

Granada Media plc  
Annual report and accounts 2000

# pure media



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GRANADA

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Granada Media plc is a focused and independent media company, creating content for television and multimedia, delivering programmes to consumers through a variety of channels, and expanding into international and new media markets.

# Over 9,000 hours of programming every year

Picture:  
The Royle Family,  
a Granada production  
for the BBC

Regionally, nationally and internationally, Granada produces and broadcasts over 9,000 hours of original programming every year. Granada's ITV regions broadcast over 3,000 hours of regional programming per annum, from local news to regional drama. Together with United, Granada produced over 1,500 hours of programming for ITV last year. Granada also made over 4,500 hours of programming for other UK and international channels. This annual output continuously expands and refreshes Granada's massive programme library.



Through six regional ITV licences, Granada broadcasts to 35 million viewers – over 60% of UK homes. ITV is the most watched television channel in the UK, with an audience share in peak time more than three times that of its nearest commercial rival. Last year, ITV broadcast all those programmes on UK commercial television with an audience of over 10 million viewers and reached over 90% of viewers a month. ITV delivers advertisers consistent access to a mass audience unavailable elsewhere on UK television – or via any other advertising medium.

Picture:  
Coronation Street,  
the UK's top programme  
in its 40th year



Broadcasting  
to over 60% of  
UK homes



# Unrivalled depth of creative talent

Picture:  
*Celebrity Stars in Their Eyes*,  
an entertainment hit for ITV

Granada employs over 5,000 people across the UK from Southampton to Newcastle, and across the globe, from Sydney to Los Angeles. The vast majority of Granada employees are directly involved in producing television programmes, making the Company one of the strongest creative powerhouses in commercial television. From producers to presenters, runners to reporters, lighting crews to scriptwriters, Granada's creative talent base – in front of and behind the camera – is one of the Company's most valuable assets.





# The global partner of choice

Picture:  
*Joy Luck Street*, produced  
for over 90 cable stations  
in China

Granada continues to expand internationally in both broadcasting and production. Viewers in over 120 countries worldwide watch Granada programmes and formats. Flagship productions, like *Longitude* or *Dr Zhivago*, are Granada co-productions with international companies such as A&E in the US and Mediaset in Italy. In markets including the US, Australia, Germany and China, Granada has built up local production companies. Granada has also made strategic investments in commercial broadcasters in Australia and Ireland. In broadcasting and production, Granada is becoming the partner of choice in international television.





Granada is at the forefront of the new media revolution. Investments in digital television include 50% of ONdigital, the world's first digital terrestrial television platform, 50.5% of GSB, which operates three Granada branded pay-TV channels, a 35% stake in Shop! a home shopping channel, and 33% of sports channel MUTV. Granada is also building up a number of broadband and online businesses, with partners including Boots, Ask Jeeves, Liverpool FC and Arsenal FC.

Picture:  
Liverpool FC and  
Arsenal FC, Granada  
partners in broadband

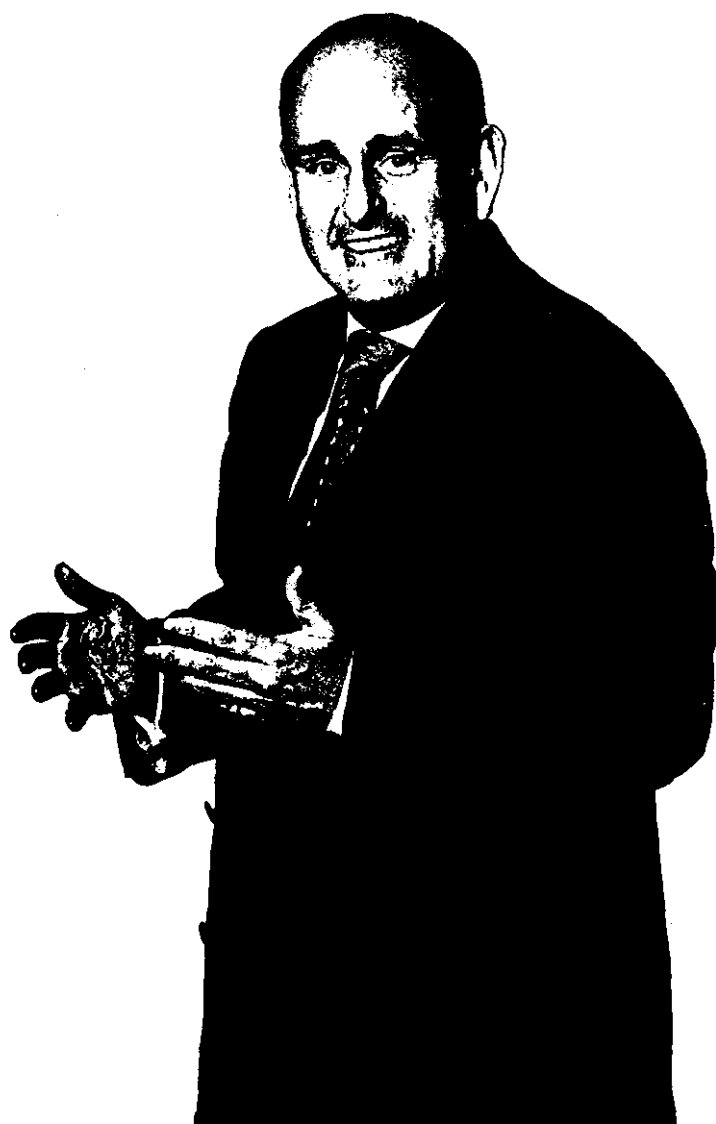
Delivering  
the media of  
the future



## Chairman's statement

### A year of achievement

- > Created an independent media company
- > Record year for Broadcasting and Creative
- > Acquired United News & Media's television interests
- > Formed Boxclever, releasing £511 million
- > ONdigital on target with new services
- > Developed broadband businesses



In its first year as an independent company, Granada Media posts a strong set of results. Granada's established broadcasting and production businesses have performed very well. Before digital television, new media and exceptional items, operating profits were £253 million, up 8% on last year's figure on a like for like basis. Adjusted earnings per share increased by 9% like for like to 13.8 pence, before digital television, new media and exceptional items. The Board is recommending a final dividend per share of 3.5 pence.

Granada Media has also started to lay the foundation for continued long-term growth. In July Granada Media plc was launched as an independent company and has since entered the FTSE index of the top 100 UK shares. Granada Compass, the merged Granada and Compass Groups, currently retains 80% of Granada Media equity. A full demerger is anticipated in the new year, completing Granada Group's transition into market-leading hospitality and media businesses.

At the time of Granada Media's listing, we set out clearly four strategic objectives. We said that we intended the following:

- to strengthen our position in UK free to air broadcasting;
- to expand our television production business in the UK and overseas;
- to develop international new media businesses; and
- to establish ONdigital as a leading UK digital broadcaster.

We have already made great strides towards the delivery of each of these objectives.

In July the Government cleared Granada's proposed acquisition of United News and Media. Later that month Granada agreed the acquisition of United's television interests, an earnings enhancing deal, which will deliver synergy benefits of £30 million in the year to September 2002. In order to comply with current legislation, Granada subsequently sold HTV's broadcasting assets to Carlton, taking over Carlton's minority stake in Meridian Broadcasting in the process. Granada and Carlton are now well positioned to drive a common strategy for ITV.

The United deal underscores Granada's leadership in UK commercial production. With United Productions, Granada makes around 60% of ITV commissioned programmes and is a significant producer for the BBC, Channel 4, Channel 5 and the pay-TV sector. Granada can also now offer a stronger selling proposition to the international market, with a comprehensive range of programming and strength in genres like wildlife, drama and animation.

Our new media business is developing well, focused around three high growth sectors – sport, health and education. We have taken stakes in Liverpool FC and Arsenal FC and

launched broadband joint ventures with both clubs. We have joined forces with Boots to create an online and broadband health and lifestyle service. In education, the acquisitions of Letts, Black Cat and NFER Nelson have helped Granada Learning maintain its strong record of revenue growth.

ONdigital continues to meet its subscriber targets, with 896,000 subscribers by October 2000. Key sports content rights have been secured and new services launched, including pay per view from ONrequest and full Internet access via ONnet.

Another important strategic achievement has been the creation of Boxclever, merging Granada's rental business with Radio Rentals. The deal received regulatory approval in June and released £511 million in cash to Granada Media. Boxclever will benefit from significant cost synergies and becomes the UK rental market leader. Boxclever also intends to develop its third party fulfilment business. Granada has therefore crystallised the value of its rental arm, whilst retaining a valuable stake in an ongoing dual business.

Outside the UK, Granada has made a number of strategically important moves. In Australia we have created the country's leading television producer, Red Heart, as a joint venture with commercial broadcaster, Seven Network, in whom we have taken a 10.4% equity stake. In Ireland, we have announced a major programme deal with the commercial broadcaster TV3, in whom we are also in the process of acquiring a 45% equity stake. In the US, Germany and China, we have developed local production ventures.

In July, Nigel Rich and David Chance joined the Board of Granada Media as non-executive directors. Nigel Rich had previously been a Granada Group non-executive director and I am delighted we will continue to benefit from his advice. David Chance brings a wealth of experience in pay-TV and digital media and I am very pleased to welcome him to Granada.

In a year of incredible achievement, I would like to pay tribute to all Granada Media's staff for their continuing dedication and creativity. Granada's continued success is a testament to the quality of the people we employ right across the Company.

Charles Allen Executive Chairman

## Chief Executive's review

# Granada Media plc has hit the ground running as an independent media company

Granada Media has hit the ground running as an independent media company. Our established broadcasting and production businesses have had record years, while our digital and new media investments are developing well.

Granada advertising revenues increased by 8.4% last year, a ten year record and ahead of ITV growth of 7.9%. Following a difficult summer 2000, a strong ITV autumn programme schedule – driven by Granada productions – delivered ITV a 39% peak time share in October. ITV remains the UK's most popular channel and has committed to a programming budget of over £750 million in 2001.

ITV can increase its advertising revenue because of its consistent delivery of mass audiences. Last year over 450 programmes on UK commercial television achieved audiences of over 10 million – all were on ITV. Advertisers will pay a premium to reach the mass television audience available on ITV.

Following the United acquisition, Granada broadcasts to over 60% of the UK population, with comprehensive coverage of the crucial South East through Meridian, Anglia and LWT. With third party sales contracts, Granada accounts for over £1 billion of advertising revenues and 54% of ITV advertising.

The synergy benefits from the United integration, worth £30 million next year, together with additional peak time advertising minutage agreed with the regulator, will benefit our broadcasting business going forward. Granada Media has applied to the ITC to renew the licence for Anglia from January 2001 and for Granada and LWT from April 2001.

Granada Creative also had a good year, increasing its programme sales revenues by 10%. Sales to ITV were up £16 million. *Coronation Street* attracted up to 19 million viewers in its 40th year, *Heartbeat* was the UK's top drama serial and the

acclaimed *Cold Feet* returned for a third series. We also created new ITV hit shows including *Tough Love*, *This is My Moment*, and *At Home with the Braithwaites* – all recommissioned for next year.

Sales to other UK broadcasters showed 10% growth. In total, Granada Media made eight out of the top ten programmes on UK commercial television (excluding sport) in the financial year. International sales grew by 10%, with some high quality productions with global appeal, such as the award winning *Longitude*.

The acquisition of United Productions adds ITV shows including *Hornblower*, *Where the Heart Is* and *Survival* to our portfolio, plus the commission for another ITV soap. We can also now offer a stronger selling proposition to the international market, as we integrate United's distribution business with Granada International.

As well as international sales, we are exporting our production skills and assets in other ways. We have set up local production units in the US, Germany and Australia, and a new department successfully developing formats for the international market. In Ireland and Australia, we have leveraged our programme sales and local production to take valuable stakes in local broadcasters.

Granada Sky Broadcasting, our joint venture with BSkyB, had a successful year, with its channels increasing ratings and revenues. Subscribers doubled for MUTV, our joint venture with Manchester United and BSkyB, and will be boosted further when delayed first team action becomes available next season. Shop! our joint venture home shopping channel with Littlewoods, is now available on all three digital TV platforms. In October this year weekly sales reached £1 million.



# £253 million

Operating profit before digital TV, new media and exceptional items

# £1,087 million

Turnover – established businesses

# +9%

Earnings per share pro forma increase

# 3.5 pence

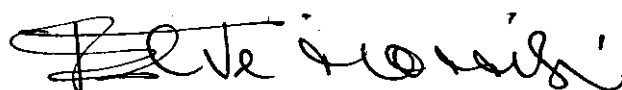
Dividend per share

In new media, Granada Learning, grew strongly with revenues up by £16 million. Letts Educational sold over 6.5 million sets of revision materials and NFER Nelson, the testing and assessment market leader, was used in 75% of UK schools. In sport, we have taken stakes of 9.9% in Liverpool FC and 5% in Arsenal FC and set up broadband joint ventures with both clubs. In October we took a 40% stake in a new health and beauty joint venture with Boots, the UK's leading retailer in the sector. In 2001 we will launch a new health TV channel and transactional website – Boots' sole online outlet.

ONdigital continues to grow its subscriber base on target, while rolling out new interactive services, improving the channel line up and securing more exclusive content. The resolution of the ITV ownership issue will allow ITV and ONdigital to work together more effectively.

Granada's Net Advertising Revenue (NAR) was up in November. In December we have already booked revenue giving us an increase of 7% on all December last year. We expect ITV NAR as a whole for calendar year 2000 to increase by 4.6%.

Programme sales will be increased by the acquisition of United's production and catalogue business, and through organic growth. By the end of October Granada had already won commissions for ITV programmes in 2001 of £211 million, some £21 million ahead of the same point last year.

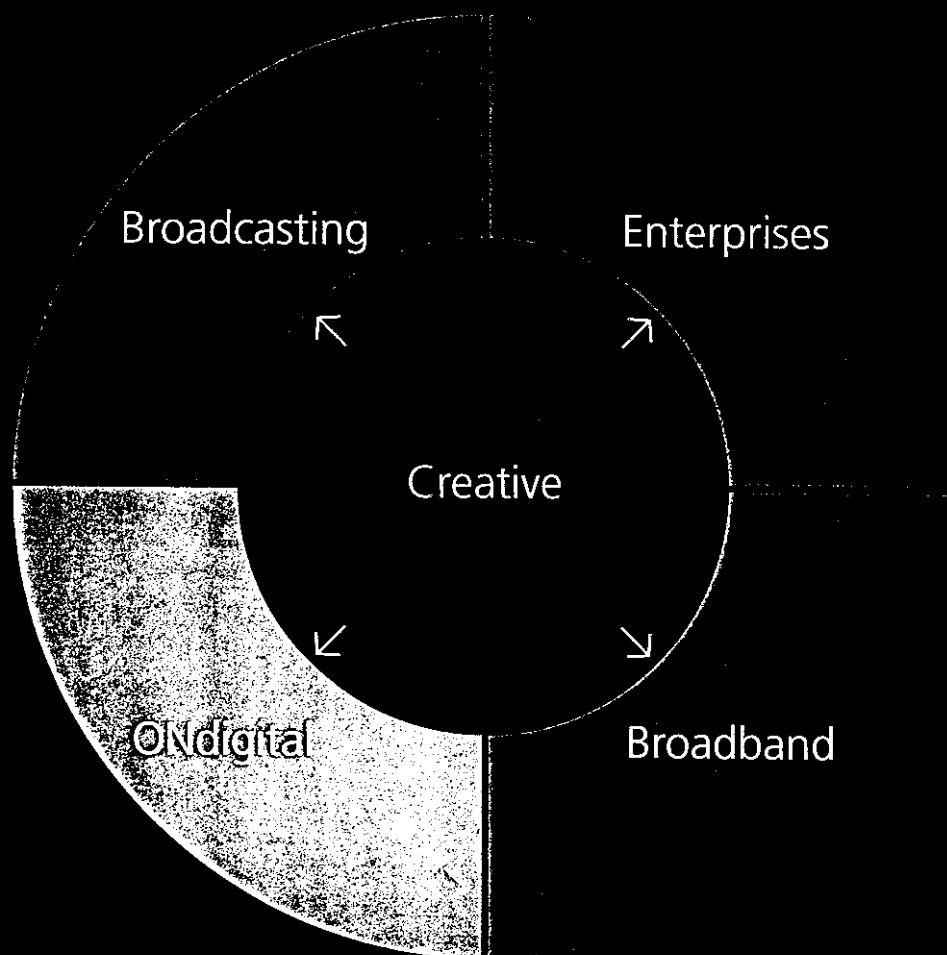


Steve Morrison Chief Executive



# The structure

Content is at the heart of all we do



# 30%

of UK commercial TV advertising

Creative aims to create "must have" content for all channels and all broadcast platforms, in the UK and internationally. Granada already produces the majority of the UK's most successful commercial programmes and internationally acclaimed programmes and films.

#### Key drivers

- > Multi-channel, increasing demand for content
- > Dominant UK creative programming agency
- > New media content creation opportunities as television moves both broadband
- > International scope to increase exports, co-productions and independent production

## Granada Broadcasting

# Over 50%

of ITV's regional advertising revenue

Broadcasting contains Granada's six regional ITV licensees and other broadcasting interests, including interests in SMG, ITN, GMTV and Border. ITV remains the UK's leading commercial channel, with 50% of the UK commercial audience.

#### Key drivers

- > Increased audience demand for ITV delivery, content and production
- > Increased regional ITV advertising revenue and advertising sales
- > ITV's UK coverage of 95% of all UK households, including mobile
- > Continued national advertising impact of the regional content and performance

## Granada Enterprises

# £1 billion

of advertising revenues post United acquisition

Enterprises sells advertising airtime for Granada's ITV licensees and third parties. Enterprises is also leading the commercial exploitation of Granada's programming and the shift to interactive advertising via digital television.

#### Key drivers

- > Improved position in a time sales market with United acquisition
- > Unique strength in both North and South ITV regions
- > Increased advertising airtime in peak viewing time
- > Deregulation of programme sponsorship creating opportunities to drive market

## Granada Broadband

# 8 pay-TV

channels

Broadband aims to convert Granada's millions of television viewers into interactive customers. Broadband includes pay-TV and online assets, plus Granada's strategic investments in a number of developing broadband businesses.

#### Key drivers

- > Broadband penetration increasing with digital content and "local loop" unbundling
- > Interactive television and TV/Internet access increasing e-commerce opportunities
- > Multichannel penetration already reached eight million households

## ONdigital

# 50%

owned by Granada

ONdigital is the world's first commercial digital terrestrial television platform. ONdigital offers viewers 50 television channels, e-mail, pay per view movies, games and full Internet access.

#### Key drivers

- > Full digital take-off as early as 2006
- > Key sports content rights, including football, secured with ITV
- > DTT remains on fast route to digital television with "plug and play" and Pay-per-view
- > Full Internet access and interactive services bringing the "digital iFide"

## Granada Creative

Producing quality programmes to build audiences and channels in the UK and internationally

£16 million increase in sales to ITV

10% growth in programme sales outside ITV

£750 million ITV programme budget agreed for 2001

Below:  
Longitude



Right:  
Tonight with  
Trevor McDonald



Below:  
Tough Love



Granada Creative produces television programmes, for UK and international channels, and new media content, working closely with Granada Broadband. Last year Granada produced around 6,000 hours of original programming for UK and international channels.

Programme sales revenues were up strongly. Sales to ITV rose by £16 million. Commissions from other UK and international broadcasters increased by 10%.

Granada, LWT, Yorkshire and Tyne Tees provided over 70% of ITV's most successful programmes. In its 40th year, *Coronation Street* was again the UK's favourite programme, with audiences reaching 19 million. *Emmerdale* was extended to five nights a week on the back of a consistently strong performance. *Heartbeat* remains the UK's top drama serial, with an average audience of over 14 million viewers. The *Stars in Their Eyes* final was watched by over 11 million viewers – with over two million voting. The acclaimed *Cold Feet* has returned for a third series, with series four already commissioned.

