

Financial review 2002/3

Wendy Pallot ACA Group Finance Director

Keeping our promises

In spite of a challenging year, the Group has moved forward significantly towards achieving its strategic objectives. Our strategy for 2002/03 was to:

- **Focus on our UK operations:** The reorganisation of our Local Radio Group (LRG) operations onto functional lines has meant quicker decision making and clearer reporting lines and will reduce annual personnel costs by £1.9 million. The year-on-year saving in 2002/03 was £0.4 million.
- **Exit from our overseas operations:**
 - Our investment in DMG Radio Australia was sold for £35 million in September 2002. Our share of the results of this associate in 2001/02 was a loss of £1.1 million. DMG Radio Australia broke even to the date of the sale in 2002/03.
 - Holdings in Vienna and Sud-Tyrol were sold for £0.6 million in December 2002. These investments made a loss of £1.0 million in the period to sale during 2002/03 and a loss of £1.3 million in the 2001/02 year.
 - On 22 May 2003 we announced the sale of our Hungarian businesses for £18 million in cash. These investments made a loss of £0.1 million during 2002/03. We now own no material overseas assets.
- **Dispose of non-core UK assets:** In September 2002 we sold our investment in London News Radio at a valuation for the whole business of £23.5 million. Our share of the results of this associate in 2001/02 was a loss of £1.3 million, and in 2002/03 to the date of sale was a loss of £0.4 million.
- **Reduce debt:** Mainly as a result of these disposals, we reduced the Group's debt by £64.5 million year-on-year down to £99.2 million at 31 March 2003. Following the sale of our investments in Hungary and Vibe Radio Services after the year end, our debt will be reduced further to approximately £66 million. This will represent an overall reduction in debt of some £100 million in a little over twelve months.
- **Continue to develop our digital radio assets:** Our net investment in 2002/03 in digital broadcasting and multiplex operations was £3.4 million (2001/02: £3.4 million). In addition we invested £1.3 million (2001/02: £0.6 million) in the development of datacasting.
- **Reduce internet costs:** Net costs have reduced year-on-year by £1.1 million to £0.8 million following a reorganisation and resulting redundancies.

In 2003/04 we expect to see additional benefits from the new management structure and systems in LRG, which will give GWR a competitive advantage in the market. We remain committed to prudent financial policies with the aim of continuing to reduce debt.

GWR's business environment during 2002/03

GWR operates commercial local and national radio stations, principally in the UK, where it broadcasts 35 different services over analogue and digital radio to 11.1 million people, generating 102 million listening hours. This makes the Group the most listened to radio group in the UK. The Group also manages 12 digital multiplexes, one of which is the sole national commercial digital multiplex in the UK. Further information on the business can be found on our web site at www.gwrgroup.com.

79% of our income in 2002/03 was from the sale of radio advertising in the UK. The 32 local services cover much of the Midlands, South and East of England, where the major competitors for advertising are the local and regional newspapers. The three national stations, Classic FM, Planet Rock and Core compete for advertising revenues against all media businesses. Other smaller sources of income in the UK include the production of commercials, multiplex fees and the sale of CDs. Turnover in our international business contributed 9% of revenue in 2002/03.

Turnover analysis

	% of total	02/03 £'m	01/02 £'m	Var £'m
UK analogue radio	85%	108.4	111.2	(2.8)
UK digital radio	5%	6.5	5.2	1.3
Internet	1%	0.6	0.9	(0.3)
International	9%	11.6	11.1	0.5
Total	100%	127.1	128.4	(1.3)

The past 12 months have seen great volatility throughout the advertising market. Global economic uncertainty, falling business and consumer confidence and the war in Iraq have all played a role in the erosion of advertiser confidence. Not surprisingly, these factors had a significant impact upon advertising spend and therefore upon our revenues.

Internal factors also affected revenues. Although we sought to minimise the disruption associated with the major reorganisation of LRG last summer, in the short term revenues were adversely affected. In addition the introduction of our new inventory management system is changing the mix of our advertising revenues. This system, designed to enable us to allocate inventory to areas of highest value for the Group, shifted inventory from local to national sales within LRG, a trend we expect to see continue during 2003/04.

Both LRG and Classic FM increased their national radio advertising sales year-on-year, LRG encouragingly so. At Classic FM this increase has been in spite of the war in Iraq. Easter, which is a lucrative advertising period, fell in April this year rather than March, as last year, contributing to a poor final quarter comparative performance.

GWR GROUP PLC

ANNUAL REPORT & ACCOUNTS

YEAR ENDED 31 MARCH 2003

Company Registration number 715143



The table below shows the effect of these factors on quarterly UK radio revenue movements, and the continuing volatility of revenues at Classic FM, which is characterised by fewer but larger individual transactions than within LRG.

Revenue analysis by quarter

	Total	National LRG	Local LRG	National Classic FM
30/06/2002	+1.8%	-2.6%	-4.5%	+22.8%
30/09/2002	-8.3%	-8.2%	-8.8%	-7.8%
31/12/2002	+0.8%	+5.0%	-7.5%	+10.3%
31/03/2003	-4.2%	+7.4%	-5.6%	-16.7%
Total year	-2.6%	+0.3%	-6.6%	+0.8%

Significant cost savings

The largest single cost across the business is our staff. Basic salaries and associated costs in the UK cost us £32.8 million in 2002/03, down by 3.3% from £33.9 million in 2001/02. Redundancies, mainly in our Local Radio Group and internet division, cost £1.7 million in the year, but will save £3 million per annum in salary costs.

In the UK, excluding net digital investment, cost reductions of £2.6 million offset the majority of the £3.1 million reduction in sales during 2002/03, so that the operating profit margin remains at 20% year-on-year.

Developing businesses

Our net investment in digital radio was £4.7 million (2001/02: £5.2 million). This is broken down as follows:

	2002/03 £'m	2001/02 £'m
Digital Multiplexes – national	0.1	(0.1)
Digital Multiplexes – local	1.0	0.3
Digital Broadcasting – new brands	(2.5)	(2.1)
Digital Broadcasting – simulcasting	(2.0)	(1.5)
	(3.4)	(3.4)
Chip development	–	(1.2)
Datacasting	(1.3)	(0.6)
Total	(4.7)	(5.2)

The national and local digital multiplex businesses are both profitable. The significant increase in profits locally reflects the fact that eight more local multiplexes went on air during the year, compared to the three that existed at the end of 2001/02. The cost of broadcasting our analogue brands on digital multiplexes, simulcasting, has risen with the award to GWR of these new multiplexes. Each is in our existing analogue broadcast area, where investment in simulcasting secures the re-award of the local analogue licence. The £0.4 million increase in the costs of broadcasting our new digital brands, Core, Planet Rock and Storm is also because of higher transmission costs as broadcast areas enlarge.

We have reduced the net investment in our internet businesses from £1.9 million in 2001/02 down to £0.8 million in 2002/03, mainly from redundancies following a reorganisation of that business. We aim to continue reducing this net investment level.

The investment in Classic FM TV, which went on air in December 2002, was £0.4 million. This is a low cost venture that will support and enhance the Classic FM brand.

Exceptional items

	H1 £'000	H2 £'000	Full year £'000
European goodwill impairment	(12.9)	5.0	(7.9)
Redundancies	(0.6)	(1.1)	(1.7)
Share of exceptional cost in Joint Venture	–	(0.3)	(0.3)
Loss on sale of DMG Australia	(9.9)	(0.1)	(10.0)
Profit on sale of London News Radio	7.6	–	7.6
Profit on sale of Vibe	6.0	(0.3)	5.7
Loss on sale of investment in Vienna	–	(8.7)	(8.7)
Total	(9.8)	(5.5)	(15.3)

The sale of our investment in Hungary for £18 million was announced in May 2003. In our interim results, announced in November 2002, we provided for impairment in goodwill relating to this investment of £11.8 million. However, in January 2003 we were able to extend the licence period and negotiate a much lower licence fee. As a result the sale price achieved was considerably higher than previously anticipated. We have therefore reversed £5.0 million of the goodwill impairment to bring the valuation of the investment up to the level of the sale proceeds achieved, less the costs of the disposal. We expect this transaction to complete during June 2003.

Taxation

The effective tax rate is 32% (2001/02: 33%) on consolidated profits before exceptional items and goodwill. The main reasons for the consolidated rate being in excess of the UK standard rate of 30% are unrelieved overseas and associate tax losses, and the usual permanent timing differences.

Fixed assets

Intangible fixed assets reduce by £35.2 million year-on-year mainly due to the write off of £19.2 million of goodwill on the disposal of our investment in DMG Radio Australia. This disposal also reduced our investment in associates by £27.2 million year-on-year.

Our acquisition of 49% of Vibe Radio Services in September 2002 increased our investment in joint ventures by £11.3 million. On 17 May the Competition Minister ruled that this deal was against the public interest. In the light of this ruling it was decided that the best value for the Group lay in selling this investment to Scottish Radio Holdings, the 51% joint venture partner in Vibe Radio Services. This sale has since been agreed for £17.6 million in cash, which we expect to receive in June 2003. Our share of the profits of this company in the six months since acquisition, before goodwill and exceptional items, was £0.1 million. The disposal will be earnings neutral in 2003/04.

Tangible fixed assets reduce from £24.8m to £22.3m at 31 March 2003, mainly reflecting modest capital expenditure of £3.7 million (2001/02: £4.7 million), depreciation of £4.8 million and disposals of £1.4 million. The disposals are principally associated with our continuing policy of moving out of older freehold properties and into new leasehold premises, thereby releasing cash, reducing interest charges and improving the working conditions of our staff, while accepting some increase in operating costs. We anticipate that ongoing capital expenditure in the UK should be around £3 million to £4 million per annum.

Financial review 2002/3 continued

Working capital

The working capital position improved by £67.7 million year-on-year to 31 March 2003, principally as a result of the cancellation of £40.1 million of DMGT convertible loan notes (CULs) and a reduction in short term bank debts of £19.9 million from the proceeds of disposals and a switch towards committed long-term borrowings. We remain committed to focusing on improving our working capital.

Trade debtors at 31 March 2003 were £21.8 million (2001/02: £21.8 million). UK debtor days have improved to 42.7 compared to 44.1 at 31 March 2002.

Our free cash flow (ie cash generated from operations after tax, interest and capital expenditure) was £9.5 million for 2002/03 (2001/02: £4.8 million). The cost of the full year dividend, if held at last year's levels as proposed, will be £7.3 million (2001/02: £7.2 million).

The main sources of cash inflow this year have been from operations and from the net disposal of investments. The main sources of cash outflow, before financing, have been payment of bank interest and capital expenditure in the UK and the payment of licence fees in Hungary.

Debt

Our net debt has reduced by £64.5m during the year down to £99.2 million at 31 March 2003 as follows:

	Bank debt £'m	CULs £'m	Other debt £'m	Total £'m
Debt at 1 April 2002	111.6	40.1	12.0	163.7
Disposal of investment in DMG Radio Australia	-	(35.0)	-	(35.0)
Issue of shares to Daily Mail & General Trust plc	-	(4.8)	(7.2)	(12.0)
Free cash flow generated from operations	(9.5)	-	-	(9.5)
Other acquisitions and disposals	(14.6)	-	-	(14.6)
Dividends paid	7.3	-	-	7.3
Financing	(0.5)	(0.3)	0.1	(0.7)
Debt at 31 March 2003	94.3	0.0	4.9	99.2

Other debt includes £1.5 million of debt due to Daily Mail and General Trust plc (£8.4 million at 31 March 2002).

Post year end disposals of our investments in Hungary and Vibe Radio Services will further reduce debt by approximately £33 million.

70% of total bank debt at 31 March 2003 is due after more than three years from the accounting date. The maturity profile of our debt at 31 March 2003 is shown in note 18 to these accounts.

The interest charge for the year was £5.8 million (2001/02: £6.4 million). The average cost of debt during the year was 5.0%. Our interest was covered 3.9 times by EBITDA during 2002/03 (2001/02: 3.9). Bank debt currently incurs interest at variable LIBOR-related rates. No financial instruments have been used during the year. Further treasury information is given in note 19 to these accounts.

Dividends

The Board has proposed a final dividend of 3.5 pence per share making a total dividend for the year of 5.8 pence, the same level as for the two previous years. Dividend cover is 0.8 (2001/02: 0.7). This uses headline earnings calculated according to the definition issued by the UK Society of Investment Professionals (formerly the Institute of Investment Management and Research), ensuring year-on-year consistency and transparency of the calculation.

The Board's dividend proposal reflects both a belief in the strength of the underlying business of the Group and an expectation of being able to cover future dividends fully as advertising revenues improve. The final dividend will be paid to all shareholders on the register as at 11 July 2003.

Capital and reserves

During the year we issued 5.8 million shares to Daily Mail and General Trust plc as part consideration for the cancellation of the majority of the Group's debt with that company.

Adjustments to the share premium account, merger reserve and profit and loss account reserve have been made to restate the entries required for the issue of 4.0 million shares during the year ended 31 March 2001. The premium arising on these shares originally included in the merger reserve has been transferred to the share premium account, because the issue was not eligible for merger relief under section 131 of Companies Act 1985. Subsequent transfers from the merger reserve to the Group profit and loss account in relation to goodwill amortisation have also been revised to reflect this new treatment. There is no effect on previously reported results for any period as a result of this restatement. Details of these adjustments are included in note 25 to the accounts.

Share price

During the year our share price has fallen from £2.55 at 1 April 2002 to £1.415 at 31 March 2003, giving a year end market capitalisation of £184.7m. The share price ranged from a high of £2.895 to a low of £1.235 during the year.

Wendy Pallot ACA
Finance Director

Directors and company secretary

Ralph Bernard CBE† Executive Chairman

Age 50, Ralph joined commercial radio as a journalist in 1975 and launched Wiltshire Radio in 1982 as Programme Director, becoming Managing Director in 1983. He was Chief Executive of GWR Group from 1987 to 2001 when he was appointed Executive Chairman. He is Chairman of Digital One and the Digital Radio Development Bureau, the body responsible for developing Digital Radio on behalf of the Commercial Radio Industry and the BBC. He is a non-executive director of the Commercial Radio Companies Association and Independent Radio News Limited. Appointed a Fellow of the Radio Academy in 1989, he won the Sony Gold Award in 2000 for his contribution to the industry, and in 2002 he was made a CBE for services to radio broadcasting.

Patrick Taylor FCA Chief Executive

Age 55, Patrick joined the board in 1994 as a non-executive director, while he was Finance Director at Capital Radio plc. He became the Group's Deputy Chief Executive and Finance Director in September 1996, taking over as Chief Executive in August 2001. Patrick qualified as a Chartered Accountant with Coopers & Lybrand and was a partner there for 6 years. He is a non-executive director of Independent Radio News Limited and of the Future Network. On 17 June 2003 GWR announced that Patrick would step down from the Board after the AGM on 31 July 2003. He has accepted a part-time consultancy role as non-executive Chairman of Livetime, GWR's initiative to exploit its digital radio data capacity.

