

3106798



A copy of this document, which comprises listing particulars relating to Granada Media plc ("Granada Media" or the "Company") in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act. ✓

The Directors of the Company, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of such persons (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the UK Listing Authority and the London Stock Exchange for the whole of the ordinary share capital of the Company issued and to be issued in connection with the Offer to be admitted to the Official List and to trading on the London Stock Exchange. It is expected that dealings on the conditional basis described in Part IX will commence on 11 July 2000. It is expected that admission of the Shares to the Official List and to trading on the London Stock Exchange will become effective, and unconditional dealings will commence, on 18 July 2000. **All dealings prior to the commencement of unconditional dealings will be of no effect if Admission does not occur and any such dealings will be at the sole risk of the parties concerned.**

This document does not constitute an offer to sell or issue, or the solicitation of any offer to buy or subscribe for, Shares in any jurisdiction in which any such offer or solicitation is unlawful and, in particular, is not for distribution in any jurisdiction in which such distribution is unlawful. The Shares have not been and will not be registered under the applicable securities laws of the United States, Canada, Australia and Japan and, subject to certain exceptions, may not be offered or sold within the United States, Canada, Australia or Japan or to any national, resident or citizen of Canada, Australia or Japan. The distribution of these listing particulars in other jurisdictions may be restricted by law and therefore persons into whose possession these listing particulars come should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. **For a description of certain risks and other factors that should be considered in connection with an investment in the Shares, see "Investment Considerations" set out in Part V.**

Granada Media plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3106798) ✓

Offer of 260,869,565 Shares at a price of 515p per Share and admission to the Official List and to trading on the London Stock Exchange

Sponsor
Lazard

Joint Global Coordinators and Joint Bookrunners

ABN AMRO Rothschild Credit Suisse First Boston Lazard

Co-lead Managers

Deutsche Bank Schroder Salomon Smith Barney

Authorised		Ordinary Shares immediately following Admission	issued and fully paid*	
Number	Amount(£)		Number	Amount(£)
2,250,000,000	56,250,000	Ordinary Shares of 2.5p each	1,460,869,565	36,521,739.13

*Assuming over-allotment option is not exercised

In connection with the Offer, Credit Suisse First Boston may over-allot or effect transactions which stabilise or maintain the market price of the Shares at levels which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, in the over-the-counter-market or otherwise. Such stabilising, if commenced, may be discontinued at any time.

In connection with the Offer, the Company has granted to Credit Suisse First Boston on behalf of the Underwriters an option, exercisable for 30 days after Admission, to procure subscribers for, or itself subscribe for, up to an aggregate of 39,130,435 additional Shares at the Offer Price to cover over-allotments, if any, made in connection with the Offer and to cover short positions resulting from stabilisation transactions.

Hoare Govett Limited, Credit Suisse First Boston Equities Limited, Lazard Brothers & Co., Limited and Lazard Capital Markets, each of which is regulated in the United Kingdom by The Securities and Futures Authority Limited, are advising the Company and no one else in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their customers, or for providing advice in relation to the Offer, the contents of this document or any transaction or arrangement referred to therein.

To: Granada Media IPO Team

Please find enclosed final draft copies of the Granada Media prospectus, and Draft 4 of the Press Release.

Please could you distribute this internally as necessary, bearing in mind the confidential nature of certain subsidiary operating statistics that have not yet been released to the market.

Kind Regards

Julian Macedo

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised. Neither the delivery of this document nor any sale made under this document shall, in any circumstances, create any implication that the information contained in this document is correct as of any time subsequent to the date of this document.

Notices to US Investors

The Shares have not been and will not be registered under the US Securities Act of 1933 (the "US Securities Act") and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Shares are being offered in the United States only to qualified institutional buyers as defined in, and in reliance on, the exemption from the registration requirements of the US Securities Act provided by Rule 144A under the US Securities Act and the Shares are being offered outside the United States in accordance with Regulation S under the US Securities Act. Prospective purchasers in the United States are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A.

SHARES SOLD IN RELIANCE ON RULE 144A ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH RESTRICTIONS DESCRIBED IN PART X, AND EACH PURCHASER OF A SHARE PURSUANT TO RULE 144A WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS AS DESCRIBED IN PART X.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OF, QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Forward-Looking Statements

Certain statements in these Listing Particulars constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others: general economic and business conditions, particularly in the United Kingdom, government regulation of the production and terrestrial broadcast businesses in any of the countries in which Granada Media is present, availability and retention of qualified personnel and talent, the risks related to the investment in joint ventures, competition, and the other factors referred to in Part V. These forward-looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based except to the extent required to comply with the Listing Rules.

Available Information

Neither the Company nor any of its subsidiaries is required to file periodic reports under Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has agreed that, for so long as any Shares are restricted securities within the meaning of Rule 144(a)(3) under the US Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or prospective purchaser designated by such holder or beneficial owner, upon the request of such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act.

Enforcement of Civil Liabilities

The Company is a public limited company incorporated under the laws of England and Wales. All of the Directors are citizens of countries other than the United States, and all or a substantial portion of the assets of the Company and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons, or to enforce against them in the US courts judgements obtained in the US courts predicated upon the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcements of judgements of the US courts, of civil liabilities predicated upon US federal securities laws.

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1 Directors, Secretary, Registered Office and Advisers

Directors

Charles Lamb Allen	<i>Executive Chairman</i>
Henry Eric Staunton	<i>Finance Director and Deputy Chairman Media Ventures</i>
Stephen Roger Morrison	<i>Chief Executive Officer</i>
Nigel Mervyn Sutherland Rich CBE	<i>Non-Executive</i>
David Christopher Chance	<i>Non-Executive</i>

All of

The London Television Centre, Upper Ground, London SE1 9LT

Secretary

Graham Joseph Parrott

Registered Office and Head Office

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Sponsor and Financial Adviser to the Company

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Joint Brokers to the Company

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Kent BR3 4TU

2 Offer statistics

Offer Price	515p per Share
Number of Shares being offered on behalf of the Company ⁽¹⁾	260,869,565
Number of Ordinary Shares in issue following the Offer ⁽¹⁾	1,460,869,565
Market capitalisation at the Offer Price ⁽¹⁾	£7,523 million
Net amount being raised by the Company ⁽¹⁾⁽²⁾	£1,296 million

Note:

- (1) The number of Shares being offered in the Offer may be increased by up to a further 39,130,435 Shares at the Offer Price pursuant to the Over-Allotment Option described in Part IX. These statistics assume that the Over-Allotment Option is not exercised.
- (2) The figure given for the net amount being raised by the Company is stated after the deduction of the estimated commissions and other fees and expenses of the Offer of approximately £47 million.

3 Expected timetable

Announcement of Offer Price and allocations made	7 a.m. on 11 July 2000
Conditional dealings commence	8 a.m. on 11 July 2000
Admission and unconditional dealings commence	8 a.m. on 18 July 2000
Shares credited to CREST accounts	18 July 2000
Despatch of definitive share certificates (where applicable)	No later than 21 July 2000

Each of the times and dates in the above timetable is subject to change without notice. Where a time of day is specified, it refers to British Summer Time.

It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

4 Key Information

The following information is derived from the full text of this document. Investors should not rely on this summary information but should read the whole of this document.

Overview

Granada Media is a substantial, integrated content creator and broadcaster. It produces content for UK and international audiences which is distributed by both third party and proprietary distribution routes, including free to air and pay TV, digital TV, and the internet.

The Company is organised into four integrated business units and two major joint ventures:

- *Granada Creative*, one of Europe's largest programme production companies supplying programming content in the UK and internationally;
- *Granada Broadcasting*, which owns broadcasting licences accounting for 33 per cent. of the advertising revenue generated by the ITV Network in 1999;
- *Granada Broadband*, a new media business with interests in eight channels (including iTV2) on pay television platforms and a range of internet ventures;
- *Granada Enterprises*, the commercial arm exploiting the value of Granada Media's production and broadcasting assets;
- *ONdigital*, Granada Media's 50 per cent. equity share of the world's first commercial digital terrestrial television operator; and
- *Box Clever*, Granada Media's 50 per cent. stake in the UK's largest consumer television rental business.

Granada is currently the sole shareholder of Granada Media. Immediately following the Offer, Granada will hold 82.1 per cent. of Granada Media's issued ordinary share capital (assuming no exercise of the Over-Allotment Option). Granada is currently in the process of merging with Compass.

The production and broadcasting environment

The international broadcasting environment is currently undergoing a period of significant change which the Directors believe is a consequence of three overlapping trends – technological convergence, vertical integration and international consolidation.

- **Technological convergence** As the media, telecommunications and computing industries converge and the number of distribution platforms increases, there is growing demand for content that can attract and retain audiences and advertisers whilst also enabling the platforms to differentiate themselves. The best and most popular content is therefore becoming more attractive to both broadcasters and advertisers.
- **Vertical integration** Vertical integration gives content creators a means of getting their content to consumers and gives platform operators further access to key content. Satellite, cable and terrestrial platform operators have moved into content creation via new strategic alliances or acquisition. Likewise, content creators have sought to build distribution channels by taking stakes in broadcasters or through merger. In the UK, a number of previously distribution-focused "publisher broadcasters", in free to air and pay TV, are seeking to embrace a strategy that combines broadcasting with content creation.
- **International consolidation** Barriers between national markets are rapidly breaking down and there is a growing trend towards consolidation as media companies seek the scale necessary to maximise efficiencies in programme production, leverage content across a range of international distribution channels and spread risk internationally. Companies with the scale and resources to create content and formats with the potential for international exploitation will derive significant benefits from this consolidation.

Strategy

The Directors believe that Granada Media is well placed to take advantage of increasing global demand for content across a growing number of distribution platforms as communication technologies converge and broadband technology and penetration develop. In this period of significant change, the Company expects to create "must have" content for all platforms to attract audiences and advertising and to deliver superior shareholder value by converting these viewers into interactive customers. Granada Media's strategy to realise this expectation is as follows:

- to strengthen its position in UK free to air broadcasting by pursuing acquisition opportunities amongst other ITV broadcasters, as and when such opportunities become available, whilst continuing to grow the advertising revenue Granada Media derives from its core broadcasting business.

- to expand its successful television programme production business, both in the UK and overseas. As well as organically growing its existing businesses, Granada Media has identified a number of further overseas markets where it believes it is well placed to extend its strategy of building original production companies in key territories.
- to use its established content creation and broadcasting skills and resources to broaden its range of international new media businesses, including new pay television channels, internet ventures and broadband enterprises. Granada Media is developing a range of broadband businesses in education, health and sport that combine the power and immediacy of television images with digital interactivity. At the same time, Granada Media aims to expand its supply of original content to third party new media platforms and use its content creation strength to form broadband alliances and joint ventures in key markets.
- to establish ONdigital as a leading UK digital broadcaster, offering a wide range of programming and interactive services, such as internet access.

In furtherance of this strategy, Granada Media is actively pursuing acquisition and joint venture opportunities.

Business

Content Creation

Granada Creative comprises all of Granada Media's UK and international content creation activities.

- Granada Creative makes approximately 6,000 hours of original television programmes, feature films and TV movies annually. It sells its original programmes in more than 120 countries around the world;
- It comprises 11 different production operations including three UK television production companies; four overseas television production companies based in Australia, the US, Germany and Hong Kong; an international feature film and TV movie business; and a worldwide distribution company;
- It is the UK's largest commercial production group, making over 30 per cent. of the UK's highest rating programmes in 1999 and producing for all of the UK's major broadcasters;
- It has a programme library of over 60,000 programme hours and over 250 programme formats; and
- It owns 50 per cent. of the largest production company in Australia. It has reinforced this investment by taking a 10.4 per cent. stake in Seven Network, one of Australia's leading broadcasters.

Granada Media intends to expand its television production operations both in the UK and overseas. It will also continue to invest in developing new programme formats which may be exploited internationally whilst also extending its strategy of creating and acquiring original production companies in selected key markets. Where appropriate, investment in production companies will be supported by investment in local commercial broadcasters.

UK Free to Air Broadcasting

Granada Broadcasting consists of all Granada Media's UK free to air broadcasting operations.

- Granada Media holds four of the 15 ITV regional licences: Granada (North West of England), LWT (London weekend), Yorkshire (North of England) and Tyne-Tees (North East of England) and has interests in three others. Together, these regions cover 47 per cent. of the UK population;
- ITV is one of Europe's most popular commercial television channels and the UK's most popular television channel, commanding a peak-time UK audience share in 1999 of 38.8 per cent., nearly four times that of its nearest commercial rival; and
- Granada Media achieved advertising sales of £625 million (including Border's advertising sales) out of the £1.9 billion in advertising revenue raised by ITV in 1999 and continues to experience solid revenue growth.

The Directors believe that ITV's ability to reach large audiences will enable it to continue to attract a premium from advertisers relative to competing broadcasters, particularly in the most valuable peak time slots. This should, in turn, enable Granada Media to continue growing its advertising revenues strongly, despite increasing competition for audiences and advertising revenue. Zenith Media, a leading UK advertising revenue forecaster, predicts 8.9 per cent. growth at current prices in UK television advertising revenues in 2000.

On 7 January 2000, Granada announced that it was considering making a bid for either Carlton Communications or United News & Media (who are the two other principal owners of ITV licences and who had themselves previously announced their intention to merge), but that the making of any offer was conditional *inter alia* on regulatory consent being given in terms satisfactory to Granada. In its

announcement, Granada stated that it would make a final decision whether or not to bid when the outcome of the regulatory review process was known. If a bid is made by any member of the Granada Group, it will be made by Granada Media. All three possible transactions were the subject of references to the Competition Commission. The Competition Commission submitted its report on the possible mergers to the Secretary of State for Trade and Industry on 16 June 2000, who is expected to announce his decision as to whether to clear any of the possible transactions, and if so on what terms, during summer 2000. Any such transaction would have to comply with any undertakings that might be required by the Secretary of State. These might involve divestment of parts of the business created from any transaction that may be completed, beyond any action that might be necessary in order to comply with the requirements of the Broadcasting Act.

The Directors believe that potential changes in legislation and competition policy may allow further consolidation of the ITV licences. Granada Media is well placed to take advantage of any further consolidation in the ownership of ITV. They expect that this consolidation will eventually lead to a single owner of ITV, giving one company sole ownership of one of Europe's most successful and valuable commercial broadcasters.

New Media, Pay Television, Internet and Broadband

Granada Broadband has been set up to exploit the growing demand for new media content in the pay television, internet and emerging broadband markets. The Directors believe that high speed broadband networks and operators with multi access platforms will provide consumers with access to innovative services including personalised interactive and video on demand content, enhanced e-commerce capabilities, broadcast television services and internet content. Granada Media's content creation skills, the power of its programme brands, and its access to key talent, position it well to create strong content packages. The strength of Granada Media's relationship with advertisers and its experience in commercially exploiting its assets should enable it to realise significant value from these new activities.

Granada Media has already used its content in a range of new media activities. These include:

- interests in eight channels (including ITV2) on pay television platforms covering genres as diverse as comedy, football, home shopping, lifestyle and classic archive broadcast; and
- interests in a range of internet ventures including G-Wizz, a free Entertainment ISP and portal; PowerChannel Europe, providing subscribers with internet access and e-mail via free TV internet boxes; and the UK version of Ask Jeeves, a popular search engine.

Granada Media has identified certain key areas that it believes offer significant new media opportunities:

- Education. Granada Learning already supplies approximately 92 per cent. of the approximately 32,000 schools in the UK with interactive learning materials and printed revision materials, specialist educational software and test and assessment products.
- Sport. Granada Media has relationships with Manchester United Football Club and Liverpool Football Club, two of the UK's most successful football clubs, both of whom have a substantial international fan base for whom there are opportunities to create a range of affinity based content.
- Health. Granada Media is currently developing a comprehensive health package, which will be fully integrated across television and on-line services for consumers and health professionals.

The Directors expect all these businesses, in addition to other new media opportunities, to create formats that can be sold internationally or jointly developed with overseas partners. Granada Media intends to use its content creation strength to create a number of alliances with broadband and multi access platform providers.

Granada Enterprises

Granada Enterprises operates across Granada Broadcasting, Granada Creative and Granada Broadband to exploit the commercial value of Granada Media's creative content and broadcasting assets.

Granada Enterprises does this in two ways:

- it offers advertisers a range of marketing services with which to promote their brands and services, which include television airtime sales, sponsorship, co-production opportunities, licensing, publishing, merchandising and interactive and on-line advertising; and
- it manages book publishing, video licences, music products and publishing, and merchandise licences for most of Granada Media's creative output.

ONdigital

ONdigital, a 50:50 joint venture between Granada Media and Carlton Communications, is the world's first commercial digital terrestrial television ("DTT") service, offering its users access to over 50 pay and free to air television channels and a number of interactive services including e-mail and pay per view services.

- ONdigital was launched in the UK in November 1998 and as at 30 June 2000 had signed up 774,000 subscribers.
- The Directors anticipate that ONdigital will have approximately one million subscribers by the end of 2000, and approximately two million subscribers by the end of 2002, representing 8.5 per cent. of the UK's 24 million households.
- The Directors believe that the simplicity of ONdigital's installation gives it a key competitive advantage with which to attract a share of the estimated 14 million UK households that currently do not have access to multi-channel television.
- ONdigital plans to launch, in autumn 2000, full internet access initially through an add-on set top box, and subsequently through a single integrated set top box which will be available in 2001.

Box Clever

Granada Media owns 50 per cent. of Box Clever Technology Limited ("Box Clever"), the UK's largest consumer television rental business. Box Clever was formed on 28 June 2000 by the merger of Granada's and Thorn UK's consumer rental businesses.

On an aggregated basis, Box Clever accounted for 7 per cent. of the total market for televisions supplied in 1999. Currently, 2.3 million customers representing approximately ten per cent. of homes in the UK, rent approximately 3.3 million units. Box Clever has a strong nationwide high street shop chain, with products targeted at a new generation of customers wanting access to new technology. It also has 41 distribution/service centres and four call centres located throughout the UK to give full support to its customer base. Box Clever is a leading national high street outlet specialising in TVs and TV-related technology. The Directors believe that the price and accelerated obsolescence of new technology has created a significant opportunity for Box Clever by offering consumers the traditional benefits of rental with a new flexibility to upgrade to new equipment on a regular basis.

Management track record

The Directors believe that Granada Media has one of the most experienced and successful management teams in the sector. When the current management team assumed control of Granada's media interests in 1992, Granada Media was a small regional broadcaster and programme producer, solely focused on ITV. By 1999, Granada Media had become an international content creator with a range of interests in international broadcasting and new media, having grown the business significantly through both acquisitions and organic growth.

- In 1994, Granada Media acquired LWT, bringing with it a share of the London airtime sales market as well as one of the UK's strongest programme production companies. Since acquisition, LWT programme sales to all channels have risen 54 per cent. LWT is the second largest producer for ITV and produces programmes for a number of other channels. LWT programme hits include *Blind Date*, *London's Burning*, *The South Bank Show* and *An Audience With*. LWT's advertising revenue by 1999 had grown to over £200 million, representing over 11 per cent. of ITV; and
- in 1997, Granada Media acquired Yorkshire Tyne-Tees and formed a single sales vehicle for Granada's three Northern ITV licensees, together with Border, thereby strengthening their collective position in the sale of UK advertising airtime. Since acquisition, Yorkshire Tyne-Tees has grown its share of ITV airtime sales to over 10.5 per cent. in 1999, reversing several years of advertising share decline. Yorkshire Tyne-Tees is also the third largest ITV in-house programme producer – behind Granada Media's own Granada Television and LWT – with around 12 per cent. of ITV original commissions in 1999. Yorkshire Tyne-Tees increased its programme sales by 30 per cent. in the two years post acquisition. Successful Yorkshire productions include *Emmerdale*, *A Touch of Frost*, *Heartbeat* and *Countdown*.

At the same time as successfully acquiring and managing new ITV franchises, Granada Media has maintained strong growth in its Granada Television business. Granada Television represents around 10 per cent. of ITV airtime sales. Granada Television is also the single largest programme producer for ITV and with over a fifth of original commissions in 1999. Since 1993, Granada Television's programme sales to all channels have grown by 60 per cent., with 32 per cent. growth between 1997 and 1999. Granada Television produces some of the most successful programmes on ITV, the BBC and other UK channels. Granada Television's programming hits include *Coronation Street*, *Cold Feet*, *The Royle Family*, *Stars in Their Eyes*, *This Morning*, *Always and Everyone* and *Tonight with Trevor McDonald*.

Overall since 1993, Granada Media has increased its total original programme sales by over £200 million or 250 per cent. Granada Media's share of ITV airtime sales has more than trebled to 33 per cent. representing over £600 million in 1999.

Granada has used the cash generated by its UK analogue television business to invest in ONdigital and in new media and international production and broadcasting businesses, such as Ask Jeeves UK, Red Heart and Seven Network.

Key strengths

The Directors believe that the following represent the key strengths of the business:

- a highly experienced and successful management team, who have a proven track record of growing the business both organically and through acquisitions;
- established reputation as a premium producer of content;
- proven ability to attract and retain key on and off-screen talent;
- the largest pool of production talent in UK commercial television;
- a successful track record of growing its programme production business, principally through the exploitation of existing brands and development of new ones;
- a content creation capability able to supply the growing demand for content from both single and multi platform operators – free to air and pay TV broadcasters, telecommunications operators and ISPs;
- recently created new media assets, and broadcasting assets such as ONdigital with significant new media opportunities;
- a substantial programme library with 60,000 hours of programming; and
- a strong reputation and established relationship with advertisers.

Summary financial information

The following table sets out selected financial information for Granada Media, which has been extracted from the Granada Media Accountants' report for the three and a half years ended 25 March 2000 set out in Part VII of this document. The table should be read in conjunction with the Accountants' report and the pro forma financial information and investors should not rely upon the summary financial information when analysing the financial condition of Granada Media.

	For the financial year ended 27 Sept. 1997 £m	For the financial year ended 26 Sept. 1998 £m	For the financial year ended 25 Sept. 1999 £m	For the 26 weeks ended 25 March 2000 £m
Turnover	677	944	998	534
Operating profit:				
Core business	185	238	251	127
New media and digital	—	(3)	(12)	(7)
Share of operating losses in joint ventures and associates	(2)	(29)	(91)	(78)
Profit on disposal of investments	—	10	347	300
Profit before interest, tax and after exceptional items	173	229	499	343

Current trading and prospects

The interim results of Granada Media for the 26 weeks ended 25 March 2000 are set out in Part VII of this document. The businesses of the Group are performing well and trading since 25 March 2000 is in line with expectations.

The Directors view the future prospects of Granada Media with confidence and believe that Granada Media's existing businesses and future plans position it well to take advantage of new opportunities as communication technologies converge, as broadband develops and as demand for content from new and existing platforms increases.

Dividends and dividend policy

The Directors intend to adopt a progressive dividend policy taking into account the long-term earnings potential of the Group, whilst maintaining appropriate levels of dividend cover. It is envisaged that interim dividends will be paid by the Company in September and final dividends in April of each year, and that any interim dividend will represent approximately one third of any expected total annual dividend. The first dividend to be paid by the Company following the Offer will be the final dividend in respect of the year ending 30 September 2000, which is expected to be paid in October 2001.

Assuming that 1,460,869,565 Ordinary Shares will be in issue immediately following completion of the Offer and that such Ordinary Shares had been in issue throughout the year ended 25 September 1999 and on the basis of the expected indebtedness of the

Company following Admission, the Directors would have expected to recommend a total cash dividend for the year ended 25 September 1999 of 5.5 pence per Ordinary Share. This represents a notional dividend yield of 1.1 per cent.

The Offer

The number of Shares being offered for subscription pursuant to the Offer is 260,869,565. On the basis that there is no exercise of the Over-Allotment Option, the Offer will raise approximately £1,296 million of new capital for the Company after the deduction of the expenses of the Offer amounting to £47 million, based on the Offer Price. The Company has granted an Over-Allotment Option pursuant to which up to an additional 39,130,435 Shares may be issued by the Company in connection with the Offer at the Offer Price. The Offer will be made in the following tranches:

- to institutional investors outside the United States and Canada; and
- by means of a Rule 144A placement in the United States and by private placements in Canada.

The allocation of Shares between tranches and within tranches themselves will be determined based on indications of interest received from prospective investors. The executive directors and certain senior executives of Granada Media will subscribe under the Offer for 1,592,038 shares at the Offer Price.

On the basis that there is no exercise of the Over-Allotment Option, following the Offer, 17.9 per cent. of the Company's issued ordinary share capital will be in public hands. The remaining 82.1 per cent. will be held by Granada.

The Shares offered pursuant to the Offer will rank *pari passu* in all respects with the existing issued Ordinary Shares of Granada Media and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the existing Ordinary Shares after Admission.

Use of proceeds

Granada Media estimates that it will receive net proceeds of approximately £1,296 million from the Offer based on an Offer Price of 515p after deducting estimated commissions and other fees and expenses payable by the Company of £47 million. Granada Media's current expectation is that the proceeds of the Offer will substantially be used to pursue suitably priced production, broadcasting and new media acquisition opportunities as they arise both within the UK and abroad which may include a possible bid for either Carlton Communications or United News & Media (who are the two other principal owners of ITV regional licences). Such acquisition opportunities may be funded by shares, cash or bank debt or any combination of the three, depending upon the size and circumstances of the acquisition. To the extent not used to fund such acquisitions, the proceeds will be used to:

- expand its production business both in the UK and overseas by investing in new programme formats which can be exploited internationally;
- extend its strategy of creating and acquiring original production companies in selected markets; and
- develop new pay television channels, internet ventures and broadband enterprises.

Where appropriate, the investment in production companies will be supported by investment in local commercial broadcasters, similar to Granada Media's presence in Australia.

Relationship with Granada and Granada Compass

Overview

On 17 May 2000, the boards of Granada and Compass announced that they had agreed, subject to regulatory clearances, the terms of proposals to create two focused groups:

- Granada Media, based on Granada's existing media division; and
- Compass Hospitality, the combined businesses of Compass and Granada's hospitality division.

It is intended that these proposals will be implemented in the following steps:

- the Offer by Granada Media described in this document and the admission to the Official List and to trading on the London Stock Exchange of the whole of the ordinary share capital in Granada Media, resulting in Granada Media being 82.1 per cent. owned by Granada and 17.9 per cent. owned by public shareholders (assuming the Over-Allotment Option is not exercised);
- a Merger between Granada and Compass to create Granada Compass;

- the separation of Granada Media and Compass Hospitality by means of a demerger of Compass Hospitality, leaving Granada Media as the only operating division of Granada Compass; and
- the Mandatory Exchange of Granada Media Ordinary Shares for Granada Compass shares and the change of name of Granada Compass to Granada Media, resulting in the new Granada Media being owned by the former Granada Compass shareholders and the former Granada Media shareholders (other than Granada).

The Merger and Demerger

The Merger will be implemented by means of inter-conditional schemes of arrangement of both Granada and Compass whereby a new company, Granada Compass, will be put in place above both Granada and Compass, with shareholders of the two companies receiving shares in Granada Compass in lieu of their shares in Granada and Compass. It is anticipated that Admission will take place prior to the completion of the Merger, which is expected to become effective on 27 July 2000.

The Demerger will take place as soon as practicable following the Merger. The board of Granada Compass has stated that it intends to implement the Demerger within 12 months of the Merger and that it is currently aiming to send the relevant documentation to shareholders by the end of the year to allow completion in early 2001.

The boards of Granada and Compass have agreed the terms of separation of Granada Media and Granada's hospitality division including the principles on which the assets, liabilities and debt of the Granada Group will be allocated between Granada Media and Granada's hospitality division, and how the Demerger will proceed. The Company has entered into a Reorganisation Agreement with Granada to give effect to these principles, and a Transitional Services Agreement with the holding company of Granada's hospitality division to govern the relationship between them.

Immediately following the Offer, on the basis that there is no exercise of the Over-Allotment Option, Granada will hold 82.1 per cent. of Granada Media's issued ordinary share capital (80 per cent. if the Over-Allotment Option is exercised in full). Under the Listing Rules, whilst Granada holds, or is entitled to be able to control, shares entitling holders to 30 per cent. or more of the votes exercisable at general meetings of the Company, it qualifies as a Controlling Shareholder. Granada and the Company have therefore entered into a Relationship Agreement which will, conditional on Admission, regulate the ongoing relationship between them. Granada Media will be capable at all times of carrying on its business independently of Granada. The Relationship Agreement provides for transactions between Granada and Granada Media to be conducted at arms' length and on a normal commercial basis. On completion of the Merger, Granada Compass will also become subject to the provisions of the Relationship Agreement and be bound by its provisions as a Controlling Shareholder.

Mandatory Exchange

Following the completion of the Demerger, it is intended to consolidate the listings of Granada Compass (which will no longer include the hospitality businesses) and the Company through the Mandatory Exchange provisions set out in the Articles. Following the exchange, former holders of Granada Media Shares (other than Granada) will hold the same percentage of shares in Granada Compass as they hold in Granada Media. The exchange will not become effective unless and until the Demerger is completed.

The relationship with Granada and Granada Compass is described in more detail in Part III.

Regulatory regime

Granada Media is subject to regulation primarily under the Broadcasting Act together with the various rules and codes published under the Broadcasting Act, as well as UK and EC competition regulation. The Broadcasting Act contains a number of ownership rules: in particular, no person may control, or hold qualifying interests in companies which hold, licences which together would account for more than 15 per cent. of total television audience time. A UK Government White Paper is expected to be published later this year which will put forward proposals for reforming telecommunications and broadcasting regulation, and is expected to cover areas such as media and cross-media ownership rules under the Broadcasting Act.

Investment considerations

Investors' attention is drawn to the Investment Considerations commencing on page 47 of this document.

Part I

The Production and Broadcasting Environment

Production and Broadcasting Trends

Background

The international broadcasting environment is currently undergoing a period of significant change. Prior to the 1980s, European television broadcasting consisted of free to air terrestrial channels that were either publicly or privately funded, with the latter mainly funded through advertising. The first generation of commercial broadcasters (ITV in the UK, RTL in Germany, Mediaset in Italy, TF1 in France) was followed by the arrival of second tier players (such as M6 in France, ProSieben and Sat1 in Germany) and subsequently by analogue pay television companies (Canal+ and BSkyB) in the second half of the 1980s and the first half of the 1990s.

The Directors believe this period of significant change is a consequence of three overlapping trends – technological convergence, vertical integration and international consolidation.

Technological Convergence

Technological advances – such as digital broadcasting for television and radio, the internet and mobile telephony – are creating multiple distribution platforms. As the number of distribution platforms increases, consumers are likely to demand an increasing range of content, available on demand at the time of their choosing and personalised to their specific requirements. Broadband services will provide an opportunity to combine the power and immediacy of television images with the personalised nature and interactivity of internet services. As a consequence, established programming production and broadcasting skills are likely to be developed into “multi-media content creation” for all digital distribution platforms, from digital television and mobile telephony to DSL and the internet.

The Directors believe that television is likely to be a primary beneficiary of this convergence as it can provide access to the internet, e-mail, video on demand and “t-commerce” (transactions conducted through the TV screen). The Directors believe that the ability to generate proprietary content and strong brands that can be used both across distribution platforms and across countries is the key to value creation for media companies. Granada Media's strong content creation capability should enable it to attract and retain audiences and advertisers to take advantage of technological convergence.

Vertical Integration

Vertical integration provides content creators with a means of getting their content to consumers and gives platform operators access to key content. Satellite, cable and terrestrial platform operators have moved into content creation via strategic alliances or acquisition. Likewise, content creators have sought to build distribution channels by taking stakes in broadcasters or through merger. In the UK, a number of previously distribution-focused “publisher broadcasters”, in free to air and pay TV, are seeking to embrace a strategy that combines broadcasting with content creation. In the future, these alliances will offer users “multi access platforms” that give access to integrated communications services and content on televisions, mobile and fixed telephones and PCs. Content creation companies with the rights and resources to create the most capable programming will become increasingly sought after partners in this integration. In this context, the Directors believe that Granada Media with its established vertically integrated presence in both content creation and distribution has a significant competitive advantage.

International Consolidation

As a result of technological convergence and vertical integration, the Directors believe that international scale for both programming and formats is increasingly important to media companies in order to maximise efficiencies in programme production, leverage content across a range of international distribution channels and spread risk internationally. With single territory full financing of production becoming increasingly rare for many genres, producers are exploiting secondary and international rights to increase returns on production. The Directors believe that producers of English language content are in a stronger position to make secondary sales than other European broadcasters. However, exports to many national markets may also require a multi-national production capability to create domestic content and re-version imported content for local markets.

In this context, the Directors believe that significant reforms of media ownership regulation are expected in markets such as Australia and the UK, and that such reforms are likely to increase the opportunities for European content providers to grow domestically and internationally.

The UK Television Market

UK Television Market

The broadcasting industry in the UK consists of five free to air terrestrial channels (BBC1, BBC2, ITV, Channel 4 and Channel 5) accounting for around 86 per cent. of viewing and a rapidly growing number of free to air and pay TV channels available on digital terrestrial television, cable and satellite. These broadcasters are funded from three separate, largely non-competitive, sources of funding.

The British Broadcasting Corporation ("BBC"), which operates BBC1 and BBC2, is funded by a licence fee which is payable by all households with a television set. In the year to March 1999, the total BBC licence fee covering both TV and radio raised approximately £2.2 billion. The free to air commercial channels – ITV, Channel 4 and Channel 5 – are funded by advertising, which totalled £2.7 billion in 1999. DTT, cable and satellite channels are principally funded by subscription, with total UK pay TV revenues (including some advertising) in 1999 reaching £2.1 billion.

In the UK, broadcasters commission programmes from either their own in-house production operations or external (including independent) producers. The free to air terrestrial broadcasters have the largest programme budgets for original commissions and are required by the Broadcasting Act to commission 25 per cent. of their programmes from independent production companies (to be independent the producer must not be more than 25 per cent. owned by a broadcaster).

The BBC actively encourages external producers to present new programme ideas which are then commissioned in competition with its own in-house production operation. ITV Network Limited ("ITV Network Centre") commissions and schedules programmes for ITV and is the largest commercial programme commissioner in the UK. Since 1993, programmes for broadcast on the ITV Network have been commissioned by ITV Network Centre entirely on merit and the Directors believe that it intends to spend around 70 per cent. of its annual programme budget on original programmes this year. Channel 4 and Channel 5 have no in-house production operations and *therefore commission all their programmes from external producers; in the case of Channel 5 this also includes its existing shareholders.* In 1999, the Directors believe that the total programming budget of the main UK broadcasters was approximately £4 billion. There is also a rapidly growing market for original content commissioned by the increasing number of new pay television channels which have limited in-house production facilities.

Historically, the major free to air broadcasters, including ITV, have fully funded the production costs of commissioned programmes. There has been, however, a trend towards less than full funding for certain programmes, particularly when the commissioning broadcaster expects that profits can be obtained from secondary sales. Typically producers will retain rights over their programming after it has been broadcast an agreed number of times. Where the primary sale recoups production costs and allows some profit, secondary exploitation through secondary sales, merchandising, exports and format sales may increase producers' revenues and profits considerably.

While smaller independent producers will tend to specialise in one genre and work on individual projects for single broadcasters, the large UK commercial producers, the largest of which is Granada Media, seek to make programmes across all genres of programming for a wide range of broadcasters. Larger companies such as Granada Media can benefit from significant economies of scale and develop the ability to attract the best talent because of the range of opportunities they offer.

ITV

ITV is a national television network made up of 15 regional licensees covering the whole of the UK. There are 14 broadly distinct, though partially overlapping, ITV regions with the London region divided between separate licensees for weekday (Carlton TV) and the weekend (LWT). In addition, there is also a national breakfast time licensee, GMTV, which broadcasts on the ITV channel daily between 6.00 a.m. and 9.25 a.m. These licensees are listed below:

Granada Media	Carlton Communications	United News & Media	Others ¹
Granada	Carlton	Anglia	Border (Capital Radio)
London Weekend Television	Central	HTV	Channel Islands (Independent)
Tyne-Tees	West Country	Meridian	Grampian (Scottish Media)
Yorkshire			Scottish (Scottish Media)
			Ulster (Independent)

¹ Name in brackets denotes ownership

The 15 regional ITV licensees each participate in ITV Network Centre which is responsible for programme commissioning for ITV. Each regional licensee separately provides its own regional news and programming. The Directors believe that the strength and success of ITV lies in the combination of the regional character of each licensee with the quality national programming commissioned by ITV Network Centre.

The current ITV licences were originally awarded for 10 years commencing 1 January 1993. Each licensee makes annual licence payments to the regulator, comprising a fixed (index-linked) sum and a percentage of their advertising and sponsorship revenue. Licensees can apply for a further ten year renewal of their licence after six years of the licence period and within the time frame laid

Part I

The Production and Broadcasting Environment continued

down by the ITC, without having to re-bid for their franchise in a competitive tender. The renewal terms are set by the ITC, based on the present value of expected cash flows over the licence period. See Part V.

Following a decade of progressive consolidation of ownership, ten of the 15 regional ITV licences, including all the largest licences, are now controlled by three groups, Granada Media, Carlton Communications and United News & Media.

Carlton Communications is a media group whose shares are traded on the London Stock Exchange with businesses in commercial broadcasting, programme making and the supply of products and services to the television, film and video industries. Carlton Communications holds the Central, Carlton and West Country licences, covering the Central region of England, London (weekday) and the South West region of England. At the close of business on 10 July 2000, the last business day prior to the date of publication of this document, Carlton Communications had an equity market capitalisation of approximately £5.2 billion.

United News & Media is a media and information group whose shares are traded on the London Stock Exchange with three main divisions: UK broadcasting and entertainment; business services; and consumer publishing. United News & Media holds the Meridian and Anglia licences covering the Southern and East Anglian regions of England as well as the HTV licence which covers Wales. At the close of business on 10 July 2000, the last business day prior to the date of publication of this document, United News & Media had an equity market capitalisation of approximately £4.6 billion.

Taken together the licences held by these three groups accounted for over 90 per cent. of ITV's total advertising revenue and over 85 per cent. of ITV's total audience in 1999. All the smaller licensees have their advertising airtime sold for them by one of these three companies.

For a description of the possible bid by Granada for either Carlton Communications or United News & Media, see "Key Information", "Use of Proceeds", "The Regulatory Regime" and "Investment Considerations".

Current and Future Prospects for ITV

UK television advertising grew by over six per cent. in real terms in both 1998 and 1999, with independent forecasters suggesting strong growth in 2000 and beyond. The Directors believe that ITV is well placed to take advantage of this growth for two important reasons. First, ITV Network Centre's investment in high quality original programming. Second, ITV Network Centre's consistent delivery of the mass viewing audiences essential for many advertisers – enabling ITV to charge a premium and increase its advertising revenues.

ITV Network Centre's total programme investment of around £680 million in 1999 was significantly more than that of any other UK commercial channel. This represents an increase in its programme budget of eight per cent. year on year.

The size of its programme budget has enabled ITV to invest in a wide range of original UK productions. In 1999 ITV broadcast 79 per cent. of UK programmes on all channels which secured audiences of over 10 million. ITV Network Centre's continued willingness to fund the high budgets required for quality peak time production allows ITV to secure major sports rights and on and off-screen talent.

ITV Network Centre's large programme budget enables ITV to compete for attractive sport and film rights which create "event programming" that can help build a successful programme schedule. In 1999, the ITV Network Centre's budget for sport was over £100 million, up 33 per cent. in real terms on 1998, allowing ITV to secure significant sports rights such as Champions' League football in partnership with ONdigital, the FA Cup Final, the 1999 Rugby World Cup and Formula One. In June 2000 ITV won the rights to show, in partnership with ONdigital, highlights of the English Football League for two years commencing August 2001.

ITV Network Centre's investment in programming enables ITV to attract one of the highest audience levels of any commercial broadcaster in Europe. Despite increasing competition from pay TV, ITV increased its peak time audience share to 38.8 per cent. of total viewing in 1999. This delivery of mass audiences makes ITV attractive to those advertisers primarily interested in maximising the reach of their advertising. During an average week in April 2000, ITV reached 95 per cent. of the population, more than any other commercial channel. The Directors believe that ITV also provides an effective means of building brand awareness in a short space of time.

The Directors believe that ITV's ability to attract mass audiences is becoming increasingly valuable as the competition for viewers grows. ITV has in the past few years demonstrated that it can continue to increase its advertising revenue – from £1,682 million in 1997 to £1,874 million in 1999 – even in the face of growing competition for audiences. The Directors believe that ITV will continue to maintain its recent record of strong growth in advertising revenue which will continue to fund the investment in programming which attracts mass audiences that, in turn, generate further revenue growth.

ITV's Digital Strategy

The Directors believe that in the digital era ITV is well placed to strengthen and broaden its brand, already one of the strongest in UK broadcasting. As digital take up continues, ITV is positioning itself to capitalise on its established relationships with both the mass television audience and national and international advertisers. ITV remains the UK's most popular channel – even in multi-channel and digital homes. The Directors believe that ITV will increasingly function as a core channel, at the centre of a family of ITV branded channels – free to air and pay TV – serving each of the key demographic groups within the ITV mass audience. As broadband increasingly allows the broadcaster's relationship with the television audience to be monetised – via advertising, subscription or t-commerce – ITV should be able to supplement its existing mass advertising income with niche advertising, pay TV subscription and transactional revenue.

As part of this process, a separate television channel, ITV2, was launched in December 1998. ITV2 offers programming of the same overall quality as the ITV Network, but targeted at a younger audience attractive to advertisers. ITV2 is currently broadcast on digital terrestrial television and on cable.

UK Pay Television

There are currently three principal platforms for pay television services in the UK: digital terrestrial, satellite and cable with additional DSL platforms in development.

BSkyB, the satellite operator, has been offering an analogue pay television service for over ten years. It launched its digital platform in October 1998 and is currently converting its existing analogue subscriber base to digital. BSkyB's programme service is combined with an interactive service from Open, a proprietary system providing services including, games, home shopping and e-mail.

