

Telewest Communications Group Limited

Directors' report and financial statements

31 December 2002

Registered number 2514287



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Telewest Communications Group Limited

Directors' report and financial statements

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Telewest Communications Group Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activity and review of business

The Company's business is, and will continue to be, the provision of management and administration services to cable television and telephony companies in the Telewest Communications plc group. In addition, the Company sells spare capacity on the Telewest National Network to third parties under leasing contracts.

Subsequent Events

The company's ultimate parent, Telewest Communications plc, is renegotiating its bank facilities and debt financing arrangements. Further details of the financial restructuring are included within Note 1, basis of preparation.

Results and dividends

The loss for the year after taxation was £130,987,700 (2001: £50,516,000). The directors recommend that no dividend be paid (2001: *£nil*).

Directors and their interests

The directors who served during the year, and subsequently, were as follows:

CJ Burdick
SS Cook

None of the directors who held office at the end of the financial year had any interest in the share capital of the Company or group subsidiary undertakings.

At 31 December 2002, CJ Burdick and SS Cook were directors of Telewest Communications plc and their interest in the ordinary share capital of Telewest Communications plc at 31 December 2002 and the beginning of the year or date of appointment are disclosed in the directors' report attached to the financial statements of that company.

During the financial year, no rights to subscribe for shares in the Company or group subsidiary undertakings were granted to or exercised by any director who held office at the end of the financial year or by any member of his immediate family.

Employment policies

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

The Company aims to attract and retain employees of the highest calibre and this is encouraged through participation in various performance-related bonus schemes including the employee share schemes of Telewest Communications plc as described in the financial statements of that company.

Telewest Communications Group Limited

Directors' report *(continued)*

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and 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 Company will continue in business.

The directors are responsible for maintaining 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 general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditors annually.

On behalf of the board



C Burns
Secretary

Genesis Business Park
Albert Drive
Woking, Surrey
GU21 5RW

17 April 2003

Telewest Communications Group Limited

Independent auditors' report to the members of Telewest Communications Group Limited

We have audited the financial statements on pages 6 to 17.

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 member, 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 directors' report and, as described on page 3, 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 and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Fundamental Uncertainty – Going Concern

In forming our opinion we have considered the adequacies of the disclosures made in note 1 to the financial statements concerning the fundamental uncertainty as to the ability of the company to continue to meet their debts as they fall due. This depends upon the successful conclusion of the financial restructuring which is referred to in note 1.

In view of the significance of this uncertainty we consider that it should be brought to your attention but our opinion is not qualified in this respect.

Telewest Communications Group Limited

Independent auditors' report to the members of Telewest Communications Group Limited *(continued)*

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

17 April 2003

Telewest Communications Group Limited

Profit and loss account

For the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Turnover		370,888	328,432
Cost of sales		(493,884)	(372,715)
Operating loss	2	(122,996)	(44,283)
Other interest receivable and similar income	5	7	81
Interest payable and similar charges	6	(8,000)	(6,314)
Loss on ordinary activities before taxation		(130,989)	(50,516)
Tax on loss on ordinary activities	7-8	-	-
Loss for the financial year	20	(130,989)	(50,516)
Retained (loss)/profit brought forward		(48,636)	1,880
Retained loss carried forward		(179,625)	(48,636)

All figures relate to continuing operations and there is no difference between the profit reported in the profit and loss account and the profit on an historical cost basis.

Statement of total recognised gains and losses

For the year ended 31 December 2002

The Company had no recognised gains and losses other than those reflected in its profit and loss account.