Roger Lewis
Managing Director and Programme Controller of Classic FM
Age 48, Roger joined the board in November 1998. Immediately prior to this he spent eight years in the record industry as a Managing Director at EMI records and President of the Decca Record Company. He began his radio career in 1981 at Radio Tees, followed by Capital Radio and the BBC where he became head of the Radio 1 Music Department. He is a non-executive director of three charitable trusts and of The Radio Corporation Limited and the Barchester Group Limited. He is Chairman of the Music and Dance Scheme Advisory Group for the Department for Education and Skills.

Steve Orchard
Operations Director UK Local Radio
Age 45, Steve joined Wiltshire Radio in 1983 as a reporter and presenter. He has since served as Radio Station Managing Director, Group Programme Director, Programme Controller Classic FM and has been Operations Director UK Local Radio since 1998. He is a member of the Sony Radio Awards committee and a Director of Hit 40 UK Ltd. He was appointed to the board in 1996.

Wendy Pallot ACA
Group Finance Director
Age 38, Wendy qualified as a Chartered Accountant with Coopers & Lybrand in 1989 and joined the Group in 1994 as Group Financial Accountant. She became Group Company Secretary in 1997 and Group Finance Director in September 2001.

Simon Ward
New Media and Digital Director
Age 49, Simon joined Wiltshire Radio in 1982. He became the Group's Sales & Marketing Director in 1991 and joined the Board in 1996. In 1998 he became the Group Commercial Director. Simon has 29 years of experience in UK commercial radio, initially as a presenter before moving into promotions and sponsorship and later mainstream sales and commercial management. After leading GWR's early internet development plans, Simon moved into the area of New Media at the end of 2000, taking on responsibility for GWR's Digital Radio brand development and other areas of new distribution channels.

On 17 June 2003 GWR announced that Simon would step down from the Board after the AGM on 31 July 2003, to concentrate exclusively on leading GWR's digital radio division. He will report to the Executive Chairman.

Roger Gilbert FCA°
Deputy Chairman – Non-Executive
Age 58, Roger joined the board in 1988. He is chairman of DMG World Media Limited and DMG Broadcasting Limited, subsidiaries of Daily Mail and General Trust plc (DMGT), which manages DMGT's interests in exhibitions and related publishing, Teletext and radio, including its stake in GWR. Roger is a Chartered Accountant and has been working for DMGT for over 30 years.

Mair Barnes
Independent Non-Executive Director
Age 58, Mair joined the board in January 2003. She was Managing Director of Woolworths plc in the UK until 1994 and she was chairman of Vantios plc until 1998. Mair serves as an independent member of the Department of Trade and Industry's Strategy Board and of the Services Group Board. Currently she holds non-executive positions on the boards of Scottish Power plc, Patientline plc and the South African company Woolworths Holdings Ltd.

Simon Duffy*†
Independent Non-Executive Director
Age 53, Simon joined the board in February 1997. He was appointed as Chief Operating Officer of NTL in March 2003. Prior to that he served as Chief Financial Officer of Orange S.A., CEO of WorldOnline International, and also held the position of Deputy Chairman and Group Finance Director of EMI Group plc. He is also a non-executive director of Imperial Tobacco Group plc.

Sir Peter Michael CBE°
Non-Executive Director
Age 64, Sir Peter has been on the board since 1997 and has been chairman of Classic FM since 1993. He is Chairman of a number of leisure companies involved in wine, food and specialist hotels and is Chairman of Greenham Common Community Trust. He has been Chairman of a number of large IT companies including UEI plc and Cray Electronics and was a member of the National Coal Board and a number of government bodies for the encouragement of research and development in the UK. He is Chairman of Virtual Music Stores Limited, a company bringing "personal mix CDs" through the music industry in collaboration with GWR.

Stella Pirie OBE FCA*°
Independent Non-Executive Director
Age 52, Stella is Chairman of GWR (West) Limited, a subsidiary of GWR. She joined Radio West as a non-executive director in 1983, and was Divisional Finance Director of Rotork plc for 10 years until 1988. A Chartered Accountant, she was Group Finance Director of GWR from 1993 to 1996. Her other non-executive directorships include Schroder UK Growth Plc, British Trade International and the Bath Festivals Trust. Stella is Chairman of Bath Spa University College.

Peter Williams FCA†*
Non-Executive Director
Age 49, Peter joined the board in 2000. He is the Finance Director of Daily Mail & General Trust plc (DMGT). Peter is a Chartered Accountant who joined the DMGT Group in 1982. He is also a director of Euromoney Institutional Investor plc.

Richard Manning
Company Secretary
Age 38, Richard joined GWR from Burmah Castrol in January 2001 and was promoted to Company Secretary in November 2001. He qualified as a solicitor in 1992 and holds an MBA from Bradford University.

Board Committee Membership
* Audit Committee
° Remuneration Committee
† Nomination Committee

Directors' report

The directors present their report and the audited financial statements for the Group for the year ended 31 March 2003.

Principal activities

The Group's principal activity is the operation of commercial radio licences in the United Kingdom

A review of activities during the year and likely future prospects is included within the Chairman's Statement, Chief Executive's Review and the Financial review 2002/3 on pages 3 to 18.

Results and dividends

The Group profit and loss account is shown on page 32. The loss before taxation for the year is £14,833,000 (2002: £15,066,000). The profit before goodwill amortisation, exceptional items and taxation for the year is £8,553,000 (2002: £7,678,000).

An interim dividend of 2.3p per share (2002: 2.3p) was paid on 20 January 2003. The directors recommend the payment of a final dividend of 3.5p per share (2002: 3.5p) on 5 August 2003 to shareholders on the register of members at the close of business on 11 July 2003, making a total net dividend per share for the year to 31 March 2003 of 5.8p per share (2002: 5.8p).

Post balance sheet events

On 22 May 2003 the Group conditionally agreed to sell all of its radio interests in Hungary for a cash consideration of £18.0 million.

On 22 May 2003 the Group announced that it is to sell (subject to the approval from the Office of Fair Trading) its 49% interest in Vibe Radio Services Limited to its partner in the venture, Scottish Radio Holdings, for a cash consideration of £17.6 million.

Substantial shareholdings

According to notifications received in accordance with the requirements of the Companies Act, shareholdings of 3% or more of the Company's issued share capital at 22 May 2003 are as follows:

	Number of shares	% of issued share capital
Daily Mail and General Trust plc	39,114,876	29.97
Fidelity Investment Services Limited	12,198,710	9.35
Morley Fund Management Limited	7,112,562	5.45
Sir Peter Michael	6,307,369	4.83
Aberforth Partners	5,738,329	4.40
Capital Group of Companies Inc.	5,364,990	4.11
M&G Investment Management Limited	4,513,390	3.46
Deutsche Asset Management Limited	4,390,016	3.36
	84,740,242	64.93

The Daily Mail and General Trust investment is held by its subsidiary companies DMG Media Investments Limited (registered in Jersey and holding 33,297,876 shares) and DMG Investments Holdings Limited (5,817,000 shares). The majority of Sir Peter Michael's interest is registered in the name of Stockford Limited.

Directors

The directors of the Company serving at 31 March 2003 are on page 19. In addition to those directors, RJ Palmer resigned from the Board on 1 August 2002, CE Blackwell, JH Trafford and NS Tresilian resigned from the Board on 31 December 2002. M Barnes was appointed by the Board as a director of the Company on 30 January 2003, and in accordance with the Company's Articles of Association, she seeks election at the forthcoming Annual General Meeting.

Further, in accordance with the Company's Articles, RM Bernard, S Orchard, R Lewis and JP Williams retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Information on directors' emoluments is given on pages 24 to 29 in the Report of the Board on directors' remuneration and in note 6 to the financial statements.

Directors' interests

The interests of the directors in the shares of the Company at 31 March 2003, together with their interests at 31 March 2002 or, if later, at their date of appointment, are as follows:

	31 March 2003	31 March 2002 or date of appointment
RM Bernard CBE	422,789	422,789
JPE Taylor FCA	170,019	170,019
R Lewis	24,938	24,938
S Orchard	13,289	13,289
W Pallot ACA	8,781	8,781
SC Ward	154,202	154,202
RN Gilbert FCA	9,972	9,972
M Barnes	-	-
S Duffy	7,143	7,143
Sir Peter Michael CBE	6,307,369	6,307,369
SJ Pirie OBE FCA	31,722	31,722
JP Williams FCA	650	650
Total	7,150,874	7,150,874

All interests shown above are beneficial with the exception of 26,328 shares held by RM Bernard and 3,986 shares held by SJ Pirie. Holdings by nominee companies included in the table above are 650 shares held for JP Williams, 24,938 shares held for R Lewis and 45,000 shares held for JPE Taylor. 5,857,369 shares are held in the name of Stockford Ltd for Sir Peter Michael.

JP Williams is a director of DMG Media Investments Limited, a subsidiary of Daily Mail and General Trust plc registered in Jersey. JP Williams and RN Gilbert are directors of DMG Investment Holdings Limited, a subsidiary of Daily Mail and General Trust plc registered in England and Wales. DMG Media Investments Limited and DMG Investment Holdings Limited held 33,297,876 and 5,817,000 shares respectively in GWR Group plc at 31 March 2003. JP Williams is also a director of Daily Mail and General Trust plc.

There has been no change in the interests set out above between 31 March 2003 and 22 May 2003. None of the directors had any interest in the shares of any subsidiary company. Details of share options held by directors are set out on page 27.

Employees

The Group employs just under 900 staff and is proud to be considered a responsible and respected employer. The Group places considerable value upon its employees and their contribution and involvement in the success of the business.

During the year we have made further investment in implementing our management development workshops all of which were as a direct result of employee feedback from the staff satisfaction surveys. Employee feedback is very important to us and we carry out regular employee satisfaction surveys to ensure that we are consulting our staff and listening to their views, enabling us to identify areas in which our practices can be improved.

The last 12 months have seen significant changes to our Local Radio Group structure and the Managing Change workshops have played a significant role in helping all our managers and staff prepare for change. The Group has also continued to invest in improving its managers' awareness and understanding of the characteristics and skills of leadership, coaching and managing performance as they are vital in building a great working environment. This helps to create a culture that values discussion, examination, collaboration and mentoring amongst managers and staff, and ensures the Group continues to develop and nurture them.

This year has seen a very important development with the introduction of group-wide competencies and a personal development review process. This helps managers and their teams to review past performance and future objectives and plays an important part in individual career planning and defining performance and development needs, which are aligned to team and group goals.

The Company operates an Inland Revenue Approved Save-As-You-Earn share option scheme, which provides employees with the opportunity to acquire shares in the Company. As at 31 March 2003 270 employees were participating in this scheme.

The Group fully supports the principle of equal opportunities and the equality of employment. Our employment policies do not discriminate between employees or potential employees on the grounds of colour, race, ethnic or natural origin, sex, marital status, sexual orientation, religious beliefs or disability. If an employee becomes disabled whilst in our employment and as a result is unable to perform their duties, every effort would be made to offer suitable employment and assistance with training.

Policy for the payment of suppliers

The Company and Group's policy in relation to all of its suppliers, is to agree the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The Group and Company do not follow any code or standard on payment practice but it is the policy to pay all suppliers when the invoices become due for payment. The number of days purchases outstanding at 31 March 2003 for the Group as a whole was 34 (2002: 33). The Company had no trade creditors at the year end.

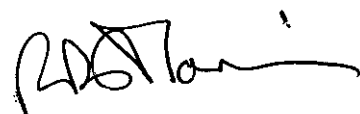
Donations

The Group made charitable donations of £29,145 during the year (2002: £28,005). In addition, £1.8 million (2002: £1.6 million) was generated for local charitable causes through fundraising events organised or supported by GWR radio stations. In particular, GWR was involved with the Wrong Trousers Day Appeal, Race For Life (Breast Cancer) and mobile phone recycling activities.

The Group made no political donations during the year.

By order of the Board

R Manning
Company Secretary
22 May 2003



Auditors

Following a tender process, the directors resolved in June 2003 to appoint Deloitte & Touche as auditors of the Company to fill the casual vacancy arising following KPMG Audit Plc's resignation. KPMG Audit Plc had been the Group's auditors for eight years. In accordance with section 385 of the Companies Act 1985, special notice will be given of a resolution proposing the re-appointment of Deloitte & Touche at the Annual General Meeting to be held on 31 July 2003.

Corporate governance

Statement of appliance of the Principles in the Combined Code

The following narrative sets out how the Group has applied the Principles in the Combined Code (the 'Code') and the guidance 'Internal Control: Guidance for Directors on the Combined Code'.

The Board

The Board meets regularly during the year and special meetings are convened as and when matters require urgent consideration. A formal schedule of matters specifically reserved to the Board for decision is in place and is reviewed and periodically updated. The schedule is compiled so as to ensure that the Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues. The regular business at each meeting consists of an executive report from the Chief Executive and the Finance Director. Directors receive Board information five days prior to the day of each Board meeting.

The directors are identified on page 19. The Board considers that three of the six non-executive directors are independent of management and free from any business and other relationship that could materially interfere with the exercise of their independent judgement. Following the resignation of RJ Palmer, the Board has not appointed a new senior independent non-executive director although this is being kept under review. The non-executive directors bring a balance and diversity of skills and experience to the Board.

There is a clear designation of positions and responsibilities between the role of Chairman, held by RM Bernard and that of Chief Executive, held by JPE Taylor. The Chairman is responsible for running the Board, the Chief Executive is responsible for running the business of the Group.

The Statement of Directors' Responsibilities is on page 30.

Board Committees

Each Board Committee has written terms of reference approved by the Board. Members of the Remuneration, Audit and Nomination Committees are shown on page 19.

The Remuneration Committee comprises three non-executive directors and is chaired by RN Gilbert. The board approves the remuneration of directors and other senior executives, following recommendations from the Remuneration Committee. In accordance with the Code RN Gilbert and Sir Peter Michael are not deemed to be independent by the Board. However the Board believes that their expertise and knowledge in this area are valuable and that their membership and, in the case of RN Gilbert, his Chairmanship are in the best interests of the Company. RJ Palmer was a member of the Committee until his resignation as a Director of the Company. The Audit Committee comprises three non-executive directors and is chaired by SJ Pirie. Two of the three members of the Audit Committee are deemed to be independent.

The Committee assists the Board in the discharge of its responsibilities in relation to the audit, the auditors, financial reporting, internal control procedures and going concern. RJ Palmer and JH Trafford were members of this Committee until they resigned as Directors of the Company.

The Nomination Committee comprises the Chairman of the Company, RM Bernard, who also chairs this Committee, and two non-executive directors. The Committee principally provides advice and recommendations to the Board and the Chairman on the constitution of and appointments to the Board.

Re-election of directors

The Company's Articles require all directors to be re-elected at least every three years, in accordance with the Code. The Articles require that a director appointed by the Board must be elected by the shareholders at the Annual General Meeting following appointment. This is in accordance with the Code.

Directors' remuneration

The policy relating to and information on directors' remuneration is included within the Report of the Board on Directors' Remuneration on pages 24 to 29.