Following several years of consolidation there are now two principal cable operators in the UK, NTL and Telewest. NTL has recently launched a digital television service and is currently offering its interactive TV service to its existing subscriber base. Telewest has recently merged with Flextech to become an integrated content packaging and distribution company, and has also launched a digital service.

ONdigital, in which Granada Media has a 50 per cent. shareholding, was the world's first commercial digital terrestrial service. ONdigital had 774,000 subscribers as at 30 June 2000. It currently offers e-mail, pay per view services, games, t-commerce and digital text services in addition to its programme service.

New platforms are also emerging with the advent of DSL technology, enabling video on demand services and high speed internet access via the local loop (the connection between the customer's telephone/PABX and the nearest switching exchange which can be used to carry voice, data or video signals depending on the bandwidth of the system). Several companies have announced their intention to launch these services across DSL upgraded telephone lines, including YesTV and Video Networks. A number of these services are currently being offered to certain viewers in the UK. ONdigital is evaluating the benefits of delivering services via DSL to complement its DTT services.

Part II

Information on Granada Media

1 Introduction

Granada Media is a substantial, integrated content creator and broadcaster. It produces content for the UK and international audiences which is distributed by both third party and proprietary distribution routes, including free to air and pay TV, digital TV, and the internet.

The Company is organised into four integrated business units and two major joint ventures:

- *Granada Creative*, one of Europe's largest programme production companies supplying programming content in the UK and internationally;
- *Granada Broadcasting*, which owns broadcasting licences accounting for 33 per cent. of the advertising revenue generated by the ITV Network in 1999;
- *Granada Broadband*, a new media business with interests in eight channels (including ITV2) on pay television platforms and a range of internet ventures;
- *Granada Enterprises*, the commercial arm exploiting the value of Granada Media's production and broadcasting assets;
- *ONdigital*, Granada Media's 50 per cent. equity share of the world's first commercial digital terrestrial television operator; and
- *Box Clever*, Granada Media's 50 per cent. stake in the UK's largest consumer television rental business.

2 Strategy

The Directors believe that Granada Media is well placed to take advantage of increasing global demand for content across a growing number of distribution platforms as communication technologies converge and broadband technology and penetration develop. In this period of significant change, the Company expects to create "must have" content for all platforms to attract audiences and advertising and to deliver superior shareholder value by converting these viewers into interactive customers. Granada Media's strategy to realise this expectation is as follows:

- to strengthen its position in UK free to air broadcasting by pursuing acquisition opportunities amongst other ITV broadcasters, as and when such opportunities become available, whilst continuing to grow the advertising revenue Granada Media derives from its core broadcasting business.
- to expand its successful television programme production business, both in the UK and overseas. As well as organically growing its existing businesses, Granada Media has identified a number of further overseas markets where it believes it is well placed to extend its strategy of building original production companies in key territories.
- to use its established content creation and broadcasting skills and resources to broaden its range of international new media businesses, including new pay television channels, internet ventures and broadband enterprises. Granada Media is developing a range of broadband businesses in education, health and sport that combine the power and immediacy of television images with digital interactivity. At the same time, Granada Media aims to expand its supply of original content to third party new media platforms and use its content creation strength to form broadband alliances and joint ventures in key markets.
- to establish ONdigital as a leading UK digital broadcaster, offering a wide range of programming and interactive services, such as internet access.

In furtherance of this strategy, Granada Media is actively pursuing acquisition and joint venture opportunities.

3 Content Creation – *Granada Creative*

Introduction

Granada Media's strategy for its creative business initially focused on growing its share of production for ITV, both organically and by acquisition. The success of this strategy has enabled Granada Media to expand the level of production provided for non-ITV broadcasters, including the BBC, Channel 4, Channel 5 and BSkyB.

Granada Creative is now one of Europe's largest content creation companies, making approximately 6,000 hours of original television programmes, feature films and TV movies a year and selling its original programmes in more than 120 countries around the world.

Granada Creative comprises 11 production operations including three UK television production companies; four overseas television production companies based in Australia, the United States, Germany and Hong Kong; an international feature film and TV movie business; and a worldwide distribution company.

Within the UK, Granada Media is the largest commercial production group, supplying all the major free to air broadcasters, across all main programme genres. Granada Media makes many of the UK's most successful and long-running television programmes. In 1999, for example, Granada Media made over 30 per cent. of the top 100 programmes across all UK television channels, including the highest rated programme in the UK, *Coronation Street*, which was first broadcast in 1960. Granada Media makes 47 per cent. of the original programmes for ITV and in 1999 it made ITV's top rated drama, soap and entertainment programmes, and its flagship current affairs and daytime series. Granada Media also made the top rated comedy for the BBC as well as the top rated daytime entertainment programme for Channel 4 and Sky One's highest rated UK originated production.

Internationally, Granada Media's 50 per cent. owned Red Heart Productions is Australia's largest programme production company. Red Heart makes over 200 hours of production for broadcasters ranging from Channel 7 to the Australian Broadcasting Corporation, for whom Red Heart also produces *Seachange*, Australia's most popular drama in 1999. Production companies have recently been established by Granada Media in the United States, Germany and Hong Kong. Over the last twelve months, Granada Entertainment USA has obtained three commissions from the major US networks for series based on UK programme formats.

Granada Media intends to use its significant staff of content creators, its over 250 programme formats and its 60,000 hours of programme library to meet the growing demand from international television broadcasters and new digital platforms for both original and repackaged content.

Granada Media's UK Content Creation Companies

Through its UK content creation companies, Granada TV Productions Limited ("GTP"), LWT Productions Limited ("LWTP") and Yorkshire Tyne-Tees Productions Limited ("YTTP"), Granada Media looks to obtain programme commissions from ITV Network Centre and the other UK broadcasters.

Granada Media has chosen to retain the separate identities of its three principal production companies, LWTP, GTP and YTTP. The Directors believe that this structure has given Granada Media's content creation activities a number of competitive advantages by allowing each company to build specific areas of expertise as well as maintaining strong local connections in their regions and foster working relationships with artistic talent within that region. Through these production companies Granada Media has the biggest collection of commercial programme making talent in the UK. The Directors believe that this will enable the three businesses to develop a wide range of programme ideas increasing the total number of programmes which can be offered to broadcasters and content commissioners.

The Directors believe that the ability to attract and retain key on and off-screen talent underpins much of Granada Media's programming success. Granada Media maintains long term relationships with a large number of writers, presenters and performers built on Granada Media's reputation as a premium quality producer. Relationships with talent of international renown have in the past included Robbie Coltrane, Helen Mirren, Jeremy Irons, Sir Anthony Hopkins and Sir Michael Gambon. High profile UK television talent such as Cilla Black, Matthew Kelly, David Jason and Ross Kemp are also believed to be of significant benefit to the production business in winning commissions. As is usual in the broadcasting industry many of Granada Media's relationships with talent are based on one year contracts which, in practice, are renewed annually. Many relationships have been renewed on this basis over several years. A number of Granada Media's top rated series, such as *Tonight with Trevor McDonald* and *This Morning*, licensed to ITV, and *Countdown*, licensed to Channel 4, are commissioned on the basis that certain key performers appear in the programmes.

A further measure of the success of the production business is the 69 awards won by its programmes during 1999. Granada Creative won two International Emmy awards, Best Drama for *Lost for Words* and Best Documentary for *Born in the USSR – 14 Up*. It also won the Royal Television Society Award for Best Current Affairs Programme for *Tonight with Trevor McDonald*, in its first year of broadcast. Further industry recognition in 2000 includes Best Single Drama, Best Situation Comedy and three other awards at this year's BAFTA TV Awards. The Directors believe that winning awards acts as a magnet for key production and on-screen talent to join and stay with Granada Media's production companies and also gives programme commissioners a further reason to commission programmes from Granada Media.

Given these strengths of strong regional connections, a wide pool of talent, the ability to attract and retain key on and off screen talent and its international reputation, Granada Media's Directors are confident that its UK content creation companies will continue to grow their share of UK programme production significantly.

Part II

Information on Granada Media continued

Production for ITV

Granada Media is the biggest programme producer for ITV Network Centre and has produced some of its most popular programmes. In 1999, Granada Media produced 47 per cent. of ITV's original programming hours. In the same year, Granada Creative accounted for 79 per cent. of programmes shown on ITV that had audiences of over 10 million. Across the main genres, in 1999 Granada Media produced seven of ITV's top ten entertainment programmes; six of its top ten drama programmes; five of its top ten factual programmes and 12 of its 20 overall top-rating programmes, including the highest rated programme in the UK that year, *Coronation Street*, all according to the Broadcasters' Audience Research Board (BARB).

Top 10 ITV Programmes in 1999 (excluding sport)

Programme	Share %	Peak Programme Audience (m)	Producer
<i>Coronation Street</i>	68	19.8	Granada Media
<i>Who Wants to Be A Millionaire</i>	67	19.2	Independent
<i>Heartbeat</i>	62	17.0	Granada Media
<i>A Touch of Frost</i>	60	16.8	Granada Media
<i>New You've Been Framed</i>	51	13.9	Granada Media
<i>Emmerdale</i>	56	13.4	Granada Media
<i>TV Nightmares</i>	49	13.1	Granada Media
<i>Neighbours From Hell</i>	49	12.8	Carlton Communications
<i>Lost for Words</i>	45	12.2	Granada Media
<i>Stars in Their Eyes Final</i>	52	12.2	Granada Media

Source: BARB

ISN, a division of LNN a joint venture between Granada Media and Carlton Communications, produces a significant proportion of ITV's sports coverage. This is a particularly important arrangement given the increasing importance of, and financial resources directed towards, television sports rights.

Granada Media has consistently demonstrated its ability to grow its programme production business for ITV Network Centre. This growth has been principally achieved through the exploitation of existing programme brands and the development of new ones.

First, Granada Media has taken advantage of the popularity of its existing programmes by extending, with the agreement of the relevant commissioner and, where appropriate, licensor of formats, the number and length of programmes that have been commissioned and creating specials and spin offs. For instance, GTP has developed its key drama serial brand *Coronation Street* from two episodes a week to four and YTP's *Emmerdale* is due to be increased from three to five episodes a week in late 2000. LWTP has also lengthened the runs of programmes such as *Blind Date*, which was initially commissioned for a series run of seven episodes in 1985 but now runs for 24 episodes a year. Series such as *A Touch of Frost* can also earn additional profits from repeat showings with a number of episodes having been shown four times on ITV and then on ITV2. Three celebrity specials of *Stars in Their Eyes* have already been produced by GTP, another example of successful brand extensions, with a further two specials in development.

Second, Granada Media has developed new programme ideas. For example, over the last two years, Granada Media has won two of the most significant ITV Network Centre commissions for long-running series. These were the commissions for 70 episodes over two years of a new weekly current affairs programme, *Tonight with Trevor McDonald* and 93 episodes of a daily daytime discussion show, *Loose Women*. Granada Media has also devised new programmes brands such as the *Better...* brand, which has attracted commissions for 28 episodes of *Better Homes* and 9 episodes of *Better Gardens*.

UK Content Creation Outside ITV

Having established itself as a key producer for the ITV Network Centre, Granada Media has taken advantage of increased demand for original programming by becoming a valued producer for other broadcasters in the UK and overseas. Non-ITV network production already accounts for 15 per cent. of production revenues for Granada's UK content creation businesses and grew by 18 per cent. in 1999.

In the year ending 30 September 1999, Granada Media produced over 300 hours of programming for the BBC, Channel 4, Channel 5 and BSkyB. Overall, in 1999, Granada Media's non-ITV production revenues reached £43.4 million. Successful commissions included one of the BBC's most critically acclaimed and highest rating comedies, *The Royle Family*. Other notable successes included the *...Uncovered*

series on Sky One, which has consistently been the channel's highest audience rating UK originated production according to BARB. Granada Media also produces original programmes for ITV2 such as the entertainment show *Soap Fever*.

The Directors believe that, in the UK, Granada Media has pioneered the low cost, high volume production techniques which are essential to programme production for the new pay TV channels that have much lower production budgets than their terrestrial counterparts. GTP's production team in Manchester and LWTP's The Lab produce programmes for a range of new channels and platforms, including the Granada Sky Broadcasting pay TV channels.

The Directors believe that one of the keys to Granada Media's past and future success is its ability to meet the vastly differing needs of its programme commissioning customers – be it a £1 million per hour flagship costume drama for a terrestrial channel or a £2,000 per hour magazine show for a new pay TV service. In an increasingly competitive market for audiences, the Directors believe that broadcasters will be required to pay more for the best programme ideas and talent, as these are believed to be crucial drivers for attracting and retaining audiences. The Directors believe that Granada Media, with the largest pool of UK commercial television production talent, its three separate UK content creation companies, and its reputation for quality productions, is in a strong position to take advantage of this trend.

International Content Creation

The Directors believe that content creation is becoming an increasingly global business. Granada Media seeks to maximise the revenues from original programmes it has made for its domestic markets, where possible, by distributing them internationally and licensing formats to programme producers in other markets. Granada Media has used the competitive strengths and skills of its core production base not only in the international distribution of some of its UK-made programmes but also to establish original production companies in selected territories. In the 1990s Granada Media produced a series of flagship drama programmes and films that the Directors believe have given the Company an international reputation for quality original production. Programmes such as *Cracker*, *Prime Suspect*, *A Touch of Frost* and *Band of Gold* were major critical and popular successes in markets as diverse as North America, Australia, Germany and Hong Kong. Granada Creative has taken advantage of its production reputation to establish and raise the profile of original production companies in each of these countries.

- **USA**

Granada Entertainment USA ("GEUSA"), established in 1997 and based in Los Angeles, California, provides Granada Media with direct access to the largest television production market in the world. GEUSA has taken established UK formats such as *Cracker* and *Cold Feet* and customised them for major US networks. It produces original series for the US marketplace, including 42 episodes of *Beggars and Choosers* (a comedy drama series) for Showtime. GEUSA has also produced six TV movies for the Arts and Entertainment Network, TNT and CBS, ranging from Emmy nominated *Dash and Lily* to *The Great Gatsby*, a co-production with the BBC. GEUSA currently has orders to produce three additional TV movies, two for Showtime and one for ABC. The international appetite for American programming increases the marketability of US-produced content. Granada Media's success in establishing a base in the United States has prompted the BBC to join GEUSA in a joint venture, GBTV, to create US versions of British programmes. Granada Media has also formed a joint venture with the New York Times to develop New York Times branded factual programming.

- **Australia**

Red Heart, formed in February 2000, combines Artist Services Pty Ltd, an independent production company acquired by Granada Media in 1998, with Seven Network's in-house programme production operation and is Australia's largest TV production company, Seven Network, guarantees Red Heart at least 200 hours of programme commissions per annum. Red Heart produces a wide range of free to air programmes, including Australia's most popular drama series in 1999 *SeaChange* for the Australian Broadcasting Corporation, a number of internationally successful programmes such as *Home and Away* and has the management and production contracts for thecomedychannel, broadcast on Foxtel.

Granada Media's 10.4 per cent. shareholding in Seven Network (the 50 per cent. joint shareholder in Red Heart) provides Granada Media with a dynamic partner in Australia, which is particularly strong in sports broadcasting, holding the Australian rights for broadcast of the Sydney 2000 Olympic Games, the exclusive rights to broadcast the Australian Open Tennis Championship and Australia's most popular sport, Australian Rules football.

- **Germany**

Granada Produktion für Film und Fernsehen based in Berlin was established in February 2000 to gain access to the large German television audience. This company is already using and developing a number of Granada Media UK programme formats to create

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entertainment, comedy and drama series made in German for the domestic networks, such as the locally produced version of *Don't Try This at Home*. Further original German language programming and locally produced, English language programming aimed at the international market, is in production or development.

- Hong Kong

Granada Far East Limited ("GFE"), a joint venture with Jetun Entertainment Limited, is a Hong Kong based production company in which Granada Media has a 45 per cent. interest. GFE is producing China's first soap opera, *Joy Luck Street*, to be broadcast on 95 cable stations across China in autumn 2000. GFE also manages a nightly half-hour drama slot providing programming to these stations, as part of which *Joy Luck Street* will initially be broadcast on three nights each week.

The output from these companies will widen Granada Media's international distribution catalogue, which combines the output of all Granada Media production companies.

The Directors intend to develop Granada Media's international business operations in a number of ways. They will seek to maximise revenue for primary and secondary sales of original programming in all media worldwide. They will also seek to exploit further Granada Media's library of content and formats in the world market. They will seek further production opportunities in territories outside the UK, expanding the international catalogue of programmes. Finally, they intend to seek strategic overseas growth opportunities through alliances and/or acquisition to establish vertically integrated media businesses joining production, broadcasting and distribution.

Film Production

Granada Film Production ("GFP") produces films for both television and theatrical release. The production of such films enables Granada Media to attract and retain key on and off-screen talent. Since the Oscar winning success of its debut release *My Left Foot* in 1990, GFP has created 16 major productions. Notable successes include *The Field*, *Jack and Sarah* and *Longitude*.

Secondary Exploitation

Secondary exploitation of content, including international distribution, publishing and licensing rights, is a means of obtaining additional revenues from original content.

Granada Media has the largest commercial television programme library in the UK with over 60,000 hours of programmes, including over 15,000 hours of prime original material. The library is constantly updated and increases in size from the output of approximately 6,000 hours of original programming that Granada Media makes each year.

To take advantage of the value of its range of library material, Granada Media is developing a sophisticated rights management computer system that, with its associated programme data, will form the basis of a digital asset management system. This involves, *inter alia*, digitising the content and tagging it with details of the rights held by Granada Media. The Directors believe that this activity, and the changes that are taking place within the production process as it becomes fully digital, will assist Granada Media in maximising revenue by delivering content to both traditional media and web-related businesses.

Granada Media's programme distribution company, Granada Media International Distribution ("GMID"), licenses broadcasters to transmit Granada Creative's original programmes to broadcasters in over 120 countries around the world and also helps to arrange co-production deals between Granada Media and other international programme producers and broadcasters.

Granada Media's Production Resources

Granada Media Studios has studios in London, Manchester, Leeds and Newcastle. The studios business generates revenue by providing third parties with a full range of technical services from pre-production through to post production via the provision of studios, cameras, graphics, design services and state of the art editing suites. Granada Media has invested over £20 million in a major project to digitise its production facilities which the Directors expect will be completed next year enhancing the business's ability to compete in the high value third party facilities market.

Building on the Content Creation and Broadcasting Base

Granada Media continues to develop its working practices and systems with the intention of capturing the opportunities offered by the move towards fully digital production and broadcasting. The Directors believe that the investment Granada Media has made, and will continue to make, in digital technology, will enable it to maintain its leading position in content creation, as technology creates ever more opportunities to deliver high quality content to the consumer, both in the UK and abroad.

4 Free to air Broadcasting – *Granada Broadcasting*

Introduction

The UK broadcasting industry is heavily regulated as set out in Part IV. However, Granada Media has taken advantage of the progressive relaxation in UK media ownership rules to grow its ITV interests considerably over the last six years. In 1994 it acquired LWT and in 1997 it acquired Yorkshire Tyne-Tees Television. Granada Media now owns four major ITV licensees – Granada TV, LWT, Yorkshire TV and Tyne-Tees TV – which cover 47 per cent. of the UK population. It also owns 18.1 per cent. of Scottish Media Group which holds two ITV regional licences (Scottish and Grampian); 25 per cent. of GMTV, the national breakfast-time licensee and has option arrangements to acquire the television assets of Border Television for £51 million, which holds the ITV regional licence for the Borders and the Isle of Man. The Directors believe that Granada Media is well placed to take advantage of expected future legislation and regulatory changes which may allow further consolidation in ownership, and which they expect will eventually lead to a single owner of ITV. At the same time, the cash generative nature of Granada's free to air broadcasting business will help the Group to fund its future expansion plans.

Development of Granada Media's ITV Business

Through its four ITV licences Granada Media broadcasts to approximately 26 million people, almost half the UK population. Granada Media's four licences accounted in 1999 for around 36 per cent. of ITV's total audience and £612 million of advertising revenue, equivalent to a third of the ITV total. Granada Broadcasting's main source of revenue is from advertising, which is sold through Granada Enterprises.

Each of the four licensees has a portfolio of regional programmes that play a key role in building audience loyalty. These range from daily regional magazine programmes and news bulletins to regional current affairs and entertainment shows. The vast majority of these programmes are produced by the licensees themselves using their local production facilities and staff.

The acquisitions made by Granada Media over the last six years have also helped it to increase its media generated profits from £33 million in 1992 to £251 million in 1999. Most recently, in 1999, Granada Media increased its ITV advertising revenue by 6.9 per cent, compared with an ITV average of 6.2 per cent. Granada Media has also used past opportunities provided by ITV ownership consolidation to minimise the back office and administrative costs of running its separate licence operations.

If further consolidation within ITV occurs, it will allow ITV to eliminate duplicated resources and improve the speed of decision making. Granada Media's vision for the longer term future of ITV is of a national network owned by one company with a strong regional base and with continuing commitments to regional services and regional production. Granada Media believes that an ITV Network owned by one company also offers the prospect of creating a UK commercial media company of sufficient scale to maximise its competitive edge internationally.

As the owner of four ITV licences and a stakeholder in three others, the Directors believe that, if such relaxation were to occur, Granada Media would be well placed to be the company to acquire and operate the whole of the ITV Network. Consistent with this longer term strategy, Granada announced in January 2000 that it was considering making a bid for either Carlton Communications or United News & Media (Carlton Communications and United News & Media having themselves previously announced their intention to merge), subject to regulatory approval. See Parts IV and V.

5 New Media, Pay Television, Internet and Broadband – *Granada Broadband*

Introduction

Granada Broadband, the newest business unit of Granada Media, has been set up to operate new media businesses and meet the growing demand for content in the pay TV, internet and emerging broadband markets. Granada Media has already used its content creation and broadcasting expertise and resources to invest in a range of new media businesses in the UK and abroad. These include interests in eight channels (including ITV2) on pay television platforms covering genres as diverse as comedy, football, home shopping, lifestyle and archive broadcast, and a range of interests in internet ventures including the UK version of Ask Jeeves.

The Directors believe that Granada Broadband is well positioned to exploit the significant opportunities that will arise from technological convergence, the move to digital distribution of content and the growth of the internet and broadband technology. The Directors believe that consumers will increasingly want a wide range of content, available on demand at the time of their choosing and personalised to their specific requirements. Internet businesses are currently restricted in their use of video images because of bandwidth shortage. As a result, although they offer an enormous range and choice of personalised content, most of it is static and text based.

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Information on Granada Media continued

Broadband services provide an opportunity to unite the power and immediacy of moving images with the range of choice and flexibility of internet services. The Directors believe that Granada Creative's content creation skills and Granada Enterprises commercial exploitation expertise puts the Company in a strong position to exploit a range of significant opportunities in different markets.

Granada Broadband already has a range of new media businesses with which to exploit these growing opportunities.

Pay Television Channels

Granada has capitalised on its experience as a content provider and broadcaster to participate in channels for the pay TV market, both in the UK and overseas, with several more in development. These aim to provide three elements of pay TV: TV that entertains, TV that informs and TV that sells products and services. Revenue is generated by providing content to these channels, and through the sale of sponsorship, advertising and broadcasting rights by Granada Enterprises.

Granada Sky Broadcasting was launched in October 1996 as a joint venture with BSkyB, in which Granada Media and BSkyB respectively hold 50.5 per cent. and 49.5 per cent. Granada Sky Broadcasting comprises three channels – Granada Plus, Granada Men & Motors and Granada Breeze – which are provided across all three UK pay television platforms (satellite, cable and DTT):

- Granada Plus is positioned as the 'home of the hits'. Its programming consists of material sourced both from Granada Media's programme library and from other suppliers, enabling Granada Media to extract value from its extensive library of programme content. Granada Plus now attracts around six million viewers a month, with audience figures up 25 per cent. in the year to March 2000. The Directors believe that Granada Plus's direct access to many popular hits such as *Hawaii Five-0*, *Kojak* and *The Benny Hill Show* will prove increasingly valuable in an environment where viewers will be able to access individual archive programmes on demand.
- Granada Men & Motors targets the male audience and contains original programming generated by Granada Creative on topics including cars, motorbikes and women. Men & Motors is currently the number one male targeted channel outside of sports, with audiences up 67 per cent. in the year to March 2000. It had an audience reach in April 2000 of approximately 4.7 million viewers. Granada Broadband aims to maximise the value of this appeal and harness the cross-promotional power of the channel by transforming Men & Motors into a broader male-oriented portal offering an expanded range of entertainment and information content as well as transactional services, all addressing the interests of the target audience. Granada Broadband aims to adapt the portal to the differing requirements of a wide range of digital distribution platforms, including mobile telephones and the internet.
- Granada Breeze is positioned as a lifestyle channel for women. Its specialist programmes, generated exclusively by Granada Creative, include content on fashion, home and gardening. Granada Breeze's audience increased year on year by 33 per cent. in March 2000, and its audience reach in April 2000 was 1.8 million viewers. Granada Broadband aims to develop Granada Breeze into a portal designed to appeal to the Granada Breeze audience in a similar way to Granada Men & Motors.

Manchester United Television ("MUTV") is a joint venture between Granada Media, BSkyB and Manchester United Football Club in which each of the parties has a one third share. MUTV is a digital television channel providing viewers with the latest news, interviews with players and exclusive programming about Manchester United Football Club and aims to exploit the potential value inherent in one of the world's largest football fan bases.

Shop! of which Granada Media owns 35 per cent. is a joint venture with Littlewoods. It is a home shopping channel, which is available across all UK digital platforms, with an interactive web site. Granada Creative produces all the content and has developed the expertise to produce the sophisticated programming techniques required to attract audiences and encourage viewers to purchase goods via the medium of the television. Granada Media benefits from Littlewoods' experience in catalogue retailing and targeted customer sales, and its distribution network.

Granada UKTV is a wholly owned international pay TV channel with access to Granada Media's extensive programme library and is currently being broadcast in New Zealand, the Middle East, India and Pakistan.

Granada Media has a 20 per cent. stake in thecomedychannel, an Australian joint venture with Foxtel. Red Heart, in which Granada Media is a 50 per cent. joint shareholder, creates most of the original content broadcast on this channel. Australia's free to air market is soon to switch to digital, with analogue switch-off possible as early as 2006. Each of the existing networks has been given sufficient spectrum to enable it to broadcast its current service digitally, as well as broadcast at least one other channel. Seven Network (in which Granada Media owns a 10.4 per cent. stake) is keen to create and broadcast new digital channels, using its extensive sports rights as the primary source of programming.

Internet Ventures

The Directors of Granada Media believe that the internet provides another distribution outlet for its content. The Directors believe that Granada Media, as an established broadcaster with direct relationships with consumers and advertisers, as the owner of some of the UK's most famous TV brands, and as multi-media content provider and internet services provider, is well placed to take advantage of this outlet.

Under a unifying Granada Media portal, G-Wizz, Granada Broadband is developing, or plans to develop, a number of complementary internet businesses to generate future revenues through: banner advertising on the various component sites; originating site clickthrough and third party e-commerce commissions; "anchor tenancy agreements" with selected partners; sponsorship agreements for dedicated websites similar to Granada Enterprises' television sponsorship models; permission-based direct marketing; direct e-commerce opportunities for Granada Enterprises' commercial products; and distribution of TV internet boxes. Granada Media has, to date, pursued a development strategy that has been targeted at an audience that has little or no previous experience of the internet in the home. The Directors believe this audience overlaps considerably with the audiences for some of Granada Media's most popular television programming, giving Granada Media an ability to leverage its familiar and trusted broadcasting brands online.

Granada Media currently has interests in an internet search engine, an ISP and an internet access and data collection business:

- Ask Jeeves UK, the UK version of the popular US user friendly ordinary language search engine, was established in December 1999 by Granada Media and Carlton Communications in partnership with Ask Jeeves International. Granada Media and Carlton Communications each acquired a 25 per cent. interest in Ask Jeeves UK. Ask Jeeves UK is a user-friendly ordinary language search engine, especially attractive to new users of the internet. Ask Jeeves also helps users in their day-to-day online purchases: Ask Jeeves UK links to other UK sites, thereby directing customers and providing advertisers with highly targeted audiences. In March 2000, its first full month from launch, Ask Jeeves UK attracted approximately 1.7 million unique visitors and approximately 51 million page impressions, placing it in the top 10 UK sites (as measured by page impressions).
- G-Wizz, a free UK entertainment ISP and portal was launched by Granada Media in December 1999. G-Wizz is positioned as a prime route on-line for the ordinary TV viewer. G-Wizz offers access to specially created content, including material based on Granada Media's key programme brands, such as *Coronation Street*, *Emmerdale* and *This Morning*. Users can access chat rooms, exclusive material and view background information on, and previews of, Granada Media programmes. An internet address for each programme site carried within the portal is shown at the end of the relevant broadcast programme, thereby marketing the service and extending Granada Media's existing brands. G-Wizz also offers UK regional lifestyle, news and entertainment content packaged under Granada Media's four regional ITV licences – Granada, LWT, Yorkshire and Tyne-Tees.
- an alliance with PowerChannel Europe (in which Granada Media has a 23.5 per cent. interest) to provide UK consumers with a free TV internet box in return for their completing a brief monthly consumer survey online and providing a £30 refundable deposit. The box will allow them access to the internet and to send and receive e-mail, without the expense of ISP subscription charges or a PC. PowerChannel will provide the TV internet boxes. Granada Media will provide the ISP access and services in addition to the G-Wizz portal and intends to distribute the boxes through its Box Clever rental shops nationwide (see below). Granada Media anticipates benefiting from the PowerChannel alliance by building G-Wizz's user base; opening additional revenue opportunities, such as permission-based marketing revenue sharing, and providing Box Clever with an increased flow of customers.

In Australia, Seven Network's non free to air broadcasting business has entered a joint venture with NBCi, the internet arm of US network NBC, to enhance Seven Network's on-line properties, and to exploit NBCi's assets in Australia. Granada Media, which holds a 10.4 per cent. stake in Seven Network, is in discussion with Seven Network and i7 to investigate ways in which Granada Media could establish a similar arrangement with i7 and NBCi.

Broadband Businesses

The Directors believe that the enhanced revenue generating opportunities offered by broadband are of particular interest. Broadband platforms will offer consumers a range of innovative services including interactive and video on demand, enhanced e-commerce capabilities, internet content, broadcast video and personalised content. Granada Broadband intends to use Granada Creative's content creation skills, the power of its programme brands and its access to premium talent to create unique content packages for the Broadband market and create international partnerships and alliances. Granada Enterprises intends to use the strength of its advertising relationships and commercial expertise to maximise the value of the assets created by Granada Broadband. Granada Broadband's strategy is to identify a market opportunity within each sector and then either acquire or develop a business to exploit that opportunity.

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Education

The Directors have identified the global electronic learning (e-learning) market as a significant strategic priority and growth opportunity. Students, teachers and parents alike can all benefit substantially from the extra interactivity, flexibility and capacity offered by digital educational resources that are delivered via the internet, digital television or on CD-ROM. Granada Broadband aims to build a broadband business which provides educational resources and services to all the key sectors of the UK education market, as well as corporate and vocational training and lifelong learning.

In March 1998, the education business Granada Learning was established. It has become a major provider of interactive learning materials in both the schools market, where it currently supplies approximately 92 per cent. of the approximately 32,000 schools in the UK, and the home market with a catalogue of over 800 software and hardware products. Through its division Semerc it is also the leading supplier of hardware and software to some 3,000 UK Special Needs Schools and the Special Needs Departments in the remaining 29,000 mainstream schools.

In 1999, Granada Learning acquired Letts Educational, the UK's leading publisher of revision materials and Black Cat, a specialist education software company. Recently it acquired NFER-Nelson, the leading provider of test and assessment products for UK schools, with its products widely used in over 75 per cent. of schools. The Directors believe this acquisition provides Granada Learning with a key market position in a fast-growing global electronic testing and learning markets.

The Directors also believe there are considerable opportunities to leverage globally the interactive educational expertise Granada Learning has developed. Granada Learning currently supplies educational software to approximately 90 per cent. of schools in Singapore and intends to open a software studio there in autumn 2000 to convert the language and the content of Granada Learning's educational products for the Asian market.

Granada has recently completed a funded trial for the Department for Education and Employment of a digital interactive educational service for the classroom and the home. Called Result, the service was developed in conjunction with IBM and adapts the national curriculum into a series of integrated multi-media resources – including video images, interactive exercises, collaborative activities, print resources and web links – which can be accessed as required by the teacher and student.

Health

Granada Broadband is currently developing a comprehensive health package, which will be fully integrated across television and online services and provide a single source of information for consumers' health needs and other services for UK healthcare professionals. The service will focus on well being, and include information on a range of topics such as nutrition, fitness and vitamins. It intends to offer impartial and comprehensive information on illnesses and drug treatments.

Sport

The Directors recognise that top football club brands offer powerful opportunities to create new broadband businesses. Their fan bases form strong affinity groups that are likely to be attracted to club specific content packages and offer considerable revenue generating opportunities.

Granada Broadband is developing relationships to bring football and its businesses together. As well as participating in the MUTV service, Granada Media acquired 9.9 per cent. of Liverpool Football Club in July 1999. Granada Media has a seat on the Liverpool Football Club board and the contract to manage the club's off-pitch commercial activities from merchandising and publishing to sponsorship and television rights. Granada Media is continuing to explore opportunities to participate in similar ventures, which may include equity and other forms of investment.

Digital Citizen

The Directors believe that the introduction of the electronic delivery of public services in the UK and internationally creates significant opportunities for Granada Media as a multi-media content provider and channels operator. The UK Government, for example, has committed to making all its services electronically deliverable by 2005, through a number of media, including digital television and the internet. Granada Media is developing a portfolio of "Digital Citizen" services in areas including education, health and employment. In the same way as Granada Media has developed alliances with third party retailers or rights holders to deliver a digital television or multi-media presence, Granada Media will seek to partner Government in digital service delivery in a number of such areas.

6 Granada Enterprises

Granada Enterprises is the commercial exploitation arm of Granada Media. It seeks to exploit the commercial value of Granada Media's creative content and broadcasting assets through the following business activities:

- airtime sales;
- sponsorship;
- content licensing;
- publishing;
- merchandising;
- on-line advertising; and
- interactive advertising.

Through these activities Granada Enterprises offers advertisers a range of marketing services with which to promote their brands and services, and manages sales, distribution and commercial exploitation for all Granada Media's creative output in a range of media.

A significant proportion of Granada Media's revenues are generated through advertising. Granada Enterprises manages airtime sales for Granada Media's four ITV licences, which it sells to a wide range of internationally recognised companies (for example Unilever, British Telecom and Ford). However, the Company's advertising revenues are not reliant on any one advertiser or any particular sector. This is highlighted by the breadth of its client relationships which include a total of 67 of the FTSE 100 companies, none of whom accounted for more than five per cent. of advertising revenues in 1999.

Over the last two years, Granada Enterprises has consistently outperformed ITV's average advertising sales growth rate. It has also outperformed Channel 4 in this regard for the previous 12 month period. The Directors believe that this success has been achieved through a combination of the following:

- the depth of expertise among its 260 strong airtime sales teams which are located in London, Manchester, Leeds and Newcastle which enables it to provide a quality service to international, national and regional advertisers alike; and
- Granada Enterprise's use of an airtime sales yield management system which enables it to maximise the value of its inventory of advertising slots.

The Company's proven track record in selling airtime for ITV licences has enabled it to win contracts to sell airtime for Granada Sky Broadcasting, The Performance Channel, The Money Channel, The Baby Channel and the UK representation for TV3, Ireland's first fully commercial channel.

The strength of its commercial relationships with major advertisers has enabled Granada Enterprises to extend its airtime sales business to create new businesses. Over the last ten years Granada Enterprises has built programme sponsorship and advertiser co-production businesses and is a leader in the procurement of ITV programme sponsorship. Granada Enterprises' notable sponsorship agreements include *Coronation Street* and Cadbury's; *Blind Date* and First Choice; *Emmerdale* and Proctor & Gamble.

Granada Enterprises generates additional revenues from the Group's programme brands through its publishing and licencing business. Over the last three years it has established projects with VCI (video), BMG (music) and Andre Deutsch (book publishing). In 1999 for example, it sold 1.86 million videos, generating over £12 million in sales. Rights in LWT's originally commissioned music and lyrics are owned and exploited by a joint venture with Essex Music (now Westminster). Granada Media has sought to protect its best known programme brands by UK trade mark registrations. As the business expands into new markets, Granada Media intends to seek trade mark registrations for key programme brands in new markets where appropriate and possible.

Granada Enterprises also has the third party online sales contract for the ITV Formula One web site. The web site is a platform which provides advertisers with sponsorship, banner and promotional opportunities.

The Directors believe that the strength of Granada Enterprises' commercial relationships combined with its advertising, sponsorship and merchandising expertise gives it a distinct competitive advantage with which to exploit new revenue streams as new media and broadband opportunities develop.

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7 ONdigital

ONdigital, a 50:50 joint venture between Granada Media and Carlton Communications, is the world's first commercial digital terrestrial television service offering its users access to over 50 pay and free to air television channels and a number of interactive services including e-mail and pay per view services. ONdigital provides Granada Media with a strong position in the digital broadcasting market.

ONdigital was awarded licences by the UK government for a period of 12 years (renewable for a further 12 years) to run 50 per cent. of the UK's DTT capacity in 1997, through multiplexed digital signals on three different frequencies. On each of these frequencies, ONdigital is currently able to broadcast up to 7 streams of pay TV channels as well as data services. At the commencement of broadcasts in November 1998, there were 29 transmitters in operation, reaching between 50 per cent. and 75 per cent. of UK households. By the end of 2000, there will be 80 transmitters broadcasting to between 70 per cent. and 95 per cent. of the population.

Some of the remaining DTT capacity has been reserved for the existing UK free to air broadcasters who are required to broadcast simultaneously their current free to air channels digitally. These broadcasters have also used their capacity to launch a range of further free to air or subscription digital channels, such as BBC Choice, BBC Knowledge, BBC News 24 and ITV2 (all currently free to air) and Film Four (a subscription channel). ONdigital has a 50 per cent. interest in a partnership with SDN, the operator of the digital broadcast licence not operated by the free to air broadcasters or ONdigital, to operate the pay per view service ONrequest.

Unlike satellite or cable, ONdigital is easy to install because most users only need to connect a free-loan set top box ("STB") or an integrated digital television ("iDTV") to their existing television aerial.

As at 30 June 2000, ONdigital had 774,000 subscribers. Of the total number of subscribers, 24,000 households had signed contracts but still had to activate their smart cards and another 10,000 boxes had been installed, mainly in dealers for demonstration purposes. Given the growth in subscriber numbers since the launch of ONdigital, the Directors are confident that ONdigital will have one million subscribers by the end of 2000. The Directors believe that ONdigital will have acquired 2 million subscribers by the end of 2002. This would represent take up by 8.5 per cent. of the UK's 24 million households.

In addition to pay TV services, ONdigital customers have access to e-mail ("*ONmail*"), pay per view movies and sports events on request ("*ONrequest*"), games ("*ONgames*"), t-commerce ("*ONoffer*") interactive advertising and digital text services such as digital teletext, subtitling and signing of programmes. As ONdigital creates new interactive services, the STB or iDTV can be updated by "over the air" downloads of new software to the STB when the TV functions of the STB are not being used. ONdigital intends to launch *ONnet* in autumn 2000, which will allow subscribers full access to the internet on the TV via a simple add-on box and will provide a range of enhanced features combining broadcast and on-line services including an ONdigital portal. For the first time, people watching television programmes or advertisements will be able to click straight through to supporting web sites. It is anticipated by ONdigital that a second generation of STB that incorporates pay TV and internet services in a single unit will be available in 2001.

ONdigital has won the sole and exclusive rights to broadcast in the UK the Football League's live pay, pay per view and free to air matches for three years from August 2001, showing a minimum of 88 matches each season. It intends to build a major premium sports channel with live Football League, Worthington Cup and UEFA Champions League football and the ATP Men's Tennis Masters as a solid foundation. ONdigital viewers will also be able to see all the pay and pay per view matches from the Premier League and Nationwide League. Unlike satellite viewers they can also get ITV programming in digital widescreen and will, with the sports coverage of British Eurosport, and Sky Sports 1, 2 and 3, have access to more sport than the viewers of any other UK television platform.

The Directors believe that ONdigital has other key competitive advantages as a pay television operator:

- The simplicity of ONdigital's "plug and play" installation enables ONdigital to use retail routes to market such as supermarkets and payment methods such as prepaid which its competitors have difficulty in accessing;
- ONdigital offers its users a flexible pricing and packaging structure, allowing them to "pick and mix" channels and services; and
- ONdigital benefits from the extremely low ratio of fixed to variable costs within the business. The Directors estimate that 80 per cent. of ONdigital's costs are variable as they comprise set top box purchase and subscriber management payments that, to a considerable degree, are only incurred once a subscription has been purchased, and programming costs that are only payable to channel suppliers once a channel subscription has been bought. The principal fixed costs are the relatively low levels of cost required to manage and transmit the service.

In the longer term, the Directors believe that ONdigital is well placed to benefit from the UK Government's wish, announced in September 1999, for every home in the UK to have access to digital television. The Government has indicated that the switchover

process could begin as early as 2006 and be completed by 2010, depending on the progress made by broadcasters and manufacturers, and the interests of consumers being served. Before the switchover is made, the Government has stated that it will need to be satisfied that the new services are universally available (ie more than 99 per cent. of the population are covered by digital transmission) and readily affordable (i.e. 95 per cent. of consumers to have access to digital broadcast receiving equipment which must be affordable to people on low and fixed incomes). The Directors believe that in many homes this is likely to be an integrated television set connected to an existing terrestrial aerial. Viewers with digital televisions will be able to access ONdigital via a small module the size of a credit card, offered at point of sale or delivered through the post with subscription to ONdigital requiring a simple phone call.