Telewest Communications Group Limited

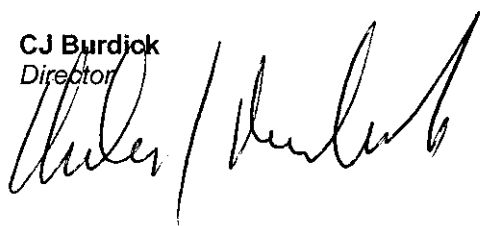
Balance sheet

At 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	9	607,103	607,507
Investments	10	-	-
Intangible assets	11	-	41
		<u>607,103</u>	<u>607,548</u>
Current assets			
Stock	12	4,000	35,497
Debtors: amounts due within one year	13	938,070	615,154
		<u>942,070</u>	<u>650,651</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(1,290,773)	(808,095)
Net current liabilities		<u>(348,703)</u>	<u>(157,444)</u>
Total assets less current liabilities		258,400	450,104
Creditors: amounts falling due after more than one year	15	(435,190)	(496,723)
Net liabilities		<u>(176,790)</u>	<u>(46,619)</u>
Capital and reserves			
Called up share capital	18	-	-
Other reserves	19	1,650	1,650
Profit and loss account	20	(178,440)	(48,269)
Equity shareholder's deficit	21	<u>(176,790)</u>	<u>(46,619)</u>

These financial statements were approved by the board of directors on 17 April 2003 and were signed on its behalf by:

CJ Burdick
Director



Telewest Communications Group Limited

Notes

(Forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

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

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The company relies on continuing financial support from its ultimate shareholder, Telewest Communications plc ("the Group"), which has continued to provide support since the year end. The directors have assumed that the Group will continue to provide support for at least twelve months from the date of the financial statements on the basis that there will be a successful conclusion of the Group's financial restructuring negotiations with its senior lenders and bond creditors.

Following the Group's decision on 30 September 2002 not to pay the interest on certain of the Group's bonds and other hedging instruments, the Group is now in default of a majority of its bonds and its Senior Secured Facility.

These liabilities are now due for repayment in full and the Group is negotiating with its bondholder creditors ("the Scheme Creditors") and bank facility creditors ("Senior Lenders") to effect a reorganisation of the Group's debt. This will involve, inter alia, the conversion of bond debt to equity and the renegotiation of existing bank facilities. The directors believe the amended facilities will provide the Group with sufficient liquidity to meet the Group's funding needs after completion of the financial restructuring.

In order for the financial restructuring to be effective, the Scheme Creditors need to approve the plan by the relevant statutory majority. In addition, the Group's shareholders need to approve the proposed share capital reorganisation.

The directors are of the opinion that the status of negotiations of the financial restructuring will lead to a successful outcome.

Taxation and deferred taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The Company adopted FRS 19 *Deferred Tax* during the year. Deferred tax is recognised in respect of all timing differences, which have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Telewest Communications Group Limited

Notes (continued)

1 Accounting policies (continued)

Group financial statements

In accordance with Section 228 of the Companies Act 1985, the Company is exempt from the requirements to prepare group financial statements as it is a wholly owned subsidiary undertaking of Telewest Communications plc which prepares consolidated financial statements.

Cash flow exemption

The Company is exempt from the requirement of Financial Reporting Standard No.1 (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Telewest Communications plc and its cash flows are included within the consolidated cash flows of that company.

Related party transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose transactions with other group undertakings, as more than 90% of the Company's voting rights are controlled within that group and the consolidated accounts of Telewest Communications plc, in which the Company is included, are publicly available.

Fixed assets and depreciation

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

Freehold and long leasehold property	-	50 years
Cable and ducting	-	20 years
Electronic equipment	-	5 - 8 years
Other equipment	-	4 - 5 years

Leases

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, to the extent that they are not hedged by financial instruments, are translated at 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.

Investments

Investments are stated at cost less provision for any impairment in value.

Telewest Communications Group Limited

Notes (continued)

1 Accounting policies (continued)

Pensions

The group, headed by Telewest Communications plc, operates a defined contribution scheme or contributes to a third-party scheme of the employee's choice. The amount charged against the profit and loss account represents the contributions payable to the selected schemes in respect of the financial year.

Turnover

All turnover arises from sales in the United Kingdom. Revenues are recognised as network communications services are provided. Connection and activation fees relating to cable television, telephony and internet customers are recognised in the period of connection to the extent that such fees are less than direct selling costs.