Relations with shareholders

There is a regular dialogue with institutional shareholders, including meetings with the Chief Executive and the Group Finance Director. In addition there are presentations of the annual and interim results and other topics.

A trading statement is issued at each Annual General Meeting. All directors generally attend the Annual General Meeting. Details of the resolutions to be proposed at the Annual General Meeting, which are to be included in this document together with the Annual Report, are set out on pages 58 to 60.

Internal control

The Board has implemented the guidance 'Internal Control: Guidance for Directors on the Combined Code' and the following sets out how the Group has applied the principles and complied with the provisions. These processes have been in place throughout the year ended 31 March 2003 and up to the date of approval of the Annual Report and Accounts.

The Board acknowledges its responsibility to maintain a sound system of internal control and to review its effectiveness to safeguard shareholders' investments and the Group's assets. As new procedures and working practices are adopted, risk factors are considered and internal controls embedded into systems. Any residual risk is then considered for acceptability. The internal control systems are 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 has a control environment with policies, processes and codes of conduct, which are designed to identify, evaluate and manage the significant risks faced by the Group, which is regularly reviewed and accords with the guidance, 'Internal Control: Guidance for Directors on the Combined Code'.

A key feature of the control environment is the constitution and role of the Board and the committee structure established to manage the business. The principal Board Committees are the Remuneration, Audit and Nomination Committees.

The Chairman chairs a Group Executive Board that consists of the six executive directors. The Group Executive Board concentrates on Group strategy and controls the development of divisional strategy, business plans and the monitoring of progress against key performance indicators, the annual budget and long-term business plan. This structure also provides the forum for establishing the Board's requirements on internal control and monitoring the effectiveness of the management of significant risks in business units across the Group.

The Group's UK operational businesses are managed through four divisions: Local Radio, Classic FM, Digital Radio Multiplex Operations and Support Services. In addition, the Group has Head Office and Digital Developmental divisions. Opus, GWR's sales division, now generates all the Group's UK sales, and Creation GWR's content division provides programming to the Group's UK local radio stations. Heads of each division and the Executive Directors combine to form the Group Management Board. The Group Management Board meets at least monthly to manage the Group's operations.

Following last year's acceptance as a member of Good Corporation, the Group has undergone a detailed verification of its operation and has been accredited to the Good Corporation Charter.

During the year the Head of Risk Management has reported regularly to the Audit Committee on risk management and internal controls. The Audit Committee has examined in detail the reports by the Head of Risk Management, which include a review of the formal process of risk assessment and self-certification carried out by divisional management in accordance with the Group's Risk Management policy. This process evaluates the potential financial impact of all significant risks including financial, operational and compliance risks. No shortcomings material to the Group have been identified.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

Statement of compliance with the Code

Throughout the year ended 31 March 2003 the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority, except for the following areas which are either detailed above or within the Board's Remuneration report on pages 24 to 29.

The following areas of non-compliance relate to different periods during the year ended 31 March 2003

- 1 A.3.2. Until the resignation of RJ Palmer on 1 August 2002, only five of the ten non-executive directors were independent. Following RJ Palmer's resignation, until 31 December 2002, five of the nine non-executive directors were independent. Following the resignation of NS Tresilian, CE Blackwell and JH Trafford on 31 December 2002, until 30 January 2003, only two of the six non-executive directors were independent. Following the appointment of M Barnes on 30 January 2003 until 31 March 2003, three of the six non-executive directors were independent.
- 2 A.2.1. After 1 August 2002, when RJ Palmer resigned from the Board, the Company had no senior independent non-executive director.

The following areas of non-compliance were for the whole of the year ended 31 March 2003:

- 3 B.1.7. The Chairman, RM Bernard and the Chief Executive, JPE Taylor both currently have two-year contracts.
- 4 B.2.1. The Deputy Chairman, RN Gilbert, and Sir Peter Michael, neither of whom are deemed to be independent directors, were members of, and RN Gilbert chaired, the Remuneration Committee.

Report of the Board on directors' remuneration to the members of GWR Group plc

This report sets out how the Company has applied the principles of good governance set out in the Combined Code in relation to directors' remuneration and explains any area of non-compliance.

In designing schemes of performance-related remuneration, the Remuneration Committee has followed the provisions in Schedule A to the Combined Code. In preparing this report the Board has followed the provisions in Schedule B to the Combined Code and The Directors' Remuneration Report Regulations 2002.

The information that has been audited in this report comprises the directors' emoluments table, the share options table and the pensions disclosure.

This report will be put to an advisory vote of the Company's shareholders at the Annual General Meeting on 31 July 2003.

Directors' remuneration

The Board approves the remuneration of directors and other senior executives, following recommendations from the Remuneration Committee. Directors who were members of the Remuneration Committee during the year being all non-executive, were as follows:

RN Gilbert	- Chairman
Sir Peter Michael	- appointed 19 September 2002
RJ Palmer	- resigned 1 August 2002
SJ Pirie	

During the year the Committee appointed, and has been advised by, independent remuneration consultants Monks Partnership on the selection of comparator companies, market pay guidelines for main board posts and other senior management posts within the Group and annual bonus and long-term incentive practice within comparator companies. In addition, the Committee consults with the Group's Executive Chairman, Chief Executive, the Human Resources Director and the Group Finance Director, who is Secretary to the Committee.

Remuneration policy

Directors' remuneration has been the subject of much adverse comment recently, particularly the payment of high bonuses at a time of falling shareholder returns. In contrast, the Executive Directors of GWR have consistently shown a responsible attitude to the interests of shareholders on this issue. There are many instances of this but one in particular exemplifies the Executive's attitude and is worth recording. In Spring 2001 the executive team became entitled to substantial bonus payments as a result of delivering a strong financial performance in the previous year. Because economic conditions were deteriorating and the GWR share price had fallen markedly, the five executive directors decided to waive 75% of their bonus payments. This saved shareholders almost half a million pounds.

The Board believes that shareholders interests are best served by the rewards of Executive Directors being significantly related to growth in shareholder value and that in the long term this can only be achieved through earnings growth.

With that in mind, our policy is to attract and motivate talented people by:

- Setting guaranteed remuneration (i.e. salaries, pension contributions and other benefits) at the levels competitive in the market for which the Executive is expected to perform to a high standard.
- Providing annual and long term incentive arrangements designed to enable Executives to achieve significant rewards through excellent or outstanding growth in the Company's earnings.

The Company structures remuneration packages appropriate to the particular function and level of responsibility of each individual executive designed to attract, retain and motivate the individual. It takes into account the remuneration structures and levels at other companies, in particular in the media sector.

The Committee carefully reviews the balance of performance and non-performance related elements of remuneration and aims to ensure that a significant proportion of total remuneration is performance-related. The Remuneration Committee is made aware of pay conditions around the Group when it is considering salaries. The principal elements of remuneration comprise a basic salary, benefits, pension, an annual performance based incentive payment and share options. In addition the Board is requesting, at the forthcoming Annual General Meeting, the approval by shareholders of a new long-term incentive plan. For more details of this see page 28 of this report and the Annual General Meeting Notice on page 58.

Basic salary is paid monthly and assessed annually. It is fixed following a review of specific Group and industry related factors, with a reference to the salaries in our comparator group.

Executive directors' annual incentives are based on the achievement of a profit before tax and goodwill amortisation target, details of which are given below.

Longer-term incentives for executive directors are currently provided through the grant of share options, which are also linked to the performance of the Group, details of which are given below.

The proposed new long-term incentive plan is an Equity Participation Plan requiring the commitment of senior executives to maintain significant shareholdings in the Company for a defined period. The Committee has concluded that such co-investment by senior executives will encourage alignment of their interests with those of shareholders, as well as providing an effective long-term share incentive.

Benefits mainly comprise the provision of company cars or a cash alternative, private fuel and medical health cover.

Pension payments are based on a percentage of basic salary.

Non-executive directors are remunerated by fees payable in cash. Additional fees are payable for attendance at and the chairing of Committee meetings and for the role of Deputy Chairman. Non-executive directors do not participate in any short or long-term incentive schemes.

Information on directors' service contracts is given on page 29.

Directors' emoluments

Emoluments detailed below are for each person who served as a director during the year ended 31 March 2003:

Director	Note	Salary and fees £'000	Annual incentive £'000	Benefits £'000	Compensation for loss of office £'000	Total year ended 31 March 2003 £'000	Total year ended 31 March 2002 £'000	Pensions year ended 31 March 2003 £'000
Executive								
RM Bernard		400	-	9	-	409	402	100
JPE Taylor		437	-	16	-	453	423	-
R Lewis		300	-	14	-	314	342	75
S Orchard		250	-	13	-	263	274	62
W Pallot		150	-	12	-	162	75	22
SC Ward		212	-	15	-	227	225	53
Non-executive								
RN Gilbert	4	31	-	-	-	31	21	-
RJ Palmer	1	8	-	-	10	18	26	-
M Barnes	2	3	-	-	-	3	-	-
CE Blackwell	1	13	-	-	12	25	17	-
S Duffy		24	-	-	-	24	17	-
Sir Peter Michael	4	18	-	-	-	18	12	-
SJ Pirie		27	-	-	-	27	21	-
JH Trafford	1	16	-	-	13	29	18	-
NS Tresilian	1	19	-	4	13	36	22	-
JP Williams	4	20	-	-	-	20	14	-
Total		1,928	-	83	48	2,059	1,909	312

Notes

- Following a reorganisation of the Company's Board, RJ Palmer resigned from the Board on 1 August 2002. CE Blackwell, JH Trafford and NS Tresilian resigned from the Board on 31 December 2002. The above payments for compensation for loss of office are in accordance with the respective director's contract. In addition RJ Palmer will continue as Chairman of a GWR subsidiary local advisory board, for which he will receive £2,000 per annum. He received £1,500 in respect of these services from when he resigned from the Company Board up to 31 March 2003. CE Blackwell will continue as Chairman of a GWR subsidiary local advisory board, for which he will receive £2,000 per annum. He received £500 in respect of these services from when he resigned from the Company Board up to 31 March 2003. Additionally, CE Blackwell has entered into a consultancy agreement with the Company to provide services. The consultancy agreement will expire on 31 October 2003, unless continued by mutual consent. The fees payable under the consultancy agreement are £10,000 per annum. In the period from 1 January 2003 until 31 March 2003, CE Blackwell received consultancy fees of £2,500. J Trafford continued to be Chairman and director respectively of two of GWR's local advisory boards until 31 March 2003 for which he received £750. Following his resignation from the Company Board on 31 December 2002, NS Tresilian has continued to provide services under a consultancy agreement. The agreement will expire on 31 January 2004 unless continued by mutual consent. The fees payable under the consultancy agreement are £12,000 per annum. In the period from 1 January 2003 until 31 March 2003, NS Tresilian received consultancy fees of £3,000.
- M Barnes was appointed to the Board on 30 January 2003.
- HPJ Meakin, who resigned from the Board on 26 July 2001, has a consultancy agreement with the Company at a fee of £25,000 per annum, which is contracted to run until 26 July 2003.
- RN Gilbert, JP Williams and Sir Peter Michael had all their fees paid directly to third party companies.
- There were no gains made on the exercise of share options during the year (2002: nil).

Further information on directors' emoluments is given in note 6 to these accounts.

Report of the Board on directors' remuneration to the members of GWR Group plc continued

Annual incentive

All executive directors are in the same annual incentive scheme, which provides that payments will be made if the Group's profit before taxation and goodwill amortisation exceeds a specified target. This target is proposed by the Chief Executive and approved by the Remuneration Committee. The upper limit on the executive directors' annual incentive payments is 100% of basic salary for RM Bernard and JPE Taylor and 75% of basic salary for the other executive directors. No payments under this scheme were accrued for the year ended 31 March 2003.

The Remuneration Committee maintains the discretion to award annual bonuses to individuals in exceptional circumstances.

Pensions

The Company provides pension entitlements based on basic salary to executive directors that are defined contribution in nature. The pension values in the table on page 25 are contributions payable by the Company for the year ended 31 March 2003. RM Bernard, S Orchard, R Lewis and SC Ward have a pension entitlement of 25% of basic salary. W Pallot has an entitlement of 15% of basic salary. JPE Taylor is not in pensionable employment.

The GWR Group Pension Scheme ("the Scheme") is open to all Group employees over the age of 18 following three months of service with the Group. Until 5 April 2001 the Scheme was contracted-out of the State Earnings Related Pension Scheme ('SERPS') with a normal retirement age of 60 and benefits based on the contributions paid in for each individual member. The Scheme re-entered SERPS with effect from 6 April 2001.

Share Incentive Schemes

The directors strongly believe in encouraging employees to participate in share schemes, thereby aligning their interests with those of the shareholders.

Share Options

Executive directors are eligible employees under the Company's executive share option schemes and the Savings-Related Share Option Scheme.

The policy on share options is to grant such incentives to those executives who can make the most significant contribution to the profit performance of the Company. Options issued under the executive share option schemes that are subsisting may be exercised only if certain performance criteria are satisfied. Executive share options are never offered at a discount.

(a) 1985 Executive Share Option Scheme

The GWR Group plc 1985 Executive Share Option Scheme closed in 1995. At 31 March 2003, options were held to subscribe for 62,661 shares at a price of 120.106p per share exercisable by 2003.

(b) 1995 Executive Share Option Scheme

Options may be granted to any eligible employee under the 1995 Executive Share Option Scheme at the discretion of the Remuneration Committee. Options are priced at not less than the greater of the nominal value and the market value of a share. The Remuneration Committee is responsible for setting performance targets and share capital limits. Options are exercisable between three and ten years from the date of grant, assuming that the relevant performance criteria have been met. At 31 March 2003 options were held to subscribe for 559,107 shares under this scheme at prices ranging between 179.5p and 858p per share exercisable by 2012.

(c) 1995 Savings-Related Share Option Scheme

The GWR Group plc 1995 Savings-Related Share Option Scheme is available to employees who have been in continuous service for a minimum of three months. Options are priced at not less than the greater of the nominal value and 80% of the market value of a share. At 31 March 2003 options were held to subscribe for 477,440 shares under this scheme at prices ranging between 229p and 637.5p per share exercisable by 2005. This scheme has no performance criteria.

(d) 1996 Executive Share Option Scheme

Options may be granted to any eligible employee under the 1996 Executive Share Option Scheme at the discretion of the Remuneration Committee. Options are priced at not less than the greater of the nominal value and the market value of a share. The rules of this Scheme provide that grants of up to 1.5 times annual salary may be made each year, or such higher limit not exceeding 3 times annual salary as the Remuneration Committee may approve having taken into account market practice, role and responsibility, or because it considers the circumstances of the grant to be exceptional. Options are exercisable between three and ten years from the date of grant, assuming that the relevant performance criteria have been met. At 31 March 2003 5,123,613 options had been granted under this Scheme at prices ranging between 179.5p and 858p per share exercisable by 2012.