Granada productions led the way in refreshing the ITV schedule. In drama, successes included *Tough Love*, *Fat Friends* and *Seeing Red*. Drama serials *At Home with the Braithwaites* and *Always and*

*Everyone here* were recommissioned. Granada has rolled out new entertainment formats, such as *This is My Moment* and extended existing successes like *An Audience With...* An exceptional slate of comedies included *I Saw You*, *The Grimleys* and *Safe as Houses*. *Tonight with Trevor McDonald* was the UK's top current affairs programme at the head of some strong factual output. Granada also broadened its ITV daytime presence with *Live Talk*.

Granada's strong sales to other UK channels ranged from *The Royle Family* and *University Challenge* for the BBC, to *Longitude* and *Countdown* on Channel 4, and productions for Sky, ONdigital and Discovery. Granada's studios up and down the country were busier than ever. Granada also announced 3sixtymedia, a resources joint venture with the BBC in Manchester.

The quality of Granada's productions was recognised through an exceptional crop of over 60 major programme awards. *Lost for Words* won an International Emmy. *The Royle Family* and *Cold Feet* scooped numerous UK and international awards. *Tonight with Trevor McDonald* was the RTS Journalism Programme of the Year. In the BFI poll of the top UK programmes of all time, Granada was the top placed commercial producer.

The United acquisition reinforces Granada's status as the UK's leading commercial producer. United produced 1,000 hours of programming last year, including *Hornblower*, *Hearts* and *Bones* and *Elizabeth I*. Key commissions for ITV include *Where the Heart Is*, *Trisha* and the new early evening soap, *Trafalgar Road*. United extends Granada's range in key genres: *Survival* in wildlife and *Cosgrove Hall* in animation are both world class production brands.

The United deal also boosts Granada's growing international presence. Granada already distributes programmes to over 120 countries and is developing international co-productions, like *Dr Zhivago* with Italy's Mediaset, and *Comfort Zone* with Showtime of the US. Granada has also launched a new department developing and selling original entertainment formats worldwide. Granada is building a local production presence in markets including the US, Australia and Germany. In Australia, Granada has created the country's leading producer in a joint venture with Seven Network, in whom Granada has taken a stake. In China, the production company BYAV in partnership with Granada has successfully launched the country's first television soap, *Joy Luck Street*, carried by over 90 cable stations.

Below  
Don't Try This at Home

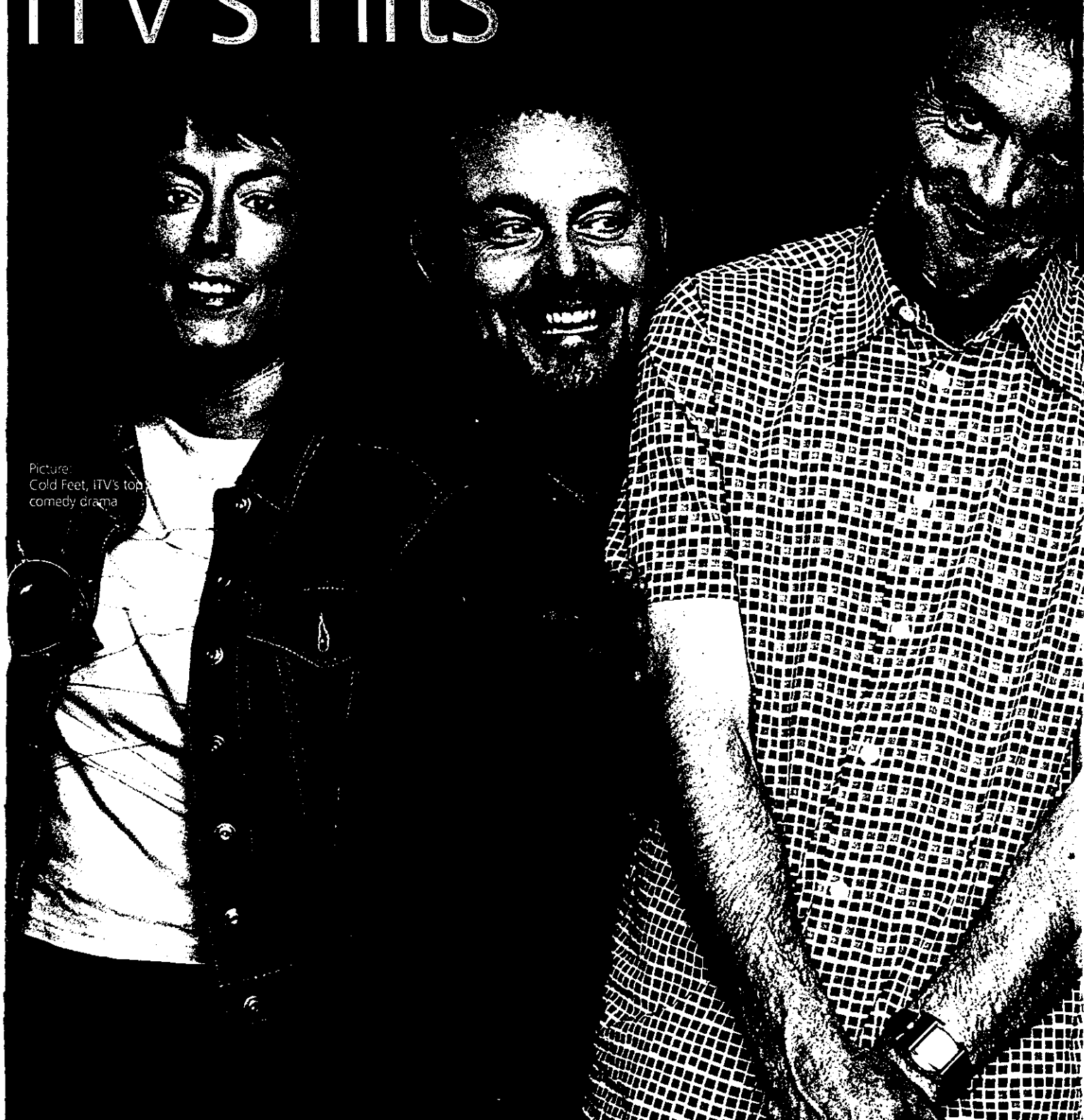


Below  
Survival



# Producing over 80% of ITV's hits

Picture:  
Cold Feet, ITV's top  
comedy drama



Granada Media produces over 80% of ITV's most successful programmes. From innovative new hits, like *Cold Feet* and *The Grimleys*, to established favourites, like *Stars in Their Eyes* and *Heartbeat*, Granada content forms the creative backbone of the UK's favourite channel. Of the 500 most watched programmes on UK commercial television last year, all were shown on ITV and over 400 were made by Granada.



## Granada Broadcasting

Driving the performance of ITV, Europe's leading commercial television channel

500 top programmes on UK commercial TV all on ITV

60% Granada coverage of UK post United deal

£30 million of United synergy savings in FY 2002

Below:  
*This Morning*



Below:  
*My Parents are Aliens*





Granada Broadcasting consists of Granada's broadcasting assets, including six ITV regional licences: Granada, LWT, Yorkshire, Tyne Tees and – with the United acquisition – Anglia and Meridian. Granada now broadcasts to over 60% of the UK population.

ITV continues to produce the vast majority of the most watched programmes on UK commercial television. Last year there were over 450 programmes on UK commercial television with audiences over 10 million – all were on ITV. This strength extends across all programme genres: the top current affairs programmes, entertainment shows, dramas and soaps are all on ITV. Advertisers are willing to pay more to promote their products to a mass ITV audience.

The ITV schedule is being driven by "stripping" programmes across a regular time slot. Stripping helped establish *Who Wants to be a Millionaire* with audiences, while extending *Emmerdale* to five nights a week has drawn around four million more viewers to ITV every week. Dedicating regular time slots to specific audiences helps create "channels within a channel". This allows particular audiences to be marketed to advertisers

in bespoke programme packages and builds the foundations for future ITV digital channels.

Sport is a strong draw for key advertising audiences. ITV has secured the rights to screen Premier League highlights, and – with Of Digital – live Nationwide League and Worthington Cup football matches for three years from 2001. Together with existing deals for the UEFA Champions League, the FA Cup, Six Nations highlights and Formula One, ITV remains the home of quality free to air sport.

More competitive scheduling is also helping improve ITV performance. ITV is using greater advertising flexibility agreed with the regulator to help retain audiences from one programme to the next. Shortening the break before *The Frank Skinner Show*, for example, added an estimated two million viewers to the audience. Trailers in end credits of popular programmes, like *Coronation Street*, are also being used to alert viewers to coming highlights with positive results for ratings.

Granada's commitment to offering all its viewers strong regional services remains undiminished. Every week, Granada, LWT, Yorkshire and Tyne Tees

provide over 35 hours of original regional programming, from news and factual to entertainment shows. Programme highlights have included award winning coverage of the Soho bomb blast, Yorkshire's evergreen *Calendar* and Granada's *The Unknown Soldiers*. Tyne Tees' regional news anchor Mike Neville also celebrated 40 years in British television. The acquisition of Anglia and Meridian extends Granada's coverage of the UK regions and its regional programme making expertise.

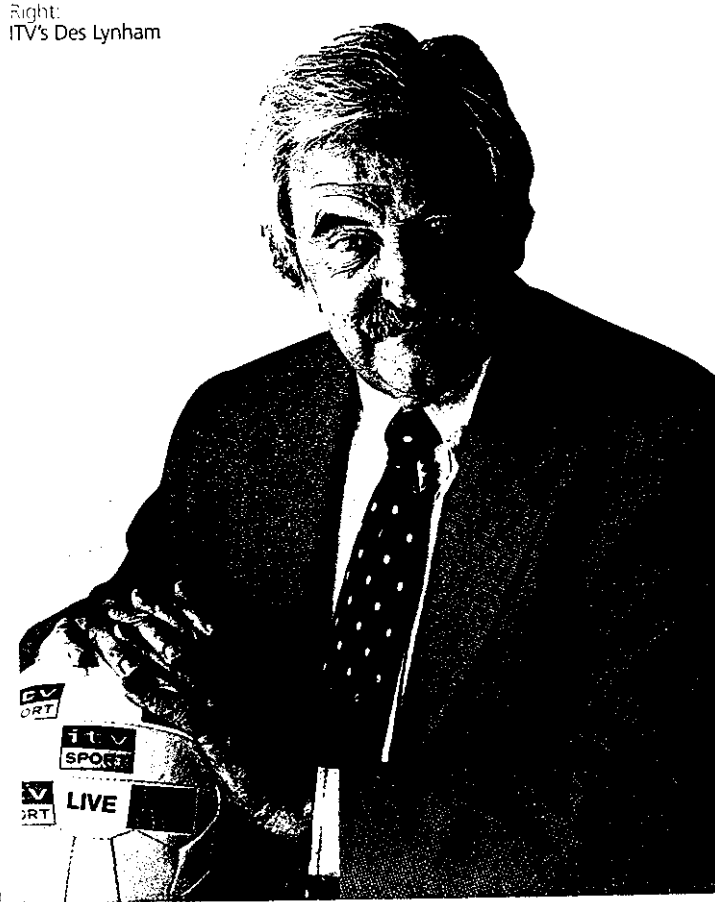
Granada's acquisition of Anglia and Meridian will also allow cost synergies to be generated, estimated to be worth £30 million in the year to September 2002. Following the sale of HTV to Carlton, Granada and Carlton together account for over 90% of ITV's advertising income. The rationalised ownership structure will produce major benefits for ITV's strategy for the schedule, digital TV and online. Already a major increase in programming investment has been agreed, raising the Network Programme Budget by more than 6% to over £750 million. Co-ordination between ONdigital and ITV is also improving as their ownership has become aligned.

Right:  
The Grimleys

Below:  
Emmerdale



Right:  
ITV's Des Lynham



## Granada Enterprises

Growing television advertising revenues and moving into new markets

8.4% growth in television advertising revenues

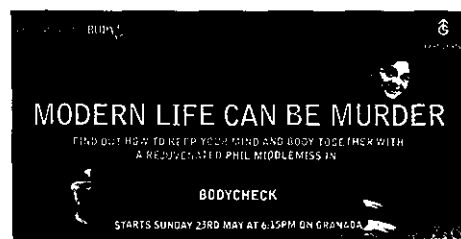
25% programme sponsorship revenue growth

£1 billion television advertising revenues per annum post United acquisition

Below:  
Cosgrove Hall's  
Fetch the Vet



Right:  
Bodycheck,  
in association  
with BUPA



Below:  
Better Homes,  
sponsored by  
Homebase



Granada Enterprises sells television advertising airtime for Granada's regional ITV licences and third parties, and drives the commercial exploitation of Granada's output across Broadcasting, Creative and Broadband.

Granada put in a strong performance in airtime sales last year, growing net advertising revenue 8.4%. Granada's growth was well ahead of the ITV average of 7.9% and just short of the total for all television advertising of 9%. Strong growth categories included financial products, computers and telecoms, but spending by established ITV advertisers, such as newspapers, travel agents and record/film/videos, also increased ahead of the market.

Sponsorship revenues grew by 25%, driven by flagship deals for Granada's ITV programming. Granada's soaps are powerful magnets for sponsorship: Cadbury's *Coronation Street* sponsorship continues, while Daz agreed a new deal to sponsor *Emmerdale*. In a unique deal, BT is sponsoring the whole of Saturday ITV "prime time" – including several Granada entertainment shows. Granada has also developed new

advertiser funded co-productions, with *Bodycheck*, produced in association with BUPA, launched across Granada's Northern regions.

Granada successfully attracted new business, from other broadcasters and new media companies. Granada won the contract to sell advertising for S4C, the Welsh commercial broadcaster, and – after the year end – for UTV, Ulster's ITV regional licensee. Granada also strengthened its digital and interactive advertising presence with contracts for ITV2, [ITVfootball.co.uk](http://ITVfootball.co.uk) and ONdigital's ONnet service. As part of Granada Broadband's deals with Arsenal and Liverpool FC, Granada Enterprises will also act as exclusive media partner for both clubs.

The acquisition of Anglia and Meridian strengthens Granada's position in the advertising sales market. Granada now accounts for 54% of ITV advertising and around 30% of the total television market, with annual advertising revenues of over £1 billion. The acquisition also provides the opportunity to make considerable cost savings in sales with the integration of United's sales house to create the UK's strongest sales team.

Anglia and Meridian will improve Granada's coverage in the important South East market. Together with LWT, Meridian and Anglia cover around 35% of the population, but reach a higher proportion of key audiences sought by advertisers – 45% of the UK's AB males, for example. In addition, United produces a number of valuable programme brands, the commercial exploitation of which Granada will help to drive.

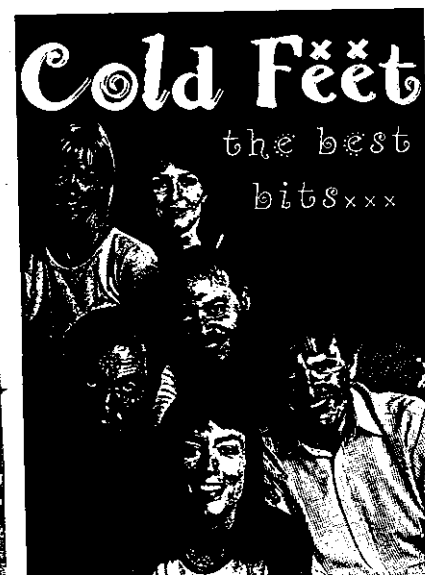
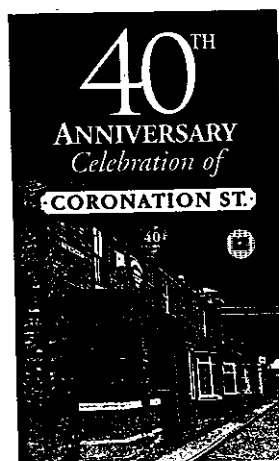
Granada is also starting to benefit from an increase in advertising minutage in peak viewing time agreed with the regulator.

Granada continued to sell UK advertising last year for TV3, Ireland's only commercial terrestrial channel, increasing revenues by 70%. During the year, Granada announced an agreement with TV3's existing shareholders to acquire a 45% stake in the channel and supply key Granada programmes, including the top rated programme in Ireland, *Coronation Street* to TV3. Together with the UTV sales contract, the deal gives Granada a strong Irish presence.

Below:  
Where the  
Heart Is



Below:  
Granada Consumer  
Products



Granada produces critically and popularly acclaimed programming, across the full range of genres, channels and budgets. Granada productions include dramas, soaps, comedies, entertainment shows, daytime and lifestyle, children's programmes, current affairs programmes, films and documentaries. From high volume lifestyle programming for pay-TV channel Granada Breeze and daily quiz shows like *Countdown* right through to lavish period dramas like *My Uncle Silas*, Granada productions deliver for audiences and channels worldwide.

Pictured:  
*My Uncle Silas*,  
a star-studded  
period drama

# Unique range across all programme genres





## Granada Broadband

Converting viewers into interactive customers

9.9% equity stake in broadband partner Liverpool FC

40% stake in broadband joint venture with Boots

£1 million top weekly revenues for Shop!

Below:  
Ask Jeeves



Right:  
Popstars website



Below:  
Granada Learning



Granada Broadband was formed in July 2000 and houses Granada Media's pay-TV and online assets, plus its strategic investments and partnerships in a number of developing broadband businesses.

Granada Sky Broadcasting, a joint venture with Sky which operates the Plus, Men and Motors and Breeze pay-TV channels, put in a strong performance last year with subscriber numbers up 25% and revenues up 13%. The three GSB channels are now available on digital terrestrial television, satellite and cable.

Granada's home shopping joint venture with Littlewoods, Shop! continued to grow, with weekly revenues reaching £1 million. With its subscriber numbers up by over 150% during the course of the year, Shop! now reaches 6 million UK homes on all digital platforms. Shop! is also supported by a fully transactional website ([www.shop-tv.co.uk](http://www.shop-tv.co.uk)).

MUTV, a joint venture with Manchester United and Sky, increased its subscriber numbers by over 100%. From next season the channel will feature delayed first team match action for the first time, boosting its attractiveness to Manchester United's massive fanbase.

In January 2000, Granada, in partnership with Carlton and Ask Jeeves,

launched Ask Jeeves UK, a plain language online search engine. Ask Jeeves has got off to a flying start peaking at over 600,000 queries per day and already established as one of the UK's top ten websites, commanding significant online advertising revenues. In September 2000, Granada entered a strategic partnership with SwapitShop Limited to develop a children's Internet portal.

Granada has extended its relationship with Liverpool FC with a 50/50 broadband joint venture, Liverpool FC Broadband, which will exploit Liverpool's new media and commercial rights globally across all online and broadband media. A similar broadband business, AFC Broadband, has also been established with Arsenal FC, in whom Granada has also acquired a 5% equity stake. Between them Liverpool and Arsenal have an estimated international fanbase of over 10 million.

In the new financial year, Granada entered into a major strategic partnership with The Boots Company plc. Granada and Boots will together develop an Internet and broadband company aiming to be Britain's leading e-business for health, beauty and well-being. The joint venture – 40% owned by Granada – will include a digital television service and fully

transactional website to be launched in 2001 and will be extensively promoted to Boots 13 million regular retail customers. The joint venture's revenues will include sales of products and services, broadcast and online advertising, and sponsorship.

Granada Learning grew its revenues and profits strongly over the financial year. Total turnover increased by £16 million to £22 million. Acquisitions included Letts Educational, the UK's leading revision publisher, NFER Nelson, whose testing and assessment products are used in three quarters of UK schools, and educational software provider Black Cat. Granada Learning's multimedia educational curriculum software is now used in over 90% of UK schools. Granada is also at the forefront of developing a digital curriculum service and participated in Government funded trials in early 2000.

Granada is exploring a number of further broadband initiatives and partnerships as well as investing in online support and marketing for key Granada ITV productions, such as *Cold Feet* and the forthcoming *Popstars*.

