses | **(83)** | (46) | – | – | – |
| Selling, general and administrative | **(497)** | (445) | (307) | (208) | (194) |
| Depreciation | **(469)** | (423) | (305) | (224) | (177) |
| Amortization[5] | **(949)** | (147) | (62) | (36) | (27) |
| **Operating loss** | **(1,121)** | (359) | (178) | (114) | (154) |
| Share of net loss of affiliates[5] | **(216)** | (15) | (6) | (19) | (22) |
| Financial expenses, net | **(457)** | (385) | (335) | (201) | (156) |
| Extraordinary loss | **(15)** | – | (20) | – | – |
| Net loss | **(1,741)** | (755) | (541) | (333) | (332) |
| Basic and diluted loss per ordinary share: | | | | | |
| Before extraordinary loss | **(59p)** | (28p) | (24p) | (23p) | (32p) |
| Extraordinary loss | **(1p)** | – | (1p) | – | – |
| Net loss | **(60p)** | (28p) | (25p) | (23p) | (32p) |

[1] Includes results of General Cable and Birmingham Cable beginning September 1, 1998 (the date they were acquired by the Company).

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

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

[4] See note 15 (Debt) and note 20 (Commitments and contingencies) to the US GAAP Consolidated Financial Statements.

[5] In the fourth quarter of 2001 the Group recorded a goodwill impairment charge of £766 million and wrote down the value of its investments in affiliates by £202 million.

# Shareholder Information

**PROPOSED FINANCIAL CALENDAR 2002**

| | |
|---|---|
| First Quarter operating statistics and financial results | May 2002 |
| Announcement of interim results for 2002 | August 2002 |
| Third Quarter operating statistics and financial results | November 2002 |

**DEBENTURES – INTEREST PAYMENTS**

$9^5/_8$% 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. $11^1/_4$% Senior Notes due 2008, interest is payable semi-annually on May 1, and November 1. $5^1/_4$% Convertible Notes due 2007, interest is payable semi-annually on February 19, and August 19. $9^1/_4$% Senior Discount Notes due 2009, and $9^7/_8$% Senior Discount Notes due 2009, interest is payable semi-annually on April 15, and October 15, commencing on October 15, 2004. $9^7/_8$% Senior Notes due 2010, interest is payable semi-annually on February 1 and August 1. $11^3/_8$% 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**

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

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

| | | Ordinary Shares[1] | | ADS[2] | |
|---|---|---|---|---|---|
| | | High | Low | High | Low |
| 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 |
| 2001 | First Quarter | 161.0p | 100.75p | $23.50 | $14.75 |
| | Second Quarter | 139.0p | 83.5p | $20.40 | $11.65 |
| | Third Quarter | 93.25p | 23.0p | $13.14 | $3.50 |
| | Fourth Quarter | 81.5p | 28.0p | $11.03 | $3.85 |

[1]The prices set out for the Company's shares are derived from the London Stock Exchange Daily Official List.

[2]The prices set out for the ADS are provided by the Nasdaq Stock Market's National Market.

**REGISTRAR AND DEPOSITARY**

Enquiries concerning holdings of the Company's 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 in writing to the Registrars.

The Bank of New York is the Depositary for the Company's ADS programme and all enquiries regarding ADR holder accounts and payment of dividends should be directed to: The Bank of New York, ADR Department, 620 Avenue of the Americas, 6th Floor, New York NY 10011. Tel: 001 800 524 4458.

## SHAREHOLDERS

As at 28 February 2002, the Company had three shareholders holding 82,507,747 convertible limited voting shares and 38,274 shareholders holding 2,873,226,315 ordinary shares of which 5,294 shareholders, holding 1,963,390,316 ordinary shares, held their shares in the CREST settlement system.

As at 28 February 2002, the Company had 15 ADR holders holding 2,715,200 ADS.

## LOW COST DEALING SERVICE

We are pleased to be able to offer you a postal dealing service through NatWest Stockbrokers Limited and the use of the Instant Share Dealing Service which is available in many NatWest branches. If you would like details of any of these services please contact NatWest Stockbrokers Limited on 0870 600 2050.*

## ENQUIRIES

For general investor information please contact:
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Director of Corporate Affairs
Telephone: 020 7299 5571
Fax: 020 7299 5495

For all other enquiries please contact:

Clive Burns
Company Secretary
Telephone: 020 7299 5537
Fax: 020 7299 5494

Postal enquiries please write to:

The Company Secretary
Telewest Communications plc
Genesis Business Park, Albert Drive,
Woking, Surrey GU21 5RW

*Insofar as this constitutes an investment advertisement it has been approved by NatWest Stockbrokers Limited for the purposes of Section 21 (2)(b) of the Financial Services and Markets Act 2000 only.

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**Registrars**
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Designed and produced by CGI BrandSense.
Printed by Pillans & Wilson Greenaway working to the ISO14001 International Environmental Standard. The paper is supplied from a mill also accredited with ISO14001 and the paper used is from fully sustainable forests and was produced without the use of any chlorine compounds.

Goodbye for now.
See you soon at
www.telewest.co.uk