(e) Details of shares under option held by directors are set out below:

Directors	Number of shares under option			Exercise price	Expiry date	Earliest exercise date
	At 1.4.02	Granted/(lapsed) during the year	At 31.3.03			
RM Bernard	215,000	—	215,000	212p	10.4.03	11.4.99
	150,000	—	150,000	179.5p	15.4.05	16.4.01
	150,000	(150,000)	—	409p	28.9.09	29.9.02
	150,000	—	150,000	858p	22.6.10	23.6.03
	600,000	—	600,000	270p	7.8.11	8.8.04
	3,207	—	3,207	302p	1.3.05	1.9.04
Note 1	1,268,207	(150,000)	1,118,207			
JPE Taylor	300,000	—	300,000	220.5p	26.9.03	27.9.99
	100,000	—	100,000	179.5p	15.4.05	16.4.01
	100,000	(100,000)	—	409p	28.9.09	29.9.02
	125,000	—	125,000	858p	22.6.10	23.6.03
	490,000	—	490,000	270p	7.8.11	8.8.04
	3,207	—	3,207	302p	1.3.05	1.9.04
Note 1	1,118,207	(100,000)	1,018,207			
R Lewis	200,000	—	200,000	210.8p	12.11.05	13.11.01
	3,036	(3,036)	—	319p	1.3.03	1.9.02
	100,000	(100,000)	—	409p	28.9.09	29.9.02
	75,000	—	75,000	858p	22.6.10	23.6.03
	400,000	—	400,000	270p	7.8.11	8.8.04
	—	4,148	4,148	229p	1.3.06	1.9.05
Note 1	778,036	(98,888)	679,148			
S Orchard	100,000	—	100,000	179.5p	15.4.05	16.4.01
	75,000	(75,000)	—	409p	28.9.09	29.9.02
	100,000	—	100,000	858p	22.6.10	23.6.03
	385,000	—	385,000	270p	7.8.11	8.8.04
	3,207	(3,207)	—	302p	1.3.05	1.9.04
	—	4,148	4,148	229p	1.3.06	1.9.05
Note 1	663,207	(74,059)	589,148			
W Pallot	13,711	—	13,711	184p	19.12.03	20.12.99
	100,000	—	100,000	270p	7.8.11	8.8.04
	290	—	290	269.5p	8.8.11	9.8.04
	3,207	—	3,207	302p	1.3.05	1.9.04
	—	80,000	80,000	237p	7.7.12	8.7.05
	117,208	80,000	197,208			
SC Ward	100,000	—	100,000	179.5p	15.4.05	16.4.01
	75,000	(75,000)	—	409p	28.9.09	29.9.02
	75,000	—	75,000	858p	22.6.10	23.6.03
	75,000	—	75,000	630p	20.12.10	21.12.03
	100,000	—	100,000	270p	7.8.11	8.8.04
	3,207	(3,207)	—	302p	1.3.05	1.9.04
Note 1	—	4,148	4,148	229p	1.3.06	1.9.05
Note 1	—	80,000	80,000	237p	7.7.12	8.7.05
	428,207	5,941	434,148			

Notes

- 1 These options were granted under the 1995 Savings-Related Share Option Scheme. All other options above were granted under the 1995 or 1996 Executive Share Option Scheme. The 1995 Executive Share Option Scheme is Inland Revenue approved, the 1996 Executive Share Option Scheme is unapproved.
- 2 All the directors detailed above are executive.
- 3 No options were exercised by any director during the year.
- 4 The market price of the shares at 31 March 2003 was 141.5p. The range during the year ended 31 March 2003 was from 123.5p to 289.5p.
- 5 Options issued above under the Executive Share Option Schemes that have lapsed during the year did so as the relevant performance criteria were not achieved.
- 6 Directors' holdings in the shares of the Company are disclosed on page 20.

Report of the Board on directors' remuneration to the members of GWR Group plc continued

(f) Performance criteria for 1995 and 1996 Executive Share Option Schemes

The exercise of the above options is subject to the achievement of performance conditions as follows:

Share options granted up to July 2001 under the 1995 and 1996 Executive Share Option Schemes to executive directors shall vest at the third anniversary of the date of the grant on a sliding scale basis, depending on the growth of the Headline earnings per share above RPI as measured against target growth rates when compared to a base earnings per share figure determined at the date of grant. An earnings per share compound growth of 5% per annum above RPI generates a 25% vesting percentage level. At the highest level, earnings per share compound growth of 17.5% per annum above RPI generates a 100% vesting percentage level. The base earnings per share figures used were as follows:

Financial year of grant	Base EPS in pence
1996/97	5.8
1998/99	11.0
2000/01	12.9

The only exception to the above was the base earnings per share used for the options granted to R Lewis on 12.11.98, which was 8.2p.

Share options granted in August 2001 under the 1995 and 1996 Executive Share Option Schemes to executive directors shall also vest according to a straight line sliding scale based on the growth of the Headline earnings per share as measured against target real growth rates when compared to a base earnings per share of 12.7 pence. An earnings per share compound growth of 5% per annum above RPI generates a 25% vesting percentage level. At the highest level, earnings per share compound growth of 17.5% per annum above RPI generates a 100% vesting percentage level. Options vest in different proportions based on growth in headline earnings per share in the three years to 31 March 2006 as follows:

Director	Year to 31.3.04	Year to 31.3.05	Year to 31.3.06
RM Bernard	33%	33%	33%
JPE Taylor	50%	35%	15%
R Lewis	50%	50%	
S Orchard	33%	33%	33%
W Pallot	100%		
SC Ward	100%		

To the extent they do not vest in the first earnings period tested, the vesting period may be extended by one year and tested at the end of that next year based on the longer earnings period. No earnings period may exceed five years.

All share options granted in July 2002 under the 1995 and 1996 Executive Share Option Schemes shall vest at the third anniversary of the date of the grant on a sliding scale basis, depending on the growth of the Headline earnings per share as measured against target growth rates when compared to a base earnings per share figure of 9 pence. No options will vest until a compound growth rate of 12% per annum in earnings per share is exceeded over the three-year period. At the highest-level earnings per share compound growth of 20% per annum over the three-year period generates a 100% vesting percentage level.

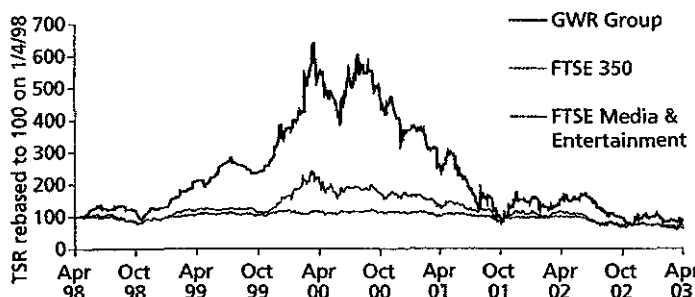
In each of the above cases earnings per share will be measured as that disclosed as Headline earnings per share in the Company's Annual Report based on the definition of Headline earnings per share provided by the UK Society of Investment Professionals (formerly the Institute of Investment Management and Research). This measure is used because it is a recognised definition that enables easy comparisons to other companies.

Equity Participation Plan

The directors wish to encourage the senior executives to commit themselves to the long-term development of the Company through an Equity Participation Plan. Approval for this Plan is requested at the forthcoming Annual General Meeting. Executives taking part in the Plan will be awarded an opportunity to acquire, over a period of up to three years, a significant shareholding in the Company and to hold those shares for a minimum period of 5 years from the date of award. At the end of that period, if the profit before taxation and amortisation ('PBTAA') exceeds a minimum target, the Company will give shares to the executive in a defined proportion to his shareholding under the Plan. The PBTAA measure is proposed because improving the Company's profit levels after the recent difficult trading period is a key priority. The number of shares given will increase in proportion to the amount by which the profit exceeds the target up to a defined maximum in the case of exceptional performance. Further details of the terms of the new Plan are set out in the notes to the Annual General Meeting Notice, which are to be included in this document together with the Annual Report, on pages 59 and 60.

Total shareholder return

The following graph charts the total shareholder return (TSR) on a holding of shares in the Company for the five years from 1 April 1998 to 31 March 2003, compared with the average total shareholder return of companies in the FTSE Media and Photography and FTSE 350 indices. The FTSE Media and Photography index was chosen as a comparator index because it includes the Company's closest competitors, the FTSE 350 index was chosen because it is a relevant broad equity market index.



Service contracts

RM Bernard and JPE Taylor currently have service contracts with unexpired rolling terms of two years and a notice period by either party of two years. RM Bernard has proposed that the notice period for his contract be reduced to a rolling notice period of one year as from 1 April 2004, except on a change of control that is not recommended by the Board, in which case notice will remain at two years. All the other executive directors have service contracts with unexpired rolling terms of one year and a notice period by either party of one year.

Contracts for RM Bernard, JPE Taylor, R Lewis and W Pallot provide that on a change of control as a result of which within six months the executive is dismissed or treats himself as being dismissed as a result of any repudiation by the Company of his contract, compensation is payable for the unexpired portion of his notice period. These contracts also provide that in the event of a change of control that is not recommended by the Board, the executive can, within six months of that change of control, choose to terminate his employment by giving not less than 30 days notice and receive compensation for the unexpired portion of his notice period.

The date of executive director contracts is shown below:

RM Bernard	21 March 1997
JPE Taylor	16 September 1996
R Lewis	27 May 1999
S Orchard	17 July 1992
W Pallot	31 March 2003
SC Ward	17 July 1992

The majority of non-executive directors have contracts for a fixed term of one year, renewable annually at the invitation of the Board. Details are given on page 25 of payments made to former directors of the Company by way of compensation for loss of office following the reorganisation of the Board earlier in the year.

External appointments

The Remuneration Committee must approve all appointments of executive directors to external company boards. Fees receivable by the executive as a director of any company outside the Group, in which he or she holds office as nominee or representative of GWR Group plc are generally payable to the Group and not to the individual director. In limited situations a director may be entitled to retain his fees.

Approved by the Board and signed on its behalf by

RN Gilbert
Director

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each accounting period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then 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 the 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of GWR Group plc

We have audited the financial statements on pages 32 to 53. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 30, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 23 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

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 March 2003 and of the loss of the group for the year then ended; and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

100 Temple Street
Bristol
BS1 6AG

22 May 2003

Consolidated profit and loss account

for the year ended 31 March 2003

		Year ended 31 March 2003			Year ended 31 March 2002		
	Notes	Before goodwill and exceptional items £'000	Goodwill and exceptional items £'000	Total £'000	Before goodwill and exceptional items £'000	Goodwill and exceptional items £'000	Total £'000
Turnover	2	127,131	–	127,131	128,412	–	128,412
Operating profit/(loss)	2,4	14,735	(17,382)	(2,647)	16,371	(23,659)	(7,288)
Share of operating loss of associated companies and joint ventures	4	(726)	(633)	(1,359)	(2,787)	(182)	(2,969)
(Loss)/profit on disposal of operations	4	–	(8,620)	(8,620)	–	1,137	1,137
Profit on disposal of investments	4	–	3,252	3,252	–	–	–
Loss on disposal of fixed assets	4	–	(3)	(3)	–	(40)	(40)
Income from fixed asset investments	7	333	–	333	500	–	500
Interest payable and other similar charges	8	(5,789)	–	(5,789)	(6,406)	–	(6,406)
Profit/(loss) on ordinary activities before taxation	9	8,553	(23,386)	(14,833)	7,678	(22,744)	(15,066)
Taxation	10	(2,730)	649	(2,081)	(2,533)	(33)	(2,566)
Profit/(loss) on ordinary activities after taxation		5,823	(22,737)	(16,914)	5,145	(22,777)	(17,632)
Equity minority interests		1,859	–	1,859	1,880	–	1,880
Profit/(loss) for the financial year		7,682	(22,737)	(15,055)	7,025	(22,777)	(15,752)
Equity dividends	11	(7,475)	–	(7,475)	(7,224)	–	(7,224)
Retained profit/(loss) for the year	25	207	(22,737)	(22,530)	(199)	(22,777)	(22,976)
Basic loss per share	12			(11.8p)			(12.7p)
Diluted loss per share	12			(11.8p)			(12.7p)
Headline earnings per share	12			4.8p			4.0p

All of the Group's turnover and results in the current and previous year were generated from continuing activities.

In addition to group turnover shown above, the group's share of turnover of joint ventures was £786,000 (2002: nil).

Share of operating loss of associated undertakings and joint ventures comprise £1,065,000 loss (2002: £3,072,000) for associated undertakings and £294,000 loss (2002: nil) for joint ventures.

Balance sheets

as at 31 March 2003

		Group		Company	
	Notes	2003 £'000	2002 Restated £'000	2003 £'000	2002 Restated £'000
Fixed assets					
Intangible assets	13	127,534	162,711	110	117
Tangible assets	14	22,322	24,801	—	—
Investments:	15				
Investment in joint venture					
Share of gross assets		1,236	—	—	—
Share of gross liabilities		(1,351)	—	—	—
		(115)	—	—	—
Goodwill arising		11,324	—	—	—
Net investment in joint venture		11,209	—	—	—
Other investments		10,419	42,794	75,332	82,166
		171,484	230,306	75,442	82,283
Current assets					
Stocks		—	155	—	—
Debtors	16	31,383	36,220	187,148	241,333
Cash at bank and in hand		1,332	5,341	—	—
		32,715	41,716	187,148	241,333
Creditors: amounts falling due within one year					
Convertible loan notes		—	(40,118)	—	(40,118)
Other short-term creditors	17	(46,299)	(82,891)	(13,412)	(51,580)
		(46,299)	(123,009)	(13,412)	(91,698)
Net current (liabilities)/assets		(13,584)	(81,293)	173,736	149,635
Total assets less current liabilities		157,900	149,013	249,178	231,918
Creditors: amounts falling due after more than one year	18	(91,162)	(78,609)	(86,500)	(75,000)
Provisions for liabilities and charges	20	(316)	(1,223)	—	—
Net assets	2	66,422	69,181	162,678	156,918
Capital and reserves					
Called-up share capital	22	6,526	6,234	6,526	6,234
Share premium account	25	51,800	40,108	51,800	40,108
Other reserves	25	34,031	51,024	79,134	96,127
Profit and loss account	25	(25,020)	(21,387)	25,218	14,449
Equity shareholders' funds		67,337	75,979	162,678	156,918
Equity minority interests		(915)	(6,798)	—	—
		66,422	69,181	162,678	156,918

The financial statements on pages 32 to 53 were approved by the board of directors on 22 May 2003 and are signed on its behalf by:

RM Bernard CBE
Executive Chairman



W Pallot ACA
Group Finance Director



22 May 2003

Consolidated cash flow statement

for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	27	21,793	14,651
<i>Returns on investments and servicing of finance</i>			
Investment income received		199	282
Net interest paid		(5,698)	(6,399)
Interest paid on finance leases		(20)	(7)
Dividend received		221	218
Net cash outflow from returns on investments and servicing of finance		(5,298)	(5,906)
<i>Taxation</i>			
UK Corporation tax paid		(440)	(7,633)
Overseas tax paid		(104)	(103)
		(544)	(7,736)
<i>Capital expenditure and financial investment</i>			
Sale of tangible fixed assets		1,161	10,479
Sale of fixed asset investments		22	1,092
Purchase of tangible fixed assets		(3,681)	(4,664)
Purchase of intangible fixed assets		(3,730)	(2,759)
Purchase of fixed asset investments		(259)	(308)
Net cash (outflow)/inflow from capital expenditure and financial investment		(6,487)	3,840
<i>Acquisitions and disposals</i>			
Purchase of subsidiaries		(1,723)	(7,378)
Overdraft acquired with subsidiaries		—	(213)
Disposal of subsidiaries		—	3,698
Purchase of investments in associates		(10,214)	(5,017)
Disposal of investments in associates		26,584	651
Net cash inflow/(outflow) from acquisitions and disposals		14,647	(8,259)
<i>Equity dividends paid</i>		(7,336)	(7,200)
Net cash inflow/(outflow) before financing		16,775	(10,610)
<i>Financing</i>			
Issue of shares		—	588
(Decrease)/increase in short-term borrowings		(22,146)	14,423
Increase in medium-term borrowings		10,444	7,421
Repayment of loans		(9,500)	(9,402)
Redemption of loan notes		892	—
Inception of finance leases		198	458
Net cash (outflow)/ inflow from financing		(20,112)	13,488
(Decrease)/increase in cash for the year	28, 29	(3,337)	2,878

Included in the net cash inflow from operating activities are the exceptional items of £1,712,000 of redundancy costs (2002: £1,967,000) and in 2002 £1,779,000 of developmental costs.