2 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2002 £'000	2001 £'000
Depreciation of owned fixed assets	117,854	78,349
Depreciation of assets held under finance leases and hire purchase contracts	22,546	18,519
Impairment of owned fixed assets	45,685	78,349
Profit on disposal of fixed assets	(337)	(1,237)
Remuneration of auditors - audit fees	1,068	553
- other fees	278	390
Operating lease rentals - other assets	2,797	3,762
	<hr/>	<hr/>

3 Directors' remuneration

No remuneration was paid to the directors during the year (2001: £nil).

4 Staff costs

The Company makes available the services of the employees to the fellow subsidiary undertakings who reimburse the Company for the staff costs of the employees. The amount recharged for these services was £295,551,109 (2001: 258,242,657).

The average number of persons employed by and made available to the Company, including directors, during the year, analysed by category were as follows:

	2002 Number	2001 Number
Sales and customer service	4,719	4,670
Construction and operations	3,513	3,411
Administration	1,279	1,321
	<hr/>	<hr/>
	9,511	9,402
	<hr/>	<hr/>

Telewest Communications Group Limited

Notes (continued)

4 Staff costs (continued)

The aggregate payroll costs of these persons were as follows:

	2002 £'000	2001 £'000
Wages and salaries	287,254	270,256
Social security costs	30,281	45,876
Other pension costs	9,670	17,222
	<u>327,205</u>	<u>333,354</u>

Other pension costs represent contributions payable by the Company to its defined contribution scheme. Contributions of £nil (2001: £179,825) were payable to the scheme at the year-end.

5 Interest receivable and similar income

	£'000	£'000
Other	7	81
	<u>7</u>	<u>81</u>

6 Interest payable and similar charges

	2002 £'000	2001 £'000
Finance charges payable under finance leases and hire purchases contracts	8,000	6,314
	<u>8,000</u>	<u>6,314</u>

Telewest Communications Group Limited

Notes (continued)

7 Tax on ordinary activities

Reconciliation of the company's current tax to the UK statutory rate

	2002 £'000	2001 £'000
Tax on pre tax losses at 30%	(39,297)	(15,155)
Effects of:		
Expenses not deductible for tax purposes	-	355
Timing differences	48,961	22,134
Utilisation of tax losses	(9,664)	(7,334)
Current tax	-	-
UK Corporation tax at 30% (2001: 30%)	-	-
UK Deferred tax	-	-
Tax on ordinary activities	-	-

8 Deferred tax

As at 31 December 2002, the Company estimates that it has, subject to Inland Revenue agreement, £762.9 million (2001: £577.6 million), of tax losses available to relieve future profits. In addition the Company estimates that it has unclaimed capital allowances as at 31 December 2002 of £nil (2001: £nil), subject to Inland Revenue agreement.

Telewest Communications Group Limited

Notes (continued)

9 Tangible fixed assets

	Motor Vehicles £'000	Other equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2002	21,774	774,813	21,626	818,213
Additions	6,198	174,037	5,499	185,734
Disposals	(6,655)	-	-	(6,655)
At 31 December 2002	21,317	948,850	27,125	997,292
Depreciation				
At 1 January 2002	6,427	196,221	8,058	210,706
Charge for year	5,746	130,859	3,795	140,400
Impairment	1,722	32,834	11,129	45,685
Disposals	(6,602)	-	-	(6,602)
At 31 December 2002	7,293	359,914	22,982	390,189
Net book value				
At 31 December 2002	14,024	588,936	4,143	607,103
At 1 January 2002	15,347	578,592	13,568	607,507

The net book value of motor vehicles and other equipment is £8,189,899 and £64,922,405 respectively (2001: £9,339,828 and £67,968,329, respectively) in respect of assets held under finance leases. Depreciation charged in the year on these assets amounted to £22,545,707 (2001: £18,518,000).