ONdigital intends to utilise new Digital Subscriber Line ("DSL") technologies to offer additional services to its customers. These services could include video-on-demand and high-speed internet access. The Directors believe that ONdigital is well positioned to exploit new digital technologies, given its rapidly growing subscriber base and its ability to exploit its own and its shareholders' brands, programming and on-line assets.

8 Box Clever

Granada Media owns 50 per cent. of Box Clever Technology Limited ("Box Clever"), the UK's largest consumer television rental business. Box Clever was formed on 28 June 2000 through the merger of the consumer rental businesses of Granada Media and Thorn UK. Granada Media's consumer rental business had net assets of £113 million as at 25 September 1999 and profit before interest and tax attributable to those net assets, in the year to 25 September 1999, of £78 million. The Thorn UK consumer rental businesses had negative net assets of £83 million as at 31 March 2000. The profit before tax attributable to the Thorn UK consumer rental businesses and other revenue streams contributed by Rental Holding Company Limited to Box Clever, in the year to 31 March 2000, was approximately £8 million.

The Directors believe that the merging of Granada Technology and Thorn UK (which trades as Radio Rentals) to form Box Clever has created a new business of significant strength in the UK electronics rental market. On an aggregated basis, Box Clever accounted for 7 per cent. of the total market for televisions supplied in 1999. The business has approximately 2.3 million customers representing approximately ten per cent. of homes in the UK renting approximately 3.3 million units.

Box Clever has a strong nationwide high street shop chain, with products targeted at a new generation of customers, wanting access to new technology. It also has 41 distribution/service centres and four call centres located throughout the UK to give full support to its customer base. Box Clever is a leading national high street outlet specialising in TVs and TV-related technology.

The Directors believe that the Box Clever merger provides an opportunity for significant profit improvement. The customer base of both businesses can be serviced through one rather than two sets of infrastructure. For example, the two businesses will jointly have about 900 shops. The Directors believe that this number could be reduced to slightly over 500, with consequent savings. Even then, with over 500 shops, Box Clever will have a national shop presence of real weight, which will be significantly larger than either of the previous Granada or Radio Rentals shop chains, and which will be the most authoritative TV specialist on the high street.

In recent years the TV rental market has been in gradual decline. TV technology has changed very little over the last 20 years; hardware prices have been low; reliability has been high; and consumer credit has been widely available. However, the Directors believe that this trend is now beginning to change, with customers likely to rent rather than buy as technology itself changes. In the last two years, wide screen television and digital broadcasting from both BSkyB and ONdigital have been introduced. More recently, DVDs and super flat TV screens have come on to the market and integrated digital televisions are beginning to be introduced. Plasma screen and LCD screen technology is currently available at high prices and low volumes, but the Directors believe that this is likely to change, as production levels accelerate. Web TV, which will give internet access through a television set without the use of a computer and with negligible capital outlay, is likely to be introduced within a matter of weeks.

At a time of rapid technological change, the Directors believe that there is an opportunity to take advantage of the growth in the rental market. New technology will create strong consumer desire for new television products, in a similar manner to CDs and mobile telephones in recent years. However, this increased desire for these new products will be qualified on several scores. Specifically, prices are expected to rise as technology improves. Wide screen TV sets are, for example, notably more costly than their conventional equivalent. There will be concerns about the reliability of new and unproven technologies. Above all there will be concerns about obsolescence: customers will fear that if they commit themselves irrevocably to one technology or type of equipment it may soon be replaced by another.

Part II

Information on Granada Media continued

A new leasing concept which gives the customer a free upgrade on a regular basis has already been tested in the North of England. This concept provides the traditional benefits of rental to the customer, supported by a new flexibility to upgrade, which means that the customer is able to keep pace with changes in technology in a way that would otherwise be more expensive and thus less attractive for a retail customer. This new proposition, when tested, increased the customer base and attracted a higher spending customer than previously experienced.

9 Management

Brief biographical details of the Directors of the Company, including the principal activities performed by the Directors outside the Group and the names of all companies and partnerships of which that individual has been a director or partner at any time in the five years preceding the date of this document, are set out below:

Directors

Charles Allen – Chairman

Age 43. Chief Executive, Granada Group. He joined Granada in 1991 as Chief Executive of Granada Leisure and he joined the Granada Group Board in 1992. He is Chairman of ONdigital plc and GMTV Limited and a Non-Executive Director of Tesco PLC. He is Chairman of Manchester Commonwealth Games Limited. He is a Director of the International Council of the National Academy of Television, Arts and Sciences. He is also a fellow of the Royal Society of Arts and Vice-President of the Royal Television Society. His previous career includes British Steel Corporation, TM Group Limited, Grand Metropolitan PLC and Compass Group PLC.

Steve Morrison – Chief Executive

Age 53. Chief Executive, Granada Media. He joined Granada Television in 1974; Director of Programmes 1987; Executive Producer, *My Left Foot* (2 Oscars), *The Field* (Oscar nomination); Managing Director of Granada Television 1993; Managing Director LWT 1994; Chairman, ITV Marketing Group 1995; Chairman, Laser Sales 1995; Chief Operating Officer, Granada Media 1996; and Chief Executive, Granada Media 1996. He is a member of the ITV Council; Director, ONdigital; Governor, National Film and Television School; and Fellow, Royal Television Society. He was formerly founding Chairman, Granada Sky Broadcasting; former Governor, British Film Institute; former Governor, British Film Commission; and Director British Screen.

Henry Staunton – Finance Director and Deputy Chairman Media Ventures

Age 52. Finance Director, Granada Group. He joined Granada in 1993 as Finance Director. He is a Director of ONdigital plc and is a Non-Executive Director of Emap plc and Ashtead Group plc and formerly a Non-Executive Director of British Sky Broadcasting Group PLC (1995-98) and the Kingswood Lawn Tennis Club. Previously he was a Senior Audit Partner in Price Waterhouse.

Nigel Rich – Non-Executive

Age 54. Chairman of Hamptons Group Limited and Deputy Chairman of Ocean Group PLC. He is a Non-Executive Director of Downe House School Limited, John Armit Wines Limited, Matheson & Co. Limited, Sutherland Corporate Services Limited, Harvey Nichols Group Plc and Pacific Assets Trust plc. He was 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 – Non-Executive

Age 43. Executive Vice Chairman of InterTrust Technologies Incorporated, a San Francisco based digital rights management technology company. Also a Non-Executive Director of Modern Times Group, the primary pay TV operator in Scandinavia, and Sunderland Football Club Plc. Formerly Deputy Managing Director of BSkyB Group PLC from 1994-1998, and then a consultant and Non-Executive Director until August 1999.

Although Charles Allen and Henry Staunton are both directors of Granada Group PLC, the Company's holding company, and Granada Compass, which will become the Company's holding company following the Merger, the majority of the Board are neither directors nor employees of Granada Group PLC. In addition, the management autonomy of the Company is protected by the Relationship Agreement with Granada, described in Part III of this document.

At the time of the Mandatory Exchange, which will be implemented following the Demerger of the hospitality business of Granada Compass, the executive directors of Granada Compass are expected to include the three executive directors of Granada Media, whose details are described above, together with:

Graham Parrott – Company Secretary

Age 50. Commercial Director, Granada Group. He joined Granada in 1973, and joined the Granada Group Board in 1992. He is Chairman of the Granada Pension Scheme and has been the Group Secretary since 1988. He is a director of GMTV Limited, a Non-Executive Director of Independent Television News Limited and formerly a Non-Executive Director of British Sky Broadcasting Group PLC (1998).

Executives*Jules Burns – Managing Director, Operations*

Age 50. Joined Granada Television in 1976; Director of Business Affairs 1988; Board of Granada Television as Director of Programmes and Management Services and Managing Director of Granada Enterprises in 1993; Joint Managing Director of Granada Television 1994; Managing Director, Divisional Operations 1995; Joint Managing Director of Granada Productions 1996; Managing Director, Operations 2000. Chairman, Granada Sky Broadcasting; Director of MUTV; Liverpool Football Club; Home Shopping Channel and Royal Exchange Theatre and the Manchester 2002 Commonwealth Games.

Stewart Butterfield – Managing Director, Granada Broadcasting

Age 52. Media Director, McCann-Erickson 1981; Executive Media Director 1988. Joined Channel 4 as Executive Director 1991. Joined Granada Media as Managing Director, Granada UK Broadcasting 1997. Member of the ITV Council and Deputy Chair of London News Network and ITV2.

Mick Desmond – Chief Executive, Granada Enterprises

Age 41. Joined Granada in 1988 appointed Deputy Sales Director 1989; Executive Sales & Marketing Director 1992; Managing Director of The Time Exchange 1994; appointed Chief Executive of Laser, 1994, re-named Granada Media Sales in 1998. He is also Deputy Managing Director of Granada Broadcasting. Chairman of the ITV Agency Committee.

Simon Shaps – Managing Director, Granada Broadband

Age 43. Head of Current Affairs, LWT 1990; Controller of Factual Programmes 1993; Director of Programmes, LWT 1996; Director of Programmes, Granada TV and Director of International Factual Programmes, Granada Media 1997; Managing Director, Granada Media Productions in January 2000.

Andrea Wonfor – Executive Chair, Granada Creative

Age 55. Director of Programmes, Tyne-Tees Television 1983; Chairman of Regional Controllers, Deputy Chairman of ITV's Children's Committee 1986; Founding Managing Director of Zenith North 1988. Deputy Director of Programmes and Controller of Arts & Entertainment, Channel 4 1992. Director of Programmes, Granada Television 1993; Joint Managing Director, Granada Television 1994; Joint Managing Director, Granada Productions 1996; Executive Chair, Productions, International and Media Products 2000. Governor, University of Northumbria; Director of Northern Arts. Governor of the BFI 1990-96; Chair of the Royal Television Society 1996-1998.

At the date of this document none of the Directors of Granada Media:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has been bankrupt or entered into an individual voluntary arrangement;
- (c) was a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
- (d) has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- (e) has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or
- (f) has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

Part II

Information on Granada Media continued

10 Corporate Governance

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. 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 will be complied with appears below.

The Board

The Board will meet regularly throughout the year. Brief biographical details of the Directors are given in this Part II. A formal schedule of matters reserved for the decision of the Board will cover key areas of Granada Media's affairs including overall Granada Media 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 will 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.

The Board will delegate specific responsibilities to committees, as described below.

The Nomination Committee

The Nomination Committee will be chaired by Charles Allen and will comprise 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 will be available to all Directors on appointment to the Board, taking into account their individual qualifications and experience, and training will also be available on an ongoing basis to meet their individual needs.

The Remuneration Committee

The Remuneration Committee will comprise the two non-executive Directors, will be chaired by David Chance and will meet as required during the year.

The Audit Committee

The Audit Committee, which will also comprise the two non-executive Directors, will be chaired by Nigel Rich and will normally meet four times a year. The Committee will review the Company's interim and annual financial statements before submission to the Board for approval. The Committee will also review regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the Committee will monitor the progress of action taken in relation to such matters. The Committee will also recommend the appointment and will review the fees of external auditors.

The Administration and Finance Committee

The Administration and Finance Committee will comprise all the executive Directors and will meet 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

As detailed in this Part II below Granada Media will continue to participate in the Granada Pension Scheme as participating employer following Admission. The corporate trustee of the Granada Pension Scheme is Granada Trust Corporation Limited, which is 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 Executive 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.

Going concern

After making appropriate enquiries, the Directors consider that Granada Media 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.

Internal control

As permitted by the UK Listing Authority, the Company will comply 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 controls and financial reporting which was issued in December 1994. The Turnbull Committee issued, in September 1999, guidance on the wider aspects of internal control which the Directors are considering. The Directors will have overall responsibility for the Group's system of internal financial control and will establish a framework designed to provide reasonable but not absolute assurance against material misstatements or loss. The key procedures supporting such a framework are detailed below.

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 will be reported monthly, compared with their individual budgets and forecast figures will be 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 will be 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 will be subject to regular review by the Directors. Other important areas such as detailed insurance risk management and legal matters will come under the direct control of the executive Directors and will be reviewed on a continuous basis. In addition, managers of operating units will also be required to provide a schedule of identified risks and action taken to minimise exposure.

Investment appraisal – Granada Media will have a clearly defined framework for controlling capital expenditure including appropriate authorisation levels. There will be 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 will also be subject to post investment appraisal after an appropriate period.

11 Employees

Details of the average number of employees employed by Granada Media over the last three financial years are set out below.

	1997	1998	1999
Average number of people employed:			
Full time	2,031	2,832	3,021
Part time	82	92	103
	2,113	2,924	3,124

12 Employees' Share Schemes

Long-term success in the international broadcasting market requires motivated and talented people who are committed to growing and preserving sustained value for shareholders.

Granada Media's remuneration policy is intended to secure this commitment by combining incentive opportunities that offer significant rewards (linked to sustained long term performance of the business and the individual), which are competitive with the best in the market, provided individuals share in the risks in line with shareholders. In addition, the arrangements are intended to provide appropriate remuneration for loyalty and continued service in a highly competitive media market. In essence, executives will be encouraged to adopt the attitudes of owners and true entrepreneurs and build up meaningful shareholdings in the company for which they work. Granada Media executive directors will be expected to invest significant amounts of personal capital, which will only realise returns if stretching performance targets are achieved. This principle of linking reward opportunities to investment commitment will also apply below Board level.

Part II

Information on Granada Media continued

This approach is closely linked to the Board's commitment to create a stakeholder culture within Granada Media, offering real opportunities for employee ownership at every level within the business.

It is intended that the initial grants under the Granada Media employees' share schemes described below will be made on or shortly after Admission.

After Demerger, when it is intended to consolidate the listings of Granada Compass and the Company as described in Part III it is intended that the Granada Media employees' share schemes will be succeeded by Granada Compass' employees' share schemes. After Demerger no further awards or options will be granted under the Granada Media employees' share schemes.

It is not intended that rights under the Granada Media employees' share schemes will vest as a result of the Demerger or the Mandatory Exchange. Any Granada Media shares acquired after Demerger on the exercise or vesting of rights under the Granada Media employees' share schemes will be exchanged under the Granada Media articles of association for Granada Compass shares as referred to in Part III.

The objectives described above will be achieved by means of the following arrangements.

(a) The Granada Media Commitment Scheme

The Commitment Scheme has been established to incentivise the senior management in Granada Media to grow the Company's value at a rate comparable to, or in excess of, a relevant group of media companies in the UK, US and Europe. This long-term scheme is contingent on the invited participants committing and retaining a significant defined stake held in Granada Media shares or Granada Compass shares.

In respect of the first invitation to participate, where the participant is an executive director the initial commitment will be between 100 per cent. and 300 per cent. of basic salary. A matching award will be granted which will comprise both an award of free shares and an option to acquire an equal number of shares. The option will have an exercise price equal to the market value of the shares under option on the date of grant. The method of calculating the numbers of shares over which awards will be granted is set out below.

If Granada Media's total shareholder return, measured against a highly competitive comparator group of international UK, US and European media companies, is at the median or above, the matching award will vest. If performance is below the median no entitlement will vest. At the median, 25 per cent. of the matching award will vest with a sliding scale to full vesting if performance is ranked in approximately the top ten per cent. of the comparator group. The precise level of vesting will be determined once the size and members of the comparator group have been identified. For the first awards to be made under the Commitment Scheme the comparator group will consist of not less than ten companies which will include major UK television broadcasters.

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.

Measurement of performance will be taken over two and four years following the grant. Subject to performance, participants' matching awards may vest over up to 50 per cent. of the award after two years and the balance after four years.

The Company proposes to grant matching awards prior to Admission to the executive directors and senior executives. The matching option will have an exercise price equal to the Offer Price. It is anticipated that in aggregate such Directors and executives will respectively commit £7 million and £1.2 million worth of Granada Media shares.

(b) The Granada Media Deferred Share Award Scheme

Granada Group successfully introduced in lieu of a cash bonus scheme its Deferred Share Award Plan in 1999, for the purposes of retention and, through payment in shares, alignment with shareholder interests. Granada Media's senior executives and executive Directors will have a similar arrangement, in the form of the Granada Media Deferred Share Award Scheme, and will not be eligible for annual cash bonus awards. Awards under the Granada Media Deferred Share Award Scheme will be made, based on performance, in the form of shares, and will be transferred to the recipient in two tranches, on the first and second anniversaries of the award. The Deferred Share Award Scheme will be operated in conjunction with an employees' benefit trust. The maximum level of award initially will be 150 per cent. of salary and subsequent awards will be at 100 per cent. of salary.

(c) The Granada Media Share Option Schemes

Granada Media will also operate Inland Revenue approved and unapproved executive share option schemes. Normally, vesting and exercise of options will be dependent on Granada Media's total shareholder return over defined periods following grant being at the median or above within an international comparator group of media companies. It is intended that the maximum value of the shares over which annual grants of options will be made under the option schemes will be 133 per cent. of salary.

The Company proposes to grant options to approximately 130 executives (who will not be participating in the Commitment Scheme) prior to Admission in respect of approximately nine million Granada Media shares exercisable at a price equal to the Offer Price.

(d) All Employee Schemes

A Save-As-You-Earn Scheme and All Employee Share Ownership Plan for employees of Granada Media will also be adopted following Admission.

(e) Directors' and Senior Executives' Participation in the Offer

The executive directors will apply to subscribe under the Offer for 1,361,165 Shares at the Offer Price. Other senior executives intend to apply to subscribe for up to a further 230,873 Shares in aggregate, also at the Offer Price. The funding for certain of these subscriptions will be provided by way of loans from an affiliate of ABN AMRO Bank N.V. on arms length terms.

It is intended that certain options and awards under the Granada Media employees' share schemes will be subject to conditions that they may only vest or become exercisable if the Merger becomes effective. The Remuneration Committee of Granada Media will have the ability to waive such condition if it determines that there are exceptional circumstances making such waiver appropriate.

It is intended that the trustee of the Company's employee benefit trust will acquire from ABN AMRO Equities (UK) Limited up to 7.9 million Shares at the Offer Price. It is currently intended that these Shares will be used to satisfy awards and options to be granted under certain of the Granada Media Share Schemes and provide the necessary finance to meet any National Insurance contributions liability arising in respect of such awards and options.

13 Pensions

The principal pension scheme applicable to the Granada Group (including the employees of Granada Media) is the Granada Pension Scheme (the "Granada Scheme"). The Granada Scheme is a substantial UK established, tax approved, contracted-out pension scheme, providing the majority of pension and death benefits on a defined benefit (or final salary) basis. Granada is the principal employer and the trustee is Granada Trust Corporation Limited (a wholly owned subsidiary of Granada). The assets of the Granada Scheme are held by the trustee, separately from assets of the Granada Group. Further information about the Granada Scheme is set out in note 7.6 to the Accountants' Report in Part VII of this document.

Following the Offer and listing of shares in Granada Media, it is intended that Granada Media will continue to participate in the Granada Scheme, as participating employers. The terms on which Granada Media will continue to participate in the Granada Scheme are set out in the Granada Scheme's governing documentation and in provisions which are included in the Reorganisation Agreement described in Part III of this document. The contributions (if any) due from Granada Media from time to time will be based on actuarial advice as required under the Granada Scheme's governing documentation.

Other aspects of the transactions that have or are to be undertaken by Granada will impact on the Granada Scheme, as follows:

(a) Box Clever

Completion of the joint venture transaction relating to Box Clever will result in the withdrawal of Box Clever's employees from the Granada Scheme, expected within six months after the completion of that transaction (completion took place on 28 June 2000). The employees of Box Clever will be offered membership of an alternative pension scheme to be established by Box Clever and appropriate assets will be available for transfer in respect of the relevant employees' accrued pension rights from the Granada Scheme to the new scheme. Such transfers will be subject to employees' consents and if transfers are not made the relevant employees will remain entitled to deferred pensions and other benefits under the Granada Scheme.

(b) Demerger

The Demerger will also result in the withdrawal from the Granada Scheme of employees employed in the Hospitality business which is to be demerged by Granada Compass. The withdrawal of the Hospitality employees will take effect at the time of, or shortly

Part II

Information on Granada Media continued

after, completion of the Demerger. It is intended that following the withdrawal of Hospitality employees from the Granada Scheme, an equitable part of the fund of the Granada Scheme will be transferred (such transfer to be guaranteed by Granada Media) to one or more pension schemes within the Compass group, which will assume the accrued pension rights of employees and former employees of the Hospitality business.

Following these transactions, the full effect of which will only become certain after the Demerger, the Granada Scheme will be a more mature pension fund than at present. Granada Media will be the only remaining participating employer. It is anticipated that the Granada Scheme's increased maturity will result in the adoption of more conservative investment policies and corresponding funding assumptions than at present apply. The effect will be that the future ongoing cost to Granada Media of funding the Granada Scheme will represent a higher proportion of pensionable payroll than currently applies. The next actuarial valuation of the Granada Scheme for funding purposes is due as at 1 October 2001, although this may be brought forward to an earlier date, if circumstances demand. Employer contributions to the Granada Scheme will be assessed in the light of the circumstances prevailing at the time of that valuation.

Part III

Relationship with Granada and Granada Compass and Mandatory Exchange

1 Background

Granada is currently the sole shareholder of Granada Media. Immediately following the Offer, and subject to the stock lending arrangements described in Part IX of this document, Granada will hold 82.1 per cent. of Granada Media's issued ordinary share capital (80 per cent. if the Over-Allotment Option is exercised in full).

On 17 May 2000, the Boards of Granada and Compass announced that they had agreed the terms of proposals to create two focused groups:

- Granada Media, comprising Granada's existing media division; and
- Compass Hospitality, comprising Compass Group's existing business and Granada's hospitality division.

It is intended that these proposals will be implemented in the following steps:

- the Offer by Granada Media described in this document and the admission to the Official List and to trading on the London Stock Exchange of the Ordinary Shares in Granada Media, resulting in Granada Media being 82.1 per cent. owned by Granada and 17.9 per cent. owned by public shareholders (assuming the Over-Allotment Option is not exercised);
- a merger between Granada and Compass to create Granada Compass;
- the separation of Granada Media and Compass Hospitality by means of a demerger of Compass Hospitality, leaving Granada Media as the only operating division of Granada Compass; and
- the Mandatory Exchange of Granada Media Ordinary Shares for Granada Compass Shares to consolidate the listings of Granada Media and Granada Compass. On the Mandatory Exchange becoming effective, Granada Compass will change its name to Granada Media.

2 Merger and Demerger

The Merger will be implemented by means of inter-conditional schemes of arrangement of both Granada and Compass whereby a new company, Granada Compass, will be put in place above both Granada and Compass, with shareholders of the two companies receiving shares in Granada Compass in lieu of their shares in Granada and Compass. It is anticipated that Admission will take place prior to the completion of the Merger, which is expected to become effective on 27 July 2000.

The schemes are conditional, inter alia, on receipt of European Union competition clearance and are also subject to shareholder approval and the sanction of the court. Competition clearance was granted on 29 June 2000 and the requisite shareholder approvals to the schemes were given at meetings held on 5 July 2000. To become effective, the schemes and the Merger require court sanction.

Upon the schemes becoming effective:

- the shareholders of Granada and Compass will cease to hold shares in Granada and Compass and will receive shares in Granada Compass; and
- the shares of Granada Compass will be admitted to the Official List.

The Demerger will take place as soon as practicable following the Merger. The Board of Granada Compass has stated that it intends to implement the Demerger within 12 months of the Merger and that it is currently aiming to send the relevant documentation to shareholders by the end of the year to allow completion in early 2001. The Demerger will involve completion of the separation of Granada's hospitality and media businesses by way of a demerger of Compass Hospitality. Following completion of the Demerger, Granada Media will remain a subsidiary of Granada Compass and it is expected that the only material asset of Granada Compass will be its indirect shareholding in Granada Media.

Immediately following the Demerger, it is intended to consolidate the listings of Granada Media and Granada Compass. The consolidation will be effected by an exchange mechanism whereby the Shareholders in Granada Media (other than Granada) will cease to hold Shares and will receive, in lieu, shares in Granada Compass. A description of the exchange mechanism is summarised in paragraph 5 of this section.

Part III

Relationship with Granada and Granada Compass and Mandatory Exchange continued

The boards of Granada and Compass have agreed a number of principles governing how the separation and Demerger will proceed, which are set out in a Merger Agreement between Granada and Compass dated 17 May 2000 and are summarised in paragraph 3 of this section.

In order to ensure that Granada Media remains in the same group of companies as Granada (and, following the Demerger, Granada Compass) for capital gains tax purposes, Granada holds 219,226,116 participating preference shares in Granada Media. The rights of the participating preference shares are described in more detail in Part X. If Granada Media ceases to be a member of such capital gains tax group within six years of the date on which certain of the media interests of Granada were transferred to Granada Media pursuant to the Reorganisation Agreement, the Directors currently estimate that Granada Media would become liable to corporation tax of up to £195 million on chargeable gains.

3 Reorganisation Agreements

On 17 May 2000, at the time of the announcement of the Merger, Granada and Compass entered into a merger agreement (the "Merger Agreement") setting out the basis upon which the Merger and the Demerger are to proceed, including a number of principles governing the separation of Granada Media from Granada's hospitality division. These principles include asset and liability allocation, debt allocation, employee and pension arrangements and management of the demerged entities.

In order to give effect to these principles, insofar 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 contains, *inter alia*, provisions to the following effect:

- (a) the transfer by Granada to Granada Media of such assets of Granada's media business as were not already owned by Granada Media;
- (b) the assumption by Granada Media of certain costs and liabilities of the Granada, Granada Compass and Compass groups, as a result of which Granada Media will be responsible 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 Granada Media (including any liability of Granada to make a payment to Hospitality Holdings Limited or Compass resulting from a failure by the trustee of the Granada Pension Scheme 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);
 - all the costs incurred at any time by Granada Compass, Granada, Granada Media and their respective Groups in connection with or related to the Offer and any offer for Carlton Communications or United News & Media;
 - one-third of the amount of the costs incurred by any member of 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 (Granada Media's share of these costs is not expected to exceed £25 million); and
 - 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 (the Directors are not aware of any material costs or liabilities of this type);
- (c) the settlement of all inter-company debt between Granada and Granada Media (including indebtedness arising from the transfer of assets described in paragraph (a) above), with the result that no such indebtedness now exists; and
- (d) providing that Granada Media is to continue to participate in the Granada Pension Scheme and to be treated as if Granada Media were to remain a wholly-owned subsidiary of Granada and providing for the assumption by Granada Media of any unfunded liabilities of Granada or Granada Compass to provide unapproved pensions for employees and former employees of Granada Media except to the extent such unfunded liability is matched by assets held subject to security by Granada.

Granada and Granada Compass have also entered into an agreement with the holding company of Granada's hospitality business ("Hospitality Holdings") and Forte Limited in similar terms to the Reorganisation Agreement under which, *inter alia*, Hospitality Holdings

agrees to assume certain other costs and liabilities of Granada and Granada Compass. As a result of these provisions it is intended that, all costs and liabilities of both Granada and Granada Compass are indemnified by Granada Media or Hospitality Holdings, thus facilitating the operation of the Mandatory Exchange mechanism described in paragraph 5 below.

This agreement also provides for the continued participation, until Demerger, of Granada's hospitality division in the Granada Pension Scheme and for the transfer on a share of fund basis of assets and liabilities in respect of that division's employees and former employees to a pension scheme of Hospitality Holdings, and also that the proceeds of exercise of share options received by Granada shall belong and be paid to Hospitality Holdings.

The Board considers that the terms of the Reorganisation Agreement, including the assumption of costs and liabilities under it, are in the best interests of the Company having regard, inter alia, to the value of the assets transferred to the Group under the Agreement and to the effect of provisions of the Merger Agreement pursuant to which all of the existing net debt of the Granada group and Compass group are expected to be allocated to, or remain with, Compass Hospitality thereby leaving Granada Media with no net debt.

Granada Media has also entered into an agreement (the "Transitional Services Agreement") with Hospitality Holdings for the transfer to Hospitality Holdings of certain head office assets and liabilities and the provision of related services and rights on a transitional basis and indemnifying each member of the Hospitality Holdings Group for all (if any) liabilities which relate to or arise directly or indirectly in connection with Granada Media's business. Granada Media also has a similar indemnity from Hospitality Holdings with respect to liabilities in connection with the hospitality business. This agreement also provides that, until the Demerger, Granada Media will be responsible for one-third of the remuneration costs of Gerry Robinson and Hospitality Holdings will be responsible for the balance.

Granada has transferred all its registered trade marks and domain names containing the word "Granada" to Granada Media. The hospitality division has been granted a licence by Granada Media to continue to use the Granada name in its motorway services business for a period of up to six months after the Demerger.

The accounts of Granada Media reflect a charge of £5 million per annum for the share of Granada's head office costs allocated to the Group. There will be additional costs arising from the Commitment Scheme, the Deferred Share Award Scheme and the impact of the proposed restructuring on the pension schemes. Granada Media will also incur additional corporate head office costs.

4 Relationship Agreement

Under the Listing Rules, whilst Granada holds or is entitled to be able to control shares entitling holders to 30 per cent. or more of the votes exercisable at general meetings of the Company, it qualifies as a Controlling Shareholder. Granada and the Company have therefore entered into an agreement dated 10 July 2000 (the "Relationship Agreement") which will, conditionally on Admission, regulate the ongoing relationship between them.

Granada Media will be capable at all times of carrying on its business independently of Granada.

Granada Media is not operationally controlled as a subsidiary of Granada and is run autonomously, with decision-making powers resting with the Granada Media Board. Granada Media has effective control of the appointment and removal of Directors to the Board, the running of its day-to-day business and the carrying out of activities outside the ordinary course of business, such as acquisitions and disposals.

The Relationship Agreement also provides for all transactions between Granada and Granada Media to be conducted at arm's length and on a normal commercial basis.

Granada has agreed to certain standstill provisions during the period commencing on Admission and ending on the later of the lock up period provided in the Underwriting Agreement and the effective date of the Mandatory Exchange or 15 September 2001 if the Mandatory Exchange has not become effective prior to that date (the "Relevant Period"). Granada undertakes not to enter into certain arrangements to acquire interests in Ordinary Shares or with respect to voting rights in Granada Media other than in certain circumstances such as the operation of the Mandatory Exchange. Granada will not sell or transfer any such interests during the Relevant Period unless such transfers are to a permitted intra-group transferee.

Granada Media also agrees that during the Relevant Period it will not issue any Ordinary Shares without the prior consent of Granada Compass except in the case of Ordinary Shares issued pursuant to share options or awards or in connection with the possible bid for Carlton Communications or United News & Media.

Part III

Relationship with Granada and Granada Compass and Mandatory Exchange continued

The composition of the Board agreed with the UK Listing Authority is five Directors, two of whom (Charles Allen and Henry Staunton) are also on the board of Granada Compass. Out of the three remaining Directors, two are non-executive.

The executive Directors, Charles Allen and Henry Staunton, and the Company Secretary, Graham Parrott, have each entered into service agreements with Granada which, following the Merger, will be with Granada Compass, the ultimate parent company of Granada Media. Granada and Granada Compass have agreed to make available each of Charles Allen, Henry Staunton and Graham Parrott to Granada Media so that they are able to fulfil their respective duties as the Chairman, Finance Director and Company Secretary of Granada Media on the terms set out in their respective service agreements and it has been agreed that the costs payable under or in connection with their service agreements will be borne by the Company. Granada Compass has agreed not to terminate such service contracts or to take steps to remove any such Directors except on the recommendation of the Granada Media Board.

Gerry Robinson and Michael Orr (directors of Granada Compass) are permitted to participate in key decisions in relation to the possible bid for either Carlton Communications or United News & Media and Gerry Robinson and Francis Mackay (also a director of Granada Compass) are permitted to participate in key decisions in relation to other possible acquisitions or disposals where the consideration is £50 million or more. In both cases, each of them is also permitted to communicate any information acquired by them in the course of their discussions on those decisions to the board of Granada Compass, but none of them is permitted to vote at Granada Media Board meetings.

On completion of the Merger, Granada Compass will also become subject to the provisions of the Relationship Agreement as a Controlling Shareholder in addition to, and not in place of, Granada.

The Relationship Agreement continues until Granada (or Granada Compass) ceases to be a Controlling Shareholder.

5 Mandatory Exchange Provisions

As a result of the Demerger Granada Media and Compass Hospitality will be separated leaving Granada Media as the only operating division of Granada Compass.

Immediately following completion of the Demerger, it is intended to consolidate the listings of Granada Compass and the Company through a Mandatory Exchange mechanism set out in the Articles (and ancillary documents entered into by the Company, Granada and Granada Compass). The Shareholders (other than Granada) will receive shares in Granada Compass in lieu of their Exchange Shares by virtue of the Mandatory Exchange and will then hold the same percentage of shares in Granada Compass as they held in Granada Media. Granada Compass intends to then change its name to Granada Media.

The terms of the Mandatory Exchange are as follows:

- (a) immediately after the Mandatory Exchange, the proportion of the share capital of Granada Compass held by the Shareholders will be the same as the proportion of the share capital of Granada Media held by them immediately prior to the Mandatory Exchange; and
- (b) shares in Granada Compass issued on the Mandatory Exchange will have the same rights as the Exchange Shares, save for the rights relating to the Mandatory Exchange.

Subject to the satisfaction of the conditions listed below, the Mandatory Exchange will operate as follows:

- (a) the Exchange Shares will be cancelled by means of a reduction of capital of the Company under section 135 of the Companies Act 1985;
- (b) the share capital of the Company will be increased to the level of the cancelled Exchange Shares, and Ordinary Shares equivalent to the cancelled Exchange Shares will be immediately re-issued to Granada;
- (c) in consideration of the cancellation of the Exchange Shares and the re-issue, Granada will procure that Granada Compass issues shares to the Shareholders;
- (d) in consideration of the issue of shares by Granada to Granada Compass, Granada Compass will issue shares to the Shareholders;
- (e) any Ordinary Shares issued by the Company after the Demerger (which will not qualify as Exchange Shares) will be automatically exchanged into Granada Compass shares under a call option entrenched in the Articles.

The Mandatory Exchange will not become effective unless and until the following conditions are satisfied:

- (a) the shares in Granada Compass to be issued to Shareholders are, subject to allotment, admitted to the Official List and to trading on the London Stock Exchange; and
- (b) the Demerger has become effective.

The reduction of capital in connection with the Mandatory Exchange must be confirmed by the court and the order of the court must be filed and accepted by the Registrar of Companies before it becomes effective.

Granada has agreed pursuant to a deed poll entered into by it and Granada Compass that it will not vote in favour of any resolution to give effect to the Mandatory Exchange, including a resolution to reduce the share capital of the Company if, immediately prior to the Mandatory Exchange, Granada Compass has incurred any material net liabilities or holds any material assets (which it has not agreed to transfer to a third party) except its shareholding in Granada and, following the Mandatory Exchange, Granada Compass has incurred any material net liabilities or holds any material assets (which it has not agreed to transfer to a third party) other than the new Ordinary Shares in the Company or the share capital of Granada or any other company whose only material asset is its shares in the Company. Accordingly, the Mandatory Exchange will not occur in these circumstances. Granada will consult the Granada Media Board and the Sponsor in making this assessment.

The process for the reduction of share capital will be commenced prior to the Demerger becoming effective, but the court hearing to confirm the reduction will be held immediately following the Demerger. It is expected that the exchange will take place early in 2001.

It is expected that trading on the London Stock Exchange will operate without interruption as a result of the Mandatory Exchange, and purchases and sales of shares in Granada Media will be automatically settled following exchange by shares issued by Granada Compass.

The operation of the Mandatory Exchange resulting in the issue of shares in Granada Compass to a person who is a citizen, resident or national of any jurisdiction outside the United Kingdom will be subject to any governmental or other consent or any registration, filing or other formality applicable in that jurisdiction.

Part IV

The Regulatory Regime

1 Broadcasting Regulation

Commercial television broadcasting in the UK is subject to regulation primarily under the Broadcasting Act, together with the various rules and codes published under the Broadcasting Act. The body with primary responsibility for ensuring compliance with the Broadcasting Act is the Independent Television Commission ("ITC").

Granada Media's main interests as a UK broadcaster are its holding of four free to air regional ITV licences and its 50 per cent. interest in ONdigital which holds three multiplex licences (which entitle it to broadcast subscription channels on digital terrestrial television).

ITV licences

ITV is a national television network made up of 15 regional licensees which between them cover the entire UK. There are 14 broadly distinct, though partially overlapping, regions with the London region divided between separate licensees for weekday (Carlton) and the weekend (LWT). In addition there is a national breakfast-time licensee (GMTV) which broadcasts on the ITV channel daily between 6.00 a.m. and 9.25 a.m.

The current ITV licences were originally awarded for 10 years commencing 1 January 1993. Each licensee makes annual licence payments to the ITC, comprising a fixed (index-linked) sum and a percentage of advertising and sponsorship revenue. Licensees can apply for a further ten year renewal of their licences after six years of the licence period (and within the time frame laid down by the ITC), without having to re-bid for their franchise in a competitive tender. The renewal terms are set by the ITC, based on the present value of expected cash flows over the licence period.

Eight ITV licensees (including GMTV) have renewed their licences for a further ten years commencing 1 January 1999. These include two of Granada Media's licences – for Tyne-Tees and Yorkshire. The remainder of the licensees must make a firm expression of interest for renewal by 29 September 2000 to ensure renewal from 1 April 2001. Granada Media will be applying in due time to renew its other two ITV licences (for Granada and LWT) as from 1 April 2001.

Digital multiplex licences

There are six digital multiplexes in the UK.

Granada Media has a 50 per cent. interest in ONdigital, through a 50:50 joint venture with Carlton Communications. ONdigital holds the Multiplex B, C and D licences, which entitle it to broadcast subscription services on DTT.

Of the other three multiplexes, the BBC has been granted one. The ITV companies, Channel 4 and Teletext have reserved capacity on a second. Channel 5 and S4C have reserved capacity on a third (Multiplex A), the licence for which was granted to SDN.

ONdigital's multiplex licences were granted in 1998 for an initial term of 12 years and are renewable for a further 12 year term. The UK Government has waived the payment of any fee for the initial 12 year term.

Licence conditions

Both in relation to ITV licences and multiplex licences, the ITC has authority to impose fines, shorten the licence period or revoke licences if the licensee fails to remedy a breach of any licence condition or to comply with any direction which the ITC lawfully gives to the licensee. The ITC may also revoke a licence if any change in the nature or characteristics of the licensee, or any change in the persons having control over or interests in it, is such that, had the change occurred before the granting of the licence, such change would have induced the ITC to refrain from granting the licence. In addition, the ITC may revoke a licence in order to enforce the restrictions contained in the Broadcasting Act on the ownership of media companies (see below). The ITC has wide discretion to vary the conditions of licences issued under the Broadcasting Act.

In common with all television licences issued by the ITC Granada Media's licences include obligations to comply with the Codes and Directions issued by the ITC from time to time. These Codes include the Programme Code, the Code of Advertising Standards and Practice and the Rules on Amount and Scheduling of Advertising. The Codes and Rules include requirements as to impartiality and accuracy of news programming, requirements as to taste and decency and restrictions on the quantity and content of advertisements.

In addition to the "consumer protection" requirements, which must be met by all television programme services licensed by the ITC, Channel 3 licensees have to meet significant "positive" requirements covering, for example, high quality, diversity, original productions/commissions, independent productions, news, regional production, networking, equal opportunities, training, provision for the deaf or hearing impaired and blind or partially sighted, national television archive and party political broadcasts. The licensees must provide services in accordance with the proposals made in their licence applications, unless agreed otherwise by the ITC.

The Offer will not itself cause Granada Media to be in breach of any of the conditions in any of its licences, or give rise to a change of control of the kind mentioned in relation to any of its licences.

In its 1999 Annual Performance Reviews, the ITC concluded in relation to each of Granada Media's four ITV licences that the services complied with the licence conditions. The Directors believe that ONdigital has to date complied in all material respects with its multiplex licences.

Programme production and content quotas

The 15 regional ITV licensees are shareholders in the ITV Network Centre, which independently commissions and schedules programmes for broadcast on the ITV Network. Each regional licensee provides its own regional news and programming. The rest of its programmes – including ITV's most popular – are provided by the Network. The Network Centre is required to commission programmes from licensees and independent producers on merit and on an independent basis.

Under the Broadcasting Act, 25 per cent. of the time allocated to qualifying programmes (i.e. all programmes except acquired material, news, repeats and party political broadcasts) must be commissioned from independent producers. This condition is included in all ITV licences (as well as the licences for Channels 4 and 5) and also extends to the BBC.

To qualify as independent, a producer may not have an interest of more than 25 per cent. in a broadcaster, or be a company in which a broadcaster has an interest of more than 25 per cent., or be a company in which two or more broadcasters have an interest of more than 50 per cent. None of the programmes produced by the ITV companies (including Granada Media) can qualify as independent productions, whether they have been produced for the Network or for another UK broadcaster.

In addition, the EC Television Without Frontiers Directive requires Member States to ensure that broadcasters (such as Granada Media) reserve a majority proportion of their transmission time for European works.

Restrictions on ownership and control

Changes in 1993 and 1996 in the rules governing the ownership of ITV licensees have resulted in significant consolidation of ownership of the ITV licences. Ten of the 15 regional ITV licences are now controlled by three companies, Granada Media (which holds four licences) and Carlton Communications and United News & Media (which hold three licences each).