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2003

	2003 £'000	2002 £'000
Loss for the financial year	(15,055)	(15,752)
Currency translation differences	505	(197)
Prior year adjustment (note 1)	–	(872)
Total recognised losses for the financial year	(14,550)	(16,821)

Reconciliations of movements in consolidated shareholders' funds

for the year ended 31 March 2003

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(15,055)	(15,752)	1,251	7,512
Dividends	(7,475)	(7,224)	(7,475)	(7,224)
Retained (loss)/profit for the financial year	(22,530)	(22,976)	(6,224)	288
Currency translation differences	505	(197)	–	–
New share capital issued	292	17	292	17
Premium on shares issued	11,692	571	11,692	571
Goodwill taken to profit and loss account on disposal	1,399	–	–	–
Net (decrease)/increase in shareholders' funds	(8,642)	(22,585)	5,760	876
Opening shareholders' funds	75,979	98,564	156,918	156,042
Closing shareholders' funds	67,337	75,979	162,678	156,918

Notes to the financial statements

for the year ended 31 March 2003

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except where stated below.

Basis of preparation

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

Previously the Group and Company included shares held by its Qualifying Employee Share Ownership Trust ('QUEST') in investments together with the matching liability in Creditors: amounts falling due within one year. Under Financial Reporting Standard 18 'Accounting policies' it is more appropriate to carry the shares at nil cost as they were acquired by the QUEST by way of a fresh issue. The comparatives for 2002 have been restated by reducing investments and creditors by £1,554,000, there is no impact on the profit and loss account.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiary undertakings made up to 31 March 2003. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associated undertaking is one in which the Group holds for the long term a participating interest of usually between 20% and 50% and exerts significant influence over the operating and financial policies of the company. The Group's share of the results, recognised gains and losses and net assets of associates and of joint ventures (undertakings over which it exercises joint control) are included in the consolidated financial statements by applying the equity method of accounting. In the consolidated balance sheet goodwill arising on the acquisition of associates and joint ventures after 1 April 1998, less any amortisation or impairment write-down, is included in the carrying amount of the investment. Before 1 April 1998, goodwill arising on the acquisition of subsidiaries and associates was written off immediately against reserves.

In the Company's financial statements, investments in subsidiaries, associated companies and the joint venture are stated at cost less amounts written off for impairment. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements.

Intangible fixed assets

Treatment of goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions before 1 April 1998, when Financial Reporting Standard 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, normally 20 years. On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the Company's financial statements, investments in subsidiary undertakings and associates are stated at cost less any impairment in value.

Licences

Expenditure incurred on the purchase of licences and successful applications and re-applications for licences is capitalised to the extent allowable under Urgent Issues Task Force Abstract 34 'Pre-contract costs' as an intangible fixed asset and amortised on a straight line basis over the remaining period of the licences.

Development expenditure

Development costs are capitalised and deferred so as to match them with their expected future income where, in the opinion of the directors, the income stream is reasonably certain and sufficient to at least match the capitalised costs.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price less accumulated depreciation.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Transmitters	5%
Fixtures and technical equipment	10%-33%
Motor vehicles	20%

Leasehold land and buildings are amortised over 50 years or, if shorter, the period of the lease.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Assets held under finance leases are included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Such a transfer is presumed where, at the inception of the lease, the present value of the minimum lease payments included in any initial payment, amounts to substantially all (90% or more) of the fair value of the leased asset.

An operating lease is a lease other than a finance lease.

Stocks

Stocks are stated at the total of the lower of cost and net realisable value of the separate items of stock or of groups of similar items.

Turnover

Turnover represents amounts invoiced in respect of all services and goods provided during the year, excluding value added tax and net of advertising agency commission. The Group has only one material class of business.

During the year the Group entered into barter contracts with its clients with a total value of £2,570,000 (2002: £2,225,000). The barter contracts are recognised in accordance with Urgent Issues Task Force Abstract 26 'Barter transactions for advertising'.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account any movements in deferred taxation.

Following the introduction of Financial Reporting Standard 19 'Deferred Tax', full provision without discounting has been made for all timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. The effect of this change last year was to increase the deferred tax debtor and reserves at 1 April 2000 by £1,021,000 and to increase the tax charge for the year ended 31 March 2001 by £1,893,000. Therefore the deferred tax debtor at 31 March 2001 was decreased by £872,000 and the reserves by the same amount.

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 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.

The assets and liabilities of overseas subsidiary and associated undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Pension costs

Some of the Group's employees participate in defined contribution pension schemes, where pension costs are calculated as the amount of contributions payable to the schemes in respect of the accounting period. Other Group employees participate in a defined benefit pension scheme. The funds are valued every three years by a professionally qualified independent actuary. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the relevant company benefits from the employees' services.

Notes to the financial statements

2 Segmental information

	2003 £'000	2002 £'000
(a) Turnover		
Geographical analysis:		
United Kingdom	115,479	117,345
Overseas	11,652	11,067
	127,131	128,412
Business type analysis:		
Analogue radio	120,071	122,282
New media	7,060	6,130
	127,131	128,412

The turnover analysis is both by origin and destination.

(b) Operating profit/(loss) before goodwill amortisation and exceptional items

Geographical analysis:		
United Kingdom	16,708	18,595
Overseas	(1,973)	(2,224)
	14,735	16,371
Business type analysis:		
Analogue radio	20,282	21,669
New media	(5,547)	(5,298)
	14,735	16,371

(c) Profit/(loss) before interest and taxation

Geographical analysis:		
United Kingdom	20,653	6,712
Overseas	(29,809)	(15,654)
	(9,156)	(8,942)
Business type analysis:		
Analogue radio	(2,806)	(710)
New media	(6,350)	(8,232)
	(9,156)	(8,942)

(d) Net assets/(liabilities)

Geographical analysis:		
United Kingdom	137,481	95,396
Overseas	(71,059)	(26,215)
	66,422	69,181
Business type analysis:		
Analogue radio	65,621	68,881
New media	801	300
	66,422	69,181

New media comprises the Group's digital radio and internet divisions.

3 Operating expenses

	2003 £'000	2002 £'000
Selling and administration expenses	83,028	85,296
Other operating expenses	46,750	50,404
	129,778	135,700

4 Goodwill amortisation and exceptional items

	2003 Goodwill amortisation and impairment £'000	2003 Other exceptional items £'000	2003 Total £'000	2002 Goodwill amortisation and impairment £'000	2002 Other exceptional items £'000	2002 Total £'000
Goodwill amortisation	(7,750)	–	(7,750)	(9,120)	–	(9,120)
Impairment of goodwill:						
European investments	(7,920)	–	(7,920)	(10,000)	–	(10,000)
Diminution in value of fixed assets	–	–	–	–	(793)	(793)
Restructuring costs	–	(1,712)	(1,712)	–	(1,967)	(1,967)
Development costs	–	–	–	–	(1,779)	(1,779)
	(15,670)	(1,712)	(17,382)	(19,120)	(4,539)	(23,659)
Share of operating loss of associated undertakings and joint venture	(294)	(339)	(633)	(182)	–	(182)
(Loss)/profit on disposal of continuing operations	–	(8,620)	(8,620)	–	1,137	1,137
Profit on disposal of associates	–	3,252	3,252	–	–	–
Profit on disposal of tangible fixed assets	–	–	–	–	1,045	1,045
Loss on disposal of fixed asset investment	–	(3)	(3)	–	(1,085)	(1,085)
	(15,964)	(7,422)	(23,386)	(19,302)	(3,442)	(22,744)

The goodwill amortisation, impairment, diminution in value of fixed assets, restructuring and development costs are included within Other operating expenses as analysed in note 3.

5 Employee information

The average monthly number of persons (including directors) employed by the Group during the year and the actual number employed at the end of the year, analysed by category, was as follows:

	Monthly average		At the end of the year	
	2003 Number	2002 Number	2003 Number	2002 Number
Programming	196	198	196	187
Sales	465	497	475	491
Technical	92	99	87	98
Management and administration	147	177	131	170
Total	900	971	889	946

	2003 £'000	2002 £'000
Staff costs (for the above persons):		
Wages and salaries	28,648	29,592
Social security costs	3,390	3,526
Pension costs	1,199	1,173
Other	2	3
Total	33,239	34,294

The above analysis includes the costs relating to directors but excludes persons engaged under short-term and part-time contracts (including certain presenters). The total cost of these persons amounts to £5,904,275 (2002: £6,321,067).

Notes to the financial statements

6 Directors' emoluments

	2003 £'000	2002 £'000
Emoluments for qualifying service	2,059	2,132
Pension contributions	312	272
	2,371	2,404

Fees and salary payments include amounts payable to third parties for the services of directors of £69,000 (2002: £47,000). Details of individual directors' emoluments, pension entitlements, long-term incentive schemes and share options are disclosed in the Report of the Board on directors' remuneration on pages 24 to 29.

7 Income from fixed asset investments

	2003 £'000	2002 £'000
Interest receivable	112	282
Dividends receivable from other investments	221	218
	333	500

8 Interest payable and other similar charges

	2003 £'000	2002 £'000
Bank loans and overdrafts	5,768	6,399
Finance leases	21	7
	5,789	6,406

9 Profit/(loss) on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Profit on disposal of tangible fixed assets	(194)	(1,039)
Loss/(profit) on disposal of operations	8,620	(1,137)
Loss on disposal of fixed asset investments	3	1,085
Diminution in value of fixed assets	-	793
Impairment of goodwill	7,920	10,000
Depreciation/amortisation charge for the year:		
Tangible owned fixed assets	4,481	4,840
Tangible fixed assets held under finance leases	329	113
Goodwill relating to subsidiary companies	7,750	9,120
Goodwill relating to associate companies and joint ventures	294	182
Other intangible fixed assets	1,458	2,418
Development costs	-	1,779
Auditor's remuneration - KPMG Audit Plc:		
Audit fees	119	81
Interim review	17	15
Acquisition and disposal work	32	74
Tax services	133	128
Operating lease hire of plant and machinery	207	284
Operating lease hire of other assets	1,270	1,766

No fees from the Company's auditor, KPMG Audit Plc, were capitalised during the year (2002: £2,000). Fees paid to the auditor for the audit of the Company amounted to £6,000 (2002: £6,000).

10 Taxation

Analysis of the tax charge for the year

	2003 £'000	2002 £'000
Current tax:		
United Kingdom corporation tax at 30% (2002: 30%):		
Current	3,162	2,301
Foreign taxation on profits of the year	418	109
Over provision in respect of prior years	(592)	(1,269)
Group current tax	2,988	1,141
Share of taxation of associated undertakings	–	(393)
Total current tax	2,988	748
Deferred tax:		
Original and reversal of timing differences	77	(197)
Adjustments in respect of prior years	(917)	2,015
Share of tax on associate undertakings	(67)	–
Total deferred tax	(907)	1,818
Total	2,081	2,566

Factors affecting the tax charge for the year

The tax assessed for the year is at a rate that is higher than the standard rate of corporation tax in the UK of 30%.

The reasons for this are outlined in the table below.

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(14,833)	(15,066)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(4,450)	(4,520)
Expenses not deductible for tax purposes:		
Goodwill amortisation	2,457	2,791
Impairment write downs	1,941	1,803
Other	1,487	542
Movement on deferred tax	(10)	197
Overseas and associate tax	2,155	1,203
Prior year over provisions	(592)	(1,268)
Current tax charge	2,988	748

11 Dividends

		2003 £'000	2002 £'000
Interim	2.3p per share (2002: 2.3p) paid 20 January 2003	3,001	2,860
Final proposed	3.5p per share (2002: 3.5p) to be paid on 5 August 2003	4,474	4,364
	5.8p (2002: 5.8p)	7,475	7,224

The final dividend has an ex-dividend date of 9 July 2003 and a record date of 11 July 2003.

Notes to the financial statements

12 Earnings/(loss) per share

The calculation of loss per share is based on the weighted average number of shares in issue for the year of 127,145,369 (2002: 124,483,052) and the loss for the financial year of £15,055,000 (2002: loss of £15,752,000).

There are no potentially dilutive shares to be included in the calculations as the group made losses on continuing operations.

The calculation of the Headline earnings per share is based on the definition by the UK Society of Investment Professionals (formerly the Institute of Investment Management and Research) in their Statement of Investment Practice No.1. The calculation is based on the weighted average number of shares in issue for the year of 127,145,369 (2002: 124,483,052) and the adjusted profit of £6,148,000 (2002: £5,011,000). The reconciliation from loss for the financial year to adjusted profit is as follows:

	2003 £'000	p per share	2002 £'000	p per share
Loss for the financial year	(15,055)	(11.8)	(15,752)	(12.7)
Loss/(profit) on disposal of operations	8,620	6.8	(1,137)	(0.9)
Profit on disposal of tangible fixed assets	(194)	(0.1)	(1,045)	(0.8)
(Profit)/loss on disposal of fixed asset investments	(3,249)	(2.6)	1,085	0.9
Diminution in value of fixed assets	-	-	793	0.6
Impairment of goodwill	7,920	6.2	10,000	8.0
Goodwill amortisation	8,044	6.3	9,302	7.5
Tax effect of the above	62	-	1,765	1.4
Adjusted profit for the financial year	6,148	4.8	5,011	4.0

13 Intangible fixed assets

Group	Goodwill £'000	Other £'000	Total £'000
Cost			
At 1 April 2002	184,019	14,342	198,361
Exchange movements	-	1,244	1,244
Additions	2,600	6,778	9,378
Transfer to investments	(5,786)	-	(5,786)
Disposals	(28,386)	(47)	(28,433)
At 31 March 2003	152,447	22,317	174,764
Amortisation			
At 1 April 2002	27,141	8,509	35,650
Exchange movements	-	827	827
Amortisation charge for the year	7,750	1,458	9,208
Transfer to investments	(298)	-	(298)
Disposals	(6,062)	(15)	(6,077)
Impairment	7,920	-	7,920
At 31 March 2003	36,451	10,779	47,230
Net book value			
At 31 March 2003	115,996	11,538	127,534
Net book value			
At 31 March 2002	156,878	5,833	162,711
Company	Goodwill £'000	Other £'000	Total £'000
Cost			
At 1 April 2002 and 31 March 2003	143	3	146
Amortisation			
At 1 April 2002	26	3	29
Amortisation charge for the year	7	-	7
At 31 March 2003	33	3	36
Net book value			
At 31 March 2003	110	-	110
Net book value			
At 31 March 2002	117	-	117

The "Other" category above comprises expenditure incurred on successful applications and re-applications for licences, the purchase of licences and capitalised development costs.