Below:  
Men and Motors



Below:  
SwapitShop



## ONdigital

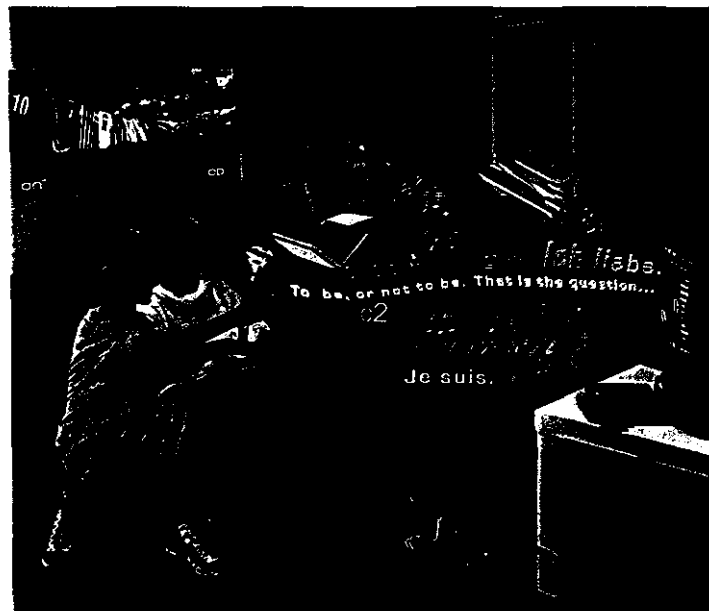
On target for 1 million subscribers in record time

100% digital TV internet access via ONnet

70% coverage of UK homes by digital terrestrial TV

Nearly 40,000 subscribers signing up every month

Below:  
Interactive services



Right and below:  
ONnet Internet access



**Full Internet Access  
Through your TV...**

►► MORE

on net



ONdigital, the UK's digital terrestrial commercial platform, has increased its coverage, expanded its services, secured new exclusive content rights and continued the rapid expansion of its subscriber base. Only two years since its launch, ONdigital is on target to reach 1 million subscribers by the end of 2000.

During the last year ONdigital substantially strengthened its interactive offering. ONmail offers subscribers the ability to send and receive e-mails while watching programmes. Interactive games, interactive advertising, special subscriber offers and enhanced digital text have all been launched. In May 2000, the ONrequest joint venture with SDN, introduced pay per view movies to the ONdigital platform.

The launch of ONnet has brought Internet access through the television to all ONdigital subscribers via a dedicated television portal. Unlike ONdigital's competitors, ONnet means full Internet access, without restricting users to a limited "walled garden", a significant competitive advantage. ONnet also features sites from over 60 top consumer brands such as Iceland, Boots, yell.com and Radio Times. ONnet attracted 20,000 customers in its first two weeks and is recording millions of hits a week. It is set

to become a prime route to the Internet in UK homes.

More than 50 channels are now available to ONdigital subscribers. These include all the most popular pay channels as well as all the free to air channels. Sky Sports 2, two Discovery channels, adult channels, Simply Money, ITN News and Nickelodeon have all been added to the channel line up, with ONdigital offering channels covering 90% of all viewing recorded in multi-channel homes.

ONdigital now has the strongest football offering in the multi-channel market. It already shows the three main Sky Sports channels featuring Premier League football. This summer, together with ITV, exclusive rights to the Football League and Worthington Cup were awarded to ONdigital for three years from next season. Also with ITV, ONdigital already has the exclusive rights to the UEFA Champions League until 2003. ONdigital intends to use these rights to launch a new premium sports channel.

ONdigital Prepaid has brought the "prepaid" product that has had such success in the mobile phone market to digital television. The ONdigital prepaid "plug and play" box comes with a full year's subscription. Prepaid is not an option for either satellite or cable, which

both require engineers to install the service. £99 for a year's worth of pay-TV is proving to be an extremely popular consumer proposition. Stocked by Woolworths, WHSmith, Sainsburys and major high street shops, Prepaid now accounts for half of all ONdigital retail sales.

ONdigital is well positioned to capture a high proportion of UK homes as the migration to digital TV continues. Digital take up is expected to continue at a rapid pace as the Government has said that full digital switch over could occur as early as 2006. ONdigital has also been boosted by improved digital terrestrial coverage, which by the end of this year, will mean around 70% of UK households will be able to receive the ONdigital service.

Sales of Integrated Digital Televisions (IDTV's) are also gathering momentum. ONdigital offers the simplest means of receiving pay services, through an IDTV via a smartcard module that slots into the side of the television set. An attractive consumer offer of six ONdigital channels for a year included in the price of any IDTV, is also fuelling growth. In time, it is expected that sales of IDTV's will overtake sales of analogue sets as consumers start to appreciate that all future television will need to be digital.

Below:  
Exclusive football



Below:  
The best of pay-TV



## Boxclever

Boxclever was formed by the merger of Granada's rental business with the Radio Rentals chain owned by Thorn UK. The merger creates a significant new force on the high street to challenge the established retailers in the sector and take rental into the digital age. The deal released £511 million in cash to Granada Media.

The Boxclever merger was approved by the Department for Trade and Industry on 28 June 2000. Boxclever is a 50/50 joint venture between Granada Media and the owners of Thorn UK, Nomura International. As a merged company, Boxclever has nearly 2½ million customers, 9,000 employees and 900 shops across the UK.

Since the merger, the process of integrating the two businesses has been progressed rapidly. The overlap between the two companies creates opportunities for significant synergy benefits. 45 stores have already been sold, with other disposals under consideration.

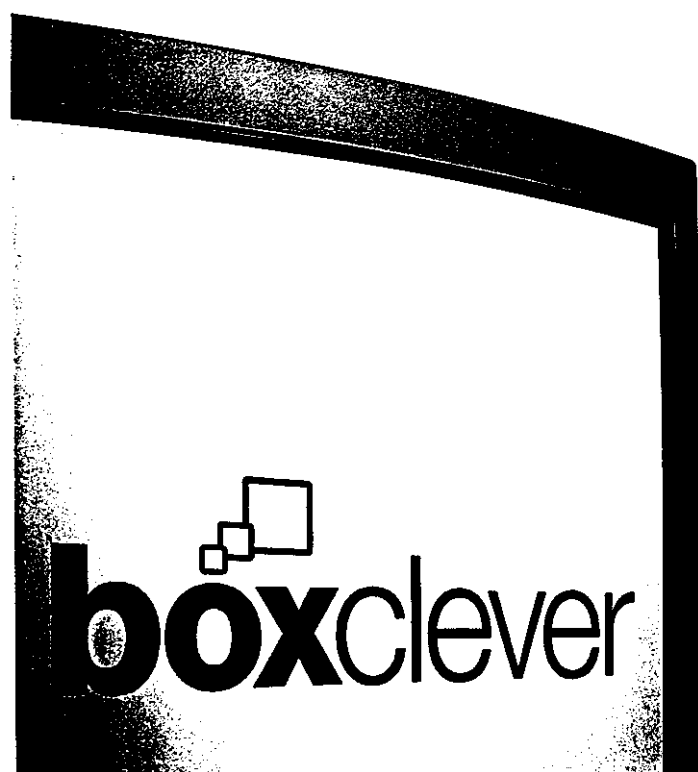
At the same time, the business is beginning the task of launching the new Boxclever branding and business strategy. The Boxclever brand has been piloted in stores and marketing in the North East. The national roll out of the brand in all Boxclever stores will begin in 2001.

The progressive take up of new digital and interactive technologies will offer Boxclever the opportunity to develop a new market for rental for the digital age. New products – from Integrated Digital Televisions to Personal Video Recorders – remain relatively expensive with some consumers perceiving full purchase as a possible risk, given the pace of change. Boxclever offers digital consumers the flexibility of rental, together with the confidence of retail.

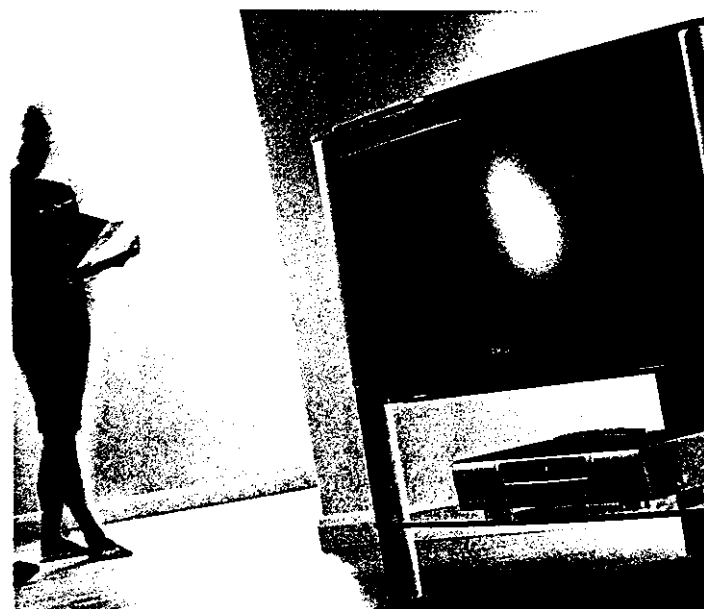
As well as developing a strategy to launch Boxclever as a national high street brand, Boxclever is building up a third party service and fulfilment business. Boxclever possesses an existing network of call centres, service back up and logistics operations, which can provide support to the customer and subscriber base of other companies, as well as Boxclever's own rental base. Boxclever already provides support for a number of third party service providers, including ONdigital.

The successful launch of Boxclever achieves Granada Media's aim of crystallising the value of its rental business, whilst at the same time retaining an ongoing stake in a dual rental and fulfilment business itself of significant potential value.

Below:  
New branding



Below:  
Rental for the  
digital age



## Financial review

**Trading results** Group turnover before digital television and new media rose by 9% to £1,087 million. Turnover including our share of the first time contribution of the Boxclever and Red Heart joint ventures' turnover at £1,166 million was up by 17%.

Content and Broadcasting traded strongly in the year. Content sales were up by 10% to £412 million. This included sales to ITV of £259 million, 7% ahead of last year and international sales of £58 million, a 10% increase. Broadcasting sales at £670 million were 7% ahead of last year with growth of 8.4% in advertising revenues to £647 million and sponsorship income of £15 million, 25% up on last year.

Pre digital television, new media and exceptional earnings before interest, tax, depreciation and amortisation (EBITDA) at £279 million were 11% ahead of the pro forma figure for 1999. The pro forma result for 1999 is intended to demonstrate the result which Granada Media would have achieved in 1999 if it had been a separately listed company for the same period as it has been in 2000 and if FRS 15, requiring the depreciation of freehold and long leasehold buildings, had been in effect in that year.

The adjustments made to the 1999 operating profit in calculating the pro forma operating profit are summarised in the table below.

Operating profit before digital television, new media and exceptional items at £253 million was 8% up on last year's pro forma result.

Share of operating profits from joint ventures and associates included a first time contribution of £4 million from our 50% interest in Boxclever.

Net interest income before digital television, new media and exceptionals of £41 million compared with £48 million last year. The current year's interest income reflects interest earned on funds deposited with Granada Group PLC (which were settled as part of the Group restructuring carried out in preparation for the IPO) of £13 million, £39 million of net interest on external cash deposits (including the IPO and Boxclever disposal proceeds) offset by an £11 million charge for Granada's share of Boxclever's interest expense.

Profit before tax, digital television, new media and exceptional items was £301 million, up 7% on last year's pro forma result.



### 1999 pro forma adjustments

	£m	£m
Group operating profit as reported		251
Adjustments for costs arising from plc status:		
Share schemes	(8)	
Pensions	(5)	
Plc costs	(1)	
		(14)
Impact of FRS 15		(2)
Pro forma operating profit		235

**Digital television, new media and exceptional items** Digital television, new media and exceptional items before tax amounted to £12 million and are detailed in the table below.

In reporting our results we have separately identified £199 million of costs incurred in building our digital television and new media related activities. This treatment ensures clear presentation of the performance of our existing businesses. Digital television and new media costs include £145 million for our share of ONdigital's trading losses, £14 million of interest costs representing the interest on the cumulative funds we have invested in ONdigital and a further £40 million of other digital television and new media related costs. These include the costs of our online activities including Ask Jeeves, Swapitshop, ITV2, digital simulcast costs and the costs of new channels specifically for transmission on digital platforms including Shop! and MUTV.

Exceptional profits before tax were £211 million. This included £300 million from the sale of our 4% indirect interest in BSkyB which was sold in October 1999 for £409 million. We also realised a profit of £87 million on the sale of Granada's consumer television and video rental business into Boxclever. This disposal took place at the end of June 2000 and released £511 million of net cash to Granada leaving us with a 50% stake in the Boxclever joint venture.

Exceptional items also included £33 million of costs arising from the merger of Granada Group PLC with Compass Group PLC. The merger costs comprise advisers and other fees of £22 million and £11 million of costs from the closure of the Granada Studios Tour hospitality business transferred to Granada Media prior to the merger. Other exceptional items were £19 million of reorganisation costs from the Boxclever joint venture and a cost of £124 million from the write off of the SSAP24 pension prepayment transferred from Granada Group PLC prior to the IPO. The need for this write off is explained in note 5 to the accounts on page 49.

#### **Taxation, earnings and dividend**

The tax charge on profits before digital television, new media and exceptional items was 31% compared with 30% incurred last year. The effective tax rate of 31% is higher than the nominal UK corporation tax rate of 30% because of certain disallowable expenses incurred in our core business. We expect to maintain the effective tax rate on profits before amortisation of goodwill at a broadly similar level during next year.

The tax credit in respect of digital television and new media amounted to £42 million. The exceptional items do not give rise to a tax charge or credit.

Profit after tax but before digital television, new media and exceptional items was £207 million. Basic earnings per share before digital television, new media and exceptional items were up 24% to

2.6 pence. To demonstrate the underlying growth in earnings we have provided an adjusted earnings per share figure for both 2000 and 1999. This adjusted figure treats the weighted average number of shares as 1.5 billion in both years being the number of shares in issue at 30 September 2000. Adjusted earnings per share before digital television, new media and exceptional items were 13.8 pence, 9% up on last year's pro forma earnings.

We are proposing a maiden final dividend of 3.5 pence per share totalling £53 million. This is based on a notional full year dividend of approximately 5.5 pence. A full year dividend of 5.5 pence would give dividend cover of slightly less than three times based on a notional 2000 earnings figure for Granada Media if it had been a separate listed entity for the entire year.

The total dividend cost of £252 million shown in the profit and loss account includes the final proposed dividend of £53 million and dividends totalling £199 million paid to Granada Group PLC as part of the restructuring of the Group prior to the IPO.

#### **Net assets and shareholders' funds**

Net assets and shareholders' funds at the year end increased from £848 million to £2,340 million.

The principal reason for the increase in shareholders' funds was the issue of 300 million shares at 515 pence per share in our IPO. This increased share capital by £7.5 million and the share

#### **Digital television, new media and exceptional items**

	£m
Digital television and new media:	
Operating items	(19)
Share of associates' losses	(21)
Share of joint venture (ONdigital) losses	(145)
Interest cost of funding investment in ONdigital	(14)
Digital television and new media before tax	(199)
Exceptional items:	
Costs of merger with Compass Group PLC	(33)
Write off of SSAP24 pension prepayment	(124)
Share of Boxclever reorganisation costs	(19)
Profit on sale of indirect stake in BSkyB	300
Profit on sale of consumer television and video rental business to Boxclever	87
Exceptional items before tax	211
Total digital television, new media and exceptional items before tax	12

premium account by £1,537 million net of expenses of the IPO totalling £52 million.

In addition in the year we issued 22.5 million shares to Granada Group PLC as consideration for the transfer to Granada Media of Granada Group's interest in ONdigital.

**Cash flow** Cash flow is shown in the table below.

The increase in EBITDA before digital television, new media and exceptional items was £13 million. Net cash inflow from operations before digital television, new media and exceptional items increased by £40 million to £284 million. Cash outflow from digital television, new media and exceptional items of £33 million included £19 million of operating digital and new media expenses and £10 million of spend on costs of the merger with Compass Group PLC.

Tax paid of £76 million compared with payments of £106 million in 1999. Tax payments in 1999 were high as a result of the transitional arrangements as we moved to a payments-on-account basis for the settlement of corporation tax liabilities.

Financial investment comprised £409 million of net proceeds on sale of the indirect stake in BSkyB offset by costs of £597 million arising from the purchase of investments. This included £157 million of funding for ONdigital, £60 million investment in Channel 7 Australia, £136 million paid to Granada Group PLC for the 18% interest in

Scottish Media and £20 million for the Liverpool FC.com investment.

Acquisitions and disposals comprised £511 million of cash realised on the sale of Granada's consumer television and video rental business into the Boxclever joint venture offset by the costs of acquisition of new subsidiaries totalling £443 million. This included £223 million (excluding loans and overdrafts acquired of £158 million) paid to Granada Group PLC for the consumer television and video rental business and the £26 million cost of acquisition of the NFER Nelson education business.

Net external funds increased by £1,633 million to £1,854 million with the £1,482 million proceeds from the issue of share capital being the main driver behind the increase.

**Treasury policy** At 30 September 2000 the net cash position of the Group was £1,854 million. The bulk of this cash held on short term deposit, represented proceeds received from the IPO of Granada Media plc and the Boxclever transaction.

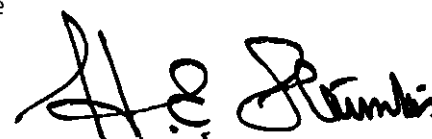
A central department in London, following policies and procedures which are approved by the Board, manages the Group's treasury operations. The objective is to safeguard the financial assets of the Group and to identify and manage financial risk, including movements in interest and foreign exchange rates. Where deemed appropriate, financial instruments and derivatives will be used

to manage these risks. No speculative transactions are undertaken. The treasury department reports regularly to the Audit Committee.

Treasury policy is that deposits, derivatives and other financial instruments will only be entered into with bank counterparties with minimum Moody's long and short term ratings of A3/P1 respectively. The amount and maturity of such exposures is limited for each bank according to its rating and is constantly monitored. It is the Group's policy to establish strong relationships with a number of banks to ensure a balanced spread of risk and to provide for any future funding requirements.

Transactional foreign exchange exposures (trading activities of subsidiaries in currencies other than their functional currency) are covered into the functional currency at the time of the commitment, using forward foreign exchange contracts. It is also Group's policy to match the currency of net investments with that of financing to protect the sterling value of its consolidated balance sheet.

Further details of the Group's cash position and financial risks are shown in notes 18 to 20 on pages 55 to 57.



Henry Staunton Finance Director

## Cash flow

	2000 £m	1999 £m
Net cash inflow from operations:		
Before digital television, new media and exceptionals	284	244
Digital television, new media and exceptionals	(33)	(22)
Total	251	222
Capital expenditure (net)	(34)	(29)
Tax paid	(76)	(106)
Interest, dividends and investment income	25	38
Net business cash flow	166	125
Financial investment	(188)	377
Acquisitions and disposals	68	(34)
Net cash flow before dividends and financing	46	468

## Community and charitable

ITV is the UK's leading regional broadcaster. All 15 ITV regional licensees provide a comprehensive regional programme service, equivalent to over 10,000 hours of programming every year. In addition, ITV's national network service is uniquely representative of the UK regions, with the majority of commissioned programmes made outside London and programmes like *Coronation Street*, *Where the Heart Is*, *Emmerdale* and *Cold Feet* giving the network a strong regional flavour. As a major regional employer and the UK's largest regional producer and broadcaster, Granada is committed to sustaining ITV's regional dimension.

The economic impact of Granada's production and broadcasting investment in each of its ITV regions is significant. The Manchester Business School recently estimated it at nearly £200 million per year in the North West alone. But Granada's regional commitment spreads beyond regional programming and production investment. Granada believes in putting something back into each of the communities it serves and supports a wide array of regional community and charitable initiatives. Some highlights from last year's activities follow.

**Granada Television's Live Challenge** completed the distribution of £1 million to 25 children and young people's projects across both the North West and Border regions. Live Challenge continued the good work of the Granada Community Challenge which created £8 million of community facilities across the region. The Granada Foundation has now made grants totalling more than £2.5 million to arts and science organisations across the North West, including the National Museums and Galleries on Merseyside and the Royal Northern College of Music. Granada's telephone helpline, Careline, has been providing advice and support over the Christmas period for more than ten years. As part of ITV's Year of Promise campaign, Granada has also supported the Warrington Peace Centre. Granada is developing a major new project focusing on education and life long learning.