The Broadcasting Act lays down a number of rules that limit the accumulation of interests in licensed services. So far as may be relevant to the holdings of Granada Media, it provides for inter alia:

- *A 15 per cent. audience share limit:* no one person may control or hold qualifying interests in companies which hold licences to provide television programme services if together their share exceeds 15 per cent. of total television audience time. A qualifying interest is an interest of more than 20 per cent., and one half of a licensee's audience share is attributable to any company which holds an interest in a licensee of more than 20 per cent. but which does not control it. Granada Media's audience share is about 11 per cent. at present;
- *A limit on the holding of licences to provide television multiplex services:* one person may hold a maximum of three licences to provide television multiplex services and up to a 20 per cent. interest in a fourth such licence and up to a 10 per cent. interest in a fifth. Granada holds three multiplex licences at present, through its 50 per cent. interest in ONdigital.
- *A limit of one quarter of the total digital points in issue:* no one person may provide digital programme services that account for more than a quarter of the total points attributable to all digital terrestrial programme services carried on the commercial multiplexes; and the full points for such a service are attributable to any party which either holds or controls the licence to provide the services or has more than a 20 per cent. interest in the party which does so. According to the ITC's published views on 12 May 2000, Granada Media presently has 11 digital points and the current permitted maximum is 12 points.
- *A prohibition against holding two ITV licences for the same region:* no one person may hold more than one ITV licence for the same region: in practice the only ITV region with two licences is London (which is divided between the weekday and weekend franchises), so that the effect of this provision is to prohibit any one person from holding the licences for both Carlton and LWT. In consequence this is sometimes referred to as the London licence rule. Granada Media currently holds the LWT licence.
- *A restriction against ownership of ITV licences and some national newspapers:* any person that owns one or more national newspapers that account for 20 per cent. or more of sales of all UK national newspapers may not hold more than a 20 per cent. interest in an ITV licensee. A person that holds an ITV licence may become connected with a proprietor of one or more national newspapers that do not account for more than 20 per cent. of sales of all UK national newspapers as long as the ITC determines

Part IV

The Regulatory Regime continued

that in all the circumstances the continued holding of that ITV licence would not be expected to operate against the public interest. Granada does not have any newspaper interests. Although United News & Media owns a number of national newspapers, its share of total sales in the UK is less than 20 per cent. and the ITC has already determined that no public interest issue would arise from any connection between Granada Media's ITV licences and the newspaper interests of United News & Media.

- *Restrictions against local and regional overlaps:* there are additional restrictions against holding local radio licences, ITV licences and/or local newspapers which serve the same areas to a significant extent. Granada does not have any radio interests.
- *A maximum holding of 20 per cent. in ITN:* no one party may hold more than a 20 per cent. interest in ITN, the nominated news provider for ITV. Granada has a 20 per cent. interest in ITN over which it has granted an option to Granada Media to acquire.

In addition, it is current ITC policy to impose certain restrictions on the sale of advertising airtime. In particular it is current ITC policy:

- that no one person should control the sale of more than 25 per cent. of total net television advertising revenue ("total NAR"). Granada Media's ITV licences accounted for about 19.7 per cent. of total NAR in 1999 and the airtime it sold on behalf of Border accounted for a further 0.4 per cent.; and
- that no one person should sell advertising airtime for a regional ITV licensee and also for a national licensee (ie GMTV, or Channel 4 or 5).

As regards the 25 per cent. limit on total NAR, Granada Media, Carlton Communications and United News & Media each gave undertakings to the Secretary of State for Trade and Industry in 1994 in terms broadly similar to the current ITC policy; these undertakings were given in connection with acquisitions of ITV licences that each of the companies made at that time.

The ITC's current policy regarding the 25 per cent. limit on total NAR and the undertakings given by Granada, Carlton Communications and United News & Media have been considered by the UK Competition Commission in relation to the possible mergers involving Granada, Carlton Communications and United News & Media (see below under the Group's dealings with the UK and EC Competition Authorities).

Proposals for changes

In November 1999, the European Commission launched a comprehensive review of the regulatory framework for electronic communications, and published its "Communication on a New Framework for Electronic Communications Infrastructure and Associated Services The 1999 Communications Review". It is envisaged that the new framework would apply to telecommunications networks, satellite networks, cable TV networks and terrestrial broadcast networks, and that national regulators would apply the same licensing principles (of transparency, non-discrimination, proportionality and objectivity) when licensing all communications infrastructure and associated services. Where such associated services are linked to services for the provision of content, there may be a need for additional rules concerning that provision of content. However, generally, the new framework would not affect regulatory obligations which apply to the content of broadcasting services. It is expected that proposals for directives on the new framework will be adopted during the summer of 2000.

The UK Government is expected to publish a White Paper later this year which will put forward proposals for reforming telecommunications and broadcasting regulation to take account of the convergence of the communications industries. The White Paper will build on proposals published in June 1999 in a report entitled "Regulating Communications: The Way Ahead" and will take account of the European Commission's proposals for reforming the European Union's regulatory framework for communications. The White Paper will cover areas such as future regulation of broadcast content, media and cross media ownership rules and the role of public service broadcasting. The ITC will be working closely with the Government in mounting a full-scale audit of the regulatory requirements imposed on commercial broadcasters. This is likely to be completed by mid-2000 and will involve full consultation with licensees and the public at various stages.

The ITC has also issued a number of recent consultation papers. In February 2000 the ITC issued a consultation paper on regulating interactive services, proposing that a light and flexible regulatory approach should be adopted. A policy statement is expected to follow in due course explaining the ITC's approach.

The ITC has also published its views on broadcasts over the internet. The ITC considers it has a statutory responsibility under the Broadcasting Act for regulating certain television programmes and advertisements over the internet or when internet access is available as part of licensed television services, but it favours (for the moment) a system of self regulation through the industry group, The Internet Watch Foundation.

In May 2000 the ITC issued a joint consultation paper with the Office of Telecommunications ("OFTEL") and the Office of Fair Trading on the availability, affordability and accessibility of digital television. Once the consultation process is completed, advice will be given to the UK Government on what regulatory or other action may be required to improve the affordability, accessibility and availability of digital television.

2 Competition Regulation

The principal competition law and merger control regimes to which Granada Media is subject are those of the UK and EC.

UK merger control

Merger control under UK domestic law is contained in the Fair Trading Act 1973 ("FTA"). A merger is subject to review and control by the UK authorities if either or both of two tests is satisfied: if the gross value of the assets being acquired exceeds £70 million; or if both parties supply particular goods or services in the UK and the merger creates or enhances a combined share of supply in the UK or a substantial part of the UK of 25 per cent. or more.

If the UK competition authorities consider that a merger might significantly reduce effective competition, they may decide to refer it for detailed examination by the Competition Commission. The decision to do this is taken by the Secretary of State for Trade and Industry ("Secretary of State") on the advice of the Director General of Fair Trading ("DGFT"). If a merger is referred to the Competition Commission, it produces a report on the merger for the Secretary of State. That report is then published by the Secretary of State who decides what action to take based on the analysis and recommendations set out in the report of the Competition Commission.

If the Competition Commission concludes that a merger would not be expected to operate against the public interest the Secretary of State is required to clear the merger unconditionally. In all other cases, the Secretary of State has power to clear the merger unconditionally, or to clear it subject to the giving of undertakings (e.g. as to divestment of certain businesses or interests), or to prohibit it; and in making his decision the Secretary of State may adopt any recommendations of the Competition Commission or take such other action as he considers appropriate.

EC merger control

Certain mergers between large companies with significant sales within the EU may be subject to control under the EC Merger Regulation ("ECMR"), rather than under the merger control laws of individual member states. The ECMR is administered by the EC Commission in Brussels. The ECMR applies *inter alia* where the combined worldwide turnover of the parties to a merger exceeds €5 billion; and where there are two parties to a merger, each of them has sales within the EU of more than €250 million unless each of the parties has more than two thirds of its EU sales in one and the same member state. In relation to such a merger it is necessary to obtain prior approval from the EC Commission.

The EC Commission has one month from the date when it receives formal notification of a merger in which either to clear the merger (in Phase 1) or, if it has serious doubts about the effect of the merger on competition within the EU (or in a part of it) to open Phase 2 proceedings. Where it opens Phase 2 proceedings, the Commission then has a further four months in which to clear the merger unconditionally, to clear the merger subject to undertakings (e.g. as to divestment), or to prohibit the merger.

If a merger that falls under the ECMR might have serious effects on competition within a single member state, in certain circumstances the Commission may agree to refer the merger back to the competition authority of that member state to deal with under its own merger control laws.

Other EC and UK competition laws

Under EC competition law, Article 81(1) of the EC treaty renders unlawful agreements and concerted practices which appreciably restrict competition and trade within the EC. For example, an agreement may infringe Article 81(1) if it confers long term exclusive rights, or if two actual or potential competitors enter into co-operative arrangements, but only where such agreements have a significant effect on competition. Article 81(2) makes any offending provisions (and, in some cases, the entire agreement) void. Article 81(3) allows for exemption from the provisions of Articles 81(1) and 81(2) for agreements whose economic benefits outweigh their restrictive effects, provided that consumers receive a fair share of the benefits. Agreements may be exempted automatically if they fall within the terms of certain "block exemptions"; or it is possible to notify an agreement to the EC Commission for an individual exemption. The EC Commission exempts a small number of agreements by means of a formal decision; in the main it deals with agreements by means of formal or informal "comfort letters". A formal comfort letter is one that is issued by the EC Commission following publication of a formal notice in the Official Journal of the EU (pursuant to Article 19(3) of Regulation 17). The EC

Part IV

The Regulatory Regime continued

Commission has power to impose substantial fines (up to 10 per cent. of a group's annual revenue) in respect of breaches of Article 81(1); and third parties who suffer damage as a result of such breaches may bring civil claims in national courts.

Under EC competition law, Article 82 of the EC treaty prohibits the abuse by one or more undertakings of a dominant position within the EC. The EC Commission has the same powers to impose fines as it does under Article 81.

A broadly similar regime to Articles 81 and 82 was recently adopted in the UK by means of the Competition Act 1998. It prohibits similar abusive conduct and agreements and practices that appreciably affect competition and trade within the UK. Agreements in breach of the prohibition are void and unenforceable; parties to such agreements or those engaging in an abuse of a dominant position may be fined up to 10 per cent. of their turnover on the relevant market per year for three years; and third parties who suffer damage may bring civil claims in the UK courts. The Act is subject to a number of exemptions and exceptions. The Office of Fair Trading has primary responsibility for enforcing the Competition Act.

The Company's dealings with the UK and EC Competition Authorities

On 7 January 2000, Granada announced that it was considering making an offer for either Carlton Communications or United News & Media but that the making of any offer was conditional inter alia on regulatory consent being given in terms satisfactory to Granada. In its announcement Granada stated that it would make a final decision whether or not to bid for either Carlton Communications or United News & Media when the outcome of the regulatory review process was known. United News & Media and Carlton Communications had previously announced an intention to merge. All three possible mergers were the subject of references to the UK Competition Commission which submitted its report on the possible mergers to the Secretary of State on 16 June 2000. In such cases it is normally some weeks before the Secretary of State announces his decision and publishes the report of the Commission. He is expected to do so in this case during summer 2000. The Directors cannot predict the outcome of the references. However, if Granada is cleared to bid for either Carlton Communications or United News & Media, or United News & Media is cleared to merge with Carlton Communications, any such transaction would have to comply with any undertakings that might be required by the Secretary of State. This might involve divestment of parts of the business to be acquired beyond any action that might be necessary in order to comply with the requirements of the Broadcasting Act. Based on their current holdings all three possible mergers would result in the creation of merged groups that would exceed certain ownership limits under the Broadcasting Act, including the 15 per cent. audience share limit and the limit on the holding of licences to provide television multiplex services. Granada understands that the ITC will allow parties a reasonable time (which could be up to six months) to take appropriate action to regularise their holdings so that they would not give rise to a breach under the Broadcasting Act.

On 17 May 2000, the boards of Granada and Compass announced that they had agreed the terms of proposals to create two focused groups: Granada Media and a business comprising the existing hospitality businesses of Granada and Compass (to be called Compass Hospitality). It is intended that the proposals will be implemented in two stages: a merger between Granada and Compass to create Granada Compass, to be followed by the separation of Compass Hospitality and Granada Media by means of a demerger of Compass Hospitality. On 25 May 2000, the proposed Merger of Granada and Compass was formally notified to the EC Commission under the ECMR. The Commission cleared the Merger on 29 June 2000.

On 17 December 1999, Granada Group and Rental Holdings announced their intention to merge their respective consumer rental businesses (which mainly rent televisions and VCRs) by the formation of a joint venture called Box Clever. This merger was cleared on 23 June 2000 and undertakings have been given to the Secretary of State the main purpose of which is to protect existing customers of either Granada and Rental Holdings and those who become long standing customers of the new business. Box Clever has undertaken not to increase rental charges (except to cover any tax increase) for existing contracts and for customers who rent for more than five years without upgrading or adding to their equipment. It will also make a one-off offer to certain existing long standing customers entitling them to exchange their existing equipment for a more modern version of that equipment.

The ONdigital joint venture between Granada and Carlton Communications was the subject of a notification to the EC Commission under Article 81 (Article 85 as it was then). Following publication of a notice pursuant to Article 19(3) of Regulation 17, the EC Commission issued a comfort letter, which confirmed that the Commission's investigation had not revealed the existence of any grounds under Articles 85(1) (now Article 81(1)) or 86 (now 82) for further action on behalf of the Commission in respect of the notified joint venture agreements. However, the Commission reserved its position as regards certain side letters and programming arrangements with BSkyB.

Part V

Investment Considerations

Prospective purchasers of Shares should consider carefully the following risk factors in addition to the other information presented in this document. The risks and uncertainties described below are not the only ones facing the Group. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair the Group's business operations. If any of the following risks actually occurs, the Group's business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Ordinary Shares could decline, and you may lose all or part of the value of your investment.

All statements in this document are to be read subject to, and are qualified in their entirety by, the matters referred to in this Part V.

ITV consolidation

The Broadcasting Act contains a number of ownership rules, including a rule that no one person may control or hold qualifying interests in companies which hold licences to provide television programme services if together they account for more than 15 per cent. of total television audience time. Granada Media's audience share is about 11 per cent. at present. In addition, it is current ITC policy not to permit any one person to control the sale of more than 25 per cent. of NAR. The current ITV licensees, Granada Media, Carlton Communications and United News & Media each gave undertakings to the Secretary of State for Trade and Industry in 1994 in terms broadly similar to this current ITC policy in connection with acquisitions of licences by them at the time. Granada Media's licences accounted for approximately 19.7 per cent. of total NAR in 1999, with Border accounting for an additional 0.4 per cent. These and other restrictions described in Part IV have historically limited the number of ITV licences that any one person can hold or control and if they were to remain in place would restrict Granada Media's strategy of consolidation within ITV. Granada Media's business plans contemplate that there will be a relaxation of some of the current ownership restrictions and policies. The extent to which Granada Media and other companies will be able to participate in any consolidation of ITV (and the time when they will be able to do so) will depend on the nature, extent and timing of any relevant changes to the Broadcasting Act, a relaxation of the undertakings to the Secretary of State and a change in ITC policy. It is also likely to depend on the nature and extent of their other media interests at that time.

On 7 January 2000, Granada announced that it was considering making an offer for either Carlton Communications or United News & Media (who are the two other principal owners of ITV licences and who had themselves announced an intention to merge) but that the making of any offer was conditional inter alia on regulatory consent being given in terms satisfactory to Granada. All three possible transactions have been referred to the Competition Commission, which submitted its report on the possible mergers to the Secretary of State on 16 June 2000. In its announcement Granada stated that it would make a final decision whether or not to make an offer when the outcome of the regulatory process was known. Granada Media considers it likely that the current limit of 25 per cent. of total NAR imposed by ITC policy and the related undertakings will be relaxed following the merger references to the Competition Commission so as to allow some further consolidation of ITV ahead of changes in primary legislation. If that does not happen (and for as long as the 25 per cent. rule remains), Granada Media would not be able to acquire Carlton Communications or United News & Media without making significant divestments of broadcasting interests, possibly beyond those that might need to be made to comply with the Broadcasting Act. Any bid by Granada for Carlton Communications or United News & Media would also need to comply with the ownership rules under the Broadcasting Act, including the 15 per cent. audience share limit. Granada understands that the ITC would allow parties a reasonable time (which could be up to six months) to regularise their holdings to avoid giving rise to a breach under the Broadcasting Act. See Part IV.

In the event that Granada Media were to make an offer for either Carlton Communications or United News & Media, such an offer would be funded by a mixture of the proceeds of the Offer, existing cash resources, shares in Granada Media or new banking facilities which have yet to be negotiated.

There can be no assurance that any bid by Granada Media for Carlton Communications or United News & Media would succeed or as to the terms on which any bid would succeed, including as to the divestments that will be required.

Additionally, there can be no assurance that the proposed merger between Carlton Communications and United News & Media will not take place without Granada Media's participation and that Granada Media's business and prospects would not be adversely affected by such a combination.

Key personnel

Granada Media is highly dependent on key members of its management team, the loss of any of which could limit Granada Media in the achievement of its business objectives. The employment contracts for certain of those individuals provide for substantial payments should they decide to leave Granada Media. See Part X of this document. In addition, recruiting and retaining both qualified technical personnel to perform research, development and technical support work for its broadband business, and on screen and off screen talent

Part V

Investment Considerations continued

(who typically have short term contracts that must be frequently renegotiated) for its content creation business, is critical to its success. In addition, if its business grows as expected, Granada Media will also need to recruit significant additional management, technology, on screen and off screen talent and other personnel. Competition for employees in all aspects of Granada Media's industry is intense and Granada Media may not be able to continue to attract and retain skilled and experienced personnel on terms which are acceptable to it. The loss of the services of any of its key personnel, the inability to integrate new personnel or failure to attract or retain qualified personnel in the future in a timely manner could harm the business of Granada Media.

In addition, Granada Media's business plan depends upon its ability to expand its activities into new countries. Granada Media's ability to hire and retain appropriately qualified personnel in new markets, and to do so quickly enough to meet its business objectives, is unproven, and failure to do so could adversely affect Granada Media's growth.

Renewal of licences

Granada Media's main interests as a UK broadcaster are the ITV Channel 3 licences that it holds for Granada Television, LWT, Yorkshire Television and Tyne-Tees Television. These were awarded for a period of 10 years from 1993 and may be renewed by an application made at certain times within the last four years of the licence. The Tyne-Tees and Yorkshire licences were renewed with effect from 1 January 1999 for a further 10 years. Granada Television and LWT have until 29 September 2000 to make a firm expression of interest for renewal. This process is not subject to competitive tender and Granada Media has the option to accept or reject the financial terms offered by the ITC as a result of the renewal process. The ITC base their offer on an assessment of the present value of the expected cash flows for the licence during the new licence period. At the time of renewal, the ITC may set new financial terms by specifying a different percentage of advertising and sponsorship revenue, and may reconsider the amount of the fixed (index-linked) sum. The terms of renewal which will be offered to such licensees remain uncertain at this stage. However, the terms offered to other licensees of a similar scale during the first round of renewal in 1998, are more expensive than the existing Granada Television and LWT terms.

International expansion

Granada Media's content creation has been dependent upon a small number of programmes targeted towards UK audiences and commissioned by ITV. Granada Media has, however, sold increasing amounts of content to non-ITV broadcasters in the UK. In recent years Granada Media has expanded both its content creation and broadcasting into other countries. Although the amount of revenue generated internationally by Granada Media is relatively small compared with total revenue, Granada Media currently plans to expand both its content creation and broadcast operations by both acquiring existing operations and starting up new operations in other countries. There can be no assurance that this expansion will be successful or profitable. Granada Media's ability to expand its content creation internationally is dependent upon acceptance by advertisers and audiences in other countries of its content and production capabilities, its ability to adapt its content and production capabilities to other markets and its ability to protect its proprietary interests in other countries. In addition, Granada Media's ability to expand its broadcasting activities in other countries is subject to a number of factors beyond its control, including risks of foreign regulatory or other laws favouring local competitors over overseas-based companies and risks of increases in taxes and governmental royalties and fees and involuntary renegotiations of contracts with or licences from foreign governments. Whilst the Granada Media brand is strong in the UK, there can be no guarantee that the brand, or individual programme brands with protection in the UK, will be protectable or available in overseas markets. For instance, the internet domain names *granada.com*, *granada.org* and *granada.net* are owned by third parties in the United States and Spain, and other companies may be using the name Granada in other markets around the world.

Broadband and pay TV

Granada Media's business plan and the development of its broadband services is based in part on the assumption that broadband and related technologies (such as interactive television) will develop in such a way so as to make available opportunities to market new content on new platforms and that such new content will make those platforms attractive to a large audience base. However, broadband and related technologies are still in an early stage of development and demand and market acceptance of the products and services related to such technologies is still uncertain. If such technologies do not develop as expected, or if there is no widespread market acceptance of such technologies, Granada Media may not be able to develop its broadband services.

Although Granada Media has a reputation for producing high quality programmes, has strong brands in the UK and has plans to develop new content which the Directors intend will be suitable for the new developing platforms, there can be no assurance that Granada Media will succeed in such plans.

Government regulation

Granada Media is subject to detailed broadcasting regulation primarily under the Broadcasting Act together with various rules and codes published under this act as well as UK and EC competition regulation. In addition, the ITC has wide discretion to vary the conditions of

licences issued under the Broadcasting Act. Broadcasting regulation and related areas are currently under review by the UK Government and are subject to legislative initiatives which are expected to cover, *inter alia*, future regulation of broadcast content, media ownership rules, the role of public service broadcasting and the favourable licence terms awarded to public service broadcasters. Granada Media is unable to predict the outcome of such current review and legislative initiatives or the extent to which any changes to current legislation or regulation including licensing will affect Granada Media's operations. See Part IV.

Certain of the programming arrangements to which Granada Media or ONdigital is a party to or, in the case of Granada Media is a beneficiary of (through the ITV Network), are subject to, or could be subject to, proceedings with (or notifications to) the EC or UK anti-trust authorities which could result in the renegotiation of those rights (e.g. the Formula One and Premier League (English Football League) sports rights which have been acquired by the ITV Network). Granada Media is unable to predict the outcome of any such proceedings, notifications and/or renegotiations. See Part IV for details of the EC and UK competition laws.

As Granada Media expands its media interests into new countries and to include new service offerings, such as webcasting, interactive services and internet via the television, it may become subject to additional regulation which may adversely impact the success of such expansion.

The regulation of the internet and other interactive technologies such as t-commerce are still unsettled and Granada Media will need to comply with the changing regulatory environments both in UK and world-wide. For instance, Granada Media will increasingly be required to deal directly with consumers and will, therefore, be required to consider, *inter alia* data protection laws and the liabilities of ISPs, such as G-Wizz, for material carried on its services.

Granada Media's controlling Shareholder

Following the Offer, Granada will own 80 per cent. of Granada Media's ordinary share capital assuming the Over-Allotment Option is exercised in full. Granada has entered into a Relationship Agreement with Granada Media that allows Granada Media to carry on its business independently of Granada. Nonetheless, Granada could exercise significant influence over all matters requiring approval by Granada Media's shareholders, including the approval of mergers or other business combinations. In addition, the interests of Granada may not always coincide with the interests of Granada Media.

After the Offer, Granada Media will continue to have contractual and other business relationships with the Granada Group. The Relationship Agreement requires any such transactions and agreements to be on arm's length terms. However, there can be no assurance that conflicts of interest will not arise between Granada Media and Granada in certain circumstances, but will be managed by the Relationship Agreement. See Part III of this document.

In addition, Gerry Robinson and Michael Orr (both directors of Granada Compass) are permitted to participate in decisions in relation to the possible bid for either Carlton Communications or United News & Media. Similarly, Gerry Robinson and Francis Mackay (also a director of Granada Compass) are permitted to participate in key decisions in relation to other possible acquisitions or disposals where the consideration is £50 million or more. In both cases, each of them is also permitted to communicate any information acquired by them in the course of their participation to the board of Granada Compass, but none of them is permitted to vote at Granada Media Board meetings.

Risks related to joint ventures: control and operating history

Granada Media has invested in joint ventures with certain strategic partners. Although Granada Media has significant involvement in these joint ventures, the degree of its voting power in the joint ventures in which Granada Media owns less than a majority of the outstanding securities of the joint ventures, the degree of management independence provided for in the joint venture arrangements, and the voting power and veto rights of its strategic partners may preclude it from completely controlling the operations, strategies and financial decisions of its joint ventures. For example, Granada Media may be unable without the consent of the relevant partners, to cause the joint ventures to make distributions, to implement strategies or to make programming or other decisions that Granada Media may favour. Moreover, the ability of Granada Media to sell equity interests in the joint ventures is subject to limitations based on agreement and, in certain cases, regulatory approvals that limit the ability of the parties (including Granada Media) to transfer their equity interests.

In addition, Granada Media has established most of its joint ventures to exploit rapidly evolving markets, such as digital television and the internet. Therefore, both the operating history and prospects of joint ventures, such as ONdigital, must be viewed in light of the risks, expenses and difficulties frequently encountered by companies in the early stages of development, particularly companies in new and changing markets. Many of the joint ventures that Granada Media has established in rapidly evolving markets have experienced significant operating losses since their inception which, depending upon the terms of the various joint venture agreements, Granada has

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Investment Considerations continued

in part financed. Additionally Granada Media has commitments under various agreements to continue to fund the operating and related costs of these joint ventures some of which are expected to require substantial amounts of new funding. Based on the risks that such joint ventures face, which include the changing nature and unpredictability of the environments in which they compete, as well as customer acceptance, there can be no assurance that they will ever be profitable or that Granada will ever recoup its losses with respect to such joint ventures, nor can Granada Media predict how much longer or in what amount it will be obliged to fund these joint ventures.

Risks related to intellectual property

Granada Media's ability to compete successfully depends, in part, on its ability to protect the intellectual property contained in its content and, to a lesser extent, the software it has developed which supports its systems. Granada Media currently relies on a combination of copyright, trade mark, passing-off, domain names and confidentiality laws, as well as contractual provisions, to establish and protect proprietary rights with respect to its content. Granada Media's general policy is to enter into confidentiality or licence agreements with its employees, distributors, customers and suppliers that limit their access to and distribution of the proprietary information and content developed within the business. There can be no assurance that these policies are always implemented and, if implemented, will always be adequate to deter misappropriation of the intellectual property of Granada Media. The failure to adequately protect, and the unauthorised use by third parties of, its proprietary information and content could harm Granada Media's business.

In the case of television programme formats which Granada Media licenses to and from third parties, the legal basis, if any, which underpins the payment and receipt of licence fees in connection with those formats varies from country to country and the licensor (including Granada Media) may not be able to insist on payment as a legal right or to prevent use by a third party of a similar format. For instance, in the UK, whilst copyright laws do not protect a format itself, a combination of trade mark, passing-off, copyright and confidentiality laws may protect certain aspects of formats and the programmes produced from them. The granting of such licences and the payment of such fees for the use of formats is, however, common practice in the industry.

Like any other media company, Granada Media relies on obtaining assignments or licences of copyrights or other rights clearances from its employees, performers, contractors or other bodies before it can use the content it generates or uses. Whilst Granada Media tries to ensure that such assignments, licences and clearances are obtained, there can be no guarantee that Granada Media has obtained or will continue to be able to obtain such clearances, or that the content produced will not infringe the intellectual property of third parties. The secondary exploitation of the library of original programming may also depend on the prior consent of, and payment of fees to, third parties.

Granada Media's dependence on advertising revenues

The sale of UK television airtime is highly competitive and sales revenues depend on strong audience ratings figures. The growth of digital television and the proliferation of channels will increase the competitive nature of this business further and could result in Granada Media's share of total television advertising revenues declining.

As a general trend, ITV's audience share has been dropping which could have affected Granada Media's advertising revenue had it not been for its ability to charge advertisers a premium, particularly in the most valuable peak time spots. In addition, exclusive sports rights have become increasingly important in generating high audience ratings. Although ITV has obtained the right to broadcast those events, the cost of purchasing such rights has driven up the cost of the ITV production budget, which is borne in part by Granada Media.

The South East of England has in recent years enjoyed greater growth in its share of airtime advertising sales than the remainder of England. Granada Media's licences in the North of England have not benefited to the same degree from this increase in revenue and, although Granada Media has reorganized its advertising in the North of England in order to increase the amount of revenues generated by the Northern licenses, there can be no assurance that this increase will be sustained.

Switch over from analogue to digital

Notwithstanding the UK Government's objectives for every home in the UK to have access to digital television, it is not possible to predict whether viewers will widely accept digital and how quickly they will do so. Viewer resistance would have an adverse impact on ONdigital's subscription growth and ability to generate sufficient revenues to cover its costs.

Competition

The television content creation and broadcasting industry in which Granada Media operates is highly competitive. The financial success of Granada Media will depend, to a significant degree, upon its ability to create marketable content, its ability to maintain audience ratings and television advertising revenue within its geographic coverage areas and the economic health of the market. Granada Media

competes to sell its content with other network producers and with independent producers. In addition, broadcasters have begun to decrease the funding they provide for certain genres of commissioned productions, such as costume dramas. If this trend were to continue or to be expanded to a broader range of productions, Granada Media's revenues and profits from production would be adversely affected. Granada Media competes for audience share and advertising revenue directly with other networks, such as the BBC, and with other media within their respective markets, such as newspapers, radio, magazines, billboard advertising, transit advertising, internet advertising and direct mail advertising. Because of this competition, Granada Media's ability to create marketable content, maintain audience ratings and generate advertising revenue are subject to change in the nature of demand and any adverse change in a particular market could have a material adverse effect.

The profitability of Granada Media's content creation and broadcasting network is subject to various other factors which influence the television industry as a whole. The content which Granada Media produces may no longer be marketable and/or its licences may be adversely affected by changes in audience tastes, priorities of advertisers or new laws and governmental regulations and policies. Granada Media cannot predict which, if any, of these factors might have a significant impact on the content creation and broadcasting industry in the future, nor can it predict what impact, if any, the occurrence of these events might have on Granada Media.

Granada Media expects competition to increase with the convergence of the television, telecommunications and computer industries and the move to digital distribution of content and the growth of the internet.

Reliance on third party technology

Granada Media is reliant on a number of third parties to provide some of its transmission, telecommunications and information technology services to enable it to run its business. A serious failure of part or all of Granada Media's own or third party systems might have a material adverse effect on its business.

The Merger and Demerger

There can be no assurance that the Merger between Granada and Compass will be sanctioned by the court. There can also be no assurance that the Demerger of the hospitality business will be implemented. If either of these circumstances were not to occur, the boards of Granada and Compass would be unable to implement fully their proposals to create two separate focused groups, Granada Media and the hospitality business.

In order to ensure that Granada Media remains in the same group of companies as Granada (and, following the Merger, Granada Compass) for future capital gains tax purposes, Granada holds participating preference shares in Granada Media. If Granada Media were to cease to be a member of such capital gains tax group within six years, Granada Media may become liable for corporation tax of up to £195 million.

Liabilities of Granada and Granada Compass

Under the Reorganisation Agreement and the Transitional Services Agreement, Granada Media will be responsible for one third of the amount of any liabilities of Granada and Granada Compass which cannot be allocated to either Granada Media's business or the hospitality business. Whilst the Directors are not aware of any material costs or liabilities of this type, there can be no assurance that such liabilities will not arise in the future.

The Mandatory Exchange

In the event that Granada Compass were to incur any material net liabilities prior to the Mandatory Exchange save to the extent covered by indemnities given by Granada Media or the hospitality business, Granada would not be able to pass the resolution to reduce the share capital of Granada Media. Also, there can be no assurance that the court will sanction such reduction of capital by Granada Media. In these circumstances, the Mandatory Exchange would not proceed and the listings of Granada Media and Granada Compass could not be consolidated. Granada Media would remain a subsidiary of Granada Compass and the public shareholders of Granada Media would retain their minority shareholding.

Following the Mandatory Exchange, any liabilities of Granada Compass will be relevant to the public shareholders of Granada Media who become shareholders of Granada Compass and, to the extent that such liabilities are to be indemnified by the hospitality business, Granada Compass will be dependent upon the hospitality business being able to so indemnify it.

There has been no prior public market for Granada Media's shares and an active trading market for Granada Media's shares may not develop

Prior to the Offer, there has been no public market for Granada Media's shares. Although Granada Media has applied to have the Shares and its existing Ordinary Shares admitted to the Official List of the UK Listing Authority and to trading by the London Stock

Part V

Investment Considerations continued

Exchange and it is expected that these applications will be approved, Granada Media can give no assurance that an active trading market for the Shares will develop or, if developed, be sustained following the closing of the Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected. The Offer Price, which may bear no relationship to the price at which the Shares will trade upon completion of the Offer, will be determined by negotiations between Granada Media and the representatives of the Underwriters, based upon factors that may not be indicative of future market performance. See Part IX of this document.

Shares eligible for public sale after this Offer could adversely affect Granada Media's share price

Sales of a substantial number of Shares in the public market following the Offer, or the perception that sales could occur, could adversely affect the market price for Shares. Immediately after the Offer 1,460,869,565 Ordinary Shares will be in issue. Granada has agreed not to dispose of any of its shareholding in the Company nor any interest therein for the period of six months following the date of Admission without the prior consent of the Sponsor and the Joint Global Co-ordinators (not to be unreasonably withheld or delayed), other than pursuant to certain share schemes or to any bid made by the Company for either Carlton Communications or United News & Media (should the decision be made to make such a bid). In addition, the Directors have agreed that for a period of six months following the date of Admission there will be no disposal of any Ordinary Shares nor any interest therein, in which the Directors are interested other than pursuant to certain share schemes, and the Company has agreed not to offer or issue any further Ordinary Shares, other than in connection with certain share schemes or a bid for either Carlton Communications or United News & Media (should the decision be made to make such a bid) for a period of six months from the date of Admission, in each case without the prior consent of the Sponsor and the Joint Global Co-ordinators (not to be unreasonably withheld or delayed).

Share price volatility and liquidity

The share price of publicly traded companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to Granada Media and its operations and some which may affect the broadcasting and media sector, or quoted companies generally. These factors could include the performance of the Granada Media's development programmes, large purchases or sales of shares, currency fluctuations, legislative changes in the broadcasting and media sector and general economic conditions.

Possible unavailability of pre-emptive rights for US holders of ordinary shares

In the case of certain increases in the share capital of the Company, existing shareholders of the Company are generally entitled to pre-emptive rights unless waived by a resolution of the shareholders at a general meeting or in certain circumstances as stated in the Articles. US holders of Ordinary Shares are customarily excluded from exercising any such pre-emptive rights they may have to acquire Ordinary Shares unless a registration statement under the US Securities Act is effective with respect to such rights, or an exemption from the registration requirements thereunder is available. No assurance can be given that any registration statement would be filed by the Company or that any exemption from the registration requirements would be available to enable the exercise of such US holders' pre-emptive rights or that the Company will utilise such exemption.

Part VI

Operating and Financial Review

The following table sets out selected financial information for Granada Media, which has been extracted from the Granada Media Accountants' report for the three and a half years ended 25 March 2000 set out in Part VII of this document and the pro forma financial information as at 25 March 2000 set out in Part VIII of this document. These accounts do not include the results of the Technology Business, a substantial proportion of which was sold to Box Clever on 28 June 2000. The table should be read in conjunction with the Accountants' report and the pro forma financial information and investors should not rely upon the selected financial information when analysing the financial condition of the Group.

	For the financial year ended 27 Sept. 1997 £m	For the financial year ended 26 Sept. 1998 £m	For the financial year ended 25 Sept. 1999 £m	For the 26 weeks ended 25 March 2000 £m
Turnover	677	944	1,009	559
Less: share of joint venture turnover (ONdigital)	—	—	(11)	(25)
Group turnover	677	944	998	534
Operating costs (excluding exceptionals, new media and digital):				
Broadcasting tax	(70)	(131)	(119)	(61)
Other operating costs	(410)	(561)	(613)	(333)
Operating costs (excluding exceptionals, new media and digital)	(480)	(692)	(732)	(394)
EBITDA: Core business	197	252	266	140
Depreciation and amortisation	(12)	(14)	(15)	(13)
Operating profit:				
Core business	185	238	251	127
New media and digital	—	(3)	(12)	(7)
Investment income	9	8	4	1
Share of operating losses in joint ventures and associates	(2)	(29)	(91)	(78)
Profit on disposal of investments	—	10	347	300
Profit before interest, tax and operating exceptional items	192	224	499	343
Operating exceptional items	(19)	5	—	—
Profit before interest and tax	173	229	499	343

1 Overview

Granada Media is an integrated content producer and broadcaster. Its primary sources of revenue are the sale of content to ITV and third parties and advertising revenues generated from the broadcasting of ITV programmes.

Content revenue comprises sales of programmes within the UK and overseas. Over the three and a half year period, sales of content in the UK comprised approximately 77 per cent. of content sales of which 85 per cent. relates to the ITV Network Centre. Programme revenues include sales from well established programmes such as *Coronation Street*, *Emmerdale* and *Heartbeat* as well as a substantial number of new commissions in each year. In any year, content revenue is dependent upon the number of hours and type of programmes commissioned by the ITV Network and other broadcasters. The fees payable by broadcasters are negotiated on a programme by programme basis. In the year ended 25 September 1999 content revenue was £373 million.

Broadcasting revenue principally comprises advertising sales and sponsorship from each of the four wholly owned ITV licences. Airtime is sold by Granada Enterprises to major advertising agents or media buyers acting on behalf of advertisers. Advertising revenue is dependent upon the total audience achieved by programmes broadcast in Granada Media's licence regions and the value that advertisers place upon the audience reached by those programmes. In the year ended 25 September 1999 broadcasting revenue was £625 million.

The business has seasonal patterns. The summer schedule has more repeat programmes and, as a consequence, margins are relatively higher in the second half of the year.

Part VI

Operating and Financial Review continued

The ITV Network is made up of 15 regional licences throughout the entire UK. Granada Media operates four of these licences. The 15 regional ITV licensees are shareholders in the ITV Network Centre, which independently commissions and purchases programmes for broadcast on the ITV Network. These programmes are sourced from the ITV licensees, including Granada Media (which is the largest programme contributor), other licensees and independent production companies. The cost of the entire Network programme budget is met by the ITV licensees in proportion to their share of ITV's advertising revenue with some adjustments for smaller licensees.

The principal costs of broadcasting are the share of the ITV Network Centre programme budget and overheads, the cost of local programming, broadcasting taxes, transmission and staff costs. The principal costs of production are the cost of studio facilities, staff and programme costs.

Granada Media has a 50 per cent. interest in ONdigital, the UK's only digital terrestrial broadcaster. ONdigital generates revenue principally from subscriptions paid by customers for the range of programme channels offered. Its principal costs are the cost of providing and installing digital receivers (as required), transmission costs, the costs of acquiring channel and programme rights and marketing. ONdigital is accounted for as a joint venture by bringing into the Group's financial results its share of ONdigital's operating results.

The operations of Granada Media are principally in the United Kingdom. Certain sport and film rights are purchased in foreign currencies. Consequently, the operating results of Granada Media are marginally affected by exchange rate movements between pounds sterling and several other currencies.

Turnover

	For the financial year ended 27 Sept. 1997 £m	For the financial year ended 26 Sept. 1998 £m	For the financial year ended 25 Sept. 1999 £m	For the 26 weeks ended 25 March 2000 £m
Content	251	344	373	189
Broadcasting	426	600	625	345
ONdigital	—	—	11	25
	677	944	1,009	559
Mix (per cent.)				
Content	37.1	36.4	37.0	33.8
Broadcasting	62.9	63.6	61.9	61.7

Total media turnover has increased by 49.0 per cent. from 1997 to 1999. The 39.4 per cent. increase in turnover in the year ended 26 September 1998 is attributable to the acquisition of Yorkshire Tyne-Tees in August 1997. Total media turnover increased by £65 million between 1998 and 1999. This largely reflects underlying growth within Granada Media as a whole.

Creative

Content turnover is principally derived from UK and international production sales, the hiring of studio facilities to independent production companies, education products, programme library sales and overseas productions in the USA and Australia. Content turnover has increased by £122 million (48.6 per cent.) over the three years to 25 September 1999. The acquisition of YTTTV in August 1997 was the main reason for the increase in content turnover between 1997 and 1998.

Granada Media has increased its share of ITV Network commissioned programmes over the three years to 25 September 1999. In 1999 Granada Media produced 47 per cent. of ITV's original programming hours. This growth has been driven by traditional popular programmes such as *Coronation Street*, *Emmerdale* and *Heartbeat*. Granada has successfully added to the number of weekly viewings. For example, *Coronation Street* has been developed from two episodes a week to four. Granada Media has also developed new series across all genres. In 1998 these included *We Can Work It Out*, *Cold Feet*, and *Moment of Truth*, and in 1999, *Always and Everyone*, *The Grimleys* and *Friday Night's Allwright*.

Non-ITV sales have grown between 1997 and 1999. In 1999 non-ITV Network production revenue increased by 18 per cent. Popular non-ITV sales have included *Countdown* to Channel 4 and *Mrs Merton*, *The Royle Family* and *University Challenge* to the BBC.

Over the last three years Granada Media has developed its international production activities in the US and Australia. These ventures are at an early stage of development and, as planned, have not as yet generated significant revenues.

Granada Media's prime studio facility sites, especially The London Studios, have been in heavy demand throughout the period, experiencing significant growth in revenues year on year.

Broadcasting

Broadcasting turnover increased by 46.7 per cent. between 27 September 1997 and 25 September 1999 and by 53 per cent. excluding the effect of the Channel 4 subvention payment received in 1997 and 1998. Under the terms of its licence, Channel 4 was required to make subvention payments to compensate ITV licensees. These payments were phased out during 1999. The increase of 40.8 per cent between 27 September 1997 and 26 September 1998 reflects the acquisition of YTTTV in August 1997.