14 Tangible fixed assets

Group	Land and buildings £'000	Fixtures and technical equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2002	9,283	44,719	745	54,747
Exchange movements	20	304	12	336
Additions	276	3,341	65	3,682
Disposals	(752)	(3,029)	(119)	(3,900)
At 31 March 2003	8,827	45,335	703	54,865
Depreciation				
At 1 April 2002	2,658	26,756	532	29,946
Exchange movements	17	281	18	316
Depreciation charge for the year	360	4,410	40	4,810
Disposals	(94)	(2,333)	(102)	(2,529)
At 31 March 2003	2,941	29,114	488	32,543
Net book value				
At 31 March 2003	5,886	16,221	215	22,322
Net book value				
At 31 March 2002	6,625	17,963	213	24,801

The above figures include assets held under finance leases as follows:

	Land and buildings £'000	Fixtures and technical equipment £'000	Motor vehicles £'000	Total £'000
Depreciation charge for the year ended 31 March 2003	–	329	–	329
Net book value at 31 March 2003	–	1,175	–	1,175
Depreciation charge for the year ended 31 March 2002	72	6	35	113
Net book value at 31 March 2002	460	11	35	506

Land and buildings at net book value comprise:

	2003 £'000	2002 £'000
Freehold	3,716	4,275
Short leasehold	1,724	1,904
Long leasehold	446	446
	5,886	6,625

Company	Fixtures and technical equipment £'000
Cost	
At 31 March 2003 and 1 April 2002	1,955
Depreciation	
At 31 March 2003 and 1 April 2002	1,955
Net book value	
At 31 March 2003 and 1 April 2002	–

The Company did not have any assets under finance lease as at 31 March 2003 or 31 March 2002.

Notes to the financial statements

15 Investments

Group	Joint ventures £'000	Associated companies £'000	QUEST £'000	Other investments £'000	Total £'000
At 1 April 2002 as previously stated	—	32,324	1,554	10,470	44,348
Prior year adjustment for change in accounting policy (note 1)	—	—	(1,554)	—	(1,554)
At 1 April 2002 restated	—	32,324	—	10,470	42,794
Additions	5,799	—	—	—	5,799
Disposals	—	(30,871)	—	(223)	(31,094)
Transfer to joint venture	217	(217)	—	—	—
Transfer from goodwill	5,488	—	—	—	5,488
Share of results for the year	(115)	(950)	—	—	(1,065)
Goodwill amortisation	(180)	(114)	—	—	(294)
At 31 March 2003	11,209	172	—	10,247	21,628

Company	Subsidiary companies £'000	Associated companies £'000	QUEST £'000	Other investments £'000	Total £'000
At 1 April 2002	66,415	12,591	1,554	3,160	83,720
Prior year adjustment for change in accounting policy (note 1)	—	—	(1,554)	—	(1,554)
At 1 April 2002 restated	66,415	12,591	—	3,160	82,166
Additions	—	—	—	43	43
Disposals	—	(6,877)	—	—	(6,877)
At 31 March 2003	66,415	5,714	—	3,203	75,332

Details of the Group's principal investments can be found on pages 54 and 55.

The Group and Company balance sheets previously included shares in the Company held in a Qualifying Employee Share Ownership Trust ('QUEST'), at cost. The market value of these shares as at 31 March 2003 was £727,865 (2002: £1,280,482).

Joint Venture

On 26 September 2002 GWR acquired 49% of the ordinary share capital of Vibe Radio Services Limited. The shareholder agreement provides that GWR and its partner in this joint venture both exert an influence over operating and financial policies. Vibe Radio Services Limited owns and operates the Vibe FM and Vibe 101 radio stations.

The goodwill relating to the joint venture is amortised over 20 years.

No dividends were received in the year.

16 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year				
Trade debtors	21,751	21,798	—	—
Amounts owed by subsidiary undertakings	—	—	187,024	241,195
Amounts owed by associated undertakings	208	3,125	—	—
Amounts owed by joint venture	16	—	—	—
Other debtors	3,403	4,119	—	—
Deferred taxation	—	—	124	138
Prepayments and accrued income	5,900	7,178	—	—
	31,278	36,220	187,148	241,333
Amounts due after one year				
Trade debtor	105	—	—	—
	31,383	36,220	187,148	241,333

Further information regarding the Deferred Tax asset at 31 March 2003 and 31 March 2002 is given in note 20.

17 Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000	Restated 2002 £'000	2003 £'000	Restated 2002 £'000
Other short-term creditors				
Loan notes	4,178	3,134	–	2,841
Bank loans and overdrafts	8,920	40,635	7,500	37,500
Obligations under finance leases	351	189	–	–
Trade creditors	6,515	5,657	–	–
Amounts owed to associated undertakings	348	58	–	–
Corporation tax	3,435	1,106	–	–
Other taxation and social security	3,010	2,717	–	–
Other creditors	5,890	16,436	1,362	6,828
Accruals	9,102	8,548	–	–
Dividends payable	4,550	4,411	4,550	4,411
	46,299	82,891	13,412	51,580

Further information regarding the Loan notes is given in Treasury information note 19 and for Bank loans in Creditors: amounts falling due after more than one year note 18.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans and overdrafts	86,700	76,256	86,500	75,000
Obligations under finance leases	358	322	–	–
Other creditors	4,104	2,031	–	–
	91,162	78,609	86,500	75,000

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans and overdrafts				
Repayable as follows:				
In one year or less, or on demand	8,920	40,635	7,500	37,500
Between one and two years	6,000	3,390	6,000	2,500
Between two and five years	80,700	72,866	80,500	72,500
	95,620	116,891	94,000	112,500

All borrowings are unsecured. The debt incurs interest at variable LIBOR-related rates.

Finance leases

The net finance lease obligations to which the Group is committed are as follows:

	2003 £'000	2002 £'000
In one year or less	351	189
Between one and two years	267	177
Between two and five years	91	145
	709	511

The Company had no net finance lease obligations at 31 March 2003 and 2002.

Notes to the financial statements

19 Treasury information

Treasury Management

The Group's treasury operations are managed by the Group Finance Department. Financial instruments, including derivatives, are only permitted for use in managing financial risk arising from the Group's operations on the authority of the Board. No derivative financial instruments were used during the year ended 31 March 2003 or in the year ended 31 March 2002.

The main financial risks faced by the Group relate to credit, interest and foreign exchange translation. The policies for managing these risks are summarised below.

Credit risk

Exposures within certain limits are permitted only with banks or other institutions meeting required standards as assessed normally by reference to the major credit rating agencies. Deals are authorised only with banks with which dealing mandates have been agreed.

Foreign exchange risk

The Group does not have any foreign exchange transaction exposure due to the fact that all revenue and expenses of trading companies within the Group are incurred in their relevant functional currency.

Foreign currency translation exposure arises from the retranslation of overseas subsidiaries' profit and loss accounts and balance sheets into Sterling.

The Group does not currently use any foreign currency borrowings or forward foreign currency contracts to hedge the impact of exchange rate movements on the Group's profit and loss account and balance sheet. However, it will do so if the board considers such hedging to be economically viable.

Currency and interest rate exposure of financial liabilities at 31 March 2003

	Floating rate financial liabilities	
	31 March 2003 £'000	31 March 2002 £'000
Currency		
Sterling	99,976	125,901
Euro	296	2,266
Hungarian Forint	235	752
	100,507	128,919

Financial liabilities include loan notes, bank loans, bank overdrafts and finance leases. Interest on floating rate liabilities is based on national inter-bank rates in the relevant countries. The maturity of borrowings is set out in note 18. There are no material differences between the carrying values and the fair values of the financial liabilities disclosed above.

As at 31 March 2003 there are no material monetary assets and liabilities denominated in currencies other than the local currencies of the operations (2002: nil).

20 Provisions for liabilities and charges
Deferred taxation

	Group £'000	Company £'000
At 1 April 2002	(1,223)	138
Profit and loss account	907	(14)
At 31 March 2003	(316)	124

The Company's deferred tax asset is disclosed as a debtor in note 16.

Deferred taxation provided in the accounts, which represents the total potential asset or liability for deferred taxation, is as follows:

Group	2003 £'000	2002 £'000
Accelerated capital allowances	(372)	(373)
Other timing differences	(806)	(850)
Tax losses carried forward	862	—
	(316)	(1,223)

Company	2003 £'000	2002 £'000
Accelerated capital allowances	94	138
Other timing differences	30	—
	124	138

21 Pension obligations

- The Group operates an occupational contributory pension scheme. Permanent employees aged between 18 and 60 years are eligible to join the scheme after completing 12 months of service with the Group. With effect from 1 April 2001 the scheme has been contracted back into SERPS and is fully stakeholder compliant. This scheme is funded by the payment of contributions to a separately administered fund, which is independent of the Group's finances.
- Eligible employees at Radio Trent Limited, Leicester Sound Limited and Mercia Sound Limited are members of the Midland Radio Group Pension Scheme ('MRGPS'), whose joint principal employers are GWR Radio Services Limited and Birmingham Broadcasting Limited. The pension scheme provides benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the current unit method. The most recent valuation was at 30 September 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments pre retirement (9.0%), post retirement (8.0%) and the rates of increase in salaries (6.0%) and pensions (3.75%).

The most recent actuarial valuation showed that the market value of the scheme's assets was £4,467,000 at 30 September 2002 (the share of this relating to GWR was £1,732,000) and that the actuarial value of those assets was exceeded by the schemes' liabilities by 16% (the equivalent ratio for GWR's share is 19%). The rate of contribution made in the current year was 12.7% with currently agreed future rates of contribution to be between 12.7% and 24.2%.

The pension charge for the year of £1,199,000 (2002: £1,173,000) included £68,000 (2002: £68,000) in respect of the amortisation of experience deficits that are being recognised over 16 years, the average remaining service lives of employees.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under Financial Reporting Standard 17 'Retirement benefits' (FRS 17) the following transitional disclosures are required:

A full actuarial valuation was carried out at 30 September 2002 and has been updated by a qualified independent actuary on a FRS 17 basis as at 31 March 2003.

The major assumptions used in this valuation were:

	2003	2002
Rate of increase in salaries	3.50%	3.75%
Rate of increase in pensions in payment	3.00%	2.75% and 3.00%
Discount rate	5.30%	6.00%
Inflation	2.50%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions that, due to the timescale covered, may not necessarily be borne out in practice.

Notes to the financial statements

21 Pension obligations continued

The fair value of GWR's share of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected at 31 March 2003	Value at 31 March 2003 £'000	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £'000
Equities	8.00%	1,323	7.75%	1,254
Bonds	4.50%	559	5.25%	330
Other – Cash	3.75%	88	4.00%	265
Total market value		1,970		1,849
Present value of scheme liabilities		(4,214)		(3,451)
Deficit in the scheme		(2,244)		(1,602)
Related deferred tax asset		673		481
Net pension liability		(1,571)		(1,121)

In accordance with FRS 17 GWR's share of the deficit in the scheme would have to be included in the Group's net assets and profit and loss reserve at 31 March 2003 and 31 March 2002 as follows:

	2003 £'000	2002 £'000
Net assets excluding pension deficit	66,422	69,181
Pension deficit – MRGPS	(1,571)	(1,121)
Net assets including pension deficit	64,851	68,060
Profit and loss reserve excluding pension deficit	(25,020)	(21,387)
Pension reserve – MRGPS	(1,571)	(1,121)
Profit and loss reserve	(26,591)	(22,508)

The following amounts would have been recognised in the performance statements in the year to 31 March 2003 under the requirements of FRS17.

	2003 £'000
Operating profit	106
Current service cost	–
Past service cost	–
Total operating charge	106
Other finance income/(costs)	144
Return on pension scheme assets	(210)
Interest on pension scheme	(66)
Net return	(66)
Statement of total recognised gains and losses	(1,008)
Actual return less expected return on scheme assets	(592)
Experience gains and losses arising on scheme liabilities	118
Changes in assumptions underlying the present value of scheme liabilities	(534)
Actuarial loss recognised	(1,008)

21 Pension obligations continued

Movement in the deficit during the year	2003 £'000
Deficit in scheme at start of year	(1,602)
Current service costs	(106)
Contributions paid	538
Other finance costs	(66)
Actuarial loss	(1,008)
Deficit in scheme at end of year	(2,244)

Details of experience gains/(losses) for the year

Differences between actual and expected return on assets:	2003 £'000
Amount	(592)
Percentage of scheme assets	(30.10%)
Experience gain on scheme liabilities:	
Amount	118
Percentage of the present value of scheme liabilities	2.80%
Total amount recognised in statement of total recognised gains and losses	(1,008)
Percentage of the present value of the scheme liabilities	(23.90%)

In accordance with the transitional arrangements of FRS 17, the above deficit has not been recognised in the accounts.

- The Group also contributes to personal pension schemes for some employees.

The total pension cost to the Group for the year was £1,199,000 (2002: £1,173,000).

22 Called-up share capital

	Number	Authorised £'000	Allotted, called-up and fully paid Number	£'000
Ordinary shares of 5p each				
At 1 April 2002	174,000,000	8,700	124,676,088	6,234
Shares issued on cancellation of debt	–	–	5,817,000	291
Shares issued to QUEST	–	–	19,394	1
At 31 March 2003	174,000,000	8,700	130,512,482	6,526

On 26 September 2002 the Company issued 5,817,000 shares to Daily Mail and General Trust plc as part of the cancellation of the convertible loan stock held by the company. For more details on this transaction see note 23.

On 15 January 2003 19,394 shares were issued by the Company to its Qualifying Employee Share Ownership Trust ("QUEST") to enable it to satisfy the future exercise of share options currently held by employees under the Savings-Related Share Option Scheme. At 31 March 2003 the Qualifying Employee Share Ownership Trust ('QUEST') held 514,392 (2002: 492,493) shares in the Company.