**LWT's** flagship community arts initiative, *Our London*, enabled hundreds of young Londoners to build new skills and experience through a wide range of arts projects, developed around the issues important for the new London mayor. The LWT Action Unit continued to offer viewers extensive information and advice

Below:  
LWT's *Our London*



Right:  
Yorkshire's Right  
to Read

Below:  
Tyne Tees' SignPost



linked to regional programmes, in the form of publications, workshops and telephone helplines. The Millennium Line, run in partnership with Capital Radio and the Evening Standard, provided a telephone service offering information and advice to Londoners over the holiday period. The service dealt with over 125,000 calls – from offering travel and entertainment advice to liaison with the Samaritans to support more vulnerable callers. Other LWT community initiatives include a literacy support scheme and opening the London TV Centre's doors to the general public as part of the String of Pearls Festival in summer 2000.

**Yorkshire Television's** ITV Year of Promise pledge was "Right to Read", a regional partnership which has helped over 4,000 children with their reading skills. Building on our strong relationships with local colleges and universities, Yorkshire is now offering even more support with a new education partnership project. Yorkshire's Action Time Trust helped deliver 14 community projects throughout the region with a value of £1 million, bringing the Trust's work to date to 75 projects, totalling £18 million in value.

The Trust helps galvanise viewers and companies to support community projects featured in special *Action Time* programmes. Overall Yorkshire supported more than 200 local charities through the year with many more charitable events involving Yorkshire Television on-screen talent. Yorkshire was also pleased to host the TV from the Nations and Regions New Frontiers Conference.

**Tyne Tees Television** has taken a leading role in a major numeracy project in the North East. Primary schools across the region benefited from the initiative, which was part-funded by Tyne Tees' staff donating their final hour's salary from 1999. Tyne Tees Television has also joined the NECCI Partnership, which brings together companies in the North East who have a keen interest in community involvement. SignPost was launched at Tyne Tees in April 2000 to meet the increasing demand for on-screen British Sign Language translation and has already become the market leader, employing 30 staff. SignPost has won ministerial praise for its policy of employing deaf people and receives grant aid from One NorthEast and the European Social Fund.

**Anglia Television and Meridian Broadcasting** bring a further range of regional community and charitable initiatives to Granada Media. The Anglia Waste Awareness Campaign "Slim Your Bin!" won the National Recycling Award for Best Partnership Project in 2000. The initiative, involving community service announcements, a prime time documentary, 60,000 information packs and a major roadshow, has been extended into the "Smart Shopping" campaign this year, with the involvement of Anglia celebrities including Trisha Goddard. Meridian undertakes an annual week of special programming under the *Spotlight* banner, focusing on a particular issue of community concern, such as ageing. Local history programme *Time Tourists* is supported by a full website and offers schools opportunities for historical research as part of the National Curriculum. *Meridian Tonight* uses its popularity with viewers to highlight important social issues. Tens of thousands of viewers of the Southampton based edition responded to a plea for bone marrow donors following a *Meridian Tonight* story.

Right:  
Meridian's Time Tourists



Below:  
Granada's Careline



Below:  
Anglia's Smart Shopping



# Environmental

**Commitment** At Granada Media we believe that environmental performance should be an integral part of the business. We are committed to protecting the environment for the benefit of all our stakeholders, including our customers, staff and the local communities within which we operate. Graham Parrott is responsible for environmental issues within the Company.

**Policy** Granada Media recognises the need to balance business plans and operations with the allocation of adequate resources to prevent pollution and provide sustainable developments in the future. The Company is committed to the integration of environmental management issues into all parts of its business and will strive to improve environmental performance.

There is an Environmental Policy and a management framework in place. Copies of these are available on request from the Company Secretary's office.

**Key environmental issues** A proportion of our income is derived from studio time used by independent producers. Control of the activity of tenants and customers, particularly in relation to energy, resources, waste management and pollution prevention is one area where enhanced environmental management performance will be sought.

The set of Emmerdale is the only purpose built village for television location work in the UK. This has produced unique environmental management requirements

including the need to maintain very strict controls to ensure complete compliance with the planning consents which were granted. In particular, the sewage plant is carefully maintained under Consent to Discharge conditions in order to avoid water pollution incidents to sensitive surface waters on the country estate where the village is located.

The London Television Centre is unusual as a TV studio, in that it includes a 22 storey city centre office block, with areas sub-let. Combined Heat and Power (CHP) has been determined as being viable here and has been the subject of recent investment. There are open evaporative cooling towers at this location which are subject to appropriate management controls.

See table below for further information.

**Achievements** In the past few years we have set improvement targets in energy, water and waste reduction along with targets for the enhancement of Environmental Management Systems. We intend to formalise this and will publish improvement targets where possible with an aim to extend these further as management systems develop over time. Examples of some of the achievements within the business are set out below.

**External audit** A detailed audit of environmental management and performance across our UK operations is conducted annually. The results of this year's audit have confirmed that Granada

Media is not a major polluter of the environment. Whilst recognising that we are by virtue of the size of the business significant users of energy and to a lesser extent water and also generators of waste, our businesses generally impose only a minimal adverse effect on the environment. The recommendations presented by the independent advisers are being used to establish action plans for the future.

**Legal Compliance** The above audit identified no significant breaches of environmental legislation nor have there been any pollution incidents arising from our business activities over the past 12 months.

**Performance** Granada Media is keen to develop environmental reporting. We plan to report publicly on our environmental policies giving performance data (where available) before the end of 2001, starting by reporting on greenhouse gas emissions, waste and water in line with DETR guidance. In light of the recent acquisitions we do not expect to be able to provide performance data for all sections of our business (e.g. where suitable management systems have not been in place) – we will however strive to develop such management systems with a view to improve environmental performance and report data in future.

## Achievements

10% reduction of total waste to landfill.  
Replacement of all halon fire extinguishers.  
Paper, toner, newspapers and lightbulbs recycled.  
Creation of Environmental Action Group.  
Evaluation of Green Transport Policy.  
Aluminium can recycling points on site.  
Water conservation units installed in auto flush lavatories.  
Hand basins fitted with percussion taps.  
Environmental awareness training commenced for employees.  
Automated building management system for ventilation controls.  
Increased use of smaller pool cars and promotion of car sharing.  
"Waste Alert" scheme established to promote recycling.

## Key environmental issues

Issue	Key Impact	Actions
<b>Transport</b>	Operation of company car fleet. A large amount of work on location involves widespread use of vehicles.	Evaluation of Green Transport Policy. Reduction in use of HGVs and 'routine' journeys. Vehicle sharing by crews promoted.
<b>Energy</b>	Electrical lighting and other equipment, particularly within studios.	Energy efficiency plans established with targets for energy efficiency. Energy management and energy savings systems installed as buildings refurbished. Combined heat and power under consideration for major sites.
<b>Resources</b>	Materials usage in the production scenery.	Scenery from softwood of sustainable resources.
<b>Emissions to Atmosphere</b>	Air conditioning plant and fire extinguishers contain ozone depleting gases.	Minimal emissions. Gases are held in sealed containers. Replacement programme for halon extinguishers.
<b>Waste</b>	Predominantly waste paper, toner cartridges, etc.	Waste minimisation plans with targets for waste generation. Paper and toner cartridge recycling schemes established. Recycling of scenery materials.



## Board of directors

**Charles Allen<sup>\*</sup> – Executive Chairman**

Aged 43. Joined Granada in 1991. Joined the Granada Group Board in 1992. Joint Deputy Chairman of Granada Compass plc, Chairman of ONdigital plc and Box Clever Technology Limited and a non-executive director of Tesco PLC. Chairman of Manchester Commonwealth Games Limited and a director of the International Council of the National Academy of Television, Arts and Sciences. Fellow of the Royal Society of Arts and Vice-President of the Royal Television Society. Previous career includes British Steel Corporation, TM Group Limited, Grand Metropolitan PLC and Compass Group PLC.

**Steve Morrison – Chief Executive**

Aged 53. Joined Granada Television in 1974. Member of the ITV Council; Director, ONdigital plc; Governor, National Film and Television School; and Fellow, Royal Television Society.

**Henry Staunton – Finance Director and Deputy Chairman Media Ventures**

Aged 52. Joined Granada in 1993 as Finance Director. Director of Granada Compass plc, ONdigital plc and Box Clever Technology Limited. Non-executive director of Emap plc and Ashtead Group plc. Previously a Senior Audit Partner at Price Waterhouse.

**Nigel Rich<sup>\*\*</sup> – non-executive**

Aged 55. Chairman of Hamptons Group Limited and Deputy Chairman Exel plc (formerly Ocean Group PLC). Non-executive director of John Armit Wines Limited, Matheson & Co Limited, Harvey Nichols Group Plc and Pacific Assets Trust plc. Formerly Chief Executive of Trafalgar House (1994-96), Managing Director of Jardine Matheson Holdings (1989-94) and non-executive director of The Hong Kong & Shanghai Bank (1989-93) and Granada Group PLC (1998-2000).

**David Chance<sup>\*\*</sup> – non-executive**

Aged 43. Executive Vice Chairman of InterTrust Technologies Incorporated, a San Francisco based digital rights management technology company. Non-executive director of Modern Times Group, the primary pay TV operator in Scandinavia, and Sunderland Plc. Formerly Deputy Managing Director of British Sky Broadcasting Group PLC from 1994-1998, and then a consultant and non-executive director until August 1999.

<sup>\*</sup>Member of the Nomination Committee.

<sup>\*\*</sup>Member of the Audit and Remuneration Committees.

# Directors' report

## 1 Granada Media

The Company was incorporated and registered in England and Wales on 26 September 1995 as a private limited company with the name G M I (H) Limited. On 26 May 2000 the Company changed its name to Granada Media Limited and on 23 June 2000 it re-registered as a public company.

## 2 Principal activities of the Group and review of the year

Principal activities of the Group, a review of the trading results and future developments are contained on pages 12 to 35.

Turnover by major activity is shown on page 48.

## 3 Share capital

On 10 May 2000, the Company allotted 22,500,000 ordinary shares of £1 each to Granada Group PLC in consideration for the transfer of the entire issued "G" class share capital of ONdigital Holdings Limited.

On 1 June 2000, the Company allotted 90,000 ordinary shares of £1 each to Granada Group PLC for a consideration of £2 million.

On 10 July 2000 (a) the authorised share capital of the Company was increased to £306,250,000 by the creation of an additional 53,750,000 ordinary shares of £1 each; (b) 30,000,000 existing ordinary shares of £1 each in the capital of the Company and all the authorised but unissued ordinary shares of £1 were subdivided into ordinary shares of 2.5 pence each; (c) the remaining 219,226,116 existing issued ordinary shares of £1 each were converted into 219,226,116 participating preference shares of £1 each.

On 18 July 2000, the Company issued a total of 300,000,000 ordinary shares of 2.5 pence each to investors for cash at 515 pence per share.

## 4 Dividend

A final dividend on the ordinary shares is proposed for the year ended 30 September 2000 of 3.5 pence per share payable on 2 April 2001 to shareholders on the register at the close of business on 26 January 2001. The shares will be quoted ex-dividend from 22 January 2001.

## 5 Substantial shareholdings

As at 1 December 2000 Granada Compass plc had an interest representing 80% of the issued ordinary share capital and all of the participating preference shares and The Capital Group Companies, Inc had interests of 3.15% in the Company's issued ordinary share capital.

A profile of shareholdings is set out on page 70.

## 6 Directors

Steve Morrison was a Director of the Company throughout the year ended 30 September 2000. On 25 May 2000, Charles Allen was appointed a director and Chairman and Henry Staunton and Nigel Rich were each appointed directors. David Chance was appointed a director on 15 June 2000. In accordance with the Company's Articles of Association, each of the directors retire from office and being eligible offer themselves for election. Stacey Cartwright resigned as a director on 17 November 1999.

No director had any interest in any contract with the Company or its subsidiary undertakings except as disclosed in this Report and Accounts.

## 7 Directors' interests

Shareholdings in the ordinary share capital of Granada Media plc and Granada Compass plc (the ultimate holding company) beneficially owned by directors and their family interests are set out below. Details of directors' awards under the Deferred Share Award Plan, awards and options under the Commitment Scheme and options over ordinary shares are set out in the Remuneration report on pages 65 to 69.

	Granada Media plc		Granada Compass plc	
	30 September 2000	30 September 1999 (or date of appointment if later)	30 September 2000	*3 April 2000 (or date of appointment to the Board of Granada Media plc if later)
Charles Allen	582,524	—	402,474	—
David Chance	9,000	—	—	—
Steve Morrison	244,660	—	156,769	—
Nigel Rich	10,000	—	4,528	—
Henry Staunton	500,000	—	287,398	—

\*The date of incorporation of Granada Compass plc.

Between the end of the financial year and 1 December 2000 there were no changes in directors' interests except for the beneficial acquisition (under the terms of the Granada Group PLC Dividend Reinvestment Plan) by Charles Allen of seven shares and Henry Staunton of six shares in the capital of Granada Compass plc and the acquisition by Nigel Rich of 14,440 ordinary shares in the capital of the Company.

**8 Principal transactions and post balance sheet events**

During the year there was an IPO of 20% of the Company's shares. Consequently, Granada Compass plc now holds 80% of the shares. In preparation for the IPO certain investments and subsidiaries were transferred from Granada Group PLC to the Company including those in ONdigital, the Scottish Media Group, Independent Television News and Granada Technology Group. On 4 October 2000, the Company acquired effective management control of the television interests of United News & Media plc. Subsequently on 24 October 2000 the Company agreed to sell the licence and broadcasting interests of HTV Group Limited to Carlton Communications plc (Carlton) for a consideration of £181 million in cash plus Carlton's 20% interest in Meridian Broadcasting Limited.

**9 Properties**

Note 12 to the accounts gives details of the valuations of the Group's operating properties.

**10 Donations**

Grants and charitable donations amounted to £1 million. There were no political contributions.

**11 Employment policies**

The employment policies of the Company embody the principles of equal opportunity and are tailored to meet the needs of its businesses and the local areas in which they operate. This includes suitable procedures to support the Company's policy that disabled persons (whether registered or not) shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

In support of its commitment to best practice in employment, the Company is an active member of organisations such as The Employers Forum on Disability, Race for Opportunity and Project Full-employ, all of which promote minority interests to encourage diversity in the workplace.

The Company recognises the value of employee involvement in effective communications and the need for their contribution to decision making on matters affecting their jobs. To achieve employee involvement at the most relevant level, the Company has a framework for consultation and information, having regard to the mix and locations of their employee population. Management and employees have joint responsibility for maintaining a regular dialogue on matters of local significance and on those transnational issues that affect them. It is the Company's policy to communicate information on corporate issues, including financial information, at least twice a year through employee reports and periodic company newsletters.

**12 Creditor payment policy**

The Company's policy, in relation to all its suppliers, is to settle 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 or services in accordance with the agreed terms and conditions. The Company does not follow any code or standard on payment practice. The number of days' purchases outstanding for payment by the Company as at 30 September 2000 was 35 days (1999: 39 days).

**13 Purchase and acquisition of own shares**


The Granada Media Employee Benefit Trust is a discretionary trust which has been funded by a £43 million loan from the Company to acquire shares in Granada Media plc. At 30 September 2000 the trust held 7,890,094 shares (2.6%). Further details are set out in note 22 to the accounts and on pages 65 and 66 of the Remuneration report.

**14 Annual General Meeting**

The Annual General Meeting will be held on Wednesday 7 February 2001 at 10.55 a.m. in the Fleming Room at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. Notice is sent to shareholders separately with this report. It is expected that by the date of the Annual General Meeting 2001, the demerger of the hospitality business of Granada Compass plc and the consolidation of the listings of Granada Compass plc and the Company will have occurred. At that time, the Company will become a wholly owned subsidiary of Granada Group PLC. On the assumption that the demerger and consolidation of listings will become effective by that date, only Granada Group PLC will be entitled to attend and vote at the Annual General Meeting.

**15 Auditors**

A resolution for the re-appointment of KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting.



By Order of the Board  
Graham Parrott  
Secretary

The London Television Centre  
Upper Ground  
London SE1 9LT  
1 December 2000

## 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 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 judgments 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 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.

## Auditors' report

### Report of the auditors to the members of Granada Media plc

We have audited the financial statements on pages 43 to 62.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described above this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 63 and 64 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Wm. A. A. M.*  
**KPMG Audit Plc**

Chartered Accountants, Registered Auditor

London

1 December 2000.

# Accounting policies

## 1 Basis of accounting

The accounts have been prepared under the historical cost convention as modified by revaluations of certain fixed assets and in accordance with applicable accounting standards except as explained in accounting policy 2 below and note 5 to the accounts in respect of the transfer to the Company of ONdigital and pension costs. As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the parent company only has not been presented.

The Group has adopted the following new Financial Reporting Standards ('FRS') for the first time:

### FRS 15 – Tangible fixed assets

This standard addresses the measurement, valuation and depreciation of tangible fixed assets. The Group has adopted the transitional arrangements of the standard and has retained the book amounts of certain tangible assets which were previously revalued. It is expected that no further valuations will be carried out.

### FRS 16 – Current tax

This standard specifies how current tax, in particular withholding tax and tax credits should be reflected in financial statements.

## 2 Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and all of its subsidiaries and includes the Group's share of the results and net assets of its associates and gross equity of joint ventures. The accounts of principal subsidiaries, associates and joint ventures are made up to 30 September.

During the year an investment held by Granada Group PLC in 50% of the ordinary share capital of ONdigital was transferred to the Company in return for the issue of ordinary shares in the Company. At the time of the transfer the Company was a wholly owned subsidiary of Granada Group PLC. In the accounts of the Company, the investment in ONdigital has been recorded at the book value of the investment in the accounts of the transferor, in accordance with section 132 Companies Act 1985. In the consolidated accounts of the Company, FRS 9 Associates and joint ventures requires that, when an entity acquires a joint venture, fair values should be attributed to the investee's underlying assets and liabilities and goodwill recognised. However, the directors consider that the transaction is in substance a group reorganisation, since it took place while the Company was wholly owned by the transferor, and that the treatment required by FRS 9 would fail to give a true and fair view. Accordingly, the directors have applied the principles of merger accounting to the transfer so as to include the results, assets and liabilities of ONdigital, a joint venture, as if the investment had always been held by the Company. It is not possible to quantify the effect of this departure.

The results of businesses acquired during the period are included from the effective date of acquisition. Goodwill arising on acquisitions since 30 September 1998 is capitalised and amortised over its expected useful life. Goodwill arising on acquisitions up to 30 September 1998 has, in accordance with the transitional arrangements under FRS 10, been charged against reserves. The results of businesses sold during the period are included up to the date on which control was relinquished.

## 3 Turnover and income

Turnover is stated exclusive of VAT and consists of sales of goods and services to third parties.

## 4 EBITDA

The directors consider that earnings before interest, tax, depreciation and amortisation is a standard measure widely used by analysts, investors and other interested parties in the media industry. Accordingly, the profit and loss account has been amended to provide this information.

## 5 Depreciation

Depreciation is provided to write off the book value less estimated residual value of certain fixed assets on a systematic basis over their estimated useful lives. The major categories of fixed assets are depreciated as follows:

Vehicles, equipment and fittings	3 to 10 years
Properties:	
Television studios	50 years
Leaseholds	Residual lease term
Freehold property (excluding land)	50 years

No depreciation was provided on freehold and long leasehold properties in the year ended 30 September 1999. Depreciation is not charged on freehold land.

FRS 15, Tangible Fixed Assets, was adopted with effect from the start of the year ended 30 September 2000. The depreciation charge has increased by £2 million following the introduction of FRS 15.

## 6 Foreign currencies

Overseas trading results are translated into sterling at the average rates of exchange ruling during the financial year. Overseas net assets and UK loans denominated in foreign currencies are translated into sterling at period end rates of exchange. Exchange differences arising on the Group's net investments in overseas subsidiary undertakings and on borrowings in foreign currency financing those investments are dealt with through reserves. Other exchange differences are taken to the profit and loss account.

## 7 Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. Assets held under such leases are capitalised as tangible fixed assets and depreciation is provided where appropriate. Outstanding finance lease obligations, which comprise principal plus accrued interest, are included within creditors. The finance element of the agreements is charged to the profit and loss account over the term of the lease on a systematic basis. All other leases are operating leases. The rentals on such leases are charged to the profit and loss account on a straight line basis over the lease term.