Granada Media has outperformed ITV in terms of its growth in advertising revenue in the period from 27 September 1997 to 25 March 2000. Granada Media's growth in net advertising revenue was 5.2 per cent. in the year ended 26 September 1998 (ITV 3.5 per cent.), 6.2 per cent. in the year ended 26 September 1999 (ITV 6.0 per cent.) and in the 26 weeks to 25 March 2000 10.9 per cent. (ITV 8.0 per cent.). LWT has performed especially well, growing its share of ITV advertising revenue from 11.4 per cent. in the year ended 26 September 1998 to 12.2 per cent. in the 26 weeks to 25 March 2000, reflecting advertisers' desire to direct advertising at the more affluent market in the South East of England.

This increase in revenue reflects the additional premium value that advertisers are placing on ITV as a channel directed at a mass market as audiences are fragmented by other TV platforms. In the period from 1995 to 1999, Granada Media's advertising audience fell by 8 per cent. but the advertising price per rating increased by approximately 30 per cent.

Granada Media's client base is predominantly large UK companies. No single customer contributed more than 5 per cent. of advertising revenue in the 26 weeks ended 25 March 2000 and the ten largest customers together contributed approximately 20 per cent. in that period. Granada Media is not unduly exposed to "dot.com" advertising; in 1999 this comprised £8 million of advertising turnover.

The ITV Network has invested in its programme budget to retain audiences. This investment by the ITV Network in the programme schedule has increased by 3.2 per cent., 4.3 per cent., and 8.3 per cent. in the 1997, 1998 and 1999 calendar years respectively. The majority of this additional investment has been in sports, primarily UEFA Champions League Football and Formula One motor racing. Despite the increasing costs of the schedule, advertising contribution margin has been maintained except in the 26 weeks ended 25 March 2000 when the contribution margin is lower due to the relatively more expensive cost of the winter programme schedule.

Operating costs excluding exceptionals and new media and digital

Broadcasting tax represents licence payments made to the ITC in respect of the four licences held by Granada Media. These comprise an index-linked fixed sum and a variable element based on a percentage of qualifying revenue. Broadcasting tax increased by £61 million in 1998 mainly as a consequence of the YTTTV acquisition. In 1999, broadcasting tax fell by £12 million following the renegotiation of the Yorkshire and Tyne-Tees licences.

Other operating costs comprise principally staff costs, the costs of regional programmes, transmission costs and payments to industry bodies such as B.A.R.B.

EBITDA

The EBITDA margin of the core business was 29.1 per cent., 26.7 per cent., 26.6 per cent. and 26.2 per cent. in the years ended September 1997, 1998 and 1999 and for the 26 weeks ended 25 March 2000 respectively. The principal reason for the fall in EBITDA margin in 1998 was the impact of the YTTTV acquisition in that year as YTTTV had a significantly higher broadcasting tax charge than either LWT or Granada Television. In 1997 and 1998 Granada Media also benefited from Channel 4 subvention income which has no costs associated with it. The margin in the period to March 2000 is seasonally lower due to the costs of the winter schedule.

The contribution to EBITDA (defined as revenue less direct costs) of the content and broadcasting activities has broadly increased over the period in proportion to increases in content and broadcasting turnover.

EBITDA – new media and digital television losses

These comprise the start up costs and operating losses of G-Wizz, Granada Media's entertainment service provider and Granada Media's share of funding of the ITV Network's digital projects.

Depreciation and amortisation

Depreciation of tangible assets has remained broadly consistent over the three year period to 25 September 1999, but has increased in the 26 weeks to 25 March 2000 as a result of capital expenditure in 1999 and in the period to March 2000 and as a result of a change in UK accounting standards (£2 million). Amortisation of goodwill of £1 million has been charged in the 26 weeks to 25 March 2000.

Part VI

Operating and Financial Review continued

On the acquisition of LWT and YTTV, goodwill arising of £1.2 billion was written off to reserves in accordance with UK accounting standards at that time. Consequently, no amortisation charge in respect of that amount has been charged to the profit and loss account.

Investment income

Investment income principally comprises dividends received on the shares in BSkyB. These interests have now been sold.

Share of operating losses in joint ventures and associates

This may be analysed further as:

	For the financial year ended 27 Sept. 1997 £m	For the financial year ended 26 Sept. 1998 £m	For the financial year ended 25 Sept. 1999 £m	For the 26 weeks ended 25 March 2000 £m
ONdigital	(1)	(25)	(76)	(69)
Other associates	(1)	(4)	(15)	(9)
	(2)	(29)	(91)	(78)

ONdigital was launched on 15 November 1998. The £1 million costs incurred in 1997 and £25 million costs incurred in 1998 related to pre trading startup costs. These include pre launch advertising costs. By 26 September 1999 the closing number of subscribers was 411,000, which had increased to 673,000 by 25 March 2000. Of the total number of subscribers, 16,000 households had signed contracts but still had to activate their smartcards and 10,000 boxes had been installed, mainly for dealers for demonstration purposes. ONdigital operating losses include a charge for the bad debts and other costs relating to non-performing customers. Comparable information for ONdigital as at 30 June 2000 is set out in Part II.

Other associates' losses in 1997 and 1998 principally arise from Granada Media's interests in GSKyB. Losses increased in 1999 due to investments being made in MUTV and SHOP!, and iTV2 and in Ask Jeeves in the 26 weeks to 25 March 2000.

Profit on disposal of investments and businesses

In the 26 week period to 25 March 2000, the Group realised a profit of £300 million from the sale of its remaining stake of 4 per cent. in BSkyB, and a profit of £347 million in 1999 from the disposal of its remaining 6.5 per cent. interest in BSkyB. In 1998 it realised a profit of £10 million from the disposal of 9.5 per cent. of its shareholding in GSKyB.

Taxation

The tax charge amounted to £19 million in the 26 weeks to 25 March 2000, £61 million in 1999, £85 million in 1998 and £59 million in 1997 giving rise to effective tax rates on ordinary activities of 30.9 per cent. in the 26 weeks to 25 March 2000, 30.1 per cent. in 1999, 32.1 per cent. in 1998 and 30.7 per cent. in 1997 respectively. The tax charge benefits from the Group's share of the tax credit arising from ONdigital and other associates' losses, amounting to approximately £25 million in 1999 and £21 million in the 26 weeks ended 25 March 2000.

Liquidity and capital resources

Prior to the Offer, the Group's operations were conducted substantially separately from those of other Granada operations. However the Group was neither capitalised nor financed as an independent Group. Granada managed the Group's borrowings and cash resources centrally. Cash generated or required by the Group's businesses was either remitted to the Group by way of dividend or inter-company loans, or advanced by Granada to the Group's businesses by way of inter-company loans or equity contributions at the direction of Granada's central Treasury function. The Group's historical cash flows in respect of interest, taxes paid and financing are therefore not indicative of the cash flows expected as an independent Group.

Granada Media's primary sources of liquidity following the transaction will be its cash flows from operations and proceeds from the sale of equity.

On 7 January 2000, Granada announced that it was considering making an offer for either Carlton Communications or United News & Media (who had previously announced an intention to merge) but that the making of any offer was conditional *inter alia* on regulatory consent being given in terms satisfactory to Granada. In its announcement, Granada stated that it would make a final decision whether or not to bid when the outcome of the regulatory review process was known. If a bid is made by any member of the Granada Group, it will be made by Granada Media. All three possible transactions were the subject of references to the Competition Commission. The Competition Commission submitted its report on the possible mergers to the Secretary of State for Trade and Industry on 16 June

2000, who is expected to announce his decision as to whether to clear any of the possible transactions, and if so on what terms, during summer 2000. The Directors cannot predict the outcome of the references. However, if Granada is cleared to bid for either Carlton Communications or United News & Media, and/or United News & Media is cleared to merge with Carlton Communications, any such transaction would have to comply with any undertakings that might be required by the Secretary of State. These might involve divestment of part of the business created from any transaction that may be completed, beyond any action that might be necessary in order to comply with the requirements of the Broadcasting Act.

The Directors believe that Granada Media has sufficient resources to meet its currently anticipated needs. In the event that Granada Media were to bid for Carlton Communications or United News & Media or to make other significant acquisitions, such acquisitions would be funded by a mixture of existing cash resources, new banking facilities (to be negotiated) or shares in Granada Media.

In July 2000, Granada Media's 50 per cent. share of ONdigital's cumulative funding requirement was estimated to be £475 million in total. It is anticipated that this will be funded from existing resources.

Combined cash flow statement

	For the financial year ended			For the 26 weeks ended
	27 Sept. 1997 £m	26 Sept. 1998 £m	25 Sept. 1999 £m	25 March 2000 £m
Operating profit (excluding exceptionals, new media and digital)	185	238	251	127
Exceptionals, new media and digital	(19)	2	(12)	(7)
Operating profit	166	240	239	120
Non cash items	12	14	15	13
Net movement in working capital	12	(17)	(32)	40
Net cash inflow from operating activities	190	237	222	173
Dividends received	10	16	—	—
Cash inflow from return on investments and servicing of finance	9	23	38	2
Taxation	(50)	(77)	(106)	(26)
Purchase of tangible fixed assets	(28)	(27)	(29)	(18)
Purchase of investments	(60)	(26)	(181)	(178)
Sale of investments	28	14	416	409
Acquisitions and disposals	(543)	—	(34)	(3)
Equity dividends paid	—	—	(196)	(50)
Net cash (outflow)/inflow before liquid resources/financing	(444)	160	130	309
Net cash (outflow)/inflow from financing	550	6	(218)	(87)
Increase/(decrease) in cash in the year	106	166	(88)	222

Net cash inflow from operating activities

There is a broad correlation between operating profit and cash flows from operations. The growth in turnover between 1997 and 1999 resulted in a net increase in working capital in each financial year. The business absorbs working capital in the second half of each year as stock is made for the winter schedule and there is a consequent net inflow in the first half of the year.

In the year ended 25 September 1998, net cash inflow from operating activities increased by £47 million in comparison with the year ended 27 September 1997 primarily reflecting the inclusion for the first time of a full year's trading by YTTV. In the 26 weeks ended 25 March 2000, net cash inflow from operating activities was £173 million against a full year of £222 million in 1999. The increase in net cash inflow for the 26 weeks ended 25 March 2000 reflects a net reduction in working capital (principally debtors and stock) at 25 March 2000 compared with 25 September 1999, reflecting the normal first half year working capital cycle.

Cash inflow from return on investments and servicing of finance

Cash inflow from return on investments and servicing of finance comprises dividends received from trade investments, interest received offset by interest paid. The majority of interest received and paid was intra group.

Part VI

Operating and Financial Review continued

The £9 million cash inflow in 1997 and £23 million in 1998 all relates to interest received. Interest received of £51 million in 1999 was offset by £13 million of interest paid on funding for digital television and other borrowings. The net £2 million receivable in 2000 comprises interest received of £6 million and the payment of £4 million on funding for digital television.

Taxation

For years up to and including 26 September 1998, corporation tax was due nine months and one day after the end of the accounting period. For the 1999 year the UK moved to an instalment system for larger companies, which advanced part of the payment of corporation tax due for this and future years.

Purchase of investments

In the year ended 25 September 1999, Granada Media purchased an 18.6 per cent. share in Scottish Media (£111 million), provided further funding to ONdigital (£48 million) and took a 9.9 per cent. equity interest in Liverpool Football Club (£22 million). The total cash cost of these investments was £181 million. In the 26 weeks ended 25 March 2000, the purchase of investments (£178 million) included the acquisition of 10.4 per cent. of Seven Network (£61 million) and further funding of ONdigital (£82 million).

Sale of investments

Sale of Granada Media's direct and indirect interests in BSkyB in 1999 and 2000 respectively realised proceeds of £416 million and £409 million.

Acquisitions and disposals

The £543 million cash outflow in 1997 reflects the acquisition of YTTTV in August 1997. In 1999 Granada Media acquired Letts Educational and Artist Services for £34 million. In the 26 weeks ended 25 March 2000, Granada Media acquired Black Cat for approximately £3 million.

Equity dividends paid

Equity dividends paid relate to intra group funding requirements.

Balance sheet

The audited and the unaudited pro forma combined net asset statements as at 25 March 2000 are set out below.

The principal differences between the audited balance sheet at 25 March 2000 and the pro forma balance sheet relate to the acquisition of the Technology Business by Granada Media and the subsequent disposal of the consumer rental business to Box Clever, in which Granada Media has a 50 per cent. interest, the receipt of the net proceeds from the Offer and the settlement of intercompany balances between Granada Media and Granada, including payment of a dividend of £200 million to achieve the agreed cash position set out in the Merger Agreement. These differences are set out in full in Part VIII.

	Group as at 25 March 2000 audited £m	Pro forma Group as at 25 March 2000 unaudited £m
Fixed assets		
Tangible assets	188	208
Intangible assets – goodwill	34	42
Investments		
Joint ventures	64	64
Associates	17	17
Other investments	207	221
	510	552
Current assets		
Stocks	124	130
Debtors: amounts falling due within one year	170	182
Debtors: amounts falling due after more than one year	86	192
Cash, short term deposits and investments	473	1,987
	853	2,491
Creditors: amounts falling due within one year	(375)	(411)
Net current assets	478	2,080
Total assets less current liabilities	988	2,632
Creditors: amounts falling due after more than one year	(25)	(18)
Box Clever joint venture	—	(113)
Provisions for liabilities and charges	—	(20)
Intercompany	316	—
Net assets	1,279	2,481

Tangible assets comprise Granada Media's interest in freehold and leasehold land and buildings and vehicles equipment and fittings.

Goodwill has arisen on Granada Media's acquisition of Letts and Artist Services and Black Cat in 1999 (£34 million) and on the acquisition of Granada Business Technology (£8 million) in the period to 25 March 2000.

The joint ventures balance represents Granada Media's interest in ONdigital equity accounted for under the gross equity method under UK GAAP.

The associates balance reflects Granada Media's interest in GMTV, GSB, ITN, LNN, Shop!, MUTV, ITV2 and Ask Jeeves.

Other investments comprise Granada Media's interest in unlisted and listed investments. These principally comprise interests in Liverpool Football Club (9.9 per cent.), Scottish Media Group (18.1 per cent.), and Seven Network (10.4 per cent.).

Part VI

Operating and Financial Review continued

Stock balances include work in progress on own-produced programmes, completed programmes prior to sale to the ITV Network Centre or third parties, Granada Media's share of ITV Network Centre stock (based on Granada Media's share of NAR in the prior calendar year) and acquired film rights.

Debtors: amounts falling due within one year principally comprise amounts due from advertising agencies, which are typically paid within 25 days of the month end, and amounts due from both the ITV Network Centre and third parties in respect of content.

Debtors: amounts falling due after more than one year principally comprise pension prepayments of £124 million, which will be written off as an exceptional item in the second half of the year due to the changes in the pension arrangements arising from the merger and loan notes of £65 million due from Box Clever.

The pro forma cash balances of £1,987 million comprise the agreed cash balance of £139 million at 25 March 2000 in accordance with the Merger Agreement plus the net cash proceeds from the sale of Box Clever (£464 million) plus cash of £88 million to fund the purchase of loan notes plus the net cash proceeds from the Offer of £1,296 million.

Creditors: amounts falling due within one year principally comprise taxation and social security (£107 million), other creditors (£142 million) and trade creditors (£63 million).

The investment in the Box Clever joint venture is equity accounted under the gross equity method under UK GAAP and as a result of this accounting treatment, Granada Media includes its share of the joint venture's independent finance. Accordingly, the liability to Box Clever is £113 million net of goodwill. However, the transaction results in an exceptional profit for Granada Media of £98 million. These borrowings are non-recourse to Granada Media.

2 Current Trading and Prospects

The information in relation to the interim results for Granada Media for the 26 weeks ended 25 March 2000 is set out in Part VII of this document. The activities of the Group are performing well and trading since 25 March 2000 is in line with expectations.

The Directors view the future prospects of Granada Media with confidence and believe that Granada Media's existing businesses and future plans position it well to take advantage of new opportunities as communication technologies coverage, as broadband develops and as demand for content from new and existing platforms increases.

3 Dividends and Dividends Policy

The Directors intend to adopt a progressive dividend policy taking into account the long-term earnings potential of the Group, whilst maintaining appropriate levels of dividend cover. It is envisaged that interim dividends will be paid by the Company in September and final dividends in April of each year, and that any interim dividend will represent approximately one third of any expected total annual dividend. The first dividend to be paid by the Company following the Offer will be the final dividend in respect of the year ending 30 September 2000, which is expected to be paid in April 2001.

Assuming that 1,460,869,565 Ordinary Shares will be in issue immediately following completion of the Offer and that such Ordinary Shares had been in issue throughout the year ended 25 September 1999 and on the basis of the expected indebtedness of the Company following Admission, the Directors would have expected to recommend a total cash dividend for the year ended 25 September 1999 of 5.5 pence per Ordinary Share. This represents a notional dividend yield of 1.1 per cent.

4 Use of Proceeds

Granada Media estimates that it will receive net proceeds of approximately £1,296 million from the Offer based on an Offer Price of 515p after deducting estimated commissions and other fees and expenses payable by the Company of £47 million. Granada Media's current expectation is that the proceeds of the Offer will substantially be used to pursue suitably priced production broadcasting, and new media acquisition opportunities as they arise both within the UK and abroad which may include a possible bid for either Carlton Communications or United News & Media (who are the two other principal owners of ITV regional licences). Such acquisition opportunities may be funded by shares, cash or bank debt or any combination of the three, depending upon the size and circumstances of the acquisition. To the extent not used to fund such acquisitions, the proceeds will be used to:

- expand its production business both in the UK and overseas by investing in new programme formats which can be exploited internationally;
- extend its strategy of creating and acquiring original production companies in selected markets; and
- develop new pay television channels, internet ventures and broadband enterprises.

Where appropriate, the investment in production companies will be supported by investment in local commercial broadcasters, similar to Granada Media's presence in Australia.

Part VII

Accountants' Report



KPMG Audit Plc

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11 July 2000

Dear Sirs

Granada Media plc and its subsidiaries – "GMG"

We report to you on the combined financial information set out in paragraphs 1 to 7 below. The combined financial information has been prepared for inclusion in the listing particulars of Granada Media plc (formerly GMI(H) Limited) ("the Company") dated 11 July 2000 ("the Listing Particulars").

Basis of preparation

For the purposes of this report GMG comprises Granada Media plc and its subsidiaries, associated undertakings and joint ventures together with certain entities, assets and liabilities which were formerly held directly or indirectly by the Company's ultimate parent undertaking, Granada Group PLC ("Granada"). It excludes the activities of Granada Technology Group, which were acquired after 31 March 2000 and, as discussed in paragraph 7.29, were subsequently sold to Box Clever Technology Limited. The combined financial information set out in paragraphs 1 to 7 represents an aggregation of the financial statements of the companies comprising GMG for the three years ended 25 September 1999 and the 26 weeks ended 25 March 2000 to which appropriate aggregation and other adjustments have been made.

Responsibility

The combined financial information in this report is the responsibility of the Directors of the Company and has been approved by them. The Directors of the Company are responsible for the contents of the Listing Particulars dated 11 July 2000 in which this report is included. It is our responsibility to derive the financial information set out in our report from the audited group reporting packages, to form an opinion on such financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the UK. Our work included an assessment of evidence relevant to the amounts and disclosures in the combined financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the combined financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the combined financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 combined financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the combined financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of GMG as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

Part VII

Accountants' Report continued

1 Combined Profit and Loss Account

	Note	For the financial year ended			For the
		27 Sept. 1997 £m	26 Sept. 1998 £m	25 Sept. 1999 £m	26 weeks ended 25 March 2000 £m
Turnover		677	944	1,009	559
Less: share of joint venture turnover		—	—	(11)	(25)
Group turnover	7.2	677	944	998	534
Staff costs	7.3	(72)	(89)	(98)	(58)
Depreciation on tangible assets		(12)	(14)	(15)	(12)
Net other operating costs	7.4	(427)	(601)	(646)	(344)
Group operating profit					
Before digital television, new media and exceptional items		185	238	251	127
Digital television, new media and exceptional items	7.7	(19)	2	(12)	(7)
Total operating profit		166	240	239	120
Investment income		9	8	4	1
Share of operating (losses)/profits in joint ventures and associates					
Before digital television, new media and exceptional items		(1)	(4)	(1)	1
Digital television, new media and exceptional items	7.7	(1)	(25)	(90)	(79)
Total share of operating losses in joint ventures and associates		(2)	(29)	(91)	(78)
Profit on disposal of investments	7.7	—	10	347	300
Profit/(loss) before interest and tax					
Before digital television, new media and exceptional items		193	242	254	129
Digital television, new media and exceptional items	7.7	(20)	(13)	245	214
Total profit before interest and tax		173	229	499	343
Net interest	7.8	9	23	45	7
Profit on ordinary activities before taxation		182	252	544	350
Tax on profit	7.9	(59)	(85)	(61)	(19)
Minority interests		—	(3)	(7)	(4)
Profit for the financial period		123	164	476	327
Earnings per share (basic)	7.11	67p	72p	210p	144p

Movements in capital and reserves are set out in note 7.23. The profits shown above were all derived from continuing activities.

2 Combined Statement of Total Recognised Gains and Losses

	For the financial year ended			For the
	27 Sept. 1997 £m	26 Sept. 1998 £m	25 Sept. 1999 £m	26 weeks ended 25 March 2000 £m
Profit for the financial period:				
Group	125	193	542	384
Joint ventures and associates	(2)	(29)	(66)	(57)
	123	164	476	327
Other	2	2	(3)	2
Total gains and losses recognised	125	166	473	329

3 Note on Historical Cost Profits and Losses

There is no material difference between profits for the three financial years ended 25 September 1999 and the 26 weeks ended 25 March 2000 and those calculated on a historical cost basis.

Part VII

Accountants' Report continued

4 Combined Balance Sheet

		As at							
		27 Sept. 1997		26 Sept. 1998		25 Sept. 1999		25 March 2000	
	Note	£m	£m	£m	£m	£m	£m	£m	£m
<i>Fixed assets</i>									
Tangible assets	7.12		161		172		186		188
Intangible assets – goodwill	7.13		—		—		32		34
Investments	7.14								
Joint ventures: Share of gross assets		9		9		83		130	
Share of gross liabilities		—		(15)		(50)		(66)	
		9		(6)		33		64	
Associates		17		1		2		17	
Other investments		88		98		134		207	
			114		93		169		288
			275		265		387		510
<i>Current assets</i>									
Stocks		141		134		144		124	
Debtors: amounts falling due within one year	7.15	157		172		286		389	
Debtors: amounts falling due after more than one year	7.16	175		177		179		183	
Cash, short term deposits and liquid investments		162		339		284		473	
		635		822		893		1,169	
Creditors: amounts falling due within one year	7.17	(900)		(432)		(308)		(375)	
Net current (liabilities)/assets			(265)		390		585		794
Total assets less current liabilities			10		655		972		1,304
Creditors: amounts falling due after more than one year	7.18		(21)		(18)		(13)		(25)
Provisions for liabilities and charges	7.22		(17)		(6)		—		—
Net (liabilities)/assets			(28)		631		959		1,279
<i>Capital and reserves</i>									
Share capital	7.23		183		227		227		227
Share premium account	7.23		60		651		651		651
Share capital to be issued	7.23		9		55		117		117
Revaluation reserve	7.23		38		40		40		40
Profit and loss account	7.23		(406)		(430)		(164)		156
Equity shareholders' funds	7.23		(116)		543		871		1,191
Minority interests			88		88		88		88
			(28)		631		959		1,279

5 Combined Cash Flow Statement

	Note	For the financial year ended			For the
		27 Sept. 1997	26 Sept. 1998	25 Sept. 1999	26 weeks ended 25 March 2000
		£m	£m	£m	£m
Net cash inflow/(outflow) from operating activities:					
Before digital television, new media and exceptional items	7.5	191	248	244	177
Digital television, new media and exceptional items	7.5	(1)	(11)	(22)	(4)
Net cash inflow from operating activities	7.5	190	237	222	173
Returns on investments and servicing of finance:					
Dividends received	10	16	—	—	—
Interest received	9	23	51	6	6
Interest paid	—	—	(13)	(4)	(4)
		19	39	38	2
Taxation		(50)	(77)	(106)	(26)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets	(28)	(27)	(29)	(18)	(18)
Purchase of investments	(60)	(26)	(181)	(178)	(178)
Sale of investments	28	14	416	409	409
		(60)	(39)	206	213
Acquisitions and disposals:					
Purchase of business		(543)	—	(34)	(3)
Equity dividends paid		—	—	(196)	(50)
Net cash (outflow)/inflow before liquid resources/financing		(444)	160	130	309
Financing:					
Capital element of finance					
lease payments	7.20	—	—	(1)	—
Finance leases acquired	7.20	—	—	—	6
Movement in group borrowing	7.20	550	6	(217)	(93)
Net cash inflow/(outflow) from financing		550	6	(218)	(87)
Increase/(decrease) in cash in the period		106	166	(88)	222

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6 Reconciliation of Net Cash Flow to Movement in Net (Debt)/Funds

	Note	For the financial year ended			For the
		27 Sept. 1997 £m	26 Sept. 1998 £m	25 Sept. 1999 £m	26 weeks ended 25 March 2000 £m
Increase/(decrease) in cash in the year	7.20	106	166	(88)	222
Cash acquired on acquisition of subsidiary	7.20	38	—	—	—
Transfer to/(from) liquid investments	7.20	—	11	33	(33)
Net amounts (paid to)/advanced from parent and fellow subsidiary undertakings	7.20	(246)	470	206	134
New finance leases	7.20	—	—	—	(6)
Capital element of finance lease payments	7.20	—	—	1	—
Movement in net funds in the year		(102)	647	152	317
Opening net (debt)/funds		(233)	(335)	312	464
Closing net (debt)/funds	7.20	(335)	312	464	781

7 Notes to the Financial Information

7.1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to GMG.

Basis of preparation

Consolidated financial statements for GMG have not been prepared previously. The combined financial information set out in this report has been prepared to report the results of operations and the financial position of GMG for the periods presented as if GMG, as defined, had been in existence from 28 September 1996. In that regard, the combined financial information has been prepared in line with the principles of the Reorganisation Agreement referred to under note 7.29 on post balance sheet events.

KPMG Audit Plc was the auditor of the companies comprising GMG and Granada Group PLC throughout the period presented and expressed unqualified opinions on the consolidated accounts of Granada Group PLC for each of the three years ended 25 September 1999 of which the companies comprising GMG formed a part.

The combined financial information has been prepared under the historical cost convention as modified by revaluations of certain fixed assets and in accordance with applicable accounting standards.

The combined financial information of GMG has been prepared on the following bases:

- using merger accounting principles as if the companies, businesses, assets and liabilities that comprise GMG had been part of GMG throughout the three years ended 25 September 1999 and the 26 weeks ended 25 March 2000 or, in the case of those acquired or disposed of by the Granada group, comprising Granada and its subsidiaries, during the period, from or up to the date control passed to or from the Granada group, as appropriate;
- investments in certain media interests owned by the Granada group have for the purposes of this accountants' report been treated as if owned by GMG from the date at which they were acquired by the Granada group;
- acquisitions of subsidiaries during the period have been accounted for using acquisition accounting principles. Goodwill arising on acquisitions is based upon the fair value of net assets and consideration at the date the Granada group acquired control of the subsidiary;
- the tax charge represents that borne by the entities comprising GMG during the period adjusted, as appropriate, for central consolidation entries. The GMG balance sheet includes an appropriate proportion of tax liabilities held centrally within Granada Group PLC. The tax charges for GMG shown in the financial information may not be representative of those following Admission;
- a proportion of the cost of overheads and services incurred by certain subsidiaries now forming part of GMG was borne in relation to either Granada itself or its non-GMG activities. Management charges made by those subsidiaries to other components of the

Granada group to recharge certain central services and overheads have been reflected in the combined financial information. The management charges included in the financial information may not be representative of those following Admission;

- transactions and balances owing between companies and businesses within GMG have been eliminated;
- funding provided between GMG and other parts of the Granada group has been included in debtors or creditors as appropriate and related interest charges included in the profit and loss accounts and cash flow statements. This will not be representative of the funding structure and related interest charges following the listing;
- Granada operates its main UK Pension Scheme on behalf of the Granada group as a whole. The Scheme's actuaries have advised on the splitting up of the Scheme consequent upon the separation of GMG from the Hospitality business of the Granada group as referred to under note 7.6. The GMG share of the Granada pension prepayment in the combined financial statements has been determined accordingly based upon the proportion of pensionable pay of the employees of GMG to that of the Granada group in total. The basis of accounting for pensions is set out in note 7.6;
- earnings per share has been calculated based upon the ordinary share capital of Granada Media plc. As the capital structure of the group will change following the transaction, GMG's earnings per share shown in this report will not be representative of that following Admission; and
- the companies comprising GMG incur an expense in their individual company accounts in relation to the Granada Qualifying Employee Share Scheme (QUEST). These charges have been excluded from the consolidated profit and loss account and debited against the profit and loss reserve which reflects the position had the QUEST scheme been operated by Granada Media plc rather than Granada Group PLC.

Goodwill arising on consolidation

Goodwill arising on acquisitions since 26 September 1998 is capitalised and amortised over its expected useful life. Goodwill arising on acquisitions up to 26 September 1998 has, in accordance with the transitional arrangements of Financial Reporting Standard 10, Goodwill and Intangible Assets, been charged against reserves. The results of businesses sold during the period are included up to the date control was relinquished.

Associates and joint ventures

In accordance with Financial Reporting Standard 9, Associates and Joint Ventures, associates have been accounted for using the equity method and joint ventures have been accounted for using the gross equity method. The comparative results have been adjusted to reflect this treatment.

Turnover and income

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

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 having a residual life of less than 50 years	Residual lease term

No depreciation was provided on freehold and long leasehold properties during the three years ended 25 September 1999.

Financial Reporting Standard 15, Tangible Fixed Assets, was adopted with effect from the start of the 26 weeks ended 25 March 2000. The depreciation charge has increased by £2 million following the introduction of Financial Reporting Standard 15.

Foreign currencies

Overseas trading results are translated into sterling at the average rates of exchange 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 GMG'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.

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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.

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.

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.

Pension cost

The expected cost to GMG of pensions in respect of its participation in Granada'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 7.6 below.

7.2 Turnover, profit before tax and net assets

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

	Turnover 1997 £m	Profit before tax 1997 £m	Turnover 1998 £m	Profit before tax 1998 £m	Turnover 1999 £m	Profit before tax 1999 £m	Turnover 2000 £m	Profit before tax 2000 £m
<i>Analysis by geographic origin:</i>								
United Kingdom	677	193	937	242	978	253	531	129
Rest of the World	—	—	7	—	20	1	3	—
	677	193	944	242	998	254	534	129
Digital television, new media and exceptional items	—	(20)	—	(13)	—	240	—	208
Net interest (excluding digital television)	—	9	—	23	—	50	—	13
Total	677	182	944	252	998	544	534	350

Turnover analysed by activity is as follows:

	1997 £m	1998 £m	1999 £m	2000 £m
Content	251	344	373	189
Broadcasting	426	600	625	345
	677	944	998	534

Net (liabilities)/assets, analysed by geographic origin, were as follows:

	1997 £m	1998 £m	1999 £m	2000 £m
United Kingdom	(43)	616	944	1,264

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

7.3 Staff costs

	1997 £m	1998 £m	1999 £m	2000 £m
Wages and salaries	69	83	92	54
Social security	5	7	8	5
Pension and other costs (see note 7.6)	(2)	(1)	(2)	(1)
	72	89	98	58
	1997	1998	1999	2000
Average number of people employed:	2,113	2,924	3,124	2,813

The emoluments of the current directors of Granada Media plc during the period as reflected in the accounts of Granada Group PLC and its subsidiaries were as shown below. Awards in the period arising under incentive and performance plans and share options granted and exercised are set out separately in the tables below:

	1997			1998		
	Salary and fees £'000	Benefits £'000	Total £'000	Salary and fees £'000	Benefits £'000	Total £'000
Executive Directors						
Charles Allen	660	12	672	750	23	773
Henry Staunton	315	12	327	370	12	382
Stephen Morrison	200	2	202	355	3	358
	1,175	26	1,201	1,475	38	1,513
Non Executive Director						
Nigel Rich	—	—	—	7	—	7
	1,175	26	1,201	1,482	38	1,520
	1999			2000		
	Salary and fees £'000	Benefits £'000	Total £'000	Salary and fees £'000	Benefits £'000	Total £'000
Executive Directors						
Charles Allen	820	24	844	450	16	466
Henry Staunton	405	17	422	243	12	255
Stephen Morrison	379	2	381	215	1	216
	1,604	43	1,647	908	29	937
Non Executive Director						
Nigel Rich	25	—	25	13	—	13
	1,629	43	1,672	921	29	950

Notes

- The value of benefits received during the period relates principally to the provision of company cars, life assurance cover and medical expenses cover.
- The figures in the total column for 1997 exclude one off payments equivalent to two months' salary in consideration for changes made to service contracts (these amounted to: Charles Allen £110,000 and Henry Staunton £52,500).

Charles Allen, Henry Staunton and Nigel Rich were Directors of Granada Group PLC during the period and the emoluments shown above for these individuals are the amounts recorded in that company's financial statements during the period. Stephen Morrison was a director of Granada Media plc throughout the period under review and his emoluments shown above are recorded in that company's financial statements. The emoluments of the other Directors of Granada Media plc were £29,000 (1999: £198,000, 1998: £356,000, 1997: £250,000). The Directors' emoluments included within the combined profit and loss account for the period excludes those shown above in relation to Charles Allen, Henry Staunton and Nigel Rich as these were payable by Granada Group PLC.

An analysis of conditional awards made to Directors under the Granada Performance Share Plan is set out below:

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	Charles Allen	Henry Staunton	Stephen Morrison	Vesting price before 5 July 1999 (pence)	Vesting price after 5 July 1999 (pence)	Vesting date
28 September 1996	—	—	—			
Awarded	82,526	39,387	37,512	799.75	399.875	1 Oct 00
27 September 1997	82,526	39,387	37,512			
Awarded	95,602	47,164	44,614	784.50	392.250	1 Oct 01
26 September 1998	178,128	86,551	82,126			
Adjustment for ordinary share sub- division on 5 July 1999	178,128	86,551	82,126			
Awarded	157,163	77,623	71,873	—	521.75	1 Oct 02
25 September 1999 and 25 March 2000	513,419	250,725	236,125			

The vesting date shown above is normally the earliest date awards can vest and is subject to the achievement by Granada of certain performance conditions.

An analysis of conditional awards made to Directors during the 26 weeks ended 25 March 2000 under the Granada Restricted Share Plan is set out below.

	Number of shares
Charles Allen	92,000
Henry Staunton	47,000
Stephen Morrison	22,000

These awards vest on 29 November 2000 and were granted for no monetary consideration.

An analysis of awards made to Directors during the 26 weeks ended 25 March 2000 under the Granada Deferred Share Award Plan is set out below.

	Number of shares
Charles Allen	166,281
Henry Staunton	89,043
Stephen Morrison	77,598

50 per cent. of these awards vest on 29 November 2000 and the remainder on 25 November 2001. These awards were granted for no monetary consideration.

The following tables provide an analysis of share options in Granada held by Directors:

Charles Allen

	1984 Scheme		1994 Scheme		SAYE Scheme	1994 Scheme		1998 Scheme		1998 Scheme		SAYE Scheme		Total
	Level 1	Level 2	Level 1	Level 2		Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	
28-Sep-96	268,500	59,000	57,000	210,000	4,369	28,000	56,000	110,500	88,500	—	—	—	—	881,869
Granted	—	—	—	—	—	—	—	—	—	32,200	32,500	—	—	64,700
27-Sep-97	268,500	59,000	57,000	210,000	4,369	28,000	56,000	110,500	88,500	32,200	32,500	—	—	946,569
Exercised	(268,500)	(59,000)	(57,000)	—	—	(28,000)	—	—	—	—	—	—	—	(412,500)
26-Sep-98	—	—	—	210,000	4,369	—	56,000	110,500	88,500	32,500	32,500	—	—	534,069
Adjustment for ordinary share sub-division on 5 July 1999	—	—	—	210,000	4,369	—	56,000	110,500	88,500	32,200	32,500	—	—	534,069
Granted	—	—	—	—	—	—	—	—	—	—	—	3,377	3,377	—
Exercised	—	—	—	—	(8,738)	—	—	—	—	—	—	—	—	(8,738)
25-Sep-99	—	—	—	420,000	—	—	112,000	221,000	177,000	64,400	65,000	—	—	3,377 1,062,777
Granted	—	—	—	—	—	—	—	—	—	—	—	629,370	—	629,370
25-Mar-00	—	—	—	420,000	—	—	112,000	221,000	177,000	64,400	65,000	629,370	3,377	1,692,147
Exercise price before 5 July 1999 (pence)	190.00	336.00	494.00	494.00	394.80	497.00	497.00	859.50	859.50	872.50	872.50	—	—	—
Exercise price after 5 July 1999 (pence)	—	—	—	247.00	197.4	—	248.50	429.75	429.75	436.25	436.25	572.00	499.60	—
Market price at date of exercise (pence)	1,063.00	1,063.00	1,063.00	—	579.00	1,063.00	—	—	—	—	—	—	—	—
Exercise period (from/to)	Jan 95 – Jan 02	Dec 95 – Dec 02	Jun 97 – Jun 04	Jun 99 – Jun 04	Sept 99 – Feb 00	Dec 97 – Dec 04	Dec 99 – Dec 04	Jul 99 – Jul 06	Jul 01 – Jul 06	Dec 99 – Dec 06	Dec 01 – Dec 06	Feb 03 – Feb 07	Sept 04 – Feb 05	—

Henry Staunton

	1984 Scheme		1994 Scheme		SAYE Scheme	1994 Scheme		1998 Scheme		1998 Scheme		SAYE Scheme		Total
	Level 1	Level 2	Level 1	Level 2		Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	
28-Sep-96	184,000	16,000	178,000	4,369	5,000	12,000	23,000	14,000	—	—	—	—	—	436,369
Granted	—	—	—	—	—	—	—	—	—	11,700	11,500	—	—	23,200
27-Sep-97 and 20-Sep-98	184,000	16,000	178,000	4,369	5,000	12,000	23,000	14,000	11,700	11,500	—	—	—	459,569
Adjustment for ordinary share sub-division on 5 July 1999	184,000	16,000	178,000	4,369	5,000	12,000	23,000	14,000	11,700	11,500	—	—	—	459,569
Granted	—	—	—	—	—	—	—	—	—	—	—	3,377	3,377	—
Exercised	(368,000)	(32,000)	—	(8,738)	(10,000)	—	—	—	—	—	—	—	—	(418,738)
25-Sep-99	—	—	356,000	—	—	24,000	46,000	28,000	23,400	23,000	—	—	—	503,777
Granted	—	—	—	—	—	—	—	—	—	—	—	337,027	—	337,027
25-Mar-00	—	—	356,000	—	—	24,000	46,000	28,000	23,400	23,000	337,027	3,377	—	848,804
Exercise price before 5 July 1999 (pence)	411.00	494.00	494.00	395.00	497.00	497.00	860.00	859.50	872.50	872.50	—	—	—	—
Exercise price after 5 July 1999 (pence)	205.50	247.00	247.00	197.40	248.50	248.50	429.75	429.75	436.25	436.25	572.00	499.60	—	—
Market price at date of exercise (pence)	533.50	533.50	—	579.00	533.50	—	—	—	—	—	—	—	—	—
Exercise period (from/to)	Jun 96 – Jun 03	Jun 97 – Jun 04	Jun 99 – Jun 04	Sept 99 – Feb 00	Dec 97 – Dec 04	Dec 99 – Dec 04	Jul 99 – Jul 06	Jul 01 – Jul 06	Dec 99 – Dec 06	Dec 01 – Dec 06	Feb 03 – Feb 07	Sept 04 – Feb 05	—	—

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Stephen Morrison

	1994 Scheme				1998 Scheme	Total
	Level 2	Level 2	Level 1	Level 1		
28-Sep-96	22,500	20,000	30,000	—	—	72,500
Granted	—	—	—	42,000	—	42,000
Exercised	—	(20,000)	—	—	—	(20,000)
27-Sep-97	22,500	—	30,000	42,000	—	94,500
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
26-Sep-98	22,500	—	30,000	42,000	—	94,500
Adjustment for ordinary share sub-division on 5 July 1999	22,500	—	30,000	42,000	—	94,500
25-Sep-99	45,000	—	60,000	84,000	—	189,000
Granted	—	—	—	—	146,853	146,853
Exercised	(45,000)	—	—	—	—	(45,000)
25-Mar-00	—	—	60,000	84,000	146,853	290,853
Exercise price before 5 July 1999 (pence)	497.00	494.00	859.50	872.50	—	—
Exercise price after 5 July 1999 (pence)	248.50	—	429.75	436.25	572.00	—
Market price at date of exercise (pence)	590.00	900.00	—	—	—	—
Exercise period (from/to)	Dec 99 – Dec 04	Jun 99 – Jun 04	Jul 99 – Jul 06	Dec 99 – Dec 06	Feb 03 – Feb 07	—

The market prices of Granada ordinary shares during the period were as follows:

	1997	1998	1999	2000
Mid market prices (pence)	900.00	758.00	537.50	707.50
Market price range (pence)				
– high	978.00	1,206.50	721.50	740.00
– date		8-Jun-98	13-Apr-99	23-Mar-00
– low	738.00	701.00	341.75	468.50
– date		18-Sep-98	7-Oct-98	21-Oct-99
	1997 £	1998 £	1999 £	2000 £

Gross gains (before tax) made on share options exercised were:

Charles Allen	—	3,255,745	—	—
Henry Staunton	—	—	1,327,220	—
Stephen Morrison	81,200	—	—	153,675

In addition five year savings contracts entered into under Granada Group PLC's Savings-Related Share Option Scheme matured on 1 September 1999 resulting in Charles Allen, Henry Staunton and Stephen Morrison receiving 8,738 ordinary shares at a purchase price of £17,249 and a market value of £50,593.