At 31 March 2003, the Company had granted options over 6,222,821 (2002: 6,500,648) Ordinary shares under its Share Option Schemes that remained unexercised. Further details are given on pages 26 to 28.

At 31 March 2003 the Company's share price was 141.5p. No National Insurance liability would be payable if share options granted since 6 April 1999 under the Group's 1996 unapproved Executive Share Option Scheme were exercised at the year end share price.

Notes to the financial statements

23 Disposals

(a) Disposal of interest in London News Radio Limited

On 26 September 2002 GWR acquired the outstanding 50.01% of London News Radio Ltd ("LNR") that it did not previously own and subsequently disposed of LNR to Chrysalis Group plc ("Chrysalis") for a cash consideration of £23.5 million, which includes the discharge by Chrysalis of £6.6 million indebtedness of LNR to GWR. £11 million of this consideration was paid on completion with the balance paid on 10 October 2002.

The book value of LNR at disposal was £15.5 million, including its indebtedness to GWR and goodwill. The profit on disposal of LNR, net of £0.4 million expenses, was £7.6 million.

(b) Sale of Eastern Counties Radio Limited and formation of joint venture with Scottish Radio Holdings plc.

On 26 September 2002 a joint venture company, Vibe Radio Services Ltd ("VRSL"), was formed by GWR (49%) and Scottish Radio Holdings plc (51%).

GWR exercised its option to purchase the 50.01% of Eastern Counties Radio Ltd ("Vibe") that it did not previously own, and subsequently sold Vibe to VRSL in return for a 49% interest in VRSL and a cash payment of £5.9 million.

VRSL also acquired the entire issued share capital of Galaxy Radio Wales and the West Limited ("Galaxy") from Chrysalis as part of a separate transaction on 26 September 2002 for £12.5 million in cash.

The Group has treated the transfer of Vibe into VRSL as a disposal of 51%, for shares in VRSL plus £5.9 million in cash giving an aggregate value of £12.0 million, yielding a profit of £5.7 million, net of £0.6 million expenses and £6.4 million goodwill. The 49% interest in Galaxy, acquired via VRSL has been recorded by the Group at the fair value of consideration given resulting in £11.5 million of goodwill being recorded.

(c) Sale of DMG Radio Investments Pty Limited

On 25 September 2002 GWR sold its 25% interest in DMG Radio Investments Pty Limited ("DMGRI") to Daily Mail & General Trust plc ("DMGT") and issued 5,817,000 new ordinary shares of 5p each in GWR to DMGT at a price of 206p per share, a premium of 3.8% to the closing mid-market price of 198.5p on 31 July 2002. The consideration for the sale of the interest in DMGRI and issue of new ordinary shares was satisfied by the cancellation of £39,766,138 of convertible subordinated unsecured loan notes of GWR held by DMGT and a further £7,233,020 of interest-bearing debt owed by GWR.

Following the issue of new ordinary shares, DMGT holds a total of 39,114,876 ordinary shares in GWR, representing 29.97% of GWR's enlarged ordinary share capital.

The book value of the investment disposed of was £44.3 million. This resulted in a loss, net of £0.7 million expenses, of £10.0 million.

(d) Sale of Medien 2000 Holding AG

On 15 November 2002 the Group's 75% shareholding in Medien 2000 Holding AG in Vienna was sold. The resulting loss on disposal was £8.7 million and the net liabilities disposed of were £2.7 million.

(e) Sale of Radio C/104 GmbH

In November 2002 the Group disposed of its wholly owned subsidiary Radio C GmbH, an Italian registered company trading as Antenne Sud Tyrol. The company was sold to Radio 2000 Sud Tyrol GmbH for a total consideration of Euro 1,000,000 (£641,000).

24 Post balance sheet events

Disposal of Hungarian operations

On 22 May 2003 the Group conditionally agreed to sell all of its radio interests in Hungary for a cash consideration of £18.0 million.

Disposal of Interest in Joint Venture

On 22 May the Group announced that it is to sell (subject to approval from the Office of Fair Trading) its 49% interest in Vibe Radio Services Limited to its partner in the venture, Scottish Radio Holdings, for a cash consideration of £17.6 million.

25 Reserves

	Special capital reserve £'000	Merger reserve £'000	Total other reserves £'000
Group – Other reserves			
At 1 April 2002 as previously stated	369	80,303	80,672
Prior year adjustment	–	(29,648)	(29,648)
At 1 April 2002 as restated	369	50,655	51,024
Goodwill amortisation	–	(2,684)	(2,684)
Goodwill written back on disposal	–	(5,508)	(5,508)
Goodwill impairment	–	(8,801)	(8,801)
At 31 March 2003	369	33,662	34,031

	Share premium account £'000	Profit and loss account £'000
Group		
At 1 April 2002 as previously stated	8,778	(19,705)
Prior year adjustment	31,330	(1,682)
At 1 April 2002 as restated	40,108	(21,387)
Shares issued to DMGT	11,692	–
Exchange movements	–	505
Loss for the year	–	(22,530)
Transfer from merger reserve	–	16,993
Goodwill written back on disposal	–	1,399
At 31 March 2003	51,800	(25,020)

Restatements

The share premium account, merger reserve and profit and loss reserve have been restated to correctly reflect the entries required on the issue of 4,042,603 ordinary shares issued during the year ended 31 March 2001. The premium arising on these shares was originally recorded in the merger reserve rather than, as required, in the share premium account. However the issue was not eligible for merger relief under section 131 of Companies Act 1985, so the premium arising on these shares has been transferred from the merger reserve to the share premium account. Subsequent transfers from the merger reserve to the Group profit and loss account in relation to goodwill amortisation have also been revised appropriately.

There is no effect on previously reported results for any period as a result of this restatement.

Group's share of post acquisition profit and loss account of associates and joint ventures	£'000
At 1 April 2002	(3,215)
Loss for the year	(1,065)
At 31 March 2003	(4,280)

	Special capital reserve £'000	Merger reserve £'000	Special reserve £'000	Total other reserves £'000
Company – Other reserves				
At 1 April 2002 as previously stated	369	95,375	31,713	127,457
Prior year adjustment	–	(31,330)	–	(31,330)
At 1 April 2002 as restated	369	64,045	31,713	96,127
Transfer to profit and loss reserve	–	(16,993)	–	(16,993)
At 31 March 2003	369	47,052	31,713	79,134

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 April 2002 as previously stated	8,778	14,449
Prior year adjustment	31,330	–
At 1 April 2002 as restated	40,108	14,449
Transfer from merger reserve	–	16,993
Loss for the year	–	(6,224)
Shares issued to DMGT	11,692	–
At 31 March 2003	51,800	25,218

Notes to the financial statements

26 Goodwill

The cumulative total of goodwill written off to reserves in respect of acquisitions prior to 1 April 1998, when Financial Reporting Standard 10 'Goodwill and intangibles assets' was adopted, amounts to £153,158,000 (2002: £154,557,000).

27 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £'000	2002 £'000
Operating loss	(2,647)	(7,288)
Depreciation of tangible fixed assets	4,810	4,953
Amortisation of intangible fixed assets	9,208	11,538
Goodwill impairment	7,920	10,000
Profit on disposal of tangible fixed assets	–	(6)
Diminution in value of fixed assets	–	793
Development costs	–	1,779
Decrease in stocks	155	48
Decrease/(increase) in debtors	1,330	(1,415)
Increase/(decrease) in creditors	1,017	(5,751)
Net cash inflow from operating activities	21,793	14,651

28 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	(3,337)	2,878
Cash inflow/(outflow) from increase in debt and lease financing	20,858	(12,900)
Change in net debt from cash flows	17,521	(10,022)
Net loan notes repaid	46,999	507
Movements in net debt in year	64,520	(9,515)
Net debt at 1 April 2002	(163,696)	(154,181)
Net debt at 31 March 2003	(99,176)	(163,696)

29 Analysis of net debt

	1 April 2002 £'000	Cash flow £'000	Other non-cash £'000	31 March 2003 £'000
Cash in hand	5,341	(4,010)	–	1,331
Overdrafts	(1,470)	673	–	(797)
		(3,337)		
Debt due within one year	(90,800)	31,500	46,999	(12,301)
Debt due after one year	(76,256)	(10,444)	–	(86,700)
Finance leases	(511)	(198)	–	(709)
Total	(163,696)	17,521	46,999	(99,176)

The non-cash movement relates to the Group's cancellation of convertible subordinated unsecured loan notes of GWR held by DMGT as detailed in note 23(c).

30 Related party transactions

Related party transactions during the year were as follows:

- (a) During the year the Group provided £1,055,500 of services to Classic Gold Digital Ltd, a company in which GWR Radio Services Limited has an investment of 20%. There were no amounts owing in relation to these services at 31 March 2003.
- (b) During the year the Group provided £40,000 of services to Vibe Radio Services Limited, a company in which GWR Group plc has an investment of 49%. This amount was included in debtors at 31 March 2003.
- (c) At the year end the Company had borrowings of £1,500,000 (2002: £8,382,000) from Daily Mail and General Trust plc, a company which has an investment of 29.97% in GWR Group plc. This loan was on normal commercial terms and is due for repayment in July 2003. The loan was included within other creditors at 31 March 2003. No interest was outstanding on this loan as at 31 March 2003. The Group also provided £20,882 of services to Daily Mail and General Trust plc during the year, £nil in respect of these services was included in debtors at 31 March 2003.
- (d) During the year the Group paid £489,617 to the Radio Advertising Bureau ('RAB'). There was an outstanding creditor of £48,554 at 31 March 2003. The RAB is a trade body promoting commercial radio with advertisers. The RAB is funded by levies paid by the commercial radio industry in the UK based upon advertising revenue. GWR has a 5% investment in the RAB.

During the year the Company also sold its investment in DMG Radio Investments Pty to DMGT. Further details are given in note 23(c). All the above transactions were carried out on an arm's length basis.

31 Contingent liabilities

Contingent liabilities are as follows:

- (a) Various inter-Group cross guarantees are held by Barclays Bank, Fortis Bank and HBOS.
- (b) The Company is a member of a group for VAT purposes, resulting in a joint and several liability for amounts owing by other Group companies for unpaid VAT.
- (c) The Company has guaranteed a loan, the balance of which at 31 March 2003 was £800,000, made by Barclays Bank plc to its 63% subsidiary Digital One Limited.
- (d) GWR Digital Limited, a subsidiary of the Company, is party to an agreement with NTL Digital Radio Limited whereby NTL Digital Radio can require GWR Digital to acquire, for a sum yet to be ascertained, 24% of the issued share capital of NTL Radio Services Limited. It is not practicable to make an estimate of this contingent liability.

32 Financial commitments

At 31 March 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring between one and two years inclusive	84	678	53	1,080
Expiring between two and five years inclusive	20	222	39	632
Expiring in over five years	1,648	—	1,544	—
	1,752	900	1,636	1,712

The Company has no annual commitments under non-cancellable operating leases.

Principal investments

At 31 March 2003 the Group held more than 25% of the equity capital of the following companies:

Principal subsidiary undertakings	Principal activity	Proportion of nominal value of issued shares held by:	
		Group %	Company %
GWR Radio Services Limited	Holding company	100	100
Classic FM plc	National radio operator	100	100
Now Digital Limited	Local digital multiplex operator	100	—
Beacon Broadcasting Limited	Local radio operator	100	—
Wiltshire Radio plc	Local radio operator	100	—
GWR (West) Limited	Local radio operator	100	—
Thames Valley Broadcasting plc	Local radio operator	100	—
Two Counties Radio Limited	Local radio operator	100	—
Chiltern Radio PLC	Local radio operator	100	—
Leicester Sound Limited	Local radio operator	100	—
Mercia Sound Limited	Local radio operator	100	—
Mid Anglia Radio plc	Local radio operator	100	—
Radio Trent Limited	Local radio operator	100	—
Radio Broadland Limited	Local radio operator	100	—
Suffolk Group Radio plc	Local radio operator	100	—
Radio Wyvern plc	Local radio operator	100	—
Orchard FM Limited	Local radio operator	100	—
Gemini Radio Limited	Local radio operator	100	—
Lantern Radio Limited	Local radio operator	100	—
Plymouth Sound Limited	Local radio operator	100	—
South Hams Radio Limited	Local radio operator	63	—
Essex Radio Limited	Local radio operator	100	—
Radio Mercury Limited	Local radio operator	100	—
Harlow FM Limited	Local radio operator	99.9	—
Marcher Radio Group Limited	Local radio operator	100	—
Nationwide Commercial Radio Rt	Hungarian radio operator	62	—
Danubius Sales House Rt	Hungarian sales company	62	—
GWR International Limited	Overseas investment holding company	100	100
Classic FM BV	Dutch investment holding company	100	—
Balkan Broadcasting OOD	Bulgarian investment holding company	100	—
Digital One Limited	National digital radio multiplex operator	63	—
Ecast Ventures Limited	Internet activities	100	100
Antenne Salzburg GmbH	Austrian radio operator	100	—

Principal associated undertakings	Principal activity	Proportion of nominal value of issued shares held by:	
		Group %	Company %
The Digizone Limited	Digital data services	50	50
Classic FM vof	Dutch radio operator	35	—
Radio FM Plus	Bulgarian radio operator	48	—
Mansfield & Ashfield Broadcasting Company Limited	Local radio operator	42	—
Principal joint venture			
Vibe Radio Services Limited	Local radio operator	49	49

Dormant companies have been excluded from the above list.

A full list of the group companies will be included in the Company's annual return.

The results of the above companies have been included within these consolidated accounts. All of the principal subsidiary undertakings have 31 March accounting reference dates, except for Nationwide Commercial Radio Rt. and Danubius Sales House Rt., which have a 31 December year end. These reference dates have not been changed since the companies were acquired by the Group. All of the principal subsidiary undertakings have only one class of issued share capital, voting Ordinary shares, except for the following companies with additional classes of share as detailed below:

Classic FM plc	"A" deferred shares of 1p each
	"B" deferred shares of £1 each
	"A" shares of \$0.001 each
	"B" shares of \$0.001 each
Harlow FM Limited	"A" Ordinary shares of £1 each
	"B" Ordinary shares of 50p each
Lantern Radio Limited	"A" Ordinary shares of 50p each
Marcher Radio Group Limited	Non-voting Ordinary shares of £1 each
	Preference shares of £1 each
Suffolk Group Radio plc	7% redeemable cumulative Preference shares of £1 each
Wiltshire Radio plc	Non-voting Ordinary shares of £1 each

All of the principal subsidiary and associated undertakings are incorporated in England and Wales with the exception of Antenne Salzburg GmbH registered in Austria, Nationwide Commercial Radio Rt and Danubius Sales House Rt, which are registered in Hungary, Classic FM BV and Classic FM vof, which are registered in the Netherlands, and Balkan Broadcasting OOD and Radio FM Plus, which are registered in Bulgaria.