## 8 Stocks

Own programme costs are written off in full on first transmission; certain film rights are written off over a number of transmissions. Film and programme costs not yet written off at the balance sheet date are included in stocks.

## 9 Deferred taxation

Provision is made for the effect of timing differences between the accounts and tax treatments of certain items of revenue and expense to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. No deferred taxation is provided in respect of pension credits.

## 10 Pension cost

The expected cost to the Group of pensions in respect of its participation in Granada Group PLC's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. Variations from the regular cost are spread over the remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries and accounted for as explained in note 5 below.

## Consolidated profit and loss account

		Total before digital television, new media and exceptional items 2000 £m	Digital television, new media and exceptional items (note 6) 2000 £m	Total after digital television, new media and exceptional items 2000 £m	Total before digital television, new media and exceptional items 1999 £m	Digital television, new media and exceptional items (note 6) 1999 £m	Total after digital television, new media and exceptional items 1999 £m	Pro forma* before digital television, new media and exceptional items 1999 £m
For the year ended 30 September 2000	Note							
Turnover		1,166	53	1,219	998	11	1,009	998
Less: share of joint ventures' turnover		(79)	(53)	(132)	—	(11)	(11)	—
Group turnover	1	1,087	—	1,087	998	—	998	998
Operating costs before depreciation and amortisation	2,3	808	176	984	732	12	744	746
EBITDA		279	(176)	103	266	(12)	254	252
Depreciation on tangible assets		23	—	23	15	—	15	17
Amortisation of goodwill		3	—	3	—	—	—	—
Group operating profit		253	(176)	77	251	(12)	239	235
Share of operating profits/(losses) in joint ventures and associates		3	(185)	(182)	(3)	(90)	(93)	(3)
Investment income		4	—	4	—	—	—	—
Exceptional profits:								
Profit on disposal of investments		—	300	300	—	347	347	—
Profit on disposal of businesses		—	87	87	—	—	—	—
Profit before interest and tax		260	26	286	248	245	493	232
Net interest	7	41	(14)	27	48	(5)	43	48
Profit on ordinary activities before taxation		301	12	313	296	240	536	280
Tax on profit on ordinary activities	8	(94)	42	(52)	(90)	29	(61)	(90)
Profit on ordinary activities after taxation		207	54	261	206	269	475	190
Dividends on equity shares	9	(252)	—	(252)	(181)	—	(181)	(181)
Amount transferred to reserves	24	(45)	54	9	25	269	294	9
Earnings per share (basic)	10	2.6p		3.2p	2.1p		4.8p	1.9p
Earnings per share (diluted)	10	2.6p		3.2p	2.1p		4.8p	1.9p
Adjusted earnings per share		13.8p		17.3p	13.7p		31.6p	12.7p

Movements in capital and reserves are set out in note 24.

The results for both the current and prior period derive from continuing activities.

\*The pro forma results for 1999 are intended to demonstrate the result which Granada Media would have achieved in 1999 if it had been an independently listed company for the same period as it has been in 2000 and if FRS 15 had been in effect in that year. Reported 1999 Group operating profit has been reduced by £16 million in arriving at the pro forma operating profit, as a result of additional charges made for pension costs, share incentive costs and depreciation.

## Consolidated statement of total recognised gains and losses

	2000 £m	1999 £m
For the year ended 30 September 2000		
Profit for the financial period:		
Group	401	542
Joint ventures	(122)	(55)
Associates	(18)	(12)
Total recognised gains and losses relating to the period	261	475

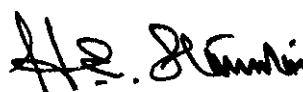
## Note on historical cost profits and losses

There is no material difference between profits for the current or the prior year and those calculated on a historical cost basis.

# Consolidated balance sheet

At 30 September 2000	Note	£m	2000 £m	£m	1999 £m
<b>Fixed assets:</b>					
Intangible assets – goodwill	11		59		32
Tangible assets	12		215		171
Investments	13				
Joint ventures:					
Share of gross assets		681		84	
Share of gross liabilities		(665)		(83)	
		16		1	
Associates		41		5	
Other investments		271		24	
			328		30
			602		233
<b>Current assets:</b>					
Stocks		151		144	
Debtors: amounts falling due within one year	14	249		657	
Debtors: amounts falling due after more than one year	15	–		82	
Cash and short term deposits	18	1,939		224	
		2,339		1,107	
<b>Creditors: amounts falling due within one year:</b>					
Borrowings	19	65		2	
Other creditors	16	496		478	
		561		480	
Net current assets			1,778		627
Total assets less current liabilities			2,380		860
<b>Creditors: amounts falling due after more than one year:</b>					
Borrowings	19	20		1	
Other creditors	17	20		11	
			40		12
Provisions for liabilities and charges	21		–		–
Net assets			2,340		848
<b>Capital and reserves:</b>					
Called up share capital	22		257		227
Share premium account	24		2,232		651
Shares to be issued	24		–		116
Revaluation reserve	24		40		40
Profit and loss account	24		(189)		(186)
Equity shareholders' funds			2,340		848

The accounts were approved by the Board of Directors on 1 December 2000 and were signed on its behalf by:  
**Charles Allen, Henry Staunton** Directors

# Consolidated cash flow statement

For the year ended 30 September 2000	Note	£m	2000 £m	1999 £m
Net cash inflow from operating activities:	4			
Before digital television, new media and exceptional items			284	244
Digital television, new media and exceptional items			(33)	(22)
Net cash inflow from operating activities			251	222
Returns on investments and servicing of finance:				
Dividends received		4	—	—
Interest received		22	44	—
Interest paid		(1)	(6)	—
			25	38
Taxation			(76)	(106)
Capital expenditure and financial investment:				
Purchase of tangible fixed assets		(36)	(29)	—
Purchase of investments		(597)	(39)	—
Sale of tangible fixed assets		2	—	—
Sale of investments		409	416	—
			(222)	348
Acquisitions and disposals:				
Purchase of businesses	25	(389)	(34)	—
Net debt acquired with purchase of businesses	25	(54)	—	—
Sale of subsidiary undertakings	25	353	—	—
Net borrowings disposed on sale of subsidiary undertakings	25	158	—	—
			68	(34)
Equity dividends paid			(349)	(181)
Net cash (outflow)/inflow before liquid resources/financing			(303)	287
Management of liquid resources				
Purchase of short term deposits			(1,904)	—
Cash flow before financing			(2,207)	287
Financing:				
Bank and other loans raised		65	—	—
Cash inflow on sale and leaseback transactions		19	—	—
Capital element of finance lease payments		(2)	(1)	—
Movement in group borrowings		454	(375)	—
Issue of ordinary share capital		1,482	—	—
Net cash inflow/(outflow) from financing			2,018	(376)
Decrease in cash in the year			(189)	(89)

## Reconciliation of net cash flow to movement in net (debt)/funds

	Note	2000 £m	1999 £m
Decrease in cash in the year		(189)	(89)
Transfer to liquid resources		1,904	—
Net amounts (paid to)/advanced from parent and fellow subsidiary undertakings		(454)	375
Bank and other loans		(65)	—
New finance leases		(19)	—
Capital element of finance lease payments		2	1
Movement in net funds in the year		1,179	287
Opening net funds		665	378
Closing net funds	18	1,844	665
Closing amount due to/(from) parent and fellow subsidiary undertakings		10	(444)
Closing external net funds		1,854	221

On 10 May 2000 the Company acquired 50% of the ordinary shares of ONdigital Holdings Limited. Consideration of £116 million was satisfied by the issue of 22,500,000 ordinary £1 shares.

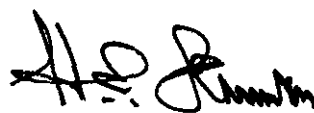


# Company balance sheet

At 30 September 2000

	Note	£m	2000 £m	£m	1999 £m
<b>Fixed assets:</b>					
Investments in subsidiary undertakings	23		2,117		1,514
Other investments	13		517		-
			2,634		1,514
<b>Current assets:</b>					
Debtors: amounts falling due within one year	14	607		150	
Debtors: amounts falling due after more than one year	15	-		-	
Cash and short term deposits	18	1,309		-	
			1,916		150
<b>Creditors: amounts falling due within one year</b>					
Borrowings	18	60		-	
Other creditors	16	1,269		150	
			1,329		150
Net current assets			1,329		150
Net assets			587		-
			3,221		1,514
<b>Capital and reserves:</b>					
Called up share capital	22		257		227
Share premium account	24		2,232		651
Merger reserve	24		636		636
Profit and loss account	24		96		-
Equity shareholders' funds			3,221		1,514

The accounts were approved by the Board of Directors on 1 December 2000 and were signed by:  
**Charles Allen, Henry Staunton** Directors

## Notes to the accounts

### 1 Turnover, profit before interest and tax and net assets

In the view of the directors, Granada Media plc has only one business segment which includes interests in broadcasting, production, digital television and other new media activities.

Analysis by geographic origin:	Turnover 2000 £m	Profit 2000 £m	Net assets 2000 £m	Turnover 1999 £m	Profit 1999 £m	Net assets 1999 £m
United Kingdom	1,062	260	486	978	248	627
Rest of the World	25	—	—	20	—	—
	1,087	260	486	998	248	627
Digital television, new media and exceptional items – United Kingdom		26			245	—
Net cash			1,854			221
Total	1,087	286	2,340	998	493	848

Turnover analysed by activity is as follows:

	2000 £m	1999 £m
Content	412	373
Broadcasting	670	625
Other	5	—
	1,087	998

Geographical segmentation of turnover by destination is not materially different from turnover by origin shown above. Turnover above represents sales to third parties.

### 2 Staff costs

	2000 £m	1999 £m
Wages and salaries	105	92
Social security	10	7
Pension and other costs (see note 5)	4	(1)
	119	98

Details of the directors' emoluments, share options, pension entitlements, and long term incentive scheme interests are set out in the Remuneration report on pages 65 to 69.

The average number of people employed by the Group during the year was 3,572 (1999: 3,030).

### 3 Net other operating costs

	2000 £m	1999 £m
Operating profit is stated after charging:		
Staff costs	119	98
Depreciation and amortisation	26	15
Television exchequer levy	88	77
Television franchise exchequer bid payment	30	42
Operating lease costs – plant and machinery	1	1
– other rentals	8	5
Other operating costs	738	521
	1,010	759

Audit fees paid to KPMG Audit Plc amounted to £297,000 (1999: £117,000). The Company's audit fee was £10,000. In the prior year Company audit fees were borne by another group company. Fees payable to KPMG Audit Plc and its associates for non-audit services amounted to £2.6 million (1999: £72,000). Non-audit services provided by KPMG Audit Plc and its associates principally comprise advice relating to the IPO in 2000 and corporation and payroll taxes advice.

Other operating costs include production costs and network schedule costs. Having regard to the special nature of the Group's business, an analysis of operating costs in the manner prescribed by the Companies Act 1985 is not meaningful. In the circumstances, the Directors have, as required by paragraph 3(3) of schedule 4 to the Companies Act 1985, adapted the prescribed format to the requirements of the Group's business.

**4 Reconciliation of operating profit to net cash inflow from operating activities**

	2000 £m	2000 £m	1999 £m	1999 £m
Cash flows before digital television, new media and exceptionals:				
Operating profit		253		251
Depreciation charges		23		15
Amortisation		3		—
Decrease/(increase) in stocks		3		(6)
Increase in debtors		(16)		(27)
Increase in creditors and provisions		18		11
		284		244
Cash flows from digital television, new media and exceptionals:				
Operating loss	(176)		(12)	
Provision for impairment	8		—	
Decrease/(increase) in debtors	124		(3)	
Increase/(decrease) in creditors and provisions	11		(7)	
		(33)		(22)
		251		222

With the exception of £2 million of expenditure in 2000 (1999: £7 million) relating to Yorkshire Tyne-Tees Television reorganisation, exceptional items relate to current year exceptional items.

**5 Pension scheme**

The principal UK pension scheme which covers the majority of Granada Media employees is the Granada Pension Scheme operated by Granada Group PLC. The scheme is a defined benefit type with assets held in separate trustee administered funds. This scheme was assessed by William M Mercer Limited, consulting actuaries, as at 1 October 1998 using the projected unit method.

The principal actuarial assumptions adopted were that the annual rate of return on investments would be 2% higher than the annual increase in total pensionable remuneration, 4% higher than the annual increase in present and future pensions and 3.5% higher than the annual increase in dividends. Based on the 1 October 1998 assessment the actuarial value of the assets of the scheme was sufficient to cover 120% of the value of benefits that had accrued to members, after allowing for expected increases in pensionable remuneration. On the recommendation of the actuaries no company contributions will be made to the scheme until at least the next actuarial valuation which is to be carried out as at 1 October 2001. The market value of the scheme's assets as at 1 October 1998 was £1,478 million. Prior to the IPO the accounting treatment that was adopted in accordance with Statement of Standard Accounting Practice 24, Accounting for pension costs, was for the actuarial surplus, excluding any amounts which relate to acquisitions, to be spread over the remaining service lives of current employees. This resulted in the recognition of a prepayment of £82 million included in debtors falling due after more than one year as at September 1999.

Actuaries have advised that the significant changes to the composition of the Granada Group will have a material impact on the future position of the main UK scheme so far as it affects Granada Media. The principal changes relate to the separation of Granada Media from the Hospitality business and the formation of the Boxclever joint venture between Granada Technology and Radio Rentals. Granada Group's Hospitality members and assets are to be transferred to a separate scheme and a new scheme will be introduced for the employees of Boxclever. So far as concerns the residual tranche of the existing scheme, which is to form the continuing scheme for employees of the Company and its subsidiaries, there will be a significant reduction in the ratio of active members to total membership. The actuaries have advised that this increased maturity will result in the adoption of an investment policy requiring a higher proportion of investment in gilts and bonds, relative to investment in equities, with a corresponding lower future yield assumption than at present applies. This together with the reduced size of the scheme will lead to a material erosion in the scheme surplus and the directors have concluded that it will be necessary to reassess the carrying value of the pension prepayment shown in the balance sheet.

Under normal application of Statement of Standard Accounting Practice 24 the amount by which the scheme surplus upon the completion of the relevant transactions falls short of the then balance sheet prepayment should be recognised over the remaining service lives of the remaining employees in the scheme. However, the projected effect of the approach will be an abnormally high pension charge as a percentage of pensionable pay. In these circumstances the directors have concluded that it would not give a true and fair view to recognise any shortfall in surplus in that manner and consider that the more appropriate treatment is to write down the pension prepayment to reflect the effect of the proposed restructuring on the cost of pension provision. This write down, based on current actuarial advice, was for all of the prepayment of £82 million as at 30 September 1999. In addition, for the same reasons, a further pension prepayment asset of some £41 million arising on assessing the fair value of the surplus coming into the Group on the transfer of Granada Technology Group to Granada Media during the year ended 30 September 2000 (see note 6) and prior to the restructuring has also been written off in the accounts for the year to 30 September 2000. The total pension prepayment write off of £124 million (including a £1 million credit made in the first half of the year) has been reflected as an exceptional charge.

As a result of the foregoing changes to pensions accounting the net charge for pensions and associated costs for Granada Media, excluding the exceptional charges of £124 million, was £4 million for the year ended 30 September 2000 (1999: net credit of £1 million).

# Notes to the accounts continued

## 6 Digital television, new media and exceptional items

	2000 £m	1999 £m
<b>Group operating items</b>		
<i>Digital television and new media</i>	<b>(19)</b>	<b>(12)</b>
<i>Exceptional operating items</i>		
Costs of merger with Compass Group PLC	<b>(33)</b>	–
Write off of SSAP24 pension prepayment	<b>(124)</b>	–
Year 2000 costs	–	(4)
Other	–	4
	<b>(157)</b>	–
<b>Other items</b>		
<i>Digital television and new media, before exceptional items</i>		
Share of associates' losses	<b>(21)</b>	(14)
Share of joint venture (ONdigital) trading losses before exceptional items	<b>(145)</b>	(69)
Interest cost of funding ONdigital	<b>(14)</b>	(5)
	<b>(180)</b>	(88)
<i>Non-operating exceptional items</i>		
Share of joint venture (ONdigital) pre trading losses	–	(7)
Share of joint venture (Boxclever) reorganisation costs	<b>(19)</b>	–
Profit on disposal of investments:		
Sale of direct stake in BSkyB	–	347
Sale of indirect stake in BSkyB	<b>300</b>	–
Sale of consumer television rental to Boxclever	<b>87</b>	–
	<b>368</b>	340
<b>Digital television and new media:</b>		
Before exceptional items	<b>(199)</b>	(100)
Exceptional items	–	(7)
<b>Total digital television and new media</b>	<b>(199)</b>	(107)
<b>Other exceptional items</b>	<b>211</b>	347
<b>Total digital television, new media and exceptional items before tax</b>	<b>12</b>	240

The exceptional profit on the sale of the consumer television rental division to Box Clever Technology Limited ("Boxclever") a company in which Granada Media has a 50% interest has been calculated by reference to the cost of acquisition of the consumer rental business upon its transfer from Granada Group PLC. In the consolidated accounts of Granada Compass plc the profit on disposal reduces to £14 million as a result of the higher book value of the net assets sold to Boxclever.

**7 Net interest**

	2000 £m	1999 £m
Interest payable:		
Bank loans and overdrafts	(2)	—
Interest cost of funding digital television	(14)	(5)
Interest cost of funding associates and joint ventures	(11)	—
	(27)	(5)
Interest receivable:		
External interest	41	1
Interest receivable from Granada Group PLC	13	47
	54	48
Net interest	27	43

Prior to the IPO Granada Media had deposited substantial funds on intercompany account with Granada Group PLC resulting in the interest receivable of £13 million shown above. These balances on intercompany account were settled as part of the Group restructuring carried out in preparation for the IPO.

**8 Taxation**

	2000 £m	1999 £m
Based on the profit on ordinary activities of the Group for the period		
Corporation tax on ordinary activities before digital television, new media and exceptionals		
UK Corporation tax at 30% (1999: 30.5%)	92	93
Deferred tax	1	—
Share of tax of associated undertakings	1	—
	94	93
Adjustment to prior years' tax provisions:		
Corporation tax	—	(3)
Tax on profit on ordinary activities before digital television, new media and exceptional items	94	90
Corporation tax on digital television and new media:		
Group	(7)	—
Share of tax of joint ventures and associated undertakings	(35)	(25)
	(42)	(25)
Corporation tax on exceptional items:		
Group	—	(2)
Share of tax of joint ventures and associated undertakings	—	(2)
	—	(4)
	52	61

**9 Dividends**

	2000 £m	1999 £m
Equity shares:		
Proposed final dividend of 3.5 pence per share, payable 2 April 2001 (1999: payable to Granada Group PLC)	53	150
Interim dividends paid to Granada Group PLC	199	31
	252	181

In 1999 and 1998 Granada Media plc paid dividends of £181 million and £150 million from reserves which were in part funded out of earlier distributions received from one of its subsidiaries. It has transpired that, as a result of a technical accounting misclassification of reserves, those distributions were paid out of an undistributable reserve in the subsidiary in question and so should not have been paid to Granada Media plc or by Granada Media plc to its shareholders. Technically Granada Media plc could have taken action to recover this distribution from relevant shareholders or directors. However, no such action was taken and the Company has now regularised matters.

## Notes to the accounts continued

## 10 Earnings per share

	Basic 2000 £m	Diluted 2000 £m	Basic and diluted 1999 £m	Basic and diluted Pro forma 1999 £m
Profit for the financial year attributable to shareholders	261	261	475	459
Digital television, new media and exceptional items	(54)	(54)	(269)	(269)
Basic profit for the financial year before digital television, new media and exceptional items	207	207	206	190
Weighted average number of shares in issue	8,055,828,400	8,055,828,400	9,965,444,640	9,965,444,640
Dilution effects of: – share options	–	517,302	–	–
	8,055,828,400	8,056,345,702	9,965,444,640	9,965,444,640
Earnings per ordinary share	3.2p	3.2p	4.8p	4.6p
Less earnings per ordinary share on digital television, new media and exceptional items	(0.6p)	(0.6p)	(2.7p)	(2.7p)
Earnings per ordinary share before digital television, new media and exceptional items	2.6p	2.6p	2.1p	1.9p
<i>Adjusted earnings per share calculation:</i>				
Impact of adjusting weighted average number of shares:				
Total earnings per share	14.1p	14.1p	26.8p	26.0p
Less digital television, new media and exceptional items	(2.9p)	(2.9p)	(15.2p)	(15.2p)
Total before digital television, new media and exceptional items	11.2p	11.2p	11.6p	10.8p
Adjusted earnings per ordinary share				
Total earnings per share	17.3p	17.3p	31.6p	30.6p
Less digital television, new media and exceptional items	(3.5p)	(3.5p)	(17.9p)	(17.9p)
Total before digital television, new media and exceptional items	13.8p	13.8p	13.7p	12.7p

Adjusted earnings per share treat the weighted average number of shares as 1,500,000,000, being those in issue at 30 September 2000.