Notes

- The Granada 1984 Executive Share Option Scheme (the '1984 Scheme') expired and is closed to new entrants.
- The Granada 1994 Executive Share Option Scheme (the '1994 Scheme'):
 - Options granted with Level 1 performance conditions attaching thereto may not be exercised for a period of three years from the date of grant and are subject to certain performance conditions.
 - Options granted with Level 2 performance conditions attaching thereto may not be exercised for a period of five years from the date of grant and are subject to certain performance conditions.
- Options granted under the Granada Savings-Related Share Option Scheme ('SAYE Scheme') are linked to a monthly savings contract.
- No options granted to the Directors over Granada ordinary shares lapsed during the three years ended 25 September 1999 and the 26 weeks ended 25 March 2000.

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 this policy, contractual pension promises have been entered into with certain of the executive directors.

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

	1997			1998		
	Increase in accrued pension during the year £'000	Director's contributions during the year £'000	Accumulated accrued pension £'000	Increase in accrued pension during the year £'000	Director's contributions during the year £'000	Accumulated accrued pension £'000
Charles Allen	33	12	101	30	13	134
Henry Staunton	32	12	115	26	13	145
Stephen Morrison	28	12	116	60	18	180

	1999			2000		
	Increase in accrued pension during the year £'000	Director's contributions during the year £'000	Accumulated accrued pension £'000	Increase in accrued pension during the year £'000	Director's contributions during the year £'000	Accumulated accrued pension £'000
Charles Allen	62	13	200	24	7	224
Henry Staunton	25	13	175	24	7	199
Stephen Morrison	16	19	202	17	10	219

Notes

- The increase in accrued pension during the three years ended 25 September 1999 and the 26 weeks ended 25 March 2000 excludes any increase owing to inflation.
- The accumulated total accrued pension entitlement set out above is that which would be paid annually or on retirement of the executive director concerned and is based on service to the end of the relevant 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 Price Index subject to a maximum of 5 per cent. 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 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 per cent. 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 pay.

7.4 Net other operating costs

	1997 £m	1998 £m	1999 £m	2000 £m
Profit before tax is stated after charging:				
Television exchequer levy	46	52	77	46
Television franchise exchequer bid payment	24	79	42	15
Operating lease costs – plant and machinery	—	—	1	1
– other rentals	5	6	6	4

Audit fees payable to KPMG Audit Plc amounted to £130,000 (1999: £117,000, 1998: £179,000, 1997: £123,000). Audit fees payable to other firms amounted to £nil (1999: £nil, 1998: £5,000, 1997: £nil). Fees payable to KPMG Audit Plc and its associates for non-audit services amounted to £31,000 (1999: £72,000, 1998: £85,000, 1997: £119,000).

Non-audit services provided by KPMG Audit Plc and its associates principally comprise corporation and payroll taxes advice.

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

	1997 £m	1998 £m	1999 £m	2000 £m
Operating profit	166	240	239	120
Depreciation charges	12	14	15	12
Amortisation of goodwill	—	—	—	1
(Increase)/decrease in stocks	(29)	7	(6)	20
(Increase)/decrease in debtors	(9)	(17)	(27)	26
Increase/(decrease) in creditors and provisions	50	(7)	1	(6)
Net cash inflow from operating activities	190	237	222	173
Net cash inflow from operating activities – prior to new media, digital television and exceptional items	191	248	244	177
Expenditure relating to new media, digital television and exceptional items	(1)	(11)	(22)	(4)
Total	190	237	222	173

With the exception of £11 million of expenditure relating to the Yorkshire Tyne-Tees Television reorganisation in 1998, £7 million in 1999 and £2 million in 2000, expenditure relating to exceptional items relates to current year exceptional items.

7.6 Pension scheme

The principal UK pension scheme which covers the majority of GMG 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 per cent. higher than the annual increase in total pensionable remuneration, 4 per cent. higher than the annual increase in present and future pensions and 3.5 per cent. 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 per cent. 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. The accounting treatment that has been adopted in accordance with Statement of Standard Accounting Practice 24 is as follows:

- the actuarial surplus, excluding any amounts which relate to acquisitions, is being spread over the remaining service lives of current employees;
- the net credit for pensions and associated costs for GMG, which largely reflects the actuarial surplus in the main UK scheme, are set out in note 7.3.; and
- A prepayment of £83 million (1999: £82 million, 1998: £80 million, 1997: £78 million) is included in debtors falling due after more than one year.

Granada Group PLC has announced significant changes to the composition of its group which the actuaries advise will have a material impact on the future position of the main UK scheme so far as it affects the Company. The principal changes relate to the separation of GMG from the Hospitality business and the formation of the Box Clever 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 Box Clever. 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 more conservative funding assumptions, which together with the reduced size of the scheme will lead to a material erosion in the scheme surplus. In the light of this, the Directors have concluded that it will be necessary to reassess the carrying value of the pension prepayment shown in the balance sheet as at 25 March 2000.

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 that 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, is expected to be materially all of the prepayment of £83 million as at 25 March 2000, and will be reflected as an exceptional charge in the full year's accounts to 25 September 2000. In addition, for the same reasons, a further prepayment of some £41 million arising on the transfer of Granada Technology Group to GMG subsequent to 25 March 2000 (see note 7.29) will also be written off in the full year's accounts to 25 September 2000.

7.7 Digital television, new media and exceptional items

	1997 £m	1998 £m	1999 £m	2000 £m
Operating items				
Digital television and new media	—	(3)	(12)	(7)
Year 2000 costs	—	—	(4)	—
Yorkshire Tyne-Tees Television reorganisation costs	(19)	—	—	—
Other	—	5	4	—
	(19)	2	(12)	(7)
Non-operating items				
<i>Digital television and new media</i>				
Share of associates losses	—	—	(14)	(10)
Share of joint venture (ONdigital) trading losses before exceptional items	—	—	(69)	(69)
	—	—	(83)	(79)
<i>Other items</i>				
Share of joint venture (ONdigital) pre trading losses	(1)	(25)	(7)	—
Profit on disposal of investments:				
Sale of interests in BSkyB	—	—	347	300
Sale of 9.5 per cent interest in GSB	—	10	—	—
	(1)	(15)	257	221
Total digital television and new media	—	(3)	(95)	(86)
Total exceptional items	(20)	(10)	340	300
	(20)	(13)	245	214

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7.8 Net interest

	1997 £m	1998 £m	1999 £m	2000 £m
<i>Interest payable:</i>				
Other loans	(1)	—	(1)	—
Interest cost of funding digital television	—	—	(5)	(6)
	(1)	—	(6)	(6)
<i>Interest receivable:</i>				
External interest	3	10	7	3
Interest receivable from Granada Group PLC	7	13	44	10
Net interest	9	23	45	7

Interest receivable includes £nil (1999: £2 million, 1998: £4 million; 1997: £4 million) in respect of advances to BSB Holdings Limited (see note 7.14):

7.9 Taxation

	1997 £m	1998 £m	1999 £m	2000 £m
Based on the profit on ordinary activities for the period				
UK corporation tax at 30 per cent. (1999: 30.5%; 1998: 31%; 1997: 32%)	68	83	93	42
Adjustment to prior years' tax provisions:				
Corporation tax	(4)	2	(3)	—
Deferred tax	(2)	—	—	—
Tax on profit on ordinary activities before digital television and exceptional items	62	85	90	42
Share of tax of joint ventures and associated undertakings	—	—	(25)	(21)
Tax relief on digital television, new media and exceptional costs	(3)	—	(4)	(2)
	59	85	61	19

7.10 Dividends

	1997 £m	1998 £m	1999 £m	2000 £m
<i>Ordinary shares</i>				
Interim dividends proposed	—	—	146	—
Final dividends proposed	—	150	50	—
	—	150	196	—

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.

7.11 Earnings per share

	1997 £m	1998 £m	1999 £m	2000 £m
Profit for the financial year attributable to shareholders	123	164	476	327
	Number	Number	Number	Number
Weighted average number of shares in issue (millions of shares)	183	227	227	227
Earnings per ordinary share	67p	72p	210p	144p

7.12 Tangible assets

	Freehold land & buildings	Leasehold land and buildings		Vehicles, equipment and fittings		Total £m
	£m	Long £m	Short £m	Owned £m	Leased £m	
<i>Cost or valuation</i>						
At 27 Sept 1997	52	55	6	191	46	350
Additions	1	—	2	19	—	22
Businesses acquired	—	—	—	5	—	5
Disposals	—	—	—	(4)	—	(4)
At 26 Sept 1998	53	55	8	211	46	373
Additions	2	—	—	23	—	25
Disposals	—	—	—	(4)	(1)	(5)
Businesses acquired	—	—	—	4	—	4
At 25 Sept 1999	55	55	8	234	45	397
Additions	—	—	—	18	—	18
Disposals	(1)	—	—	(3)	—	(4)
At 25 March 2000	54	55	8	249	45	411
<i>Depreciation</i>						
At 27 Sept 1997	(2)	(3)	(2)	(140)	(42)	(189)
Charge for period	(1)	—	—	(11)	(2)	(14)
Disposals	—	—	—	1	1	2
At 26 Sept 1998	(3)	(3)	(2)	(150)	(43)	(201)
Charge for period	—	—	—	(13)	(2)	(15)
Disposals	—	—	—	4	1	5
At 25 Sept 1999	(3)	(3)	(2)	(159)	(44)	(211)
Charge for period	(1)	(1)	(1)	(9)	—	(12)
At 25 March 2000	(4)	(4)	(3)	(168)	(44)	(223)
<i>Net book value</i>						
At 27 Sept 1997	50	52	4	51	4	161
At 26 Sept 1998	50	52	6	61	3	172
At 25 Sept 1999	52	52	6	75	1	186
At 25 March 2000	50	51	5	81	1	188
<i>Analysis of cost or valuation</i>						
Cost	13	46	8	209	39	315
Valuation: 1993	41	9	—	40	6	96
At 25 March 2000	54	55	8	249	45	411

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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.

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

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.

The net book value of revalued assets is £47 million (1999: £48 million, 1998: £48 million).

On an historical cost basis, these assets would have been included at the following amounts at 25 March 2000:

	Freehold land & buildings	Leasehold buildings		Vehicles, equipment and fittings		Total
	£m	Long £m	Short £m	Owned £m	Leased £m	£m
Cost	6	6	—	18	5	35
Accumulated depreciation	—	—	—	(18)	(5)	(23)
Net book amount	6	6	—	—	—	12

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

7.13 Intangible assets – goodwill

	£m
Cost	
At 27 September 1997 and 26 September 1998	—
Additions	32
At 25 September 1999	32
Additions	3
At 25 March 2000	35
Amortisation	
At 27 September 1997, 26 September 1998 and 25 September 1999	—
Charge for period	(1)
At 25 March 2000	(1)
Net book value	
At 27 September 1997 and 26 September 1998	—
At 25 September 1999	32
At 25 March 2000	34

In accordance with transitional arrangements under Financial Reporting Standard 10, goodwill adjustments resulting from acquisitions prior to the year ended 26 September 1998 have been charged against reserves. Details of the cumulative amounts charged to reserves are set out in note 7.23.

7.14 Investments

	1998 £m	1999 £m	2000 £m
At start of period	114	93	169
Additions	72	243	178
Disposals	(6)	(68)	(1)
Transfers and other movements	(49)	(33)	(3)
Share of attributable losses after taxation	(30)	(66)	(55)
Dividends received from associates	(8)	—	—
At end of period	93	169	288
<i>Analysis of investment balance</i>			
At cost	127	269	443
Attributable reserves	(34)	(100)	(155)
Total investments	93	169	288
Unlisted:			
Joint ventures	(6)	33	64
Associated undertakings	1	2	17
Trade investments	—	23	24
Investments listed on – the London Stock Exchange	98	111	122
– other Exchanges	—	—	61
Total investments	93	169	288
<i>Market value of listed investments</i>			
British Sky Broadcasting Group	581	—	—
Scottish Media Group	—	105	171
Seven Network	—	—	74
	581	105	245

Investments include holdings of equity share capital in the following companies. Apart from Seven Network, which is registered and incorporated in Australia and Scottish Media Group which is registered in Scotland, these companies are all incorporated and registered in England and Wales:

Note	Percentage owned of ordinary shares unless otherwise stated	1998 per cent.	1999 per cent.	2000 per cent.
d	British Sky Broadcasting Group (BSkyB)	7	—	—
c	BSB Holdings (BSBH)	34	34	—
a	GMTV	20	20	25
a	Granada Sky Broadcasting (GSB)	*20	*20	*20
a	The Home Shopping Channel (Shop!)	35	35	35
a	Independent Television News (ITN)	**20	**20	**20
a	ITV2	—	35	35
e	Liverpool FC	—	10	10
a	London News Network (LNN)	50	50	50
a	MUTV	33	33	33
b	ONdigital	***50	***50	***50
e	Scottish Media Group	—	****19	****18
a	Ask Jeeves	—	—	25
e	Seven Network	—	—	10.4

* 50.5 per cent. economic interest (1999: 50.5 per cent., 1998: 50.5 per cent.)

** Owned by Granada Group PLC 20 per cent. (1999: 19.0 per cent., 1998: 19.0 per cent.)

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*** Owned by Granada Group PLC 50 per cent. (1999: 50.0 per cent., 1998: 50.0 per cent.)

****Owned by Granada Group PLC 18.1 per cent. (1999: 18.6 per cent., 1998: nil)

- a. GMTV, GSB, ITN, LNN, The Home Shopping Channel, MUTV, ITV2 and Ask Jeeves are accounted for as associated undertakings.
- b. ONdigital is accounted for as a joint venture.
- c. At 25 September 1999 the Group's investment in BSBH was included in current asset investments (1998: fixed asset investments) as it was sold in October 1999 realising proceeds of £409m.
- d. The 7 per cent investment in BSkyB was sold in October 1998 realising net proceeds of £416 million.
- e. The investment in Liverpool FC represents 9.9 per cent of share capital. The investments in Scottish Media Group and Seven Network are listed investments, and represents 18.1 per cent and 10.4 per cent of share capital respectively.

7.15 Debtors: amounts falling due within one year

	1998 £m	1999 £m	2000 £m
Trade debtors	125	165	141
Other debtors	19	16	16
Prepayments and accrued income	28	20	13
Amounts owed by parent and fellow subsidiary undertakings	—	85	219
	172	286	389

7.16 Debtors: amounts falling due after more than one year

	1998 £m	1999 £m	2000 £m
Pensions prepayment	80	82	83
Other debtors	—	—	3
Amounts due from parent and fellow subsidiary undertakings	97	97	97
	177	179	183

7.17 Creditors: amounts falling due within one year

	1998 £m	1999 £m	2000 £m
Trade creditors	68	64	63
Taxation and social security	124	102	107
Other creditors	55	86	142
Accruals and deferred income	63	55	62
Amounts owed to parent and fellow subsidiary undertakings	121	—	—
Obligations under finance leases	1	1	1
	432	308	375

7.18 Creditors: amounts falling due after more than one year

	1998 £m	1999 £m	2000 £m
Trade creditors	16	12	7
Obligations under finance leases	2	1	7
Taxation	—	—	11
	18	13	25

7.19 Analysis of finance lease obligations

	1998 £m	1999 £m	2000 £m
The maturity of GMG's finance lease obligations is:			
Within one year	1	1	1
Between two and five years	2	1	2
More than five years	—	—	5
	3	2	8

7.20 Analysis of net (debt)/funds

	27 September 1997 £m	Net cash flow £m	Other movements £m	26 September 1998 £m
Cash at bank and in hand and liquid investments	162	166	11	339
Finance leases	(3)	—	—	(3)
Amounts owed to parent and fellow subsidiary undertakings	(494)	(6)	476	(24)
Net (debt)/funds	(335)	160	487	312

	26 September 1998 £m	Net cash flow £m	Other movements £m	25 September 1999 £m
Cash at bank and in hand and liquid investments	339	(88)	33	284
Finance leases	(3)	1	—	(2)
Amounts owed to parent and fellow subsidiary undertakings	(24)	217	(11)	182
Net funds	312	130	22	464

	25 September 1999 £m	Net cash flow £m	Other movements £m	25 March 2000 £m
Cash at bank and in hand and liquid investments	284	222	(33)	473
Finance leases	(2)	(6)	—	(8)
Amounts owed to parent and fellow subsidiary undertakings	182	93	41	316
Net funds	464	309	8	781

7.21 Financial instruments

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

Currency risk

It is GMG'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, GMG had no material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities in non-functional currencies at 25 March 2000. During the period this was performed by Granada Group PLC on behalf of GMG.

Maturity

The maturity of GMG's financial liabilities other than finance leases, the maturity of which is set out in note 7.20, is:

	2000 £m
Between one and two years	14
Between two and five years	92
	106

The weighted average number of years to maturity of GMG's financial liabilities other than finance leases is 2.8 years.

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Fair value

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

Financial assets

	Book value 2000 £m	Fair value 2000 £m
Fixed assets investments	207	269
Cash at bank	473	473
Debtors due after more than one year	168	168
	848	910

Financial liabilities

	Book value 2000 £m	Fair value 2000 £m
Finance lease obligations due within one year	1	1
Finance lease obligations due after more than one year	7	7
Other creditors due after more than one year	18	18
Non-equity minority interests	88	88
	114	114

Fixed asset investments

Fixed asset investments are detailed in note 7.14. 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 current asset investments

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

Debtors due after more than one year

The fair value is based on discounted estimates of likely cash receipts.

Finance lease obligations

The fair value of borrowings due within one year approximates to carrying value because of the short maturity of the instruments. The fair value of finance lease obligations due after more than one year is based on quoted market prices or, where these are not available, the quoted market prices of comparable debt.

Other creditors due after more than one year

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

Non-equity minority interests

Fair value is based on the discounted amounts which GMG would expect to pay to minority interests.

7.22 Provisions for liabilities and charges

	Deferred taxation £m	Other provisions £m	Total £m
At 26 September 1997	(3)	20	17
Utilised in the period	—	(11)	(11)
At 26 September 1998	(3)	9	6
Provided during the year	—	—	—
Utilised in the period	1	(7)	(6)
At 25 September 1999	(2)	2	—
Utilised in the period	—	(2)	(2)
Transfers and other items	2	—	2
At 25 March 2000	—	—	—

Other provisions relate to acquisition provisions.

	Provision made 1998 £m	Full potential liability 1998 £m	Provision made 1999 £m	Full potential liability 1999 £m	Provision made 2000 £m	Full potential liability 2000 £m
Deferred tax carried forward is made up as follows:						
Accelerated capital allowances	—	(1)	—	—	—	—
Other timing differences	(3)	(19)	(2)	(2)	(2)	—
	(3)	(20)	(2)	(2)	(2)	—

The £2 million deferred tax asset shown above at 25 March 2000 is included within debtors falling due after more than one year.

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.

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7.23 Reconciliation of movements in capital and reserves

	Profit & loss reserve £m	Share Capital £m	Share Premium £m	Share capital to be issued £m	Revaluation Reserve £m	Equity shareholders' funds £m
Balance at 28 September 1996	12	136	—	—	38	186
Profit for the period	123	—	—	—	—	123
Share capital issued	—	47	60	—	—	107
Movement on goodwill	(543)	—	—	—	—	(543)
Transfer of ONdigital from Granada Group plc	—	—	—	9	—	9
Other movements	2	—	—	—	—	2
Balance at 27 September 1997	(406)	183	60	9	38	(116)
Share capital issued	—	44	591	—	—	635
Transfers	(2)	—	—	—	2	—
Net movement on goodwill	(38)	—	—	—	—	(38)
Profit for the period	164	—	—	—	—	164
Dividends	(150)	—	—	—	—	(150)
Transfer of ONdigital from Granada Group PLC	—	—	—	46	—	46
Other movements	2	—	—	—	—	2
Balance at 26 September 1998	(430)	227	651	55	40	543
Profit for the period	476	—	—	—	—	476
Dividends	(196)	—	—	—	—	(196)
QUEST costs	(11)	—	—	—	—	(11)
Transfer of ONdigital from Granada Group PLC	—	—	—	62	—	62
Other movements	(3)	—	—	—	—	(3)
Balance at 25 September 1999	(164)	227	651	117	40	871
Profit for the period	327	—	—	—	—	327
QUEST costs	(9)	—	—	—	—	(9)
Other movements	2	—	—	—	—	2
Balance at 25 March 2000	156	227	651	117	40	1,191

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; 1998: £1,159 million; 1997: £1,121 million).

7.24 Acquisition and disposal of businesses

Summary of the effect of the acquisition of new businesses 1998, 1999 and 2000

	1998 £m	1999 £m	2000 £m		1998 £m	1999 £m	2000 £m
<i>Net assets acquired:</i>				<i>Discharged by:</i>			
Stocks	—	4	—	Cash	—	34	3
Debtors	—	4	—	Deferred consideration	2	—	—
Creditors	—	(6)	—				
Goodwill on acquisitions	2	32	3				
	2	34	3		2	34	3

Fair value adjustments for the above acquisitions were not material.

Summary of the effect of disposal of businesses in 1999 and 1998

	1998 £m	1999 £m		1998 £m	1999 £m
<i>Net assets disposed:</i>			<i>Represented by:</i>		
Debtors	—	3	Cash	—	—
			Loss on disposal	—	(3)
	—	3		—	(3)

Summary of the effect of the acquisition of Yorkshire Tyne-Tees Television ("Yorkshire") in 1997

	Fair value adjustments			
	Book value £m	Revaluation adjustments £m	Other adjustments £m	Fair value to Group £m
Tangible fixed assets	26	(3)	—	23
Investments	5	(4)	—	1
Stocks	29	(2)	2	29
Debtors	44	—	18	62
Creditors	(46)	—	(7)	(53)
Cash and liquid investments	38	—	—	38
Corporation tax	(12)	—	—	(12)
Deferred taxation	2	—	—	2
Finance lease obligations	(3)	—	—	(3)
Net assets acquired	83	(9)	13	87

Revaluation adjustments comprise write downs of fixed assets to market value and stocks to net realisable value. Other adjustments include recognition of Yorkshire's pension surplus (£15 million), provision for onerous contracts (£7 million) and alignment to GMG accounting policies (£5 million).

	£m
Cash (intercompany account with Granada Group PLC)	543
Existing shareholding	87
Fair value of consideration	630
Goodwill	(543)
Fair value of net assets acquired	87

Yorkshire was acquired on 11 August 1997. In the period from 11 August to 27 September 1997, Yorkshire made a profit before tax of £4.2 million (12 months to 31 December 1996: £30.2 million) and a profit after tax of £3.2 million (12 months to 31 December 1996: £20.2 million). For the period from 1 January 1997 to 11 August 1997, Yorkshire made a profit after tax of £7.1 million. Yorkshire contributed £3.9 million cash outflow to GMG and the profit and loss account of the GMG included the following amounts related to Yorkshire, turnover £36.0 million, depreciation £0.8 million, staff costs £5.9 million: other operating costs £25.4 million.

7.25 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 25 March 2000 of £29 million (1999: £45 million; 1998: £32 million).

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.

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7.26 Lease commitments

Annual payment due under operating lease commitments are analysed as follows:

	Land and buildings 1998 £m	Other operating leases 1998 £m	Land and buildings 1999 £m	Other operating leases 1999 £m	Land and buildings 2000 £m	Other operating leases 2000 £m
Between two and five years	—	1	—	1	—	1
More than five years	1	—	1	—	—	—
	1	1	1	1	—	1

GMG's net obligations under finance leases analysed by payment date are as follows:

	1998 £m	1999 £m	2000 £m
Within one year	1	1	1
Between two and five years	2	1	2
More than five years	—	—	5
	3	2	8

7.27 Capital commitments

	1998 £m	1999 £m	2000 £m
<i>Contracted but not provided for</i>			
Other	—	—	1
Share of capital commitments of joint ventures	2	1	—

Granada Media plc has no commitments in respect of forward foreign exchange contracts entered into in the ordinary course of business.

Granada Media has committed to provide certain debt and equity funding to ONdigital.

Granada Media have an agreement to acquire Border TV from Capital Radio for a consideration of £50.5 million by 31 March 2003.

7.28 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.

	1997 £m	1998 £m	1999 £m	2000 £m
Sales to associated undertakings	23	14	39	15
Purchases from associated undertakings	15	18	18	9
Sales to Granada group undertakings	4	12	6	2
Purchases from Granada group companies	4	4	5	1
Amounts owed by associated undertakings	4	2	6	12
Amounts owed to associated undertakings	2	2	4	3

7.29 Post balance sheet events

Merger Agreement and Reorganisation Agreement

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

The Merger Agreement also set out the principles governing the separation of Granada Media 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 contains, inter alia, provisions to the following effect:

- (a) the transfer by Granada to Granada Media of such assets of Granada's media business as were not already owned by Granada Media;
- (b) the assumption by Granada Media of certain costs and liabilities of the Granada, Granada Compass and Compass groups, as a result of which Granada Media will be responsible 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 Granada Media (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 Holding);
 - all the costs of the Offer and of the possible bid for Carlton Communications or United News & Media;
 - 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 (Granada Media's share of these costs is not expected to exceed £25 million);
 - 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;
- (c) the settlement of all inter-company debt between Granada and Granada Media (including indebtedness arising from the transfer of assets as described in paragraph 3(a) of Part III) with the result that no such indebtedness now exists; and
- (d) providing that Granada Media is to continue to participate in the Granada Pension Scheme and to be treated as if Granada Media were to remain a wholly-owned subsidiary of Granada and providing for the assumption by Granada Media of any unfunded liabilities of Granada or Granada Compass to provide unapproved pensions for employees and former employees of Granada Media except to the extent such unfunded liability is matched by assets held subject to security by Granada.

As a result of the Merger, it is expected that all rights under the Granada Option Schemes will become exercisable and all awards under the Granada Share Award Scheme will vest.

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 ("Box Clever"), and other Technology businesses, principally Granada Business Technology ("GBT"). Box Clever is a company in which GMG has a 50 per cent. interest which was formed to effect the combination of Granada's consumer rental business with that of Radio Rentals Limited and Thorn UK Limited. Box Clever acquired the Granada and Thorn businesses for gross consideration in cash and loan notes for £595 million and £375 million respectively, having obtained banking facilities to finance a significant proportion of these acquisitions. There are no recourse facilities so far as GMG is concerned. After the disposal, GMG will account for its interest in the joint venture using the gross equity method under FRS 9, Associates and Joint Ventures. On that basis, the carrying value in the joint venture is estimated to comprise loan notes of £65m and a liability in the joint venture of £113m.

Certain financial information of the Granada Technology Group for the period is as follows:

	For the financial year ended 27 Sept. 1997 £m	For the financial year ended 26 Sept. 1998 £m	For the financial year ended 25 Sept. 1999 £m	For the 26 weeks ended 25 March 2000 £m
Turnover	459	383	359	182
Operating profit	100	91	78	35
(Loss)/profit on ordinary activities before taxation	83	91	77	34
(Loss)/profit for the financial period	50	64	53	24
Net assets	87	98	113	133

The activities of GBT are immaterial in the context of GMG's continuing activities.

Part VII

Accountants' Report continued

Pensions prepayment

As explained in note 7 the Directors propose to write off as an exceptional item the pension prepayments of £83 million as at 25 March 2000 together with a £41 million prepayment acquired from Granada Technology Group in the full year accounts to 30 September 2000, having regard to the consequences on the pension fund position of the Merger and Reorganisation Agreements.

Yours faithfully

KPMG Audit Plc

Part VIII

Pro Forma Statement of Net Assets

Unaudited pro forma statement of net assets

The unaudited pro forma combined net asset statement set out below has been prepared to illustrate the effect on the net assets of Granada Media as if the IPO and acquisition by Granada Media of the Technology Business comprising the consumer rentals business and other Technology businesses, principally Granada Business Technology ("GBT") and the subsequent disposal of the consumer rental business to Box Clever, in which Granada Media has a 50 per cent. interest, had occurred at 25 March 2000.

The unaudited proforma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the net assets which would have been reported if the transactions had occurred at 25 March 2000. No adjustments have been made to take account of the trading or other changes in the financial position of the Group after 25 March 2000, or any other transaction subsequent to the balance sheet date.

Unaudited pro forma statement of net assets

	Group as at 25 March 2000 audited note 1 £m	Adjustments						Pro forma combined Group unaudited £m
		Acquisition of consumer rentals note 2 £m	Disposal to and acquisitions of 50% stake in Box Clever note 2 £m	Net impact of Box Clever note 2 £m	Acquisition of excluded assets and businesses note 3 £m	Pre IPO dividend note 4 £m	Proceeds of IPO unaudited note 5 £m	
Fixed assets								
Tangible assets	188	319	(319)	—	20	—	—	208
Intangible assets – goodwill	34	81	(81)	—	8	—	—	42
Investments								
Joint ventures	64	—	—	—	—	—	—	64
Associates	17	—	—	—	—	—	—	17
Other investments	207	—	—	—	14	—	—	221
	510	400	(400)	—	42	—	—	552
Current assets								
Stocks	124	14	(14)	—	6	—	—	130
Debtors: amounts falling due within one year	170	34	(34)	—	12	—	—	182
Debtors: amounts falling due after more than one year	86	—	65	65	41	—	—	192
Cash, short term deposits and investments	473	—	464	464	407	(653)	1,296	1,987
	853	48	481	529	466	(653)	1,296	2,491
Creditors: amounts falling due within one year	(375)	(120)	120	—	(36)	—	—	(411)
Net current assets	478	(72)	601	529	430	(653)	1,296	2,080
Total assets less current liabilities	988	328	201	529	472	(653)	1,296	2,632
Creditors: amounts falling due after more than one year	(25)	—	—	—	7	—	—	(18)
Box Clever joint venture	—	—	(113)	(113)	—	—	—	(113)
Provisions for liabilities and charges	—	(10)	10	—	(20)	—	—	(20)
Intercompany balances	316	(318)	—	(318)	(451)	453	—	—
Net assets	1,279	—	98	98	8	(200)	1,296	2,481

Notes:

- Information on Granada Media has been extracted without material adjustment from the financial information set out in part VII of this document.
- Granada Media now owns 50 per cent. of Box Clever Technology Limited which was formed through the merger of the consumer rental businesses of Granada Media and Thorn UK Limited. The pro forma adjustments reflect firstly the acquisition of the components of Granada's consumer rental business which have formed part of the Box Clever transaction by Granada Media from Granada. Secondly, they reflect the subsequent disposal of this business to Box Clever in return for net consideration comprising a 50 per cent. interest in Box Clever, cash of £464 million and loan notes of £65 million. The 50 per cent. interest in Box Clever has been classified as a Joint Venture. A profit of £98 million arises on the disposal.
- Certain assets and liabilities which were previously part of the consumer rental business of Granada, together with Granada Business Technology, were excluded from the Box Clever transaction. The assets and liabilities principally comprise cash and intercompany balances. The pro forma adjustment reflects the acquisition of these excluded items by Granada Media from Granada. Total net assets of £52 million were acquired, the consideration was £60 million and £8 million of goodwill arose on the acquisition. These net assets have not been consolidated into GMG in the Accountant's Report set out in part VII on the grounds of materiality.
- The pro forma adjustment to cash, debtors and creditors represents the settlement of certain intercompany borrowings between Granada Media and other components of the Granada Group (£453 million) together with the payment of dividends of £200 million by Granada Media to its parent company prior to the IPO.
- The pro forma adjustment assumes net proceeds of the IPO receivable by the Group based on gross proceeds of £1,343 million and expenses of £47 million.
- Pro forma net assets of £2,481 million include £88 million of non-equity minority interests.
- No adjustments have been made to reflect any other transaction subsequent to the balance sheet date.

Part VIII

Pro Forma Statement of Net Assets continued



KPMG Audit Plc

PO Box 486
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London EC4V 3PD
United Kingdom

The Directors
Granada Media plc
The London Television Centre
Upper Ground
London
SE1 9LT

The Directors
Lazard
21 Moorfields
London
EC2P 2HT
11 July 2000

Dear Sirs

Granada Media

We report on the pro forma financial information set out in Part VIII of the Listing Particulars dated 11 July 2000, (the "Pro Forma Financial Information"), which has been prepared, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of Granada Media plc to prepare the Pro Forma Financial Information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of Granada Media plc. Our work has not been carried out in accordance with auditing and reporting standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of Granada Media plc; and
- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

KPMG Audit Plc

Part IX

Reasons for and Description of the Global Offering

1 Reasons for the Global Offering

The Directors believe that Granada Media's trading performance and stage of development make it appropriate to seek admission to trading on the London Stock Exchange, and that investors will welcome the opportunity to focus on the value of a separately listed media company in advance of the planned Demerger. The Offer will enable Granada Media to enhance the profile of the Group, thereby assisting the development of its business, facilitating access to financial markets and enabling the Group to exploit opportunities for further development.

2 Description of the Global Offering

Structure

The number of Shares being offered for subscription pursuant to the Offer is 260,869,565. On the basis that there is no exercise of the Over-Allotment Option, the Offer will raise approximately £1,296 million of new capital for the Company after the deduction of the expenses of the Offer amounting to approximately £47 million, based on the Offer Price. The Company has granted an Over-Allotment Option pursuant to which up to an additional 39,130,435 Shares may be issued by the Company in connection with the Offer at the Offer Price. The Offer will be made in the following tranches:

- to institutional investors outside the United States and Canada; and
- by means of a Rule 144A placement in the United States and by private placements in Canada.

The allocation of Shares between tranches and within tranches themselves will be determined based on indications of interest received from prospective investors. The executive directors and certain senior executives of Granada Media will subscribe under the Offer for 1,592,038 shares at the Offer Price.

On the basis that there is no exercise of the Over-Allotment Option, following the Offer, 17.9 per cent. of the Company's issued share capital will be in public hands. The remaining 82.1 per cent. will be held by Granada.

The Shares offered pursuant to the Offer will rank *pari passu* in all respects with the existing issued Ordinary Shares of Granada Media and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the existing Ordinary Shares after Admission.

Dealing Arrangements

The Offer is subject to the Underwriting Agreement becoming unconditional and such agreement not being terminated in accordance with its terms.

Dealings in the Shares are expected to commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (British Summer time) on 11 July 2000. All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued" basis. If the Offer does not become unconditional, all such dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

Unconditional dealings in the Shares are expected to commence on the London Stock Exchange at 8.00 a.m. (British Summer time) on 18 July 2000.

Settlement for all dealings will be in accordance with the normal market practice of the London Stock Exchange.

Over-Allotment and Stabilisation

In connection with the Offer, the Company has granted an option to Credit Suisse First Boston on behalf of the Underwriters, exercisable in whole or in part at any time for 30 days after Admission, to procure subscribers for, or itself subscribe for, up to an aggregate of 39,130,435 additional Shares at the Offer Price, to cover over-allotments, if any, made in connection with the Offer and to cover short positions resulting from stabilisation transactions.

In connection with the Offer, Credit Suisse First Boston may over-allot or effect transactions which stabilise or maintain the market price of the Shares or any options, warrants or rights with respect to, or interests in, the Shares or other securities of the Company, in each case at levels which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, the over-the-counter market or otherwise. Such stabilisation, if commenced, may be discontinued at any time.

In connection with the over-allotment arrangements, Credit Suisse First Boston, as stabilising manager, has entered into a stock lending agreement (the "Stock Lending Agreement") dated 11 July 2000 with Granada pursuant to which Credit Suisse First Boston may borrow up to 39,130,435 Ordinary Shares at any time up to and including 17 August 2000 for the purposes, *inter alia*, of allowing Credit Suisse First Boston to settle, at Admission, over-allotments, if any, made in connection with the Offer. If Credit Suisse First Boston borrows any Ordinary Shares pursuant to the Stock Lending Agreement it is required to return equivalent securities to Granada by no later than the fifth business day following 17 August 2000.

Underwriting

Granada Media, Granada and the Underwriters have entered into the Underwriting Agreement, pursuant to which the Underwriters have agreed to procure subscribers for or, where relevant, themselves subscribe for all of the Shares comprised in the Offer on and subject to the terms and conditions thereof (other than those Shares which are the subject of the Over-Allotment Option).

See Part X.

Lock-up Arrangements

Following Admission, Granada will hold 82.1 per cent. of the enlarged issued ordinary share capital of the Company (80 per cent. if the Over-Allotment Option is exercised in full). Granada has agreed not to dispose of any of its shareholding nor any interest therein in the Company for the period of six months following the date of Admission without the prior consent of the Sponsor and the Joint Global Coordinators (not to be unreasonably withheld or delayed), other than pursuant to certain share schemes or to any bid made by the Company for either Carlton Communications or United News & Media (should the decision be made to make such a bid). In addition, the Directors and certain senior executives have agreed that for a period of six months following the date of Admission there will be no disposal of any Ordinary Shares nor any interest therein, in which such Directors or senior executives are interested, and the Company has agreed not to offer or issue any further Ordinary Shares, other than in connection with certain share schemes or a bid for either Carlton Communications or United News & Media (should the decision be made to make such a bid) for a period of six months from the date of Admission, in each case without the prior consent of the Sponsor and the Joint Global Co-ordinators (not to be unreasonably withheld or delayed).

Part X

Additional Information

1 Incorporation

The Company was incorporated and registered in England and Wales on 26 September 1995 as a private company limited by shares under the Companies Act 1985 with the name G.M.I. (H) Limited and with registered number 3106798. 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 Share Capital

- (a) The authorised share capital of the Company on incorporation was £150,000,000 divided into 150,000,000 shares of £1 each. At incorporation two of these shares were issued to the subscribers to the Company's Memorandum of Association (namely Instant Companies Limited and Swift Incorporations Limited) for cash at par and fully paid. On the same day these two shares were then transferred to Granada and Katherine Elizabeth Stross, as nominee.
- (b) On 29 September 1995 the Company allotted 135,580,388 ordinary shares to Granada in consideration for 135,580,388 ordinary shares in Granada Media Group Limited.
- (c) By a special resolution of the Company passed on 20 February 1997:
 - (i) the authorised share capital of the Company was increased to £185,000,000 by the creation of an additional 35,000,000 shares of £1 each;
 - (ii) the directors were generally and unconditionally authorised with immediate effect for the purposes of section 80 of the Companies Act 1985 to allot relevant securities (as defined in that section) up to a maximum of 185,000,000 ordinary shares of £1 each at any time or times during the period expiring at the end of five years from the date the resolution was passed; and
 - (iii) the directors were empowered with immediate effect to allot equity securities (as defined in section 94 of the Companies Act 1985) for cash, pursuant to the authority conferred by the above paragraph, as if section 89(1) of the Act did not apply to any such allotment provided that such power will expire at the end of five years from the date of the resolution.
- (d) On 20 February 1997 the Company allotted a further 47,455,726 ordinary shares of £1 each to Granada in consideration of the transfer of the entire issued share capitals of (i) Triplereason Limited; (ii) Pointslot Limited; (iii) Rarehaste Limited; (iv) Earnhigh Limited and (v) Sealpick Limited.
- (e) By a special resolution of the Company passed on 14 September 1998:
 - (i) the authorised share capital of the Company was increased to £230,000,000 by the creation of an additional 45,000,000 shares of £1 each;
 - (ii) the directors were generally and unconditionally authorised with immediate effect for the purposes of section 80 of the Companies Act 1985 to allot relevant securities (as defined in that section) up to a maximum of 230,000,000 ordinary shares of £1 each at any time or times during the period expiring at the end of five years from the date the resolution was passed;
 - (iii) the directors were empowered with immediate effect to allot equity securities (as defined in section 94 of the Companies Act 1985) for cash, pursuant to the authority conferred by the above paragraph, as if section 89(1) of the Act did not apply to any such allotment provided that such power will expire at the end of five years from the date of the resolution.
- (f) On 14 September 1998 the Company allotted a further 43,600,000 ordinary shares of £1 each to Granada in consideration for the transfer of the entire issued share capital of Yorkshire Tyne-Tees Television Holdings PLC pursuant to an agreement of the same date made between Granada and the Company.
- (g) On 10 March 2000 the one ordinary share in the Company held by Katherine Elizabeth Stross as nominee was transferred to Granada.