10 Investments

At 31 December 2002, the Company directly held the following investments:

	Country of registration	Holding	Proportion held	Nature of business
The Cable Equipment Store Limited.	England and Wales	2 Ordinary shares of £1 each	100%	Telephone equipment supplies
Telewest Share Trust Limited.	England and Wales	2 Ordinary shares of £1 each	100%	Dormant company.

Telewest Communications Group Limited

Notes (continued)

11 Intangible assets

	2002 £'000
Cost and net book value at 1 January	41
Write off	(41)
Cost and net book value at 31 December	-

12 Stocks

	2002 £'000	2001 £'000
Cable and ducting and system electronics equipment	4,000	35,497

13 Debtors: amounts due within one year

	2002 £'000	2001 £'000
Trade debtors	-	27,462
Amounts owed by subsidiary undertakings	930,809	571,618
Other debtors	1,748	810
Prepayments and accrued income	5,513	15,264
	<u>938,070</u>	<u>615,154</u>

14 Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Obligations under finance leases and hire purchase contracts (note 16)	23,365	21,440
Bank overdraft	2,235	1,357
Trade creditors	956	6,651
Amounts owed to subsidiary and fellow subsidiary undertakings	1,107,763	615,702
Taxation and social security	39,724	6,676
Vendor financing	655	-
Other creditors	10,834	9,120
Accruals and deferred income	105,241	147,149
	<u>1,290,773</u>	<u>808,095</u>

Telewest Communications Group Limited

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2002 £'000	2001 £'000
Amounts owed to parent undertaking	401,935	439,712
Vendor financing	27	-
Obligations under finance leases and hire purchase contracts (note 16)	33,228	57,011
	<u>435,190</u>	<u>496,723</u>

16 Obligations under finance leases and hire purchase contracts

	2002 £'000	2001 £'000
Amounts payable net of finance charges:		
Within one year	23,365	21,440
Between one and two years	12,967	21,951
Between two and five years	6,946	19,230
Over five years	13,315	15,830
	<u>56,593</u>	<u>78,451</u>

17 Provision

A deferred tax asset of £92.3 million has not been recognised on carry forward losses and other timing differences. These assets can only be deducted against certain types of future income. There is currently insufficient evidence that the right type of income will be generated.

18 Share capital

	2002 £	2001 £
Authorised:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, issued and fully paid:		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

Telewest Communications Group Limited

Notes (continued)

19 Other reserves

	£'000
At 1 January and at 31 December 2002	1,650

Other reserves represent capital contributions made to the Company by the former shareholders of the Company.

20 Profit and loss account

	2002 £'000	2001 £'000
At 1 January 2002	(48,269)	3,680
Loss for the financial year	(130,989)	(50,516)
Accrued share based compensation costs	818	(1,433)
At 31 January 2002	(178,440)	(48,269)

21 Reconciliation of movements in shareholders' deficit

	2002 £'000	2001 £'000
Opening shareholders' (deficit)/funds	(46,619)	5,330
Loss for the financial year	(130,989)	(50,516)
Accrued share based compensation costs	818	(1,433)
Closing shareholders' deficit	(176,790)	(46,619)

Telewest Communications Group Limited

Notes (continued)

22 Operating lease commitments

At 31 December 2002 annual commitments of the Company under non-cancellable leases were as follows:

	2002	2001
	Land and buildings	Land and buildings
	£'000	£'000
Leases which expire:		
Within one year	-	3
Between one and two years	1,332	1,254
Between two and five years	2,334	2,328
Over five years		
	<u>3,666</u>	<u>3,585</u>

23 Contingent liabilities

The Company, along with fellow subsidiary undertakings, is party to a senior secured credit facility with a syndicate of banks. Borrowings under the facility are secured by the assets of the group including those of the Company.

24 Ultimate parent company

The ultimate parent company is Telewest Communications plc, which is registered in England and Wales. Telewest Communications plc is the parent of the smallest and largest group for which group financial statements, including the company, are drawn up. Copies of these group financial statements may be obtained from The Company Secretary, Telewest Communications plc, Genesis Business Park, Albert Drive, Woking, Surrey, GU21 5RW.