## 11 Intangible assets – goodwill

	£m
Group	
Cost	
At 1 October 1999	32
Additions	30
At 30 September 2000	62
Amortisation	
At 30 September 2000	(3)
Net book value	
At 30 September 2000	59
At 30 September 1999	32

In accordance with transitional arrangements under FRS 10, goodwill resulting from prior year acquisitions of £1,159 million has been charged against reserves. Details of the cumulative amounts charged to reserves are set out in note 24.

**12 Tangible assets**

Group	Freehold land and buildings £m	Leasehold land and buildings		Vehicles, equipment and fittings		Rental assets £m	Total £m
		Long £m	Short £m	Owned £m	Leased £m		
Cost or valuation							
At 1 October 1999	53	51	8	221	45	–	378
Additions	–	1	–	47	–	2	50
Businesses acquired	–	–	–	18	2	41	61
Disposals	–	–	–	(3)	(1)	–	(4)
At 30 September 2000	<b>53</b>	<b>52</b>	<b>8</b>	<b>283</b>	<b>46</b>	<b>43</b>	<b>485</b>
Depreciation							
At 1 October 1999	(3)	(3)	(3)	(155)	(43)	–	(207)
Charge for period	–	(2)	–	(19)	–	(2)	(23)
Businesses acquired	–	–	–	(13)	(2)	(19)	(34)
Disposals	–	–	–	2	–	–	2
Provision for impairment	–	–	–	(8)	–	–	(8)
At 30 September 2000	<b>(3)</b>	<b>(5)</b>	<b>(3)</b>	<b>(193)</b>	<b>(45)</b>	<b>(21)</b>	<b>(270)</b>
Net book value							
At 30 September 2000	<b>50</b>	<b>47</b>	<b>5</b>	<b>90</b>	<b>1</b>	<b>22</b>	<b>215</b>
At 30 September 1999	50	48	5	66	2	–	171
Analysis of cost or valuation							
Cost	12	43	8	243	40	43	389
Valuation: 1993	41	9	–	40	6	–	96
At 30 September 2000	<b>53</b>	<b>52</b>	<b>8</b>	<b>283</b>	<b>46</b>	<b>43</b>	<b>485</b>

a Operational properties comprising freeholds, long and short leaseholds were externally valued at 2 October 1993 and the directors have incorporated those valuations into the accounts. All such properties, with the exception of Granada Television's studios and its specialist buildings, were valued on an open market for existing use basis. The studios and other specialist buildings were valued on a depreciated replacement cost basis. The valuations were carried out by Messrs Dunlop Heywood and GVA Grimley International Property Advisers.

b The technical equipment of Granada Television was revalued at 2 October 1993 by reference to the appropriate Central Statistical Office Index.

c In accordance with FRS 15, Tangible Fixed Assets, the Company has adopted a policy which will not involve the periodic revaluation of its properties. The carrying value will continue to reflect the amounts arising from the previous valuation.

d The net book value of revalued assets is £46 million (1999: £48 million).

On an historical cost basis, these assets would have been included at the following amounts:

	Freehold land and buildings £m	Leasehold land and buildings		Vehicles, equipment and fittings		Total £m
		Long £m	Short £m	Owned £m	Leased £m	
Cost	7	6	–	18	6	37
Aggregate depreciation	–	–	–	(18)	(6)	(24)
Net book amount	<b>7</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13</b>

e No deferred tax has been provided on the revaluation of fixed assets as it is not intended to dispose of the related properties.

# Notes to the accounts continued

## 13 Investments

	Group £m	Parent £m
At 1 October 1999	30	—
Additions	438	517
Share of attributable losses	(140)	—
At 30 September 2000	<b>328</b>	<b>517</b>

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Analysis of balance at 30 September 2000				
At cost	<b>568</b>	<b>517</b>	130	—
Attributable reserves	<b>(240)</b>	—	(100)	—
Total investments	<b>328</b>	<b>517</b>	30	—
Unlisted:				
Joint ventures	<b>16</b>	<b>331</b>	1	—
Associated undertakings	<b>41</b>	<b>9</b>	5	—
Trade investments	<b>34</b>	—	24	—
Investments listed – on the London Stock Exchange	<b>136</b>	<b>136</b>	—	—
– on other Exchanges	<b>60</b>	—	—	—
ESOP shares (note 22)	<b>41</b>	<b>41</b>	—	—
Total investments	<b>328</b>	<b>517</b>	30	—
Market value of listed investments:			—	—
Scottish Media Group	<b>148</b>	<b>148</b>	—	—
Seven Network	<b>83</b>	—	—	—

	Joint ventures 2000 £m	Joint ventures 1999 £m
Group share of net assets of joint ventures		
Fixed assets	<b>460</b>	36
Current assets	<b>221</b>	48
Share of gross assets	<b>681</b>	84
Current borrowings	<b>682</b>	31
Other current liabilities	<b>247</b>	52
Long term borrowings	—	—
Other long term liabilities	—	—
Share of gross liabilities	<b>929</b>	83
Less: Loans from Group companies	<b>(264)</b>	—
Group share of gross liabilities	<b>665</b>	83
Share of net assets	<b>16</b>	1

For a list of investments in which Granada Media holds equity share capital, refer to page 72.

## 14 Debtors: amounts falling due within one year

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Trade debtors	<b>181</b>	—	165	—
Amounts owed by parent and fellow subsidiary undertakings	—	<b>513</b>	458	150
Other debtors	<b>30</b>	<b>1</b>	14	—
Taxation	—	<b>65</b>	—	—
Prepayments and accrued income	<b>38</b>	<b>28</b>	20	—
	<b>249</b>	<b>607</b>	657	150



**15 Debtors: amounts falling due after more than one year**

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Prepayments and accrued income	—	—	82	—

The prepayment of £82 million at 30 September 1999 represents the Group's pension prepayment. Its treatment is described in note 5.

**16 Other creditors: amounts falling due within one year**

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Trade creditors	148	—	69	—
Amounts owed to parent and fellow subsidiary undertakings	10	1,199	14	—
Rentals and other amounts received in advance	3	—	—	—
Social security	10	—	7	—
Taxation	128	—	135	—
Other creditors	93	14	52	—
Accruals and deferred income	51	3	51	—
Dividends payable	53	53	150	150
	496	1,269	478	150

**17 Other creditors: amounts falling due after more than one year**

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Other creditors and amounts received in advance	20	—	11	—

**18 Analysis of net funds**

	30 September 2000 £m	Net cash flow £m	Other movements £m	30 September 1999 £m
Cash and short term deposits	1,939	1,715	—	224
Overdrafts and loans due after one year	(65)	(65)	—	—
Finance leases	(20)	2	(19)	(3)
Amounts owed to parent and fellow subsidiary undertakings	(10)	(454)	—	444
Net funds	1,844	1,198	(19)	665

The Company had net funds of £1,249 million as at 30 September 2000 (1999: £nil).

**19 Analysis of borrowings**

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
<b>a Maturity</b>				
The maturity of the Group's gross borrowings is:				
Within one year	65	60	2	—
Between one and two years	—	—	1	—
Between two and five years	7	—	—	—
Over five years	13	—	—	—
	85	60	3	—

The weighted average number of years to maturity of gross borrowings is 2.6 years.

**b Available facilities**

At 30 September 2000, the Group has available £350 million undrawn committed facilities, and a £20 million undrawn committed overdraft/money market facility. These expire within one year. At 30 September 1999, the Group did not have its own committed facilities. Instead, it was funded by Granada Group PLC and consequently, disclosure of facilities available to the Group at 30 September 1999 is not considered meaningful.

## Notes to the accounts continued

### 20 Financial instruments

Prior to Granada Media's IPO in July 2000, risks attaching to financial instruments were managed as part of Granada Group PLC.

Comparative information provided for the year ended 30 September 1999 should be considered in this context. Details of the Group's objectives and strategies with regard to financial instruments are set out in the Financial Review on pages 33 to 35.

The disclosures set out below exclude short term debtors and creditors as permitted under FRS 13.

#### a Interest rate and currency profile of financial instruments at year end.

##### Financial liabilities

Currency	Floating rate 2000 £m	Fixed rate 2000 £m	Non-interest bearing 2000 £m	Total 2000 £m	Floating rate 1999 £m	Fixed rate 1999 £m	Non-interest bearing 1999 £m	Total 1999 £m
Sterling	25	—	20	45	3	—	11	14
Australian dollars	—	60	—	60	—	—	—	—
	25	60	20	105	3	—	11	14

The Australian dollar fixed rate liability has a weighted average interest rate of 6.2% and is repayable within four months. The non-interest bearing financial liabilities have a weighted average term of two years.

Floating rate borrowings bear interest in the current and prior year at approximately 6.2% for periods of one day to one year for borrowings and 15 years for finance leases respectively.

##### Financial assets

Currency	Floating rate 2000 £m	Fixed rate 2000 £m	Non-interest bearing 2000 £m	Total 2000 £m	Floating rate 1999 £m	Fixed rate 1999 £m	Non-interest bearing 1999 £m	Total 1999 £m
Sterling	1,854	85	271	2,210	224	—	24	248

Fixed rate financial assets have a weighted average interest rate of 6.3% and have a weighted average term of five years.

The cash and short term deposits, where interest bearing, attract interest at floating rates based on LIBID for periods of up to one month.

The non-interest bearing financial assets comprise investments and the Group does not currently intend to dispose of them. The Australian dollar borrowings shown above are being employed to finance investments denominated in the same currency. They are matched against the assets concerned and gains and losses arising on translation on both borrowings and assets are in the statement of total recognised gains and losses.

#### b Currency risk

It is Granada Media's policy to hedge trading activities in non-functional currencies into the functional currency at the time of commitment.

After taking such hedges into account, Granada Media had no material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities in non-functional currencies at 30 September 2000. Prior to the IPO in July 2000, this was performed by Granada Group PLC on behalf of Granada Media.

The maturity of the Group's borrowings (£20 million; 1999: £11 million) is set out in note 19. The Group's other financial liabilities have a term of between two and five years.

#### Fair value

The estimated fair value of Granada Media's financial instruments is set out below:

##### Financial assets

	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Fixed asset investments	271	278	24	24
Cash at bank and short term deposits	1,939	1,939	224	224
	2,210	2,217	248	248

**20 Financial instruments continued****Financial liabilities**

	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Borrowings due within one year	65	65	1	1
Borrowings due after more than one year	20	20	2	2
Other creditors due after more than one year	20	18	11	10
	105	103	14	13

The fair value of derivatives not included on the balance sheet (£(1) million; 1999 £(5) million) represents derivatives held to hedge the currency of future transactions. These transactions are expected to occur after more than one year.

Derivatives are not used for trading purposes. The Group is however, exposed to credit risk on the counterparties with which it enters into derivatives and the controls on this are set out in the Financial review.

**Fixed asset investments**

Fixed asset investments are detailed in note 13. Joint ventures and associates have been excluded as required by FRS 13. The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

**Cash at bank and short term deposits**

The carrying value approximates to fair value because of the short maturity of the instruments.

**Borrowings due within one year**

The fair value of borrowings due within one year approximates to carrying value because of the short maturity of the instruments.

**Borrowings due after more than one year**

The fair value of borrowings due after more than one year approximates to book value as they bear interest at rates appropriate to market.

**Other creditors due after more than one year**

Fair value is based on the discounted amounts which Granada Media expects to pay.

**Gains and losses on financial instruments used for hedging**

Granada Media uses forward contracts to hedge assets denominated in currencies other than Sterling and its currency transactions exposures.

Changes in the fair value of derivatives used as hedges are not recognised until the hedged position itself is entered into the financial statements.

	Gains £m	2000 Losses £m	Net £m
Unrecognised net gains and (losses) on those derivatives used for hedging are:			
1 October 1999	—	(5)	(5)
Recognised in 2000	—	5	5
Not recognised in 2000	—	—	—
Gains and (losses) in 2000 not recognised in that year	—	(1)	(1)
At 30 September 2000	—	(1)	(1)
of which			
Gains and (losses) expected to be recognised within one year	—	—	—
Gains and (losses) expected to be recognised after one year	—	(1)	(1)

# Notes to the accounts continued

## 21 Provisions for liabilities and charges

	Deferred taxation £m	Other provisions £m	2000 Total £m
Group			
At 1 October 1999	(2)	2	–
Utilised in the period	–	(2)	(2)
ACT recovered	2	–	2
At 30 September 2000	–	–	–

Other provisions comprise acquisition provisions of £nil (1999: £2 million). In respect of acquisition provisions, £2 million (1999: £7 million) has been utilised during the period, of which £nil related to acquisitions in the year, and no amounts (1999: £nil) have been released unused to the profit and loss account or applied for another purpose.

	Full potential liability 2000 £m	Provision made 2000 £m	Full potential liability 1999 £m	Provision made 1999 £m
Group				
Deferred tax carried forward is made up as follows:				
Other timing differences	–	–	(2)	(2)
	–	–	(2)	(2)

The above figures exclude taxation payable in the event of profits of overseas subsidiary undertakings being distributed because there is currently no intention to remit these amounts.

## 22 Called up share capital

	Authorised (£) Ordinary shares £1	Authorised (£) Ordinary shares 2.5p	Authorised (£) Participating preference shares £1
At 1 October 1999	230,000,000	–	–
10 May 2000 – 22,500,000 ordinary £1 shares created	22,500,000	–	–
10 July 2000 – 53,750,000 ordinary £1 shares created	53,750,000	–	–
10 July 2000 – 219,226,116 ordinary £1 shares converted to participating preference shares of £1	(219,226,116)	–	219,226,116
10 July 2000 – remaining ordinary £1 shares subdivided into 2.5p ordinary shares	(87,023,884)	87,023,884	–
At 30 September 2000 – £	–	87,023,884	219,226,116
– number	–	3,480,955,360	219,226,116

	Issued and fully paid (£) Ordinary shares £1	Issued and fully paid (£) Ordinary shares 2.5p	Issued and fully paid (£) Participating preference shares £1
At 1 October 1999	226,636,116	–	–
10 May 2000 – allotment of 22,500,000 ordinary shares for transfer of entire issued "G" Class share capital of ONdigital Holdings Ltd	22,500,000	–	–
1 June 2000 – allotment of 90,000 ordinary shares for consideration of £2 million	90,000	–	–
10 July 2000 – subdivision of 30 million £1 ordinary shares into 2.5p ordinary shares	(30,000,000)	30,000,000	–
10 July 2000 – conversion of remaining conversion ordinary shares to participating preference shares	(219,226,116)	–	219,226,116
18 July 2000 – 300,000,000 2.5p ordinary shares issued on IPO (including over-allotment)	–	7,500,000	–
At 30 September 2000 – £	–	37,500,000	219,226,116
– number	–	1,500,000,000	219,226,116

### Participating Preference Shares

Granada Group PLC is the sole holder of the Company's participating preference shares and is entitled to a variable participating dividend in respect of each financial year of the Company of 0.25% of the amount of the Company's annual consolidated post tax profits exceeding £250 million but less than or equal to £500 million and 0.16% of the amount of the Company's annual consolidated post tax profits in excess of £500 million.

The participating preference shares rank prior to the ordinary shares but are limited on a winding up to any unpaid arrears and accruals of participating dividends calculated to the date of return of capital and the amount of capital paid up or credited as paid up in respect of the participating preference shares.

The participating preference shares carry only very limited voting rights. The holders of such shares are entitled to vote in respect of them at any General Meeting of the Company (i) if the business of the meeting includes the consideration of a resolution for winding up the Company or of matters affecting any of the rights attaching to the participating preference shares or (ii) if at the date of the meeting the preferential dividend is in arrears for six months or more after any fixed payment date.

**22 Called up share capital continued**

a At 30 September 2000 options over Granada Media plc ordinary shares granted to directors, executives and staff were outstanding as follows:

Option scheme	Exercise period	Exercise price	Number of shares
Commitment Scheme (Options)	Up to 50% July 2002		
	Balance July 2004	515p	4,774,212
Unapproved Executive Share Option Scheme	July 2003–July 2010	515p	12,179,479
Contractors Option Scheme	July 2003–July 2010	515p	32,400

All of the above share option schemes were established on the Initial Public Offering of the Company in July 2000. There were no share option schemes relating to the Company's shares prior to this date. Full details of the schemes are set out in the Remuneration report on pages 65 and 66.

**Granada Media Employees Benefit Trust (the Trust)**

The Trust is a discretionary trust which has been funded by a £43 million loan from the Company to acquire shares in Granada Media plc. At 30 September 2000 the Trust held 7,890,094 shares which were purchased for £41 million (market value at 30 September 2000: £36 million). The shares will be held in trust until such time as they may be transferred to participants of the Granada Media Deferred Share Award Plan (DSP) or the Granada Media Commitment Scheme (CS), details of which are set out in the Remuneration report on pages 65 and 66. Rights to dividends have been waived by the Trust in respect of shares held which relate to the CS.

**23 Investments in subsidiary undertakings**

The principal subsidiary undertakings are listed on page 72. The movements in the investments in subsidiary undertakings of the Company during the period are analysed below:

	Shares £m	Loans £m	Total £m
Balance at 1 October 1999 – cost	1,514	–	1,514
– provision	–	–	–
Additions	679	160	839
Disposals	(236)	–	(236)
At 30 September 2000	1,957	160	2,117

**24 Reconciliation of movements in shareholders' funds**

	Share capital £m	Share premium £m	Shares to be issued £m	Revaluation reserve £m	Profit and loss account £m	Total 2000 £m	Total 1999 £m
<b>a Group</b>							
Balance at 1 October 1999	227	651	116	40	(186)	848	504
Retained profit for period for equity shareholders	–	–	–	–	9	9	294
Shares issued in period (net)	30	1,581	(116)	–	–	1,495	–
Currency adjustments	–	–	–	–	1	1	(1)
Acquisitions in year	–	–	–	–	–	–	62
Other movements	–	–	–	–	(13)	(13)	(11)
At 30 September 2000	257	2,232	–	40	(189)	2,340	848

	Share capital £m	Share premium £m	Merger reserve £m	Revaluation reserve £m	Profit and loss account £m	Total 2000 £m	Total 1999 £m
<b>b Company</b>							
Balance at 1 October 1999	227	651	636	–	–	1,514	1,514
Retained profit for period for equity shareholders	–	–	–	–	94	94	–
Shares issued in period (net)	30	1,581	–	–	–	1,611	–
Currency adjustments	–	–	–	–	2	2	–
At 30 September 2000	257	2,232	636	–	96	3,221	1,514

The cumulative amount of any goodwill written off resulting from acquisitions made in earlier financial years net of any goodwill attributable to subsidiary undertakings or businesses subsequently disposed of is £1,159 million (1999: £1,159 million). The profit for the financial period dealt with in the accounts of Granada Media plc is £346 million (1999: £nil).

# Notes to the accounts continued

## 25 Acquisition of businesses

### Merger Agreement and Reorganisation Agreement

On 17 May 2000 Granada Group PLC ("Granada") and Compass Group PLC ("Compass") entered into a merger agreement (the "Merger Agreement") which set out the basis of the proposed merger between Granada and Compass and the subsequent demerger (the "Demerger") of the enlarged hospitality business of Granada Compass plc ("Granada Compass"). The merger became effective on 27 July 2000 at which stage Granada Compass became the ultimate holding company of the Company.