- (h) By a special resolution of the Company passed on 10 May 2000:
- (i) the authorised share capital of the Company was increased to £252,500,000 by the creation of an additional 22,500,000 shares of £1 each;
 - (ii) the directors were generally and unconditionally authorised with immediate effect for the purposes of section 80 of the Companies Act 1985 to allot relevant securities (as defined in that section) up to a maximum of 252,500,000 ordinary shares of £1 each at any time or times during the period expiring at the end of five years from the date the resolution was passed;
 - (iii) the directors were empowered with immediate effect to allot equity securities (as defined in section 94 of the Companies Act 1985) for cash, pursuant to the authority conferred by the above paragraph, as if section 89(1) of the Act did not apply to any such allotment provided that such power will expire at the end of five years from the date of the resolution.
- (i) On 10 May 2000, the Company allotted a further 22,500,000 ordinary shares of £1 each to Granada in consideration for the transfer of the entire issued "G" class share capital of ONdigital Holdings Limited pursuant to an agreement of the same date made between Granada and the Company.
- (j) On 1 June 2000, the Company allotted a further 90,000 ordinary shares of £1 each to Granada for a consideration of £2 million.
- (k) By an agreement between members of the Company made on 10 July 2000:
- (i) the authorised share capital of the Company was increased to £306,250,000 by the creation of an additional 53,750,000 shares of £1;
 - (ii) 30 million existing shares of £1 and all the authorised but unissued shares of £1 were subdivided into ordinary shares of 2.5p each;
 - (iii) the remaining 219,226,116 existing shares of £1 each were converted into participating preference shares of £1 each having the rights set out in the new Articles of Association referred to below;
 - (iv) the directors were generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot Participating Preference Shares in the Company up to an aggregate nominal amount of £250,000,000 and to allot ordinary shares in the Company up to an aggregate nominal amount of £56,250,000 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) five years after the date on which the resolution was passed but the Company may make an offer or agreement which will or might require Participating Preference Shares or ordinary shares in the Company to be allotted after expiry of the authority and the directors may allot Participating Preference Shares in the Company pursuant to that offer or agreement as if the authority had not expired;
 - (v) the directors were empowered pursuant to section 95 of the Companies Act 1985 to allot Participating Preference Shares in the Company up to an aggregate nominal amount of £250,000,000 and ordinary shares in the Company up to an aggregate nominal amount of £56,250,000 in cash pursuant to the authority conferred by the resolution described at paragraph (k)(iv) above as if section 89 (1) of the Companies Act 1985 did not apply to such an allotment and the power shall cease to have effect at the end of the next annual general meeting of the Company after the date on which that resolution was passed but the Company may make an offer or agreement which would require Participating Preference Shares in the Company or ordinary shares in the Company to be allotted after expiry of the power and the directors may allot Participating Preference Shares or ordinary shares in the Company in pursuance of that offer or agreement as if this power had not expired; and
 - (vi) new Articles of Association were adopted by the Company.
- (l) Immediately prior to the publication of this document, the authorised share capital of the Company was £306,250,000 comprising 2,250,000,000 ordinary shares and 250,000,000 participating preference shares of which 1,200,000,000 ordinary shares and 219,226,116 participating preference shares were issued (all of which were fully paid or credited as fully paid).
- (m) Immediately following Admission, assuming that there is no exercise of the Over-Allotment Option, the Company's authorised and issued share capital (all of which will be fully paid or credited as fully paid) will be as follows:

	Issued		Authorised	
	(£)	Number	(£)	Number
Ordinary shares of 2.5p	36,521,739.13	1,460,869,565	56,250,000	2,250,000,000
Participating preference shares of £1	219,226,116	219,226,116	250,000,000	250,000,000
Total	255,747,855.13		306,250,000	

Part X

Additional Information continued

- (n) No share or loan capital of the Company or any of its subsidiaries has, within the three years preceding the date of this document, been issued for cash or for a consideration other than cash to any person not being another member of the Granada Group and which, in the case of loan capital, remains outstanding; no such shares or loan capital are proposed to be issued other than pursuant to the Offer and the Over-Allotment Option (or any bid made by the Company for either Carlton Communications or United News & Media (should the decision be made to make such a bid)); no commissions, discounts, brokerages, or other special terms have, within the three years preceding the date of this document, been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital and no share or loan capital of the Company or any of its subsidiaries is under auction or is agreed conditionally or unconditionally to be put under auction.
- (o) The Company is subject to the continuing obligations of the UK Listing Authority with regard to the issue of securities for cash. The provisions of section 89 of the Companies Act 1985 (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Companies Act 1985) apply to the authorised but unissued share capital of the Company (in respect of which the Directors have authority to make allotments pursuant to section 80 of the Companies Act 1985 as referred to in paragraphs (c), (e) and (h) above) except to the extent such provisions have been disapplied to allow the issue of shares to the public.

3 Subsidiaries and Principal Investments

Subsidiaries

- (a) The principal subsidiary undertakings of the Company at the date of this document, all of which are wholly owned and incorporated and registered in England and Wales except where stated, are:

Name	Registered office	Shareholder	Principal activity
Granada Media Group Limited	The London Television Centre, Upper Ground London SE1 9LT	Granada Media plc	Television broadcasting, production, distribution, rights exploitation, online activities and airtime sales
Granada Television Limited	Quay Street Manchester M60 9EA	Granada Media Group Limited	Television broadcasting for the North West region and programme production
LWT (Holdings) Limited	The London Television Centre Upper Ground London SE1 9LT	Granada Media Group Limited	Intermediate holding company for television broadcasting for the London region and programme production
London Weekend Television Limited	The London Television Centre Upper Ground London SE1 9LT	LWT (Holdings) Ltd	Television broadcasting for the London region and programme production
Yorkshire Tyne-Tees Television Holdings Ltd	The Television Centre Leeds Yorkshire LS3 1JS	Granada Media Group Limited	Intermediate holding company for television broadcasting for North East and Yorkshire regions and programme production
South Bank Television Holdings Limited	The London Television Centre Upper Ground London SE1 9LT	LWT (Holdings) Limited	Intermediate holding company

Name	Registered office	Shareholder	Principal activity
Yorkshire Television Limited	The Television Centre Leeds Yorkshire LS3 1JS	Yorkshire Tyne-Tees Television Holdings Limited	Television broadcasting for the Yorkshire region and programme production
Tyne-Tees Television Holdings Limited	The Television Centre City Road Newcastle upon Tyne NE1 2AL	Yorkshire Tyne-Tees Television Holdings Limited	Intermediate holding company for television broadcasting for North-East England
Tyne-Tees Television Limited	The Television Centre City Road Newcastle upon Tyne NE1 2AL	Tyne-Tees Television Holdings Limited	Television broadcasting for the North East region and programme production
Castlefield Properties Limited	Granada Television Limited Manchester M60 9EA	Granada Television Limited	Property Management
Granada Learning Limited	The Television Centre Kirkstall Road Leeds LS3 1JS	Yorkshire Television Limited	Publishing educational material including software and interactive educational television services
Letts Educational Limited	BPP House Aldine Place 142-144 Uxbridge Road London W12 8AA	Granada Learning Limited	Publishing of educational books
Granada Media Australia Pty Limited*	33 Nott Street Port Melbourne Victoria Australia	Granada Media Group Limited	Distribution of rights in Australian television production
Artist Services Pty Limited*	33 Nott Street Port Melbourne Victoria Australia	Granada Media Group Limited	Programme production for the Australian market
Granada UK Rental & Retail Ltd	Granada House PO Box 31 Ampthill Road Beds MK42 9QQ	Granada Media plc	Intermediate holding company for UK television and video rental retail and insurance business

* Incorporated and registered in Australia.

All the above mentioned companies are included in Granada Media's pro forma combined accounts.

Part X

Additional Information continued

(b) Principal Investments

Name	Registered office	Granada Media's per cent. Shareholding	Principal activity
Scottish Media Group plc†	Cowcaddens Glasgow G2 3PR	18.1	See 1 below
Independent Television News Limited	200 Grays Inn Road London WC1X 8HR	20	See 2 below
ONdigital Holdings Limited	25 Knightsbridge London SW1X 7RX	50	See 3 below
ONdigital plc	346 Queenstown Road London SW8 4DG	50	See 4 below
Granada Sky Broadcasting Limited	Franciscan Court 16 Hatfields London SE1 8DJ	20	See 5 below
MUTV Limited	274 Deansgate Manchester M3 4JB	33	See 6 below
The Home Shopping Channel Limited	Sir John Moores Building 100 Old Hall Street Liverpool L70 1AB	35	See 7 below
Liverpool Football Club and Athletic Grounds Plc	52 Mount Pleasant Liverpool L3 5UN	9.9	See 8 below
PowerChannel Europe plc	11 Cross Keys Close London W1M 5FY	23.5	See 9 below
Carlton & Granada Internet Limited	Stornoway House 13 Cleveland Row London SW1A 1GG	50	See 10 below
GMTV Limited	The London Television Centre Upper Ground London SE1 9LT	25	See 11 below
London News Network Limited	The London Television Centre Upper Ground London SE1 9LT	50	See 12 below
ITV2 Limited	200 Grays Inn Road London WC1X 8HR	35.2	See 13 below
Independent Television Facilities Centre Limited	28 Concord Road Westwood Park Trading Estate Acton London W3 0TH	38.86	See 14 below

Name	Registered office	Granada Media's per cent. Shareholding	Principal activity
Red Heart Productions Pty. Limited*	Level 13 1 Pacific Highway North Sydney NSW Australia	50	See 15 below
Seven Network Limited*	Level 13 1 Pacific Highway North Sydney NSW Australia	10.4	See 16 below
Box Clever Technology Limited	Granada House Amphill Road Bedford MK42 9QQ	50	See 17 below

* Incorporated and registered in Australia.

† Incorporated and registered in Scotland.

- (1) Management activities for holding companies and television broadcasting in central and north Scotland.
- (2) Supply of news services to broadcasters in the UK and elsewhere.
- (3) Holding company for digital and terrestrial television broadcasting.
- (4) Operation of digital terrestrial television multiplexes.
- (5) Establishment, operation and marketing of pay TV channels.
- (6) Operation of the MUTV television channel dedicated to Manchester United Football Club and its activities.
- (7) Operation of a home shopping television channel and related activities.
- (8) Management of the football and related interests of Liverpool Football Club.
- (9) Offering free TV set top boxes providing internet access in return for survey data in the UK.
- (10) Joint venture company holding 50 per cent. of the Ask Jeeves (UK) Partnership.
- (11) Production and broadcast of breakfast time television under National Channel 3 licence.
- (12) Production of regional news and weather programmes, operating a television studio and transmission facility and transmitting national and regional programmes.
- (13) Operation of the ITV2 channel.
- (14) Handling and distribution of acquired films and subtitling of acquired and produced material for ITV.
- (15) Programme production for Australian television.
- (16) Holder of Australian free to air broadcast licence.
- (17) Electrical rental and retail chain.

4 Directors' and Other Interests

- (a) Subparagraphs (i), (ii) and (iii) below set out, as at 7 July 2000 (the latest practicable date prior to the publication of this document), the interests of the Directors of the Company, their families and persons connected with such Directors within the meaning of section 346 of the Companies Act, in the share capital of Granada, in the case of the Directors and their families, as required to be notified to the Company pursuant to sections 324 and 328 of the Companies Act or required by section 325 of the Companies Act to be entered in the register referred to therein and, in the case of persons connected with the Directors, as would be required to be so notified or entered in such register if such connected person were a Director of the Company and the interest of that connected person is known to or could with reasonable diligence be ascertained by that Director.

On Admission, holdings of Granada Shares will only represent an indirect holding in the Company. However, following the Demerger and Mandatory Exchange, both of which are currently anticipated to occur in early 2001, shares in each of Granada and the Company will have been exchanged for shares in what will be the ultimate holding company of both companies, Granada Compass, and will rank equally.

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(i) Issued share capital

Name	Interest	Number of Granada Shares
Charles Allen	beneficial	70,274
Henry Staunton	beneficial	148,751
Nigel Rich	beneficial	6,000
Steve Morrison	beneficial	6,290

(ii) Share options and share awards

It is expected that all rights under the Granada Option Schemes will become exercisable and all awards under the Granada Share Award Schemes will vest and be released as a result of the Merger. The interests in Granada Shares described below will be converted on exercise or vesting into Granada Compass shares on the Merger becoming effective at an exchange ratio of 1 Granada Share to 0.7547 ordinary shares in Granada Compass.

The following Directors of the Company have been granted the following options to acquire Granada Shares under the terms of the Granada Option Schemes.

Director	Date granted	Number of Granada Shares	Exercise price (p)	Exercise period
Charles Allen	06.06.94	420,000	247.00	Jun 1999 – Jun 2004
	16.12.94	112,000	248.50	Dec 1999 – Dec 2004
	01.07.96	221,000	429.75	Jul 1999 – Jul 2006
	01.07.96	177,000	429.75	Jul 2001 – Jul 2006
	09.12.96	64,400	436.25	Dec 1999 – Dec 2006
	09.12.96	65,000	436.25	Dec 2001 – Dec 2006
	07.07.99	3,377	499.60	Sept 2004 – Feb 2005
	08.02.00	629,370	572.00	Feb 2003 – Feb 2007
Henry Staunton	06.06.94	356,000	247.00	Jun 1999 – Jun 2004
	16.12.94	24,000	248.50	Dec 1999 – Dec 2004
	01.07.96	46,000	429.75	Jul 1999 – Jul 2006
	01.07.96	28,000	429.75	Jul 2001 – Jul 2006
	09.12.96	23,400	436.25	Dec 1999 – Dec 2006
	09.12.96	23,000	436.25	Dec 2001 – Dec 2006
	07.07.99	3,377	499.60	Sept 2004 – Feb 2005
	08.02.00	337,027	572.00	Feb 2003 – Feb 2007
Steve Morrison	01.07.96	60,000	429.75	Jul 1999 – Jul 2006
	09.12.96	84,000	436.25	Dec 1999 – Dec 2006
	07.07.99	1,939	499.60	Sept 2002 – Feb 2003
	08.02.00	146,853	572.00	Feb 2003 – Feb 2007

The following Directors of the Company have been granted the following conditional awards over Granada Shares under the Granada Performance Share Plan.

Name	Number	Date of Award
Charles Allen	165,052	11.09.97
	191,204	11.09.98
	157,163	23.09.99
	513,419	
Henry Staunton	78,774	11.09.97
	94,328	11.09.98
	77,623	23.09.99
	250,725	
Steve Morrison	75,024	11.09.97
	89,228	11.09.98
	71,873	23.09.99
	236,125	

The following Directors of the Company have been granted the following conditional awards over Granada Shares under the Granada Restricted Share Plan.

Name	Number	Date of Award
Charles Allen	92,000	25.11.99
Henry Staunton	47,000	25.11.99
Steve Morrison	22,000	25.11.99

The following Directors of the Company have been granted the following awards over Granada Shares under the Granada Deferred Share Award Plan.

Name	Number	Date of Award
Charles Allen	166,281	25.11.99
Henry Staunton	89,043	25.11.99
Steve Morrison	77,598	25.11.99

- (iii) The options and shares referred to above were granted for no monetary consideration.
- (iv) Save as disclosed above, none of the Directors of the Company nor their immediate families nor any person connected with them has any interest, beneficial or non-beneficial, in the share capital of Granada, Granada Media or its subsidiaries.
- (b) Immediately following the Offer, and assuming that there is no exercise of the Over-Allotment Option, and subject to the arrangements described in "Underwriting Arrangements", the Directors are aware of the following direct and indirect interests (within the meaning of Part VI of the Companies Act) which will represent three per cent. or more of the issued share capital of the Company immediately following Admission:

Holder of interests in Ordinary Shares	No. of Ordinary Shares in which interests held	Percentage of issued ordinary share capital
Granada	1,200,000,000	82.1

Save as disclosed in this paragraph, and subject to the arrangements described in "Underwriting Arrangements", the Directors are not aware of any person who is or will be, immediately following Admission, directly or indirectly interested in three per cent. or more of the issued share capital of the Company or of any other person who, directly or indirectly, jointly or severally, will exercise or could exercise control of the Company.

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- (c) No Director of the Company has or has had any interest in a transaction which is or was unusual in its nature or conditions or significant to the business of Granada Media and which was effected by the Company or any of its subsidiaries during the current financial year or during the year ended 30 September 1999 or was effected during an earlier financial year and remains in any respect outstanding or unperformed. There are not outstanding any loans granted by any member of Granada Media to any of the Directors of the Company nor any guarantees provided by any member of Granada Media for the benefit of any Director of the Company.

5 Directors' Service Agreements and Emoluments

- (a) The executive Directors of Granada Media have entered into new service agreements based on their existing contracts as follows:

Executive Director	Date of Contract	Annual Salary (£)
Charles Allen	10 July 2000	900,000
Henry Staunton	2 June 2000	481,950
Steve Morrison	21 June 2000	420,000

The employment contracts of Charles Allen and Henry Staunton are with Granada but their services will be provided to Granada Media under the Relationship Agreement. Each employment contract is to continue unless terminated by either party giving the other not less than 24 months' notice in writing or until either of them reaches age 60. As an alternative to serving notice, their employment contracts may be terminated by paying either of them a prescribed sum being the aggregate of salary, the actuarial value of pension benefits and all other benefits for the 24 month period (or, alternatively, putting them in the same position in respect of pension benefits and providing the other benefits in kind). The employer is required to use its best endeavours to treat each of them as a good leaver in relation to rights under any share or long-term incentive arrangements, including those which would have matured during the two year notice period.

Their contracts also contain a provision that until Demerger, 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 paying the prescribed sum to which reference is made above. In addition, each of these two Directors has the right to terminate his employment on 30 days' notice and receive the same payment and benefits upon the happening of certain events. Those events include if the executive director's role is materially diminished in scope or status; if the Demerger does not take place, or is cancelled, within 30 months from the Effective Date; if there is a change of control of Granada, Granada Compass or Granada Media (other than pursuant to the arrangements described in Part III above).

Steve Morrison's new employment contract with Granada Media may be terminated by either party giving the other not less than 12 months' notice in writing or by Granada Media making a payment in lieu of notice. His contract also contains a provision that until Demerger, if there is either a change of control of Granada Media or the employee's role is materially diminished in scope or status, he will be entitled to receive 24 months' notice (or a payment in lieu of such notice) to terminate his employment.

Each of the executive Directors is entitled to benefits including participation in long-term and other incentive schemes, the company car scheme, private health insurance and pension benefits.

Part of the pension commitment for certain senior executives, including Charles Allen and Henry Staunton, cannot be covered under the Granada Pension Scheme due to the cap on pensionable earnings and certain other restrictions introduced by the Finance Act 1989. In all such cases Granada Media or Granada enters into contractual unfunded unapproved pension commitments to provide pension and death benefits based on service and earnings, consistent with other executives of similar seniority. Based on this policy, contractual pension promises have been entered into with each of the executive Directors who is affected by the earnings cap. In respect of the accrued unfunded liability for Charles Allen and Henry Staunton, Granada has agreed to grant security over marketable securities in favour of The Law Debenture Trust Corporation PLC as trustee of the Granada Supplementary Pension Scheme.

- (b) The total aggregate remuneration paid and benefits in kind granted to the Directors of Granada Media by any member of the Granada Group during the last financial year amounted to £1,672,000.

- (c) The non-executive directors of Granada Media will be entitled to annual fees and will be appointed for the terms as set out below:

Non-executive Director	Annual fee (£)
Nigel Rich	30,000
David Chance	30,000

The services of Nigel Rich are provided by Sutherland Corporate Services Limited.

The non-executive directors' appointments are terminable by one month's notice from either party subject to the Articles of Association of Granada Media which provide that the non-executive directors must stand for re-election once every three years and that their appointments will terminate immediately if not re-elected.

- (d) At the time of the Mandatory Exchange, it is expected that the employment contracts of Charles Allen and Henry Staunton will be with Granada Compass but that their services will be provided to Granada Media under the Relationship Agreement (see Part III).

6 Incentive Schemes

The principal features of the Granada Media employees' share schemes are described below. After Demerger it is intended that these schemes will be replaced by substantially similar Granada Compass schemes.

Granada Media Shares acquired on the exercise of options or release of awards after Demerger will be automatically exchanged under the Articles into Granada Compass Shares as described in Part III.

(a) *Granada Media Approved Executive Share Option Scheme (the "New Approved Scheme")*

- (i) *Status* — It is intended that the New Approved Scheme will be submitted for approval by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988 ("Schedule 9").
- (ii) *Administration* — The New Approved Scheme will be administered by the Board or a committee of the Board and in the case of executive directors a committee of non-executive directors of Granada Media (the "Committee") in accordance with its rules.
- (iii) *Eligible Employees* — Options may be granted to such employees and full-time Directors (being those Directors who are obliged to devote substantially the whole of their working time to the Granada Media group and in any event not less than 25 hours per week) of Granada Media or any of its participating subsidiaries as the Committee shall select. The Committee may not select anyone who is within two years of normal contractual retirement age (unless Granada Media in general meeting shall waive such requirement) or has a material interest in Granada Media and is therefore prohibited from participating in the New Approved Scheme by virtue of paragraph 8 of Schedule 9.
- (iv) *Grant of Options* — Options may be granted within the period of 42 days following approval of the New Approved Scheme by the Inland Revenue and thereafter at any time during the period of 42 days following: the preliminary announcement of the annual or half yearly results of Granada Media for any financial period or the issue of any prospectus, listing particulars or other equivalent document; the expiry of restrictions imposed on Granada Media; the announcement or coming into force of any amendments to legislation affecting share option schemes; or at any other time if the Committee in its absolute discretion determines that the circumstances are sufficiently exceptional to justify the grant of an option. Options are over ordinary shares in the capital of Granada Media ("Shares"). No option may be granted later than ten years from the date of adoption of the New Approved Scheme. Options granted under the New Approved Scheme are personal to the optionholder and may not be transferred. Benefits under the New Approved Scheme will not be pensionable.
- (v) *Exercise Price* — The exercise price at which options may be exercised is determined by the Committee and will be not less than the greater of:
 - (aa) the nominal value of a Share if Shares are to be subscribed; and
 - (bb) at any time when the Shares are listed, the middle-market quotation of a Share as derived from the Official List on the dealing day immediately preceding the date of grant of an option (or, if the Committee so determines, the average of such quotations for the three dealing days immediately preceding the date of grant of an option).

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No consideration is payable for the grant of an option.

(vi) *Individual Limits* — No option may be granted to an optionholder if, as a result, the aggregate exercise price of Shares issuable pursuant to options granted under the New Approved Scheme and any other Inland Revenue approved executive share option scheme exceeds the maximum permitted by the Inland Revenue, currently £30,000.

(vii) *Exercise of Options* —

(aa) An option will not normally be exercisable before the expiry of three years from the date of grant. An option may be exercisable earlier if the optionholder dies, if the optionholder's employment terminates by reason of injury, disability, ill-health, redundancy, retirement or his employer ceasing to be a member of Granada Media or because the business in which he is employed is transferred out of Granada Media. If an optionholder ceases to be employed for any other reason his options will lapse unless the Committee determines otherwise. Options will lapse at the expiry of ten years from the date of grant. Special provisions apply in the event of a sale or liquidation of Granada Media (except as part of the Demerger or Mandatory Exchange) or on a takeover or scheme of reconstruction or amalgamation or liquidation of Granada Compass.

(bb) In accordance with the Joint Statement issued by the National Association of Pension Funds and Association of British Insurers, the Committee shall on the date of grant of any option specify the objective performance target(s) which must be satisfied prior to the exercise of such option. 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 Granada Media. Such objective performance target(s) will be subject to prior Inland Revenue approval. It is intended that the initial targets will be set by measuring total shareholder return against an international comparator group of media companies.

(viii) *Shares* — Shares issued on the exercise of an option will rank *pari passu* with existing Shares except for any rights attached to such Shares by reference to a record date prior to the date of allotment. Granada Media will use its reasonable endeavours to obtain admission to the Official List for any Shares so allotted.

(ix) *Variation of Share Capital* — On any variation of the share capital of Granada Media by way of capitalisation or rights issue or by consolidation, sub-division or reduction of capital or otherwise, the Committee may make such adjustments as it considers appropriate to the subscription price and/or the number of Shares comprised in an option, provided that there is no increase in the subscription price or reduction below nominal value. No such adjustment may be made without the prior written confirmation from Granada Media's auditors that it is in their opinion fair and reasonable. No adjustment shall be effective until approved by the Inland Revenue.

(x) *Amendments to the New Approved Scheme* — The Committee may amend the New Approved Scheme at any time in any respect provided that no amendment shall be effective until it is approved by the Inland Revenue. The rules of the New Approved Scheme relating to eligibility, limits on the number of Shares available under the New Approved Scheme, the basis for determining an eligible employee's participation and for the adjustment thereof in the event of a variation of capital and of amendment of the New Approved Scheme may not, however, be amended to the advantage of existing or future optionholders without the prior approval of Granada Media in general meeting except that the Committee may:

(aa) make any amendments necessary to secure or maintain approval by the Inland Revenue and to obtain or maintain favourable taxation, exchange control or regulatory treatment of Granada Media, any of its subsidiaries or any optionholder; and

(bb) make minor amendments to benefit the administration of the New Approved Scheme.

(b) *The Granada Media Unapproved Executive Share Option Scheme (the "New Unapproved Scheme")*

(i) *Status* — The New Unapproved Scheme is not intended to be approved by the Inland Revenue. The rules of the New Approved Scheme summarised above apply to the New Unapproved Scheme unless otherwise specified. The main differences are summarised below.

(ii) *Eligible Employees* — The Committee may select any Director, officer or employee of any member of the Granada Compass Group to participate in the New Unapproved Scheme who is obliged to devote the whole or substantially the whole of his working time to Granada Media.

(iii) *Individual Limit* — The level of grant to each individual will be determined by the Remuneration Committee having taken account of current practice. The intention is that the value of annual grants will not exceed 133 per cent. of salary.

(c) *The Granada Media Savings-Related Share Option Scheme (the "Savings-Related Scheme")*

(i) *Status* — It is intended that the Savings-Related Scheme will be submitted for approval by the Inland Revenue under Schedule 9.

(ii) *Administration* — The Savings-Related Scheme will be administered by a committee of the Board of Granada Media (the "Committee") in accordance with its rules.

(iii) *Eligible Employees* — All United Kingdom resident employees of participating group companies who have been continuously employed for a minimum period of not more than five years, as determined by the Committee from time to time, will automatically be eligible to participate in the Savings-Related Scheme. It is intended initially that all employees will be eligible. The Committee also has discretion to select employees of participating companies to participate in the Savings-Related Scheme who do not satisfy such requirements.

(iv) *Grant of Options* — The Committee may issue invitations to eligible employees to participate in the Savings-Related Scheme within the period of 42 days following the date on which the Savings-Related Scheme or any amendment thereto is approved by the Inland Revenue, or thereafter, in each case, within the period of 42 days following: the date on which Granada Media announces its annual or half-yearly results or issues any prospectus, listing particulars or other equivalent document; the lifting of any restrictions preventing the issue of invitations in the period following the announcement of results imposed on Granada Media; the coming into force of any amendments to Schedule 9 which affect the Savings-Related Scheme; the issue of a new share-save prospectus; or, at any other time, when the Committee resolves that exceptional circumstances exist which justify the grant of options. Invitations must be accepted within such period as the Committee may prescribe (which cannot be less than 14 days or more than 25 days from the date on which invitations are issued). Options over ordinary shares in the capital of Granada Media ("Shares"), must be granted within 30 days (or 42 days if applications are scaled down) following the first dealing day taken for calculating the subscription price. No options may be granted later than ten years from the date of adoption of the Savings-Related Scheme. Options granted under the Savings-Related Scheme are personal to the optionholder and may not be transferred.

(v) *Savings Contract* — Any person who applies for an option under the Savings-Related Scheme must also enter into an Inland Revenue approved savings contract. Under this contract, the person will agree to make monthly savings which must not be less than £5 and may not exceed the maximum amount specified in Schedule 9 (currently £250) (or such lower amount as determined by the Committee) over a period of three or five years. A bonus will be paid on completion of the savings contract. A person may also elect to leave their savings in their savings account at the end of a five year contract for a further two years in order to receive an additional bonus. Shares may only be acquired under the Savings-Related Scheme on exercise of an option using the proceeds of this contract. The number of Shares over which an option is granted will be such that the total amount payable on its exercise will be equal to the proceeds on maturity of the related savings contract. The Committee will decide which savings contracts should be made available on each occasion on which it is decided to grant options.

(vi) *Exercise Price* — The price payable per Share on exercise of an option shall be determined by the Committee and shall not be less than the higher of:

(aa) the nominal value of a Share (if Shares are to be subscribed); and

(bb) 80 per cent of the average middle-market quotation of a Share as derived from the Official List for the dealing day immediately prior to the date on which invitations are issued (or, if the Committee so determines, the average of such quotations for the last three dealing days immediately preceding such date or the market value of a Share at such other time as may be agreed in advance with the Inland Revenue).

No consideration is payable for the grant of an option.

(vii) *Exercise of Options* — An option granted under the Savings-Related Scheme must normally be exercised within the period of six months following completion of an optionholder's savings contract (which will usually be three or five years from the date of entering into the savings contract). An option may become exercisable earlier for a limited period (irrespective of the period during which the option has been held) if the optionholder ceases to be employed by a participating company by reason of death; injury; disability; redundancy; retirement on reaching 60 or contractual retirement age; reaching 60 and continuing to hold the office or employment by which the optionholder is eligible to participate in the Savings-Related Scheme; or where the

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business or the Company by which the optionholder is employed is transferred out of the Group. An option may become exercisable if it has been held for three years and the optionholder ceases to be employed by a participating company by reason of early retirement, pregnancy or ill health. Special provisions apply on a takeover, scheme of reconstruction or amalgamation or liquidation of Granada Media (except as part of the Demerger or Mandatory Exchange). Benefits under the Savings-Related Scheme will not be pensionable.

(viii) *Shares* — Shares issued on the exercise of an option will rank *pari passu* with existing Shares except for any rights attached to such Shares by reference to a record date prior to the date of allotment. Granada Media will use its reasonable endeavours to obtain admission to the Official List for any Shares so allotted.

(ix) *Variation of Share Capital* — On any variation of the share capital of Granada Media by way of capitalisation or rights issue, or by consolidation, subdivision or reduction of capital or otherwise, the Committee may make such adjustments as it considers appropriate to the subscription price and/or the number of Shares comprised in an option provided that there is no increase in the subscription price or reduction below nominal value. No such adjustment may be made without prior written confirmation from Granada Media's auditors that it is, in their opinion, fair and reasonable. No such adjustment shall be effective until approved by the Inland Revenue.

(x) *Amendments to the Savings-Related Scheme* — The Board may amend the Savings-Related Scheme at any time in any respect provided that no amendments shall be effective until it is approved by the Inland Revenue. The rules of the Savings-Related Scheme relating to eligibility, limits on the number of Shares available under the Savings-Related Scheme, the basis for determining an eligible employee's participation and for the adjustment thereof in the event of a variation of capital and to amendment of the Savings-Related Scheme may not, however, be amended to the advantage of existing or future optionholders without the prior approval of Granada Media in general meeting except that the Board may:

(aa) make any amendments necessary to secure or maintain approval by the Inland Revenue and to obtain or maintain favourable taxation, exchange control or regulatory treatment of Granada Media, any of its subsidiaries or any optionholder; and

(bb) make minor amendments to benefit the administration of the Savings-Related Scheme.

No amendment may be made to alter to the material disadvantage of any optionholder any rights already acquired by him without the consent of optionholders holding options over at least 75 per cent. of the Shares under option under the Savings-Related Scheme.

(d) *The Granada Media All-Employee Share Ownership Plan (the "Plan")*

(i) *Status* — The Plan will be submitted for approval by the Inland Revenue under the terms of the Finance Act 2000 which it is anticipated will receive Royal Assent in July 2000.

The Plan may be operated with any or all of the features described in paragraph (d) below.

(ii) *Administration* — The Plan will be constituted by a trust deed and administered by a trustee (the "Trustee") in accordance with its rules. The Board of Granada Media (or a duly authorised committee thereof) (the "Board") will have responsibility for the Plan and may appoint and remove the Trustee.

(iii) *Eligible Employees* — All UK resident employees of companies participating in the Plan, who have been continuously employed for a period of one year (or such lesser period as determined by the Board), will be eligible to participate in the Plan. Other employees of participating companies may be invited to participate at the Board's discretion.

(iv) *Appropriations and Acquisitions* — If the Board decides to operate the Plan, eligible employees will be entitled to participate in the Plan on similar terms.

The Plan has four discrete elements, Free Shares, Partnership Shares, Matching Shares and Dividend Shares described below. The Board may decide each year which elements are to be offered under the Plan.

Appropriations of shares by the Trustee may be made on both a free ("Free Shares") and/or a matching basis ("Matching Shares"). Employees will be eligible to participate only if they enter into a contract with the Company and, when the Plan is to operate on a matching basis, if they agree to the acquisition of Shares ("Partnership Shares") out of their salary by the Trustee on their behalf. Those employees who agree to participate may be appropriated Free and/or Matching Shares under the Plan.

- (aa) Free Shares — Eligible employees may be awarded Free Shares in each tax year, such award being linked to objective performance criteria (if any) determined by the Board and notified to the Inland Revenue. Free Shares must be held by the Trustees for between three and five years. Free Shares may be forfeited in certain circumstances up to three years from their appropriation if a participant ceases to be employed by the Group.
- (bb) Partnership Shares — Partnership Shares may be purchased on behalf of eligible employees in any tax year using money deducted from their pre-tax salary over a 12 month period or deducted from their pre-tax salary in a lump sum not exceeding 10 per cent. of that salary payment. Partnership Shares may be withdrawn from the Plan at any time and would not be subject to forfeiture.
- (cc) Matching Shares — The Board may decide to permit the appropriation by the Trustee of additional free shares ("Matching Shares") to eligible employees who elect to purchase Partnership Shares. Up to two Matching Shares may be appropriated for each Partnership Share purchased. Matching Shares may be forfeited in certain circumstances up to three years from their appropriation if a participant ceases to be employed by the Group or if the corresponding Partnership Shares are transferred out of the Plan within three years.
- (dd) Dividend Shares — Additionally, the Plan may permit dividends received on shares held in the Plan to be reinvested in additional shares up to set limits. If Dividend Shares are retained in the Plan for three years after their date of acquisition the participant will not be subject to income tax in respect of the Dividend Shares. Dividend Shares are not subject to forfeiture.
- (v) *Operation* — In each year that the Board decides to operate the Plan, participating companies will provide the Trustee with funds to enable the Trustee to purchase shares to be appropriated as Free Shares and/or Matching Shares to eligible employees who indicate that they wish to participate in the Plan. The amount of funds made available, and the amount available for each individual employee, may be determined by reference to any objective performance criteria adopted. If the Plan is operated in any year, funds will be allocated to the Trustee, and Free Shares and/or Matching Shares will be appropriated to eligible employees subject to the limits referred to below following the preliminary announcement of the final results of the Company for the previous financial year. In circumstances determined by the Board to be exceptional, shares may be appropriated outside this period.

If the Board decides to offer eligible employees the opportunity of buying Partnership Shares, the Board may permit, subject to the limits described in paragraph (f) below, the Trustee to buy on behalf of eligible employees:

- (aa) Partnership Shares out of deductions from their pre-tax salary accumulated for up to a 12 month period; or
- (bb) Partnership Shares monthly from their pre-tax salary.

If Partnership Shares are purchased following an accumulation period the price per share which the Trustee will pay will be the lower of the market value of a share at the beginning or end of the accumulation period.

- (vi) *Individual limits* — The maximum value of Free Shares which may be appropriated to an eligible employee under the Plan in any tax year may not exceed £3,000 (or such other amount as may be permitted by law from time to time).

The maximum value of Partnership Shares which may be purchased on behalf of an eligible employee under the Plan in any tax year may not exceed £125 per month or £1,500 per annum (or such other amount as may be permitted by law from time to time). This is subject to a maximum of 10 per cent. of an employee's salary.

Up to two Matching Shares may be appropriated for each Partnership Share acquired.

Dividends up to £1,500 each year may be used to purchase Dividend Shares.

- (vii) *Retention of Shares* — As required by law, Free and Matching Shares will be held by the Trustee on behalf of eligible employees for a period of between three and five years during which the shares may not be disposed of except if a participant dies, reaches 60 years of age or ceases to be employed by reason of injury, redundancy or disability. Partnership Shares and Dividend Shares acquired on behalf of eligible employees and held by the Trustee may be withdrawn from the Plan at any time. If a participant leaves his Free and Matching Shares in trust until the fifth anniversary of their appropriation he will not be liable to income tax or National Insurance contributions on their value. If a participant directs the Trustee either to transfer his Free Shares to him or to dispose of his Free Shares before the fifth anniversary of their appropriation, the participant may be liable

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to income tax and National Insurance contributions in respect of the lower of their aggregate initial market value and their market value at the date of such transfer or disposal. If Dividend Shares are withdrawn from the Plan before the third anniversary of their acquisition, the participant may be liable to income tax in respect of the cash value of the original dividend.

(viii) *Dividends and voting rights* — Participants will be the beneficial owners of the shares held by the Trustee on their behalf. All dividends and other distributions received in respect of the shares will be passed on to the participants concerned by the Trustee as soon as practicable after receipt (unless it is decided to permit their reinvestment in Dividend Shares), subject to the requirements of the Income and Corporation Taxes Act 1988. The Trustee will vote in accordance with the wishes of the participants provided that participants have given the Trustee prior voting directions in writing.

(ix) *Takeovers and variations in share capital* — In the event of a general offer being made to shareholders of the Company or a rights or capitalisation issue or other variation of share capital, participants will be able to instruct the Trustee how to act or vote on their behalf.

(x) *Amendments to the Plan* — The Board and the Trustee may amend the Plan at any time in any respect provided that no amendment shall be effective until it is approved by the Inland Revenue. The provisions of the trust deed and rules of the Plan relating to eligibility, the basis for determining an eligible employee's participation, and to amendment of the Plan on the number of shares available under the Plan may not be amended to the advantage of existing or future participants without the prior approval by ordinary resolution of the members of the Company in general meeting except that the Board may make any amendment which:

(aa) is necessary to secure and maintain approval by the Inland Revenue and to ensure that Inland Revenue approval is not withdrawn pursuant to any change in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment of the Company, any subsidiary or any participant; or

(bb) is a minor amendment which is necessary or desirable to benefit or facilitate the administration of the Plan.

No amendment may be made which would affect the beneficial interests of participants in Shares held by the Trustee on their behalf.

(e) *The Granada Media Commitment Scheme (the "Commitment Scheme")*

(i) *Eligible Employees* — Any executive director, officer or employee of any member of Granada Media may be invited to participate in the Commitment Scheme.

Arrangements may also be made for participation in separate parallel arrangements for executive directors and employees of Granada Media's associated companies, where it is intended that those individuals will be transferring their employment to Granada Media at a later date. Provided such transfer of employment occurs, such individuals will be able to participate in the Commitment Scheme from the date of their transfer as if they have been an Eligible Employee from the outset.

(ii) *Opportunities to commit shares under the Scheme* — Those eligible employees invited to participate in the Commitment Scheme ("Invitees") will be required to commit a specified number of shares to the Scheme ("Committed Shares") by a specified date ("the Commitment Date"). The maximum value of shares which may be committed to the Commitment Scheme is at the discretion of the Remuneration Committee. In respect of the first invitation made under the Commitment Scheme it is intended that any Invitees who are also executive directors will be invited to commit shares with a value between 100 per cent. and 300 per cent. of their basic salary. Invitations may be extended to participants below main board level and a majority of those invited to participate will be below board level. In respect of the initial invitation no invitee may invest more than 300 per cent. of his basic salary.

(iii) *Committed Shares* — Invitees may request that any shares in Granada Media (or, on an appropriate ratio determined by the Remuneration Committee of Granada Media (the "Committee"), shares in Granada Compass) be considered to be Committed Shares if they are either (a) beneficially owned by the Invitee, his immediate family or family trusts; or (b) are held in trust for the benefit of the Invitee pursuant to incentive awards, subject only to forfeiture for cessation of employment, provided that in the case of (a) and (b) the Committee may require such evidence as it considers sufficient to confirm the beneficial ownership of the shares.

(iv) *Grant of Awards* — Provided that an Invitee has committed the required number of Committed Shares by the Commitment Date, the Committee may recommend that the trustees of an employee benefit trust make an award to the Invitee (a

"Matching Award") comprised of both an award of free shares and an option over an equal number of shares. The option will have an exercise price equal to the market value of the shares under option on the date of grant.

A Matching Award may be granted over either new or existing Shares at any time before the tenth anniversary of the adoption of the Commitment Scheme by the Company in general meeting.

Matching Awards are neither pensionable nor transferable. No consideration is payable for the grant of a Matching Award.

Invitations to participate in the Commitment Scheme may be made, and Matching Awards may also be granted, at any time during the period of 42 days following: the preliminary announcement of the annual or half yearly results of Granada Media for any financial period or the issue of any prospectus, listing particulars or other equivalent document; following the expiry of restrictions imposed on Granada Media; the announcement or coming into force of any amendments to legislation affecting share schemes or at any other time if the Committee in its absolute discretion determines that the circumstances are sufficiently exceptional to justify the grant of a Matching Award. Matching Awards will be made over ordinary shares in the capital of Granada Media ("Shares").

The award of free shares may be made in several forms, as determined by the Committee in the light of accounting and tax consequences, specified at the date of grant provided that the option component is always an option to acquire shares or subscribe shares for a price equal to the market value of those shares at the date of grant. These include (a) a contingent right to acquire shares at no cost, (b) nil price option (c) a gift of shares forfeitable in the event that specified conditions are not met (d) an option with an exercise price equal to the market value of a Share on the dealing day immediately preceding the date of grant, together with a cash bonus payable to the Participant on the vesting date of the option, the gross amount of which is equal to the option price multiplied by the number of Shares over which the participant is able to exercise his option, (e) such other form as has substantially the same economic effect.

(v) *Vesting Conditions*

References to vesting of a Matching Award include the market value option component of that Matching Award becoming exercisable.

Matching Awards will vest only if certain conditions are met. These are that:

(aa) the Participant's employment with the Company has not terminated for any reason other than a compassionate reason. For these purposes a compassionate reason is any one of the following: injury, ill health, redundancy, retirement, a Participant's employer ceasing to be a member of Granada Media, transfer of his employment out of Granada Media, or any other circumstance which the Committee shall in its absolute discretion decide, provided that this shall always exclude dismissal for fundamental breach of contract;

(bb) the Participant has maintained the required number of Committed Shares in respect of which that Matching Award was made; and

(cc) any conditions specified at the date of grant in respect of that Matching Award have been satisfied.

The conditions that the Committee may specify shall include requirements in respect of one or both of:

(1) Granada Media's relative total shareholder return performance against a range of companies of comparable size and/or lines of business; and

(2) Granada Media's underlying financial and/or commercial performance.

The Committee may amend the performance conditions applying to a Matching Award if the condition would be a fairer measure of performance or would provide a more effective incentive for participants, provided that any substitute measure would be no less demanding than the original and no more difficult for a participant holding that award to satisfy.

Matching Awards will normally vest no less than two years after they have been granted.

In the case of the first invitation to participate, up to 50 per cent. of the Matching Award will vest, subject to performance conditions being satisfied at the second anniversary of grant. The balance of the Matching Award will vest 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 shall lapse.

Part X

Additional Information continued

In certain special circumstances, other vesting provisions may apply.