Financial record

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Profit and loss account					
Continuing operations:					
Turnover	127,131	128,412	127,226	102,271	84,160
Operating (loss)/profit	(2,647)	(7,288)	10,255	20,599	20,127
Operating profit before goodwill and exceptional items	14,735	16,371	26,346	22,202	20,152
EBITDA before exceptional items	22,094	23,744	32,470	25,919	23,570
(Loss)/profit before taxation	(14,833)	(15,066)	5,166	17,590	18,302
Taxation	(2,081)	(2,566)	(5,916)	(4,998)	(6,565)
Equity minority interests	1,859	1,880	872	1,057	395
(Loss)/profit for the financial year	(15,055)	(15,752)	122	13,649	12,132
Dividends	(7,475)	(7,224)	(7,210)	(5,577)	(4,611)
Retained (loss)/profit for the year	(22,530)	(22,976)	(7,088)	8,072	7,521

Cash flow					
Net cash inflow from operating activities	21,793	14,651	23,835	19,420	22,056

	31 March 2003 £'000	31 March 2002 Restated £'000	31 March 2001 Restated £'000	31 March 2000 Restated £'000	31 March 1999 £'000
Balance sheet					
Fixed assets	171,484	230,306	247,010	73,848	57,918
Current assets	32,715	41,716	46,144	36,016	27,972
Total assets	204,199	272,022	293,154	109,864	85,890
Creditors: due within one year	(46,299)	(123,009)	(115,872)	(68,908)	(64,614)
Total assets less current liabilities	157,900	149,013	177,282	40,956	21,276
Creditors: due after more than one year	(91,162)	(78,609)	(83,636)	(34,716)	(24,126)
Provisions for liabilities and charges	(316)	(1,223)	–	(1,108)	(1,457)
Net assets/(liabilities)	66,422	69,181	93,646	5,132	(4,307)

Other performance indicators					
Operating profit margin (before goodwill and exceptional items)	11.6%	12.7%	20.7%	21.7%	23.9%
Basic (loss)/earnings per share	(11.8p)	(12.7p)	0.1p	11.4p	11.1p
Headline earnings per share	4.8p	4.0p	12.7p	12.9p	11.1p
Dividend per share	5.8p	5.8p	5.8p	5.0p	4.2p
Dividend cover (based on Headline earnings per share)	0.8	0.7	2.2	2.6	2.6
Market capitalisation (£'000)	184,675	323,278	539,004	1,052,360	402,769

The financial information set out above has been prepared in accordance with the accounting policies set out on pages 36 and 37.

Shareholder information

Financial calendar

31 July 2003	Annual General Meeting
5 August 2003	Final dividend payable for the year ended 31 March 2003
November 2003	Interim results announcement
January 2004	Interim dividend payable
31 March 2004	Year end
May 2004	Preliminary announcement of results for the year ended 31 March 2004

Registrar

The Company's Registrars are Northern Registrars Ltd. Any correspondence regarding shares or loan notes should be sent to their address, shown below.

Analysis of shareholders at 31 March 2003

Holding range	Number of holders	% of total holders	Number of shares held	% of total shares
Up to 1,000 shares	1,452	49.2	665,028	0.5
1,001 to 10,000 shares	1,106	37.5	3,546,366	2.7
10,001 to 100,000 shares	280	9.5	8,530,390	6.5
100,001 to 500,000 shares	74	2.5	16,700,292	12.8
Over 500,000 shares	38	1.3	101,070,406	77.5
Total	2,950	100.0	130,512,482	100.0

Held by

Nominee companies	722	24.4	76,012,661	58.3
Private individuals	2,160	73.2	53,041,820	40.6
Trusts or pension funds	14	0.5	175,207	0.1
Insurance companies	2	0.1	1,040,763	0.8
Other	52	1.8	242,031	0.2
Total	2,950	100.0	130,512,482	100.0

Dividend payments

The proposed final dividend for the year ended 31 March 2003 will, if approved by the shareholders, be paid on 5 August 2003, to shareholders registered on 11 July 2003.

Information for holders of GWR Group Variable Rate Guaranteed Unsecured Loan Notes 1999/2004

Interest is paid quarterly. All Notes not previously repaid will be repaid at the nominal amount together with any net accrued interest on 31 March 2004. Noteholders may, by giving the Company not less than 30 days' prior written notice, require the Company to repay their Notes on any quarterly interest payment date.

Company Secretary and advisers

Company Secretary and registered office
Mr R Manning
GWR Group plc
1 Passage Street
Bristol BS2 0JF
Tel: 0117 900 5316

Solicitors
Ashurst Morris Crisp
5 Appold Street
London EC2A 2HA

Nicholson Graham & Jones
110 Cannon Street
London EC4N 6AR

Bankers
Barclays Bank plc
Media Banking Centre
27 Soho Square
London
W1D 3QR

HBOS
Corporate Banking
PO Box 267
38 Threadneedle Street
London EC2P 2EH

Fortis Bank
Aztec Centre
Aztec West
Almondsbury
Bristol BS32 4TD

Auditors
Deloitte & Touche
180 Strand
London WC2R 1BL

Stockbrokers
HSBC Securities
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Registrars
Northern Registrars Ltd
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 606664

Financial advisers
UBS
1-2 Finsbury Avenue
London EC2M 2PP

Bridgewell Ltd
Old Change House
128 Queen Victoria Street
London EC4V 4BJ

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of GWR Group plc ('the Company') will be held at Classic FM House, 7 Swallow Place, London, W1B 2AG on Thursday 31 July 2003 at 12.30pm for the transaction of the following business:

Ordinary business

1 To receive and consider the report of the directors and the audited accounts for the year ended 31 March 2003.

2 To authorise the payment of a final dividend for the year ended 31 March 2003 of 3.5p per share.

To re-elect the following directors retiring by rotation pursuant to the Company's Articles of Association who, being eligible, offer themselves for re-election:

3 Mr RM Bernard CBE

4 Mr S Orchard

5 Mr R Lewis

6 Mr J P Williams

A short biography of each of the above individuals is provided on page 19.

7 To elect Mrs M Barnes as a director pursuant to the Company's Articles of Association.

A short biography of Mrs Barnes is provided on page 19.

8 To re-appoint Deloitte & Touche (who intend to transfer their business to a Limited Liability Partnership on 1 August 2003) as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be determined by the directors.

9 To approve the directors' remuneration report for the year ended 31 March 2003.

Special business

To consider and, if thought fit, pass the following resolutions of which Resolutions 10 and 11 will be proposed as Ordinary Resolutions and Resolution 12 will be proposed as a Special Resolution:

10 That the GWR Group plc Equity Participation Plan, the main features of which are summarised in the Appendix attached to this Notice, in the form of the rules produced in draft to the Meeting and signed by the Chairman for the purposes of identification, be and the same is hereby approved, and the directors be and they are hereby authorised to do all acts and things as may be necessary to carry the same into effect.

11 That the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 ('the Act')) up to an aggregate nominal amount of £2,174,376 during the period commencing on the date this resolution is passed and ending at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless previously renewed, varied or revoked by the Company in General Meeting, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after that date and the Company may implement the same as if the authority conferred hereby had not expired.

12 That, subject to and conditional upon Resolution 11 above being passed, the directors be and are hereby authorised and empowered pursuant to Section 95 of the Act during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, unless previously renewed, varied or revoked by the Company in General Meeting, to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 11 above as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:

a) to the allotment of equity securities in connection with a rights issue in favour of holders of Ordinary shares where such equity securities are offered to holders of Ordinary shares in proportion (as nearly as may be) to the number of Ordinary shares then held or deemed to be held by them, subject only to such exceptions, exclusions or other arrangements as the directors may, in their opinion, deem necessary or expedient to deal with fractional entitlements, legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £326,281.20.

13 To transact any other business of an Annual General Meeting.

By Order of the Board

Mr R Manning
Company Secretary

22 June 2003

Notes

- 1 A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed for this purpose.
- 2 The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed (or a duly certified copy of such power or authority) must be lodged with the Company's Registrars not later than 48 hours before the time for holding the meeting.
- 3 Copies of directors' service contracts will be available for inspection at the Company's registered office during normal business hours on each business day from the date of this notice until the date of the meeting and also at the place of the meeting for at least 15 minutes prior to and during the meeting.
- 4 In accordance with Regulation 34 of the Uncertified Securities Regulations 1995, to be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 12.30pm on Tuesday 29 July 2003 ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

Appendix – More information on special business

Resolution 10: Equity Participation Plan

The Company wishes to introduce an equity incentive arrangement that will encourage key executives to acquire and hold shares in the Company over the long to medium term, thus aligning their interests with shareholders. The proposed plan would involve participants committing their own capital to buy/lodge shares ("investment shares") in the plan. At the end of a specified period, which will normally be linked to performance, the initial shares committed by the participants will be "matched" by the delivery of additional free shares ("matching shares") in the form of a nil-cost option. The following paragraphs summarise the principal features of the plan:

Employee benefit trust

Investment shares will be held on behalf of participants in a specially constituted employee benefit trust ("EBT"). The EBT will be established and administered by an independent professional trustee company.

Eligibility

At the discretion of the remuneration committee ("the committee"), all employees and directors of the Company and its subsidiaries who are required to devote to their duties the whole or substantially the whole of their working time will be eligible to participate in the plan. In practice, participation will be extended to only a limited number of senior executives.

Investment shares

Participants may contribute investment shares to the plan during a prescribed invitation period, the first of which will end 3 years from the date the awards are made. These shares will be held in the plan until the end of an additional holding period of 2 years. Participants will retain full beneficial rights over their investment shares while they remain in the plan. Participants may remove their investment shares from the plan at any time. If they do so before the end of the holding period, any related awards of matching shares will immediately lapse.

The number of investment shares that a participant can contribute during any invitation period will be subject to upper and lower limits specified by the committee, provided that the upper limit may not exceed 320,000 investment shares.

Awards of matching shares

The committee will make awards to participants in the form of nil cost options over matching shares. No awards will be made to an individual who is within two years of normal retirement date. The number of matching shares that will be made the subject of an award will be determined by the committee, but in any event may not exceed a maximum limit of two times the number of investment shares contributed to the plan by the participant. Awards will be personal to a participant and, except on the death of a participant, may not be transferred.

Performance targets

The committee will specify performance targets to be satisfied before awards of matching shares can vest in favour of participants. The targets will be linked to the Company's earnings performance over a period of 5 financial years, the first of which will end on 31 March 2008 ("performance period"). Depending on the compounded percentage growth in the Company's profit before tax and amortisation ("PBTA") over the performance period, awards of matching shares will vest and become exercisable.

Such vesting of matching shares will commence once the average per annum percentage growth in PBTA over the 5 year performance period reaches a minimum threshold growth level of 36%. Full vesting will be achieved if the annual percentage growth in PBTA over that period reaches a maximum growth level of 43%. For PBTA growth between such minimum and maximum levels, vesting will occur on a sliding scale basis. Retesting will be permitted at the end of each of the subsequent 2 financial years, provided that the base point for the performance period will remain the same for all retests. If retesting is applied, the participants will be required to retain their investment shares during the extended performance period.

Early vesting, lapse and exchange of awards

In the event that a participant ceases employment before the end of the holding period the investment shares will be transferred out of the plan to the participant. Awards of matching shares will normally lapse when a participant ceases employment. However, if such cessation is for specified 'good leaver' reasons, including ill-health, death, redundancy and retirement, awards may vest early at the discretion of the committee and become exercisable for a period of 6 months (subject to meeting performance targets in the case of retirement). At the discretion of the committee, such early vesting of awards will also be permitted if a participant ceases employment for any other reason.

In the event of a change of control or winding-up of the Company, investment shares will be transferred out of the plan to participants. Additionally, early vesting of awards of matching shares will be permitted at the discretion of the committee, who will take into account the Company's performance up to the change of control, the time elapsed since the award was made, and any other factors the committee considers relevant.

Limit on equity dilution

The shares required to satisfy awards of matching shares will either be issued by the Company or purchased in the market. No award which is to be satisfied by the issue of new shares may be made on any date if the number of shares to which it relates, when aggregated with the number of shares issued or remaining issuable by virtue of awards or other rights made or granted in the preceding 10 years under the plan and any other employee share scheme adopted by the Company, would exceed 10 per cent of the issued share capital at that time.

Adjustments

The number of shares comprised in any award of matching shares may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction, consolidation or other variation of the Company's share capital occurs.

Rights attaching to shares

If shares are to be allotted and issued to a participant pursuant to the exercise of the nil cost option comprised in any award, the Company will apply for such shares to be admitted to the Official List of the UK Listing Authority. Such shares will rank *pari passu* with all other issued shares of the Company except for any rights determined by reference to a date preceding the date the nil cost option is exercised.

Amendments

The committee may at any time amend the rules of the plan, provided that the prior approval of shareholders must be obtained for amendments to the material advantage of participants in respect of provisions relating to eligibility, the equity dilution limit, maximum entitlements and the basis for determining and adjusting a participant's entitlement. The prior approval of shareholders will not be required in relation to any amendment which is of a minor administrative nature, is made to comply with the provisions of any existing or proposed legislation or to maintain favourable taxation treatment of any participating company or any participant.

No amendment may be made to the plan that would adversely affect the subsisting rights of a participant unless the consent of a 75% majority of the participants to the making of such amendment is obtained.

Taxation and general

To ensure compliance with the requirements for making deduction under the PAYE system, any income tax and employee Class 1 national insurance contributions (or the equivalent in any foreign jurisdiction) payable on gains made on the exercise of the nil cost option comprised in awards must either be paid to the relevant employing company by the participant or, alternatively, the Company may make the necessary deduction out of the net proceeds of sale of the shares acquired.

The rules of the plan also make provision for the employer Class 1 national insurance contributions arising on the exercise of nil cost options comprised in awards to be paid by the participant (normally pursuant to an election made in the prescribed form) if and to the extent that the committee has imposed such a requirement when making the award.

Benefits received under the plan will not be pensionable.

The rules of the proposed new equity participation plan will be available for inspection at the registered office of the Company and at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HS on any weekday during normal business hours up to and including the date of the Annual General Meeting, and for a period of 15 minutes prior to the Meeting and during the Meeting.

The following two resolutions renew the directors' authorities on similar terms to those granted at last year's Annual General Meeting. There is no present intention of exercising these authorities, save for the issue of shares under the Company's share option schemes:

Resolution 11: Directors' powers to allot share capital

This resolution will allow the directors to allot up to 43,487,518 shares, subject to the statutory pre-emption rights in favour of existing shareholders, before the next Annual General Meeting.

The limitation placed on the directors' authority to allot share capital under Section 80 of the Companies Act 1985 is the lower of one third of the issued Ordinary share capital of the Company increased by share options granted but not exercised and authorised but unissued share capital.

Resolution 12: Restrictions on the Directors' powers to allot share capital

This resolution governs the way the shares authorised in Resolution 11 above may be allotted. Directors may disregard the pre-emption rights which exist in favour of current shareholders in allotting up to 6,525,624 shares but otherwise any allotment of shares authorised to be issued by Resolution 11 must be on a pre-emptive basis. The limitation on the disapplication of pre-emption rights is set at 5% of the issued share capital of the Company as at 31 March 2003.