The Merger Agreement also set out the principles governing the separation of the Company and the hospitality business of Granada Compass. In order to give effect to these principles in so far as they relate to Granada Media, the Company entered into a reorganisation agreement (the "Reorganisation Agreement") dated 23 June 2000 with Granada and Granada Compass. The Reorganisation Agreement contained, inter alia, provisions to the following effect: (a) the transfer by Granada to the Company of such assets of Granada's media business as were not already owned by the Company (b) the assumption by the Company of certain costs and liabilities of the Granada, Granada Compass and Compass groups, as a result of which the Company is responsible, inter alia, for:

- all (if any) liabilities of any member of the Granada Group or the Granada Compass group which relate to or arise directly or indirectly in connection with Granada's media business and which have not already been incurred by the Company (including any liability of Granada to make a transfer payment on or after Demerger on the basis described below in relation to Granada's hospitality business in respect of the accrued pension rights under the Granada Pension Scheme of the employees and the former employees of the Granada hospitality business on the basis agreed by Granada and Hospitality Holdings Limited);
- one-third of the amount of the costs incurred by the Granada, Granada Compass and Compass groups in connection with the Merger and the Demerger and of the costs of new banking facilities taken out by Granada, Compass and Granada Compass in the context of the Merger;
- one-third of the amount of any costs or liabilities of any member of the Granada Group or the Granada Compass group which cannot be allocated to either Granada's media business or its hospitality business and has not otherwise been provided for above; and
- providing that the Company is to continue to participate in the Granada Pension Scheme and to be treated as if it were to remain a wholly-owned subsidiary of Granada and providing for the assumption by the Company of any unfunded liabilities of Granada or Granada Compass to provide unapproved pensions for employees and former employees of the Company.

### Acquisition of the Granada Technology Group

Under the Reorganisation Agreement the Company acquired Granada Technology Group ("GTG", comprising Granada UK Rental and Retail Limited and its subsidiaries). GTG comprised a consumer rental business which has subsequently been disposed of to Box Clever Technology Limited ("Boxclever"), and other Technology businesses, principally Granada Business Technology ("GBT"). Boxclever is a company in which Granada Media has a 50% interest which was formed to effect the combination of Granada's consumer rental business with that of Radio Rentals Limited and Thorn UK Limited. Boxclever acquired the Granada and Thorn businesses for a gross consideration in cash and loan notes for £580 million and £380 million respectively, having obtained banking facilities to finance a significant proportion of these acquisitions. There are no recourse facilities so far as Granada Media is concerned.

The summary of the effect of the acquisition of businesses during the year, which relates principally to GTG is set out below:

	2000 £m	1999 £m		2000 £m	1999 £m
<b>a Summary of the effect of the acquisition of new businesses:</b>					
Net assets acquired (at their fair value):			Discharged by:		
Fixed assets	349	–	Cash	389	34
Stocks	20	4			
Debtors	107	4			
Creditors and provisions	(180)	(6)			
Borrowings acquired	(158)	–			
Cash and short term deposits	104	–			
Goodwill on acquisitions	147	32			
	389	34		389	34

Fair value adjustments for the above acquisitions in both years were not material.

**25 Acquisition of businesses continued**

	2000 £m	1999 £m		2000 £m	1999 £m
<b>b Summary of the effect of disposal of businesses:</b>					
Net assets disposed:			Represented by:		
Fixed assets	301	–	Cash	353	–
Stocks	11	–	(Profit)/loss on disposal	(87)	3
			Share of net liabilities in Boxclever at date of transaction		
				(81)	–
Debtors	38	3			
Creditors and provisions	(117)	–			
Corporation tax	(7)	–			
Borrowings disposed	(158)	–			
Goodwill written off on disposal	117	–			
	185	3		185	3

As part of the reorganisation of Granada Group PLC and its subsidiaries leading up to the establishment of the Granada Media Group, Granada Group PLC's holding of 50% of the ordinary shares of ONdigital Holdings Limited was transferred to Granada Media plc, on 10 May 2000 for 22,500,000 ordinary £1 shares. As explained within the Accounting Policies on page 43, having regard to the provisions relating to group reconstructions under FRS 6, Acquisitions and Mergers, the combination has been accounted for as a merger.

**26 Contingent liabilities**

a Under a group registration, the Company is jointly and severally liable for VAT at 30 September 2000 of £37 million (1999: £45 million). The Company has guaranteed finance and operating lease obligations of subsidiary undertakings (see note 27).

b There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses and in respect of certain trading and other obligations of certain subsidiaries.

In the opinion of the directors, adequate allowance has been made in respect of these matters.

**27 Lease commitments**

At 30 September 2000 the Group's operating lease commitments for the financial year to 30 September 2001 were £6 million (at 30 September 1999: £2 million), analysed by expiry date as follows:

	Land and buildings 2000 £m	Other operating leases 2000 £m	Total 2000 £m	Land and buildings 1999 £m	Other operating leases 1999 £m	Total 1999 £m
Within one year	–	–	–	–	–	–
Between two and five years	–	2	2	–	1	1
More than five years	4	–	4	1	–	1
	4	2	6	1	1	2

The Group's net obligations under finance leases at 30 September 2000 were £21 million (1999: £2 million) analysed by payment date as follows:

	2000 £m	1999 £m
Within one year	1	1
Between two and five years	7	1
More than five years	13	–
	21	2

**28 Capital commitments**

	Group 2000 £m	Parent 2000 £m	Group 1999 £m	Parent 1999 £m
Contracted but not provided for				
Rental equipment	1	–	–	–
Other	–	–	–	–
	1	–	–	–
Share of capital commitments of joint ventures				
Other	24	14	1	–

Granada Media has committed to provide certain debt and equity funding to ONdigital. Granada Media has an agreement to acquire Border TV from Capital Radio for a consideration of £50.5 million by 31 March 2003.

There are commitments in respect of forward foreign exchange contracts entered into in the ordinary course of business.

## Notes to the accounts continued

### 29 Related party transactions

Transactions with associated undertakings and joint ventures:

All transactions with associated undertakings and joint ventures arise in the normal course of business.

For the year ended 30 September 2000	2000 £m	1999 £m
Sales to joint ventures and associated undertakings	66	39
Purchases from joint ventures and associated undertakings	21	5
Sales to Granada Group undertakings	—	6
Purchases from Granada Group companies	18	5
Investment in joint ventures	292	62

At 30 September 2000

Amounts owed by joint ventures and associated undertakings	7	6
Amounts owed to joint ventures and associated undertakings	2	3

### 30 Post balance sheet events

On 4 October 2000 the Company acquired effective management control of the television interests of United News & Media plc for an initial cash payment of £500 million, and shares equivalent to £1,250 million or a cash alternative of the same amount. The transaction is expected to complete by early 2001. The principal companies and investments acquired were as follows:

#### Principal subsidiary undertakings

Name	Registered office
Anglia Television Limited	Anglia House, Norwich NR1 3JG
HTV Group Limited	The Television Centre, Culverhouse Cross, Cardiff CF5 6XJ
Meridian Broadcasting Limited*	Television Centre, Southampton SO14 0PZ
Survival Anglia Limited	Anglia House, Norwich NR1 3JG
TSMS Group Limited	Westworld, Westgate, Ealing, London W5 1EH
United Wildlife Limited	Ludgate House, 245 Blackfriars Road, London SE1 9UY

\*79.92% shareholding.

#### Principal investments

Name	% owned	Principal activity
Village Roadshow Limited	17.94	Programme production for Australian television

Subsequently on 24 October 2000 the Company agreed to sell the licence and broadcasting interests of HTV Group Limited to Carlton Communications plc (Carlton) for a consideration of £181 million in cash plus Carlton's 20% interest in Meridian Broadcasting Limited.

On 11 October 2000 the Company acquired a 5% interest in Arsenal FC for cash consideration of £27 million. The Company has also entered into a joint venture agreement with Arsenal, for cash consideration of £20 million, to exploit new media and other commercial opportunities.

On 12 October 2000 the Company entered into a joint venture agreement with Boots plc to form a health and beauty e-commerce venture.



## Corporate governance

As outlined in the Chairman's statement on page 13, Granada Media was listed on the London Stock Exchange on 18 July 2000. Prior to that date the Company was not required to apply the principles or disclose the extent of compliance with the Combined Code as explained below. Granada Media is committed to maintaining high standards of corporate governance in line with the Combined Code, which sets out the principles of Good Governance and Code of Best Practice. The Board confirms that following the listing of the Company it was fully compliant with all the provisions of Section 1 of the Combined Code, with the exception of: (1) directors' service contracts as set out on page 66; (2) there are currently two non-executive directors, accordingly the requirement for the Audit Committee to comprise at least three non-executive directors has not been complied with; and (3) a senior non-executive director has not been appointed. These matters relating to non-executive directors reflect the transitional period of the Company and they will be addressed following the planned consolidation of the listings of Granada Media and Granada Compass. A summary of the Company's procedures for applying the principles and the extent to which the provisions of section 1 of the Combined Code have been complied with appears below.

### The Board

The Board meets regularly throughout the year and currently consists of three executive and two independent non-executive directors. All directors will retire at least every three years. Brief biographical details of the directors are given on page 39. A formal schedule of matters reserved for the decision of the Board covers key areas of the Company's affairs including overall strategy, acquisition and divestment policy, approval of budgets and major capital expenditure projects and general treasury and risk management policies. To enable the Board to perform its duties all directors have full access to all relevant information and to the services of the Company Secretary. If necessary directors may take independent professional advice at the Company's expense.

In June 2000, the Board established certain committees to which it has delegated specific responsibilities as described below.

### The Nomination Committee

The Nomination Committee is chaired by Charles Allen and comprises in addition the two non-executive directors. This Committee will meet as required and is authorised to propose to the Board new appointments of executive and non-executive directors. Appropriate training and briefing is available to all directors on appointment to the Board, taking into account their individual qualifications and experience, and training is also available on an ongoing basis to meet their individual needs.

### The Remuneration Committee

The Remuneration Committee comprises the two non-executive directors, is chaired by David Chance and meets as required during the year. The terms of reference for the Committee are detailed in the Remuneration report set out on pages 65 to 69.

### The Audit Committee

The Audit Committee, also comprises the two non-executive directors, is chaired by Nigel Rich and normally meets four times a year. The Committee reviews the Company's interim and annual financial statements before submission to the Board for approval. The Committee also reviews regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the Committee monitors the progress of action taken in relation to such matters. The Committee also recommends the appointment and reviews the fees of external auditors.

### The Administration and Finance Committee

The Administration and Finance Committee comprises all the executive directors and meets as required to conduct the Company's business within the clearly defined limits delegated by the Board and subject to those matters reserved for the Board.

### The Granada Pension Scheme

The corporate trustee of the Granada Pension Scheme is Granada Trust Corporation Limited, chaired by Graham Parrott and whose directors include representatives nominated by the employee members of the Scheme. Management of the Scheme's investments has been delegated to independent investment managers and the trustees are advised by independent actuaries and auditors. Members of the Scheme receive annually a statement of their accrued benefits and a Trustees' Report.

### Investor relations

The Board attaches a high priority to communications with shareholders. In addition, to the preliminary and interim results presentations and the Annual General Meeting, a series of meetings between institutional shareholders and the executive directors will be held throughout the year. Save in exceptional circumstances, all members of the Board will attend the Annual General Meeting. At the meeting the Chairman will review the Company's current trading and future prospects and then will invite questions from shareholders. Notice of the Annual General Meeting, together with any related documents, will be mailed to shareholders at least 20 working days before the meeting and separate resolutions will be proposed on each substantially separate issue. The level of proxy votes lodged on a resolution will be announced to the meeting following voting by a show of hands. Financial and other information about the Company is available on the Company's web site, details of which are given on page 70.

### Going concern

After making appropriate enquiries, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Corporate governance continued

### Internal control

As permitted by the UK Listing Authority, the Company has complied with the Combined Code provision D.2.1 on internal controls by reporting on internal financial control in accordance with the guidance for directors on internal financial controls and financial reporting which was issued in December 1994. The Turnbull Committee issued, in September 1999, guidance on wider aspects of internal control which the directors are considering. The directors have overall responsibility for the Company's system of internal financial control and for reviewing its effectiveness. An internal financial control framework, designed to manage rather than to eliminate the risk of failure to achieve business objectives, which can provide reasonable but not absolute assurance against material misstatement or loss has been established. The framework was in place for the year ended 30 September 2000 and at the date of approval of the annual report and accounts. However, prior to the IPO the framework was part of the overall Granada Group PLC internal financial control framework and so was not overseen by the Company's Audit Committee.

### Financial reporting

A rolling three year strategic review process is part of a comprehensive planning system together with an annual budget approved by the Board. The results of operating units are reported monthly, compared with their individual budgets and forecast figures are reviewed on a month by month basis.

### Control environment

Financial controls and procedures including information system controls are detailed in policies and procedures manuals for all major subsidiaries. As the overall quality of internal financial control across Granada Media is directly related to the controls in individual operating units, it is a requirement for the managers of operating units to confirm each year in writing compliance with internal financial control in their area.

### Functional reporting

The risks facing the business are assessed on an ongoing basis. A number of key areas, such as treasury and corporate taxation matters are subject to regular review by the directors. Other important areas, such as, detailed insurance risk management and legal matters come under the direct control of the executive directors and are reviewed on a continuous basis. Other matters of significance are reported to the Board as required. In addition, managers of operating units are also required to provide a schedule of identified risks and action taken to minimise exposure.

### Investment appraisal

The Company has a clearly defined framework for controlling capital expenditure including appropriate authorisation levels. There is a prescribed format for capital expenditure applications which places a high emphasis on the commercial and strategic logic for the investment and due diligence requirements in the case of business acquisitions. As a matter of routine, projects are also subject to post investment appraisal after an appropriate period.

The directors have reviewed the effectiveness of the system of internal financial control in operation during the period covered by this report.

# Remuneration report

## Directors' remuneration

The Company believes that the responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Remuneration Committee.

The Remuneration Committee's report sets out the Company's statement of how it has applied the principles of good governance set out in the Combined Code and explains any areas of non-compliance.

The Remuneration Committee of Granada Media plc is constituted in accordance with Schedule A and has given full consideration to Schedule B to the Combined Code set out in the Listing Rules of the UK Listing Authority.

## The role of the Remuneration Committee

The Remuneration Committee is comprised entirely of the non-executive directors and meets as required during the year, but not less than twice a year. No member of the Remuneration Committee has any personal financial interest, other than as shareholders, in the matters to be decided, and no day-to-day involvement in running the Company's business. The members of the Remuneration Committee are:

David Chance (Chairman)  
Nigel Rich

The Remuneration Committee, which seeks the advice of independent remuneration consultants, is responsible, on behalf of the Board, for establishing and overseeing the implementation of remuneration policy for the Group, with specific reference to the following:

- assessment of competitive practices and determination of competitive positioning
- the appropriate framework for executive remuneration in the context of Granada Media's competitive environment
- individual remuneration packages, and any compensation pay for individual directors
- medium and long term incentive awards
- pensions and executive benefits

The remuneration of the non-executive directors is determined by the Board on the recommendation of the Chairman. The non-executive directors do not participate in any of the incentive or benefit schemes of the Company.

## Remuneration policy

The Remuneration policy established for executive directors and senior executives is designed to provide competitive total remuneration opportunities which will attract, retain and reward the best executive talent necessary to drive the Company's successful future growth in the volatile and highly competitive media market. The majority of total long term remuneration for all senior executives is variable and tied to the achievement of specific performance objectives to align executive remuneration to shareholders' interests. The long term programmes are built around the opportunity to acquire Granada Media stock to reinforce a common focus on building shareholder value.

Granada Media's remuneration policy for executive directors is based on the following main elements:

## Base salary and benefits

The base salaries of executive directors are reviewed annually and salaries are established by reference to market practice for similar positions in comparable businesses in media.

Individual salary levels are dependent upon business and personal performance, significant movements in the market sector and the wider economic environment and are set having regard to the pay and employment conditions throughout the Company. Additionally, changes to individual salaries may occur as a result of change of role or an increase in responsibility.

The policy for employment-related benefits for executive directors and senior managers consists principally of the provision of company cars, life assurance and medical expenses insurance.

The base salaries and the value of benefits in kind for each director are shown in the summary remuneration table on page 66.

## Incentive and performance-related rewards

It is an important feature of the Company's Remuneration Policy for senior executives that a significant proportion of their total remuneration should be performance-related and a description of its arrangements is given below.

## Medium term arrangements

Granada Media uses performance-related reward to emphasise the importance of delivering value to shareholders and to secure the talented individuals capable of providing competitive advantage. The Deferred Share Award Plan draws on performance over a twelve month period and delivers shares over twelve and twenty-four months. Awards to directors and employees under the Plan may be made over shares with a total market value which will typically not exceed 100% of a participant's annual salary. The first grant of awards in 2000 was up to 150% of salary at the maximum. Awards are satisfied only by shares purchased in the market and normally vest in two tranches, half after one year and the balance after two years.

## Long term incentives

In order to create a direct link with the long term success of the business, the Company has introduced with shareholder approval share plans tailored to meet the Company's differing needs for executives and employees comprising Executive Share Option Schemes and a Commitment Scheme. A Savings-Related Share Option Scheme open to all employees is planned for launch in December 2000.

## Executive Share Option Schemes

Share options are the main long term arrangement for all senior executives. Options will not normally be exercisable unless over a three year period from the date of grant there has been a significant and sustained improvement in the underlying financial performance of the Company, creating a direct link between the rewards for executives and the returns to shareholders. The initial performance target measures total shareholder return against an international comparator group of media companies and a similar scheme is operated in respect of persons with contracts for services with the Company.

## Savings-Related Share Option Scheme

This scheme will be open to all employees including executive directors and will be linked to a monthly savings contract.

In accordance with legislation, this scheme provides for options to be granted at 80% of the prevailing market value.

## Remuneration report continued

### Commitment Scheme

Eligible employees invited to participate in the Scheme are required to commit a specified number of shares to the Scheme by a specified date. In respect of the first invitation made under the Scheme, participants who were also executive directors were invited to commit shares with a value between 100% and 300% of their basic salary and received a matching award comprised of both an award of free shares and an option over an equal number of shares. The exercise price of the option is equal to the market value of the shares under option on the date of grant.

The extent to which matching awards will vest (in respect of awards made to date) will depend on the participant maintaining the required number of committed shares in respect of which the matching award was made and any conditions, specified at the date of grant in respect of the matching award, having been satisfied. Matching awards normally vest no less than two years after they have been granted. In the case of the first invitation to participate, up to 50% of the matching award vests, subject to performance conditions being satisfied, at the second anniversary of grant. The balance of the matching award vests subject to performance conditions being satisfied at the fourth anniversary of grant.

Any portion of the matching award that has not vested by the fourth anniversary of grant will lapse. In respect of the first invitation to participate, vesting of matching awards is determined by the Company's total shareholder return (TSR) performance against an international comparator group of UK, US and European media companies. It is intended that maximum vesting will be achieved if the Company's TSR is ranked in approximately the top 10% of the comparator group. If the Company's performance is at the median, 25% of the matching award vests. No matching awards will vest if the Company's TSR is below the median for the comparator group. If maximum performance is attained in respect of the first matching awards, such matching awards will vest over a number of free shares equal to three times the participant's committed shares and the option component will be exercisable over a further three times the committed shares.

### Directors' service contracts

The recommendation in the Combined Code in relation to one year service contracts has been noted but in the highly competitive sector in which the Company operates and at a time of considerable change it has been concluded that at the present time service agreements with notice periods in excess of one year continue to be necessary to retain executive directors of the highest quality. The Remuneration Committee will continue to keep this policy under review. With regard to new appointees to Board level positions, the Company's policy is that on appointment the executive will be offered a contract with a notice period of 12 months, save in exceptional circumstances where longer notice is felt necessary to obtain and retain their services. This accommodation will only be made where strictly necessary.

Executive directors have service contracts terminable on 24 months' notice by either party. On termination of employment by the employer, the contract provides for remuneration to be paid in respect of any unexpired notice period. Legally appropriate mitigation factors would normally be taken into account in any compensation that may be payable.

Until demerger of the hospitality businesses, the contracts also contain a provision that if the employer wishes to terminate employment for any reason other than cause, it shall do so by giving not less than 30 days' notice and by making a payment in lieu of notice. In addition, each of the directors has the right to terminate his employment on 30 days' notice and receive 24 months' notice, or a payment in lieu of such notice, to terminate his employment upon the happening of certain events. Those events include if the executive director's role is materially diminished in scope or status and if the demerger does not take place, or is cancelled, within 30 months from 27 July 2000.

### External appointments

Outside appointments provide directors with valuable experience and they are encouraged to take no more than one outside appointment for which they may retain the fees. Any additional outside appointments may only be held with the approval of the Board.

### Non-executive directors

The non-executive directors receive a basic annual fee of £25,000 plus an additional sum of £5,000 for committee chairmanship. These fees are in line with current practice in comparable large companies.

	Salary & fees £'000	Benefits £'000	Total £'000	Prior year £'000
<b>Summary remuneration table (see note (a))</b>				
<b>Executive directors</b>				
Charles Allen	900	32	932	844
Steve Morrison	425	2	427	381
Henry Staunton	484	25	509	422
Stacey Cartwright (resigned 17 November 1999)	24	5	29	194
<b>Non-executive directors</b>				
David Chance	8	—	8	nil
Nigel Rich	9	—	9	nil

### Notes

a Steve Morrison was a director of the Company throughout the period. Charles Allen and Henry Staunton were appointed directors on 25 May 2000 and to aid comparability their emoluments shown in the table above, both for the current and prior years, are those earned in their capacities both as directors of the Company and Granada Group PLC. Their emoluments for the current year as directors of the Company alone are 64% of the figures shown above.

b The above table excludes share incentive awards made in respect of the period under the Granada Media Deferred Share Award Plan as set out on page 67.

c Full details of share options granted to and exercised by directors during the year are set out in the tables on pages 67 to 69. Gross gains (before tax) made on share options exercised during the year by Steve Morrison amounted to £153,675.

**Retirement benefits**

Executive directors are members of the Company's main UK contributory Pension Scheme which provides for members' contributions at the rate of 5% of basic salary. Subject to Inland Revenue limits, members are eligible for a pension of up to two-thirds of base salary at Normal Retirement Age of 60. The Pension Scheme also provides for the payment of benefits on death or disability. On the recommendation of the Company's Actuaries no employer contributions are currently being paid into the Pension Scheme in respect of any member because the fund is in surplus.

Part of the pension commitment for certain senior executives cannot be covered through the Inland Revenue approved pension scheme due to the cap on pensionable earnings and certain other restrictions introduced by the Finance Act 1989. In all such cases, the Company enters into contractual, unfunded unapproved pension provision to provide pension payments on retirement based on service and earnings, consistent with other executives of similar seniority. Based on our policy, contractual pension promises have been entered into with Charles Allen and Henry Staunton.

The following table details the increase in accrued annual pension entitlement earned by each executive director in the period:

	Increase in accrued pension during the financial period £'000	Director's contributions during the financial period £'000	Accumulated total accrued pension as at 30 September 2000 £'000	Director's age as at 30 September 2000 years
Charles Allen	47	14	250	43
Steve Morrison	33	21	237	53
Henry Staunton	47	14	224	52

**Notes**

- The increase in accrued pension during the financial period excludes any increases owing to inflation.
- The accumulated total accrued pension entitlement set out above is that which would be paid annually on retirement of the executive director concerned and is based on service to the end of the financial period.
- Each executive director has a Normal Retirement Age of 60.
- Once in payment, pensions are guaranteed to rise in line with any increases in the Retail Prices Index subject to a maximum of 5% per annum.
- In the event of the death of an executive director, a pension equal to one half of the director's pension will become payable to a surviving spouse. In addition, a pension may become payable to any surviving children.
- Each of the executive directors may, with the consent of the Company, retire and draw a pension at any time after reaching the age of 50. Any pension payable would be equal to the accrued pension entitlement, revalued to age 55 and reduced by 6% for each year of early retirement. For retirement after age 55 the pension payable would be equal to the accrued pension entitlement.
- The value of benefits, share options and share awards under incentive arrangements do not form part of pensionable salary.

**Incentive and performance related awards**

The following directors were granted on 11 July 2000 awards over ordinary shares in Granada Media plc under the terms of the Granada Media Deferred Share Award Plan explained on page 65 of this report.

Director's name	Awarded in the period	Award (see note) £'000	30 September 2000	Release Date
Charles Allen	262,136	1,350	<b>262,136</b>	131,068 on 11 July 2001 131,068 on 11 July 2002
Steve Morrison	122,330	630	<b>122,330</b>	61,165 on 11 July 2001 61,165 on 11 July 2002
Henry Staunton	140,374	723	<b>140,374</b>	70,187 on 11 July 2001 70,187 on 11 July 2002

Note: Calculated by reference to the share price of 515 pence at the date of award.

The following directors were granted on 11 July 2000 options to acquire ordinary shares in Granada Media plc under the terms of the Granada Media Executive Share Option Scheme. The performance conditions attaching to these options are explained on page 65 of this report.

Director's name	Granted in the period	30 September 2000	Exercise price (pence)	Exercise period (from/to)
Charles Allen	228,565	<b>228,565</b>	515.00	July 2003 – July 2010
Steve Morrison	106,667	<b>106,667</b>	515.00	July 2003 – July 2010
Henry Staunton	122,397	<b>122,397</b>	515.00	July 2003 – July 2010

## Remuneration report continued

The following directors were granted on 11 July 2000 awards and options over ordinary shares in Granada Media plc under the terms of the Granada Media Commitment Scheme explained on page 66 of this report.

Director's name	Awarded in the period (see note)	Options granted in the period	30 September 2000	Option price (pence)	Vesting Date
Charles Allen	1,572,813	1,572,813	<b>1,572,813</b>	nil	Up to 50% on 11 July 2002 and the balance on 11 July 2004
Steve Morrison	733,980	733,980	<b>733,980</b>	515.00	Up to 50% on 11 July 2002 and the balance on 11 July 2004
Henry Staunton	842,241	842,241	<b>842,241</b>	515.00	Up to 50% on 11 July 2002 and the balance on 11 July 2004

Note: Calculated by reference to the share price of 515 pence at the date of award.

The following is an analysis of options over ordinary shares in Granada Group PLC held by directors as at 30 September 2000:

	30 September 1999	Granted in the period	Exercised in the period	30 September 2000	Exercise price (pence)	Market price at exercise (pence)	Exercise period (from/to)
<b>Charles Allen</b>							
1994 Scheme (Level 2)	420,000			<b>420,000</b>	247.00		July 2000 – Jan 2001
1994 Scheme (Level 2)	112,000			<b>112,000</b>	248.50		July 2000 – Jan 2001
1994 Scheme (Level 1)	221,000			<b>221,000</b>	429.75		July 2000 – Jan 2001
1994 Scheme (Level 2)	177,000			<b>177,000</b>	429.75		July 2000 – Jan 2001
1994 Scheme (Level 1)	64,400			<b>64,400</b>	436.25		July 2000 – Jan 2001
1994 Scheme (Level 2)	65,000			<b>65,000</b>	436.25		July 2000 – Jan 2001
SAYE Scheme	3,377			<b>3,377</b>	499.60		July 2000 – Jan 2001
1998 Scheme		629,370		<b>629,370</b>	572.00		July 2000 – Jan 2001
	<b>1,062,777</b>	<b>629,370</b>		<b>1,692,147</b>			
<b>Steve Morrison</b>							
1994 Scheme (Level 2)	45,000		45,000	–	248.50	590.00	
1994 Scheme (Level 1)	60,000			<b>60,000</b>	429.75		July 2000 – Jan 2001
1994 Scheme (Level 1)	84,000			<b>84,000</b>	436.25		July 2000 – Jan 2001
SAYE Scheme	1,939			<b>1,939</b>	499.60		July 2000 – Jan 2001
1998 Scheme		146,853		<b>146,853</b>	572.00		July 2000 – Jan 2001
	<b>190,939</b>	<b>146,853</b>	<b>45,000</b>	<b>292,792</b>			
<b>Henry Staunton</b>							
1994 Scheme (Level 2)	356,000			<b>356,000</b>	247.00		July 2000 – Jan 2001
1994 Scheme (Level 2)	24,000			<b>24,000</b>	248.50		July 2000 – Jan 2001
1994 Scheme (Level 1)	46,000			<b>46,000</b>	429.75		July 2000 – Jan 2001
1994 Scheme (Level 2)	28,000			<b>28,000</b>	429.75		July 2000 – Jan 2001
1994 Scheme (Level 1)	23,400			<b>23,400</b>	436.25		July 2000 – Jan 2001
1994 Scheme (Level 2)	23,000			<b>23,000</b>	436.25		July 2000 – Jan 2001
SAYE Scheme	3,377			<b>3,377</b>	499.60		July 2000 – Jan 2001
1998 Scheme		337,027		<b>337,027</b>	572.00		July 2000 – Jan 2001
	<b>503,777</b>	<b>337,027</b>		<b>840,804</b>			

### Notes

- The middle market prices of Granada Group PLC ordinary shares on 27 September 1999 and 25 July 2000 (the last day of dealings in such shares) were 560 pence and 602 pence respectively.
- The middle market prices of Granada Media plc ordinary shares on 11 July 2000 (the first day of conditional dealings in such shares) and 29 September 2000 were 550 pence and 451 pence respectively.
- During the period the market price of Granada Media plc ordinary shares ranged between 676 pence (29 August 2000) and 438 pence (27 September 2000).
- All rights under the various Granada Group PLC share option schemes became exercisable as a result of the merger with Compass Group PLC.
- Any Granada Group PLC ordinary shares acquired on exercise of rights under the Granada Group PLC share option schemes will be converted immediately on exercise into ordinary shares of Granada Compass plc at an exchange ratio of one Granada Group PLC ordinary share to 0.7547 ordinary shares of Granada Compass plc.
- No options granted to directors over Granada Group PLC ordinary shares lapsed during the period.

The following directors were granted conditional awards over ordinary shares in Granada Group PLC all of which have vested as a result of the merger with Compass Group PLC.

Director's name	Name of Granada Group PLC share plan	Date of award	Number of ordinary shares of Granada Group PLC
Charles Allen	Performance Share Plan	11 September 1997	165,052
	Performance Share Plan	11 September 1998	191,204
	Performance Share Plan	23 September 1999	157,163
	Restricted Share Plan	25 November 1999	92,000
	Deferred Share Plan	25 November 1999	166,281
			771,700
Steve Morrison	Performance Share Plan	11 September 1997	75,024
	Performance Share Plan	11 September 1998	89,228
	Performance Share Plan	23 September 1999	71,873
	Restricted Share Plan	25 November 1999	22,000
	Deferred Share Plan	25 November 1999	77,598
			335,723
Henry Staunton	Performance Share Plan	11 September 1997	78,774
	Performance Share Plan	11 September 1998	94,328
	Performance Share Plan	23 September 1999	77,623
	Restricted Share Plan	25 November 1999	47,000
	Deferred Share Plan	25 November 1999	89,043
			386,768

## Shareholder information

Shareholder analysis	Number	Holders %	Millions	Shares held %
Type of holder:				
Assurance and insurance companies	3	0.11	3.01	0.20
Banks and nominee companies	1,994	73.36	278.16	18.54
Individuals	658	24.21	0.55	0.04
Others	54	1.99	1,216.26	81.08
Pension funds and investment trusts	9	0.33	2.02	0.14
Totals	2,718	100.00	1,500.00	100.00
Size of holding:				
1 – 500	550	20.23	0.16	0.01
501 – 1,000	473	17.40	0.39	0.03
1,001 – 2,000	381	14.02	0.59	0.04
2,001 – 5,000	290	10.67	0.95	0.06
5,001 – 10,000	123	4.53	0.91	0.06
10,001 – 50,000	426	15.67	10.69	0.71
50,001 – 100,000	148	5.45	10.53	0.70
100,001 – 500,000	229	8.43	52.97	3.53
500,001 – 1,000,000	49	1.80	36.24	2.42
1,000,001 – 5,000,000	41	1.51	96.29	6.42
5,000,001 and above	8	0.29	1,290.28	86.02
Totals	2,718	100.00	1,500.00	100.00

### Registrars and transfer office

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU Telephone 020 8639 2000.

### Share dealing service

Granada Media has established a low-cost postal share dealing service. Shareholders wishing to take advantage of the service should contact Hoare Govett Limited, Low-cost Share Dealing Department for details, Telephone 020 7678 8300.

### Share price information

The current price of Granada Media's ordinary shares is available on Ceefax, Teletext, FT Cityline (operated by the Financial Times), Telephone 0906 0033250 and Granada Media's corporate web site.

### Unsolicited mail

The Company is legally obliged to make its registers of members available to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service ("MPS"), FREEPOST 22, London W1E 7EZ. MPS will then notify the bodies that support its service that you do not wish to receive unsolicited mail.

### Corporate office

Granada Media plc  
The London Television Centre  
Upper Ground  
London SE1 9LT  
020 7620 1620

### Corporate web site

Further information about the Company is available on the Internet at [www.granadamedia.com](http://www.granadamedia.com)



## Four year financial record

	1997 £m	1998 £m	1999 £m	2000 £m
<b>Balance sheet</b>				
Share capital	183	227	227	<b>257</b>
Reserves	(299)	316	621	<b>2,083</b>
Shareholders' funds	(116)	543	848	<b>2,340</b>
Minority interests	88	88	–	–
Net assets/(liabilities)	(28)	631	848	<b>2,340</b>
<b>Represented by:</b>				
Other fixed assets and goodwill	161	172	203	<b>274</b>
Investments	114	93	30	<b>328</b>
Stocks	141	134	144	<b>151</b>
Debtors	332	349	739	<b>249</b>
Net funds	162	339	221	<b>1,854</b>
Total assets	910	1,087	1,337	<b>2,856</b>
Other creditors	(921)	(450)	(489)	<b>(516)</b>
Provisions for liabilities and charges	(17)	(6)	–	–
	(28)	631	848	<b>2,340</b>
<b>Results</b>				
Turnover	677	944	998	<b>1,087</b>
Operating profit before digital television, new media and exceptional items	185	238	251	<b>253</b>
Share of operating profits/(losses) in associates and joint ventures	(1)	(4)	(3)	<b>3</b>
Investment income	9	8	–	<b>4</b>
Digital television, new media and exceptional items	(20)	(13)	245	<b>26</b>
Profit before interest and tax	173	229	493	<b>286</b>
Net interest	9	23	43	<b>27</b>
Profit before tax	182	252	536	<b>313</b>
Taxation	(59)	(85)	(61)	<b>(52)</b>
Profit after tax	123	167	475	<b>261</b>
Minority interests	–	(3)	–	–
Profit for the financial period	123	164	475	<b>261</b>

The 1997 and 1998 figures have been taken from the Granada Media plc prospectus.

# Company information

## Parent, subsidiaries and principal investments

- (a) The Company is a subsidiary of Granada Group PLC which holds 80% of the Company's issued ordinary share capital and all of the participating preference shares. The ultimate parent of the Company is Granada Compass plc.
- (b) The principal subsidiary undertakings of the Company at 1 December 2000, all of which are wholly owned (directly and indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Registered office
Granada Media Group Ltd	The London Television Centre, Upper Ground, London SE1 9LT
Granada Television Ltd	Quay Street, Manchester M60 9EA
LWT (Holdings) Ltd	The London Television Centre, Upper Ground, London SE1 9LT
London Weekend Television Ltd	The London Television Centre, Upper Ground, London SE1 9LT
Yorkshire Tyne-Tees Television Holdings Ltd	The Television Centre, Leeds, Yorkshire LS3 1JS
Yorkshire Television Ltd	The Television Centre, Leeds, Yorkshire LS3 1JS
South Bank Television Holdings Ltd	The London Television Centre, Upper Ground, London SE1 9LT
Tyne-Tees Television Holdings Ltd	The Television Centre, City Road, Newcastle upon Tyne NE1 2AL
Tyne-Tees Television Ltd	The Television Centre, City Road, Newcastle upon Tyne NE1 2AL
Castlefield Properties Ltd	Quay Street, Manchester M60 9EA
Granada Learning Ltd	The Television Centre, Kirkstall Road, Leeds LS3 1JS
Letts Educational Ltd	BPP House, Aldine Place, 142-144 Uxbridge Road, London W12 8AA
Granada Media Australia Pty Ltd*	33 Nott Street, Port Melbourne, Victoria, Australia
Artist Services Pty Ltd*	33 Nott Street, Port Melbourne, Victoria, Australia
Granada UK Rental & Retail Ltd	Stornoway House, 13 Cleveland Row, London SW1A 1GG
3sixtymedia Ltd	The London Television Centre, Upper Ground, London SE1 9LT
Anglia Television Ltd****	Anglia House, Norwich NR1 3JG
HTV Group Ltd****	The Television Centre, Culverhouse Cross, Cardiff CF5 6XJ
Meridian Broadcasting Ltd****	Television Centre, Southampton SO14 0PZ
Survival Anglia Ltd****	Anglia House, Norwich NR1 3JG
TSMS Group Ltd****	Westworld, Westgate, Ealing, London W5 1EH
United Wildlife Ltd****	Ludgate House, 245 Blackfriars Road, London SE1 9UY

## (c) Principal investments

Name	Note	% owned 2000	1999	Principal activity
Scottish Media Group plc***	c	18.10	–	Management activities for holding companies and television broadcasting in central and north Scotland
Independent Television News Ltd**	a	20.00	–	Supply of news services to broadcasters in the UK and elsewhere
ONDigital Holdings Ltd***	b	50.00	50.00	Holding company for digital and terrestrial television broadcasting
ONDigital plc***	b	50.00	50.00	Operation of digital terrestrial television multiplexes
Granada Sky Broadcasting Ltd*	a	20.00	20.00	Establishment, operation and marketing of pay-TV channels 50.5% commercial interest (1999: 50.5%)
MUTV Ltd	a	33.00	33.00	Operation of the MUTV television channel dedicated to Manchester United Football Club and its activities
The Home Shopping Channel Ltd	a	35.00	35.00	Operation of a home shopping television channel and related activities
The Liverpool Football Club and Athletic Grounds Plc	c	9.90	9.90	Management of the football and related interests of Liverpool Football Club
PowerChannel Europe plc	a	23.50	–	Offering free TV set top boxes providing Internet access in return for survey data in the UK
Carlton & Granada Internet Ltd	b	50.00	–	Joint venture company holding 50% of the Ask Jeeves (UK) Partnership
GMTV Ltd	a	25.00	20.00	Production and broadcast of breakfast time television under National Channel 3 licence
London News Network Ltd	a	50.00	50.00	Production of regional news and weather programmes, operating a television studio and transmission facility and transmitting national and regional programmes
ITV2 Ltd	a	61.40	35.20	Operation of the ITV2 channel. The 61.4% holding constitutes the 35.2% previously held by Granada Media and the 26.2% previously held by United News and Media plc
Red Heart Productions Pty. Ltd*	b	50.00	–	Programme production for Australian television
Seven Network Ltd*	c	10.40	–	Holder of Australian free to air broadcast licence
Box Clever Technology Ltd	b	50.00	–	Electrical rental and retail chain
Village Roadshow Ltd****		17.94	–	Cinema exhibition, radio, film production and theme park operation in Australia
Swapitshop Ltd***	a	20.00	–	Children's games exchange
LiverpoolFC.com Ltd††	b	50.00	–	Exploitation of new media and other commercial opportunities
Ask Jeeves (UK) Partnership	a	25.00	–	Web search engine
Arsenal Football Club plc	c	5.00	–	Management of the football and related interests of Arsenal Football Club
Arsenal Broadband Ltd	b	50.00	–	Exploitation of new media and other commercial opportunities
Digital Wellbeing Ltd	b	40.00	–	Health and beauty e-commerce venture with Boots plc

\* Incorporated and registered in Australia.

\*\* 79.92% shareholding

\*\*\* Incorporated and registered in Scotland.

+ 50.5% commercial interest (1999: 50.5%)

++ Owned by parent 20% (1999: nil%)

+++ Owned by parent 50% (1999: 50%)

† Owned by parent 18.1% (1999: nil%)

†† Owned by parent 50% (1999: nil)

††† Owned by parent 20% (1999: nil)

†††† On 4 October 2000 the Company acquired effective management control of the television assets of United News and Media plc. The transaction is expected to complete by early 2001.

a Associated undertakings.

b Joint ventures.

c Trade investments.



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