If (except as part of the Demerger or Mandatory Exchange) there is a sale or liquidation of Granada Media or there is a takeover or scheme of reconstruction or amalgamation or a liquidation of Granada Compass, Matching Awards will vest taking account of Granada Media's performance in the period since those Matching Awards were made, as if vesting were at the original final vesting date for that Matching Award.

If a Participant's employment ceases due to a compassionate circumstance prior to his Matching Award vesting, his Matching Award shall continue to the extent specified by the Committee. The Matching Award may vest early at the sole discretion of the Committee. In normal circumstances, if a Participant retains his Committed Shares at least pro-rata to the portion of the award which the Committee has determined should continue, he will be able to receive the relevant fraction of his Matching Award at the original vesting dates.

In respect of the first invitation to participate, vesting of Matching Awards will be determined by Granada Media's Total Shareholder Return (TSR) performance against an international comparator group of UK, US and European media companies. For the first awards to be made under the Commitment Scheme the comparator group will consist of not less than ten companies which will include major UK television broadcasters.

It is currently intended that maximum vesting will be achieved if Granada Media's TSR is ranked in approximately the top ten per cent. of the comparator group. The precise level of vesting will be determined once the members and size of the comparator group have been identified. If Granada Media's Performance is at the median, 25 per cent. of the Matching Award vests. No Matching Awards will vest if Granada Media'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.

In addition, the Committee may, if it determines that exceptional financial circumstances have occurred during the period of the Matching Award, determine that the award shall be treated as vesting in respect of such number of shares as the Committee considers appropriate (but not exceeding the maximum number).

The expected value of the share component excluding the option component of the first Matching Awards varies from 89 per cent. of salary for an investment of one times salary to 266 per cent. for an investment commitment of three times salary.

- (vi) *Shares* — Shares issued or transferred to participants on the exercise/vesting of awards will rank *pari passu* with existing Shares except for any rights attached to such Shares by reference to a record date prior to the date of allotment. Granada Media will use its reasonable endeavours to obtain admission to the Official List for any Shares so allotted.
- (vii) *Administration* — The Commitment Scheme will be administered by the Remuneration Committee in respect of Directors' participation in accordance with its rules.
- (viii) *Variation of share capital* — On any variation of the share capital of Granada Media by way of capitalisation or rights issue or by consolidation, sub-division or reduction of capital or otherwise, the Committee may make such adjustments as it considers appropriate to the acquisition or subscription price (if any) and/or the number of Shares comprised in a Matching Award, provided that there is no increase in the acquisition price or, if shares are newly issued, the subscription price or reduction below nominal value. No such adjustment may be made without the prior written confirmation from Granada Media's auditors that it is in their opinion fair and reasonable.
- (ix) *Amendments to the Commitment Scheme* — The Committee may amend the Commitment Scheme at any time in any respect provided that the provision relating to eligibility, limits on the number of Shares available under the Commitment Scheme the basis for determining a Participants' participation and adjustment to Matching Awards in the event of a variation of capital and to the amendment of the Commitment Scheme may not be amended to the advantage of existing or future Participants without the prior approval of Granada Media in general meeting except for minor amendments to benefit the administration of the Commitment Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for Granada Media or companies in the Group.

(f) *Limits on share issues under the Granada Media Employees Share Schemes*

No option may be granted under the New Approved Scheme, New Unapproved Scheme or the Savings-Related Scheme (described in paragraphs 6(a), 6(b) and 6(c) respectively), or shares subscribed by the trustee of the Plan (described in paragraph 6(d)) or Matching Awards granted under the Commitment Scheme (described in paragraph 6(e)) which would, at the time of grant or subscription, cause the number of Shares which have been or may be issued under all share plans established by Granada Media to exceed any of the following limits: ten per cent. of Granada Media's issued ordinary share capital (or 5 per cent. of such capital if only options or awards granted under discretionary or executive share plans are taken into account) in relation to options or awards granted in the ten years ending with the date of grant of the option or award.

7 Memorandum and Articles of Association

The Memorandum of Association of the Company provides, among other things, that its objects are to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its Memorandum of Association which is available for inspection as described in paragraph 19 below.

The Articles of the Company adopted on 10 July 2000 which are conditional upon Admission exclude Table A of the Companies Act and include provisions, *inter alia*, to the following effect:

(a) Participating Preference Shares

(i) *Dividends*

The Participating Preference Shares shall confer upon the holders thereof the right, subject to the provisions of the Companies Act and the Articles, to receive in priority to the payment of any dividend to the holders of the Ordinary Shares, a variable participating dividend of 0.25 per cent. on the amount of the Company's annual consolidated post tax profits between £250 million and £500 million and 0.16 per cent. on the Company's annual consolidated post tax profits per annum in excess of £500 million.

(ii) *Voting Rights*

The Participating Preference Shares shall, subject to the provisions of the Companies Act and of the Articles, confer on the holders the right to receive notice of and to attend all general meetings of the Company but shall only confer the right to speak or vote at any such meeting if the business of the meeting includes the consideration of the resolution for winding up the Company or modifying, varying or abrogating any of the rights or privileges attaching to the Participating Preference Shares, or if any part of any dividend payable in respect of the Participating Preference Shares is six months or more in arrears. For any resolution on which holders of the Participating Preference Shares are entitled to vote, each such holder present in person shall, on a show of hands, have one vote and, on a call, each such holder present in person or by proxy, shall have one vote in respect of every £1 in nominal amount per Participating Preference Share of which he is the holder.

(iii) *Distribution of assets on liquidation or other return of capital*

In the event of the winding of the Company or other return of capital (except on conversion, redemption or purchase by the Company of any of its shares), the assets of the Company available for distribution among the shareholders shall be divided in the following manner and order of priority:

1. first, in paying to the holders of the Participating Preference Shares all unpaid arrears and accruals of dividends (whether or not such unpaid arrears and accruals have become due and payable) to be calculated down to and including the date of return of capital;
2. secondly, in paying to the holders of the Participating Preference Shares a sum equal to the capital paid up or credited as paid up in respect of the Participating Preference Shares held by them, respectively;
3. third, in paying to the holders of the Ordinary Shares a sum equal to the capital paid or credited as paid up in respect of the Ordinary Shares held by them; and
4. fourth, in paying any surplus to the holders of the Ordinary Shares and the Participating Preference Shares 0.5 per cent. of such surplus being paid to the holders of the Participating Preference Shares and 99.5 per cent. of such surplus being paid to the holders of the Ordinary Shares rateably in accordance with the amount paid up or credited as paid up on the Participating Preference Shares and the Ordinary Shares held by them respectively.

Part X

Additional Information continued

(iv) *Restrictions*

The Company is prohibited from taking certain actions, including capitalising profits or making certain issues of new shares or reducing its capital in certain circumstances unless the Company shall have obtained the consent in writing of the holder or holders of Participating Preference Shares, representing three-quarters of the nominal value of the Participating Preference Shares then in issue or the approval of an extraordinary resolution of the shareholders passed as a separate meeting of the holders of the Participating Preference Shares being in issue and validly held in accordance with the provisions of the Articles.

(v) *General*

The holders of the Participating Preference Shares shall be entitled to the right to be sent (at the same time as the same is sent to the holders of the Ordinary Shares) all notices of general meetings of the Company and a copy of all circulars and other like documents sent by the Company to the holders of the Ordinary Shares.

(b) **Rights attaching to the Ordinary Shares**

(i) *Dividends*

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall exceed the amount recommended by the Board.

Except as provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

Subject to the provisions of the Companies Act, the Board may pay interim dividends and also pay at intervals any fixed rate dividend, if it appears to the Board to be justified by the profits of the Company available for distribution. If the Board acts in good faith, it shall not be liable to holders of shares with preferred rights for any loss suffered from the lawful payment of interim dividends on other shares. No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The members may, at a general meeting declaring a dividend, on the recommendation of the Board, by ordinary resolution direct that payment of any dividend be satisfied in whole or in part by the distribution of assets, including without limitation paid up shares or debentures of another body corporate. The Board may, if authorised by an ordinary resolution of the Company, offer any holders of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of any dividend or part thereof. In these circumstances, each shareholder shall be entitled to that number of new shares as are together as nearly as possible equal in value to (but not greater than) the cash amount of the dividend provided that the value of each share shall never be less than its par value. A certificate or report by the auditors as to the value of a new share in respect of any dividend shall be conclusive evidence of that value. The Board may exclude from any offer any holders of shares where the Board believes that the making of the offer to them would or might involve the contravention of the laws of any territory or that for any other reason the offer should not be made to them.

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the Board so resolves, be forfeited and shall cease to remain owing by the Company.

The Company may cease sending dividend warrants and cheques by post or otherwise to a member if such instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish any new address of the member. The Company must resume sending warrants and cheques if the holder subsequently claims a dividend or cashes a dividend warrant or cheque.

(ii) *Voting rights*

Subject to any rights or restrictions as to voting attaching to any shares, on a show of hands every member who is present in person at a general meeting shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares in the capital of the Company, either in person or by proxy, in respect of any share held by him unless all moneys presently payable by him in respect of that share have been paid.

Any shareholder of the Company entitled to attend and vote at a general meeting, is entitled to appoint a proxy to attend and vote against him/her. A proxy may join in a demand for a poll but may not speak at the meeting without the permission of the

chairman. To vote by proxy, a shareholder must personally, or by post or facsimile transmission deliver the proxy (which must be in writing and executed by the appointor or his attorney or, if the appointor is a corporation, executed by a duly authorised officer, attorney or other authorised person or executed under its common seal) to the registered office of the Company or to the place specified by the Company in the notice of the meeting or in any proxy instrument at least 48 hours before the meeting.

Subject to the provisions of the Companies Acts, the Company may by special resolution reduce its share capital. The holders of the Exchange Shares shall not have the right to receive notice or attend any meeting concerning or vote on any resolution to give effect to the Exchange (described below) including any special resolution to reduce the share capital of the Company to be passed in connection with the Exchange.

(iii) Mandatory Exchange

The Mandatory Exchange is defined as the combination of the following events (and if the context so requires any one of those events):

- (aa) the reduction of share capital of the Company;
- (bb) the increase in share capital of the Company through the capitalisation of the reserve created by any such reduction in share capital and the immediate issue of new shares in the Company to Granada;
- (cc) in consideration of (aa) and (bb) above, the procurement by Granada of the issue and allotment of shares in Granada Compass to the holders of the Exchange Shares; and
- (dd) in consideration of the issue and allotment of shares in Granada Compass as referred to in (cc) above, the issue and allotment of shares in Granada to Granada Compass.

The Company may at any time pass any resolutions, including a special resolution to reduce the share capital of the Company as part of the Mandatory Exchange. The Mandatory Exchange will not become effective unless and until certain conditions specified in the Articles are met, including the Demerger becoming effective.

Any person other than Granada Compass or its nominee to whom shares are issued after the Completion of the Demerger (so that such shares are not Exchange Shares) (the "Vendor") shall be bound to transfer to Granada Compass or its nominee or any other Person as it may direct (the "Purchaser") and the Purchaser shall be bound to acquire such shares for a consideration equal to that which the Vendor would have received on Mandatory Exchange if the shares had been Exchange Shares.

(iv) Transfer of shares

All transfers of certificated shares may be effected by an instrument of transfer in any usual form or in any other form approved by the Board. The instrument of transfer shall be signed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. Subject to the requirements of the UK Listing Authority, the Board may also refuse to register the transfer of a certificated share if the instrument of transfer:

- (aa) is not lodged, duly stamped, at the registered office or at such other place as the Board may appoint accompanied by the share certificate for the shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (bb) is in respect of more than one class of shares; and
- (cc) is in favour of not more than four transferees.

Subject to the provisions of the Uncertificated Securities Regulations 1995, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

Any bearer share shall be transferable by delivery.

Part X

Additional Information continued

(v) *Disapplication of pre-emptive rights*

The Board has general and unconditional authority to allot relevant securities up to an amount specified in a resolution of the shareholders for the period set out in the resolution.

For a period prescribed by a special resolution of the shareholders, the Board may allot equity securities up to an amount set out in such special resolution or in the case of a rights issue (as defined in the Articles) without offering the securities first to the existing shareholders in proportion to their respective holdings.

(c) **Disclosure of interests in shares**

Under section 212 of the Companies Act the Company may request certain information from a shareholder or other person appearing to be interested in shares of the Company if it knows or has reasonable cause to believe that the person is or may be interested in the shares of the Company which should have been disclosed. If a person has been duly served with a notice under this section and has failed to respond within 14 days from service of the notice or, in purported compliance with such a notice, has made a statement which is false or inadequate to a material extent, then the Board may, in its absolute discretion, impose restrictions upon the relevant shares.

The restrictions available are the suspension of the right to attend and vote either personally or by proxy at any general meeting or separate meeting of the holders of that class of shares in respect of the relevant shares and, additionally, in the case of a shareholding representing 0.25 per cent. or more of the class of shares concerned, the withholding of payment of dividends on, and the restriction of transfers of, the relevant shares.

The restrictions on transfer shall not apply if the relevant shares are transferred by means of an approved transfer, if registration of the transfer is required by the Uncertificated Securities Regulations 1995, or if the member is not himself in default and satisfies the Board that no person who is in default is interested in the shares to be transferred.

(d) **Changes in share capital**

Subject to the provisions of the Companies Act and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine. Subject to the provisions of the Companies Act and without prejudice to any rights attached to any existing shares or class of shares the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed. Subject to the provisions of the Companies Act and the Articles, unissued shares are at the disposal of the Board.

The Company may by ordinary resolution increase its share capital; consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; subject to the provisions of the Companies Act, subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association; or cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the Companies Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account and may also, subject to the Companies Act, the requirements of the UK Listing Authority, and the rights attached to any class of shares, purchase its own shares.

(e) **Variation of rights**

Subject to the provisions of the Companies Act, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class of shares may (unless further conditions are provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of holders of the shares of the class (but not otherwise).

The rights attaching to any shares or class of shares are not, unless otherwise expressly provided, deemed to be varied by:

- (i) the creation or issue of further shares ranking *pari passu* with, or subsequent to, them or by the purchase or redemption by the Company of any of its own shares; or
- (ii) the Company permitting, in accordance with the Uncertificated Securities Regulations 1995, the holding of and transfer of title to shares of that or any other class in uncertificated form by means of a relevant system.

(f) Lien and forfeiture

The Company will have a lien (enforceable by sale) on every partly paid share (including dividends payable on such a share) for all moneys payable to the Company in respect of that share. The Board may call any moneys unpaid on shares and may forfeit shares on which calls have been made by notice and which are not duly paid. The forfeiture shall include all dividends or other moneys payable in respect of the forfeited shares which have not been paid before the forfeiture. The person whose shares have been forfeited shall cease to be a member of the Company but shall remain liable to the Company for all moneys which at the date of forfeiture were presently payable by him to the Company in respect of those shares with interest either at the rate at which interest was payable or at a rate determined by the Board not exceeding 15 per cent. or if higher the appropriate rate (as determined by the Act) from the date of forfeiture until payment.

(g) Directors' interests*(i) Power to vote on contracts in which they are interested*

Except as otherwise provided in the Articles a Director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning a matter in which he has an interest (otherwise than by virtue of his interests in shares, debentures or other securities of, or otherwise in or through, the Company or any of its subsidiary undertakings) which (together with any interest of any person connected with him) is, to his knowledge, material unless his interest arises only because the case falls within one or more of the following paragraphs:

- (aa) the resolution relates to the giving of a guarantee, security or indemnity in respect of money lent, or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
- (bb) the resolution relates to the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or in part whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (cc) the resolution relates to a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (dd) the resolution relates to a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise, provided that the interest (as the word is defined in sections 198 to 211 of the Act) does not represent one per cent. or more of any class of the equity share capital or voting rights of the body corporate;
- (ee) the resolution relates to any contract, arrangement, transaction or proposal for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; or
- (ff) the resolution relates to any contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors of the Company or for persons who include Directors of the Company.

A Director may not vote or be counted in the quorum on a resolution of the Board or a committee of the Board concerning his own appointment (including fixing or varying the terms of the appointment) to an office or employment with the Company or any body corporate in which the Company is interested.

(ii) Contracts with the Company

Subject to the provisions of the Act and provided that he has disclosed to the Board (by general notice or otherwise) the nature and extent of any material interest of his, a Director:

- (aa) may be party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;
- (bb) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for this;

Part X

Additional Information continued

(cc) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and

(dd) shall not by reason of his office be accountable to the Company for any benefit which he derives from these interests and no such transaction shall be liable to be avoided on the ground of any such interest or benefit.

An interest of which a director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.

(h) Remuneration of Directors

(aa) The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Articles as described below) shall not exceed in aggregate £250,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board. Any Director who is appointed to any executive office shall be entitled to receive such emoluments as the Board may determine.

(bb) Any Director not holding executive office and who serves on any committee of the Board, who by the request of the Board goes or resides abroad for any purpose of the Company or otherwise performs special services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may (without prejudice to subparagraph (i) above) be paid such extra remuneration by way of salary, commission or otherwise as the Board may determine.

(cc) The Board may provide benefits, whether by the payment of gratuities, pensions, or insurance or otherwise, for any past or present Director (or other employee of the Company or any subsidiary undertaking or associated company), or any member of his family or any person who is or was dependent on him and may contribute to any fund and pay premiums for the purchase or provision of any such benefit.

(dd) The Directors may be paid by the Company all travelling, hotel and other expenses properly incurred in attending Board meetings or committees of the Board, general meetings or separate meetings of the holders of any class of shares, or otherwise in connection with the discharge of their duties.

(ee) A Director shall not be required to hold any shares of the Company by way of qualification.

(i) Appointment of Directors

(aa) Number of Directors

Unless and until otherwise determined by ordinary resolution, the number of Directors shall be not less than two nor more than 20. The appointment and removal of Directors and composition of the Board is at all times subject to the rights and restrictions of the Relationship Agreement.

(bb) Appointment generally

A person, other than a Director retiring by rotation, shall not be eligible for the position of Director unless he is recommended by the Board or unless not less than seven nor more than 42 days prior to the date appointed for the meeting, notice is given by a member of the Company entitled to vote at the meeting that the member intends to propose that person for appointment giving particulars of the proposed person and notice of the person's willingness to act as Director. During the Initial Period, recommendation by the Board shall be by 75 per cent. majority vote and after this period shall be by simple majority vote.

The Company may appoint a Director to fill a vacancy or appoint an additional Director by an Ordinary resolution.

The Board may appoint a director to fill a vacancy or appoint an additional director, whether or not for a fixed term, subject to paragraph (a) above.

(j) Retirement of Directors by rotation and age limits (if applicable)

At each annual general meeting, all those Directors who were elected or last re-elected at or before the annual general meeting held in the third calendar year before shall retire from office by rotation. A retiring Director shall be eligible for re-election. If the Company does not fill the vacancy, the retiring Director, if willing to act, shall be deemed to have been re-appointed unless at the annual general meeting it is resolved not to fill the vacancy or unless a resolution to re-appoint the retiring Director has been put to the annual general meeting and rejected.

No person will be disqualified from being appointed or re-appointed as a Director by reason only of the fact that he has attained the age of 70 years.

(k) Powers of the Board

Subject to the provisions of the Companies Act, the Memorandum of Association, the Articles and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board which may pay all expenses incurred in forming and registering the Company and may exercise all the powers of the Company, including without limitation the power to dispose of all or any part of the undertaking of the Company. No alteration of the Memorandum of Association or the Articles and no such direction shall invalidate any prior act of the Board which would have been valid if that alteration had not been made or that direction had not been given. A meeting of the Board at which a quorum is present may exercise all powers exercisable by the Board.

The Board may delegate any of its powers to any committee consisting of one or more Directors.

(l) Borrowing powers

The Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(m) Indemnity of officers

Subject to the Companies Act but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director or other officer shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether criminal or civil, in which judgment is given in his favour or in which he is acquitted or in connection with any application in which relief is granted to him by the Court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

(n) Untraced shareholders

The Company shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission provided that:

- (i) during a period of 12 years prior to the date of advertising its intention to sell such shares (the "Relevant Period") at least three dividends in respect of such shares have been declared and all dividend warrants and cheques sent have remained uncashed;
- (ii) as soon as practicable after the expiry of the Relevant Period the Company inserts advertisements in a national daily newspaper and in a newspaper circulating in the area of the last known address of the member or other person giving notice of its intention to sell the shares;
- (iii) during the Relevant Period, and the period of three months following the publication of the advertisements referred to in subparagraph (ii) above the Company receives no indication of the whereabouts or existence of the member or other person; and
- (iv) if the shares are listed on the London Stock Exchange, notice has been given to the London Stock Exchange of its intention to sell the shares prior to publication of the advertisements.

The net proceeds of such sale shall belong to the Company, which shall be obliged to account to the former member or other person previously entitled to the shares for an amount equal to the proceeds as a creditor of the Company.

(o) Members resident abroad

Members with registered addresses outside the United Kingdom are not entitled to receive notices from the Company unless they have given the Company an address within the United Kingdom at which such notices may be served.

(p) Rights of inspection

No member of the Company has the right to inspect any records or documents of the Company except as conferred by statute or authorised by the Directors. The Companies Act requires companies to allow shareholders to inspect the register of members, the minutes of any general meeting and copies of any written resolutions of the Company free of charge, or to request a copy of them on payment of a fee. Shareholders have the right to request a copy of the Memorandum of Association and the Articles subject to payment of a 5 pence fee.

Part X

Additional Information continued

(q) Shareholders' meetings

The Board shall decide the time and place for each general meeting to be held. There may not be more than 15 months between each annual general meeting.

An extraordinary general meeting of shareholders may be called either by the Board or by shareholders holding 10 per cent. or more of the issued share capital carrying the right to vote at general meetings. The request must state the objects of the meeting. An annual general meeting requires 21 days' notice in writing. An extraordinary general meeting called for:

- the passing of a special resolution; or
- a resolution requiring special notice;

must be called with at least 21 clear days' notice in writing. All other extraordinary general meetings shall be called with at least 14 clear days' notice in writing.

All shareholders will have the right to receive notice of general meetings and to attend general meetings unless otherwise specified in the Articles.

The Articles specify that two persons entitled to vote on the business to be transacted (each being a shareholder or a proxy for a shareholder or a duly authorized representative of a corporation which is a shareholder), constitutes a quorum at a general meeting. An ordinary resolution requires a majority vote of those present and voting. A special or an extraordinary resolution requires a three-fourths majority vote of those present and voting.

(r) Record date for service

A notice or other document sent by the Company to a member by post shall be deemed to be given if sent by first class post or special delivery post from an address in the United Kingdom to another address in the United Kingdom on the day following that on which the envelope containing it was posted. In any other case, on the second day following that on which the envelope containing it was posted. If sent by airmail from an address in the United Kingdom to an address outside the United Kingdom on the third day following that on which the envelope containing it was posted. A notice or other document sent by the Company to a member as an electronic communication shall be deemed to have been given by the Company to the member on the day following that on which the communication was sent to the member. A notice placed on the Company's website or websites is deemed given by the Company to a member on the day following that on which the notice of availability was sent to the member.

(s) Provisions relating to the Broadcasting Act

The Articles contain provisions relating to the Broadcasting Act in respect of the Company's ability to require shares to be disposed of by relevant individuals to ensure compliance with the Broadcasting Act.

The above is a summary only of certain provisions of the Articles, full provisions of which are available for inspection as described in Part X of this document.

8 Underwriting Arrangements

By an agreement (the Underwriting Agreement) dated 11 July 2000 between the Company, Granada, the Directors and the Underwriters;

- (a) the Company has agreed, subject to certain conditions, to issue the Ordinary Shares to be issued in the Offer at the Offer Price;
- (b) the Underwriters have agreed, subject to certain conditions, to procure subscribers for or, failing which, to subscribe themselves for the Ordinary Shares to be issued in the Offer and to subscribe themselves for the Ordinary Shares comprised in the Offer which are to be resold by them to certain US investors, in each case at the Offer Price and in such proportions as set out in the Underwriting Agreement;
- (c) the Company has, subject to certain conditions, entered into an over-allotment contract with Credit Suisse First Boston on behalf of the Underwriters, pursuant to which Credit Suisse First Boston may itself subscribe for, or procure subscribers for, up to 39,130,435 Ordinary Shares, in each case at the Offer Price, for up to 30 days after Admission, for the purposes of enabling it to meet over-allocations, if any, made in connection with the Offer and to cover short positions arising from stabilising transactions;

- (d) the Company will pay to the Underwriters a commission equal to three per cent. of the Offer Price multiplied by the number of Ordinary Shares issued by the Company in the Offer; in addition, the Company will pay to the Underwriters a commission of three per cent of the Offer Price multiplied by the number of Ordinary Shares (if any) issued by the Company under the over-allotment contract. All commissions will be paid together with any value added tax chargeable thereon;
- (e) the obligations of the Company to issue Ordinary Shares and the obligations of the Underwriters to procure subscribers for or, where relevant, themselves to subscribe for Ordinary Shares are subject to certain conditions including, amongst others, that Admission occurs not later than 8.00 am on 18 July 2000 or such later time and/or date not later than 25 July 2000 as may be agreed. The Underwriters may terminate the Underwriting Agreement in certain circumstances prior to Admission. These circumstances include the occurrence of certain material changes in the condition (financial or otherwise) or earnings of the Company or any other member of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement);
- (f) the Company has agreed to pay any stamp duty and/or stamp duty reserve tax arising on the issue or transfer of Ordinary Shares under the Offer. The Company has also agreed to pay any stamp duty and/or stamp duty reserve tax as described in the Underwriting Agreement in connection with the over-allotment arrangements;
- (g) the Company has agreed to pay or cause to be paid (together with any related value added tax) all proper and reasonable costs, charges, fees and expenses of, or in connection with, or incidental to, inter alia, the Offer and/or Admission; and
- (h) the Company, Granada and the Directors have given certain representations, warranties and undertakings to the Underwriters, and the Company has given certain indemnities to the Underwriters. The liabilities of the Directors under the Underwriting Agreement are limited as to time and amount. Lazard and the Underwriters have no entitlement to any damages for any breach of any of the representations, warranties, undertakings or obligations provided by Granada under the Underwriting Agreement.

In connection with the over-allotment arrangements described in (c) above and in Part IX of this document, Credit Suisse First Boston, as stabilising manager, has entered into a stock lending agreement (the "Stock Lending Agreement") dated 11 July 2000 with Granada pursuant to which Credit Suisse First Boston may borrow up to 39,130,435 Ordinary Shares at any time up to and including 17 August 2000 for the purposes, inter alia, of allowing Credit Suisse First Boston to settle, at Admission, over-allotments, if any, made in connection with the Offer. If Credit Suisse First Boston borrows any Ordinary Shares pursuant to the Stock Lending Agreement it is required to return equivalent securities to Granada by no later than the fifth business day after 17 August 2000.

9 Selling Restrictions

- (a) No action has been taken by the Company or the Underwriters that would permit, otherwise than under the Offer, an offer of Ordinary Shares or possession or distribution of this document or any other offering material relating to Ordinary Shares in any jurisdiction where action for that purpose is required.
- (b) **United States**
The Ordinary Shares being offered have not been and will not be registered under the US Securities Act, and may not be offered or sold in the United States or to or for the account or benefit of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Shares are being offered: (i) in the United States only to qualified institutional buyers (as defined in Rule 144A under the US Securities Act) in transactions exempt from the registration requirements of the US Securities Act; and (ii) to persons that are not US persons in offshore transactions in accordance with Regulation S under the US Securities Act. The Ordinary Shares sold in the United States will be subject to certain restrictions on transfer (see "US Transfer Restrictions").

In addition, until 40 days after the commencement of the Offer, an offer or sale of Ordinary Shares in the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the US Securities Act.
- (c) **Australia**
None of the Ordinary Shares may be offered for subscription or purchase or be sold or delivered, directly or indirectly, in Australia or to any person who is known to be a resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia) otherwise than pursuant to an appropriate exemption.

Part X

Additional Information continued

(d) Canada

None of the Ordinary Shares has been or will be qualified for sale in Canada pursuant to a prospectus and may not be offered or sold, directly or indirectly, in any province or territory of Canada except pursuant to an exemption from the applicable prospectus filing requirements, and in compliance with the applicable securities rules of such province or territory.

(e) Japan

None of the Ordinary Shares has been or will be registered under the Securities and Exchange Law of Japan (the "SEL") and may not be offered or sold directly or indirectly in Japan or to or for the benefit of any resident of Japan, or to others for re-offering or resale directly or indirectly in Japan or to or for the benefit of any resident of Japan, except in compliance with the SEL and other relevant laws, regulations and ministerial guidelines of Japan.

(f) General

None of the Ordinary Shares may be offered for subscription, sale or purchase or be subscribed, sold or delivered, and this document and any other offering material in relation to the Ordinary Shares may not be circulated, in any jurisdiction where to do so would break any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission or to make any application, filing or registration other than in the UK.

10 Material Contracts

The following contracts not being contracts entered into in the ordinary course of business are the only contracts which either (a) have been entered into by members of Granada or Granada Media in the two years immediately prior to the date of this document and are or may be material in the context of Granada Media; or (b) regardless of when entered into contain obligations or entitlements which are material to Granada Media.

(a) Box Clever

Contribution agreement

On 17 December 1999, Granada UK Rental & Retail Limited ("GUKRR") entered into a contribution agreement with Rental Holding Company Limited ("RHC"), Box Clever Technology Limited and Box Clever Finance Limited relating to the formation of a joint venture in respect of the consumer television and video rental and retail businesses of GUKRR and RHC. On completion of the transaction, on 28 June 2000, GUKRR contributed the entire share capital of UK Consumer Electronics Limited and RHC contributed the entire share capital of Thorn UK Limited to the joint venture.

Each company owns 50 per cent. of the combined group, known as Box Clever. Box Clever acquired the Granada business for £529 million in cash and loan notes (being gross proceeds of £595 million less £66 million payment for bills of exchange, promissory notes and tax liabilities) and the Thorn business for £375 million in cash and loan notes, subject to certain adjustments. Westdeutsche Landesbank Girozentrale entered into agreements to provide facilities of £860 million to Box Clever to fund the cash element of the consideration.

Shareholders' agreement

On completion a shareholders' agreement was entered into by GUKRR, RHC and Box Clever Technology Limited. Each shareholder has appointed two Directors. The quorum for a board meeting is three, of whom at least one shall be a director appointed by GUKRR and one by RHC and there is a provision requiring quarterly board meetings. There is a standard list of matters requiring consent of both the Directors appointed by both GUKRR and RHC, e.g. acquisition of property or shares, entry into material contracts etc.

Matters requiring shareholder approval under general law require consent of both GUKRR and RHC. If there is a deadlock on any matter between the shareholders, which remains unresolved after 30 days, such dispute will be referred to the chief executive officers of the holding companies of GUKRR and RHC, who will use good faith to resolve the dispute promptly.

The articles of association of Box Clever Technology Limited, adopted on completion of the shareholders' agreement, permit intra-group transfers. There is a general prohibition in the shareholders' agreement on the transfer of shares in the first twelve months after completion, following which either shareholder may transfer its shares to a third party subject to pre-emption rights in favour of the other shareholder and tag-along and drag-along rights.

At any time after twelve months from completion, the shareholders may agree to seek a flotation and there are provisions dealing with co-operation in respect of this.

The shareholders' agreement may be terminated if there is a material breach of the agreement by a defaulting shareholder which is not remedied within 20 business days of it having received notice so to do or on the defaulting shareholder becoming insolvent etc. The non-defaulting shareholder may serve notice on the defaulting shareholder to transfer the shares held by it within 30 days of termination of the agreement. In certain circumstances, which do not include those contemplated in these Listing Particulars, a change of control of either GUKRR or RHC (the "Target Shareholder") results in the other shareholder being entitled to serve notice with the effect that the voting rights attached to the Target Shareholder shall cease and matters requiring consent will no longer require the consent of the Target Shareholder.

There is a non-competition provision from Box Clever Technology Limited in favour of each of GUKRR and RHC in respect of their on-going businesses carried on by the Granada Business Technology division of Granada Group PLC or companies in the Thorn group carrying on the Quadriga business. There is no prohibition on either shareholder or their respective groups from competing with the Box Clever group.

(b) Reorganisation Agreements

See the summary of the Reorganisation Agreement and the Transitional Services Agreement on page 38 of this document.

(c) Relationship Agreement

See the summary of this agreement on page 39 of this document.

(d) ONdigital

On 18 December 1997, Granada and Carlton Communications (respectively the "G" Shareholders" and the "C" Shareholders" and, together, the "Shareholders") entered into a joint venture agreement (the "Agreement") by virtue of which they each hold 50 per cent. of British Digital Broadcasting Holdings Limited ("BDB") (now called ONdigital Holdings Limited), which holds 100 per cent. of ONdigital plc. The purpose was to set up a digital terrestrial pay television operator, see Part II for description of operations.

Granada's shareholding was transferred to Granada Media in accordance with the Permitted Transfer provisions contained in the Agreement on 10 May 2000. The "C" Shareholders and the "G" Shareholders are each entitled to appoint 3 BDB directors. BDB and ONdigital shall procure at the request of the "C" Shareholders up to three persons nominated by them, and at the written request of the "G" Shareholders up to three persons nominated by them, are appointed as Subsidiary directors (including the board of ONdigital plc). The Shareholders and BDB agree to use their best efforts to ensure that there are at least two Independent directors on the ONdigital board. The quorum for the BDB board is at least one "C" director and one "G" director or, in relation to any matter upon which none of the "C" directors or none of the "G" directors is entitled to vote, at least two directors who are entitled to vote on the matter in question. The quorum for the ONdigital board is at least three directors who are entitled to vote on the matter in question including at least one "C" director (unless none of the "C" directors is entitled to vote), one "G" director (unless none of the "G" directors is entitled to vote) and one independent director and otherwise shall comprise such number and combinations of directors as ensures that neither the "C" directors nor the "G" directors present represent one half or more of the directors present. There are requirements that no director or employee of Granada Media on the BDB board or who is involved in its affairs shall disclose any confidential information concerning BSKyB to any other director or employee of ONdigital or disclose any confidential information concerning ONdigital to any director or employee of BSKyB. The ONdigital board shall appoint additional directors including a chief executive and key members of management who will consult the ultimate shareholders of BDB Holdings as appropriate.

There is a standard list of matters which require the prior written consent of all shareholders in relation to BDB's actions and in the case of matters of any other BDB company the approval of the BDB board which may be by at least one "C" director and one "G" director of BDB. Such matters also include any renewal or amendment of any agreement which falls within condition 10.13 of the BDB licence. If there is deadlock on any of the issues, and if referral to the chairman and CEO of Granada and Carlton Communications respectively does not resolve the deadlock, there is a procedure for either party to serve a buy/sell notice specifying a cash price for the purchase of its interest in BDB, which can be accepted by the other shareholder or it may nominate a third party to purchase the interest. The Agreement provides for the valuation of the shares.

The Shareholders are also entitled to such information relating to the financial position and affairs of the BDB Group as they may reasonably require to review and approve the annual budget, a strategic review of the business and a 5 year business plan. The Shareholders are entitled to monthly management accounts and management reports of the BDB Group as soon as they are finalised and in any case within 15 days of the end of the relevant period, minutes of Board and any committee meetings of any BDB company by facsimile transmission within 5 business days of the date the relevant meeting took place and, as soon as they are available, full details of any actual or prospective material change in the financial position or affairs of the BDB Group.

Part X

Additional Information continued

Each Shareholder agrees not to carry on the business of a digital terrestrial television licensee or operator in the UK during the term of the Agreement and for 12 months after termination. A restriction on soliciting of ONdigital staff also applies.

An event of default occurs where a court makes a winding up order or appoints a receiver over a Shareholder or one or more of its relevant Affiliates (as defined in the Agreement). In the case of Affiliates the action must be likely to have a material effect on the Shareholder and its Affiliates taken as a whole. An event of default is also triggered if a Shareholder becomes a jeopardising member, i.e. where the ITC licences are put in jeopardy. As a consequence of an event of default, the remaining Shareholder may require the transfer of the defaulting Shareholder's shares or require the sale of BDB by private auction or that it be wound up where the ITC confirms there is a jeopardising event.

Transfers of shares and loan stock are permitted to a UK tax resident Affiliate of either Shareholder. The original Shareholder shall not permit a change of control of such an Affiliate without the prior written consent of the other Shareholder unless immediately prior to ceasing to be an Affiliate it transfers its BDB shares and stock to the Shareholder or one of its Affiliates. No transfer is permitted if it results in a person becoming a jeopardising member unless such transfer results in the person owning 100 per cent of the BDB shares and loan stock in issue.

(e) The broadcasting licences

(i) Granada Television Limited ("Granada Television")

Granada Television is the holder of the regional Channel 3 Licence for the North West of England for the ten year period from 1 January 1993.

Granada Television is licensed to broadcast seven days a week, 24 hours a day except from 6.00 am to 9.25 am. It is obliged to pay various amounts to the ITC, including an annual fee, a percentage of "qualifying revenue" (advertising and other broadcasting related revenue), and the annual Cash Bid, which is the amount that Granada Television bid for the licence (indexed to RPI).

The broadcast service must comply with the Broadcasting Act, and the ITC's codes and guidance, which cover areas such as taste and decency and the presentation of political matters, in programmes and advertisements. The licence also contains minimum quotas for particular categories of programmes, such as documentaries and drama serials, and further provisions relating to certain types of programmes, including those dealing with religious or educational subjects. Granada Television must also use its best endeavours to enter into networking arrangements with the other Channel 3 licensees.

The ITC has power to vary most provisions of the licence, after consulting Granada Television, except for the major payment provisions. The licensee may apply for the licence to be renewed for one or more further periods of 10 years and the ITC can only refuse to renew if it is not satisfied that Granada Television could continue to comply with the licence, if it varies the area, times of day or days of the week covered by the licence, or if it believes that the funding arrangements would be against the public interest (but only if the Secretary of State agrees). The amounts to be paid to the ITC will be reviewed on such a renewal.

(ii) London Weekend Television Limited ("LWT")

LWT is the holder of the regional Channel 3 Licence for the London area, broadcasting between 5.15 pm on Friday and 6.00 am on Monday (excluding the hours of 6.00 am to 9.25 am on Saturday and Sunday) for the 10 year period from 1 January 1993.

The terms of the licence are materially the same as those for Granada Television.

(iii) Yorkshire Television Limited ("Yorkshire Television")

Yorkshire Television is the holder of the regional Channel 3 Licence for Yorkshire. The licence came into effect from 1 January 1993 and was for a period of 10 years. The ITC has since renewed the licence for a further 10 years from 1 January 1999.

The terms of the licence are materially the same as those for Granada Television.

(iv) Tyne-Tees Television Limited ("Tyne-Tees Television")

Tyne Tees Television is the holder of the regional Channel 3 Licence for the North East of England. The licence came into effect from 1 January 1993 and was for a period of 10 years. The ITC has since renewed the licence for a further 10 years from 1 January 1999.

The terms of the licence are materially the same as those for Granada Television.

(f) Underwriting Agreement

See the summary of this agreement in this Part X.

11 Premises

The principal properties owned or leased by companies within the Granada Media Group are as follows:

Location	Owner/Tenant	Tenure	Description	Size
Quay Street, Manchester	Granada Television Limited	Freehold	Office building and other buildings consisting of television studios, rehearsal areas, storage and construction areas, which are the headquarters of Granada Television Limited	295,316 square feet
London Television Centre, Upper Ground, London SE1	South Bank Television Holdings Limited	Leasehold (office & studio – 99 years less 3 days from 29.06.1969; Prince's Wharf – term of 99 years from 25.12.1930)	Office building plus certain other buildings consisting of television studios, storage and construction areas for sets and ancillary purposes, which are the headquarters of London Weekend Television Limited	442,180 square feet
The Television Centre City Road Newcastle-upon-Tyne NE1 2AL	Tyne-Tees Television Holdings Limited and Tyne-Tees Television Limited (Freehold)/ Yorkshire Television Limited (Leasehold)	Freehold/Leasehold (radio & links room term of 99 years from 13.06.1997)	Office building plus certain other buildings consisting of television studios, storage and construction areas for sets and ancillary purposes, which are the headquarters of Tyne-Tees Television Limited	96,690 square feet
The Television Centre Kirkstall Road Leeds LS3 1JS	Yorkshire Television Limited	Leasehold (term of 125 years from 15.10.1991)	Office building plus certain other buildings consisting of television studios, storage and construction areas for sets and ancillary purposes, which are the headquarters of Yorkshire Television Limited	320,850 square feet

In addition, the Granada Media Group occupies other properties in England under short and long term leases and licences, and leases premises in Los Angeles, US, Port Melbourne and Sydney, Australia, and Berlin and Cologne, Germany.

12 Working Capital

In the Company's opinion, taking into account the net proceeds receivable by Granada Media from the Offer, the working capital available to Granada Media is sufficient for Granada Media's present requirements, that is, for at least the next 12 months from the date of publication of this document.

13 Litigation

GIL Insurance Limited, which is a wholly-owned subsidiary of the Company, together with UK Consumer Electronics Limited and Direct Vision Rentals Limited, which are wholly-owned subsidiaries of Box Clever, have entered into litigation with other parties against HM Customs & Excise and the Attorney General regarding the introduction of Higher Rate Insurance Premium Tax. The element of the claim brought by GIL Insurance Limited is approximately £32 million and the element of the claim brought by UK Consumer Electronics Limited and Direct Vision Rentals Limited is approximately £27 million. The Directors have taken legal advice on the matter but the proceedings are not sufficiently advanced for the Directors to offer any opinion on the value or the date of the final outcome.

Part X

Additional Information continued

Other than as stated above, neither the Company nor any of its subsidiaries is or has been engaged in any legal or arbitration proceedings which may have or have had, during the 12 months immediately preceding the date of this document, a significant effect on the financial position of Granada Media and, so far as the Directors of the Company are aware, no such proceedings are pending or threatened by or against any member of Granada Media.

14 Significant Changes

Save in respect of the pre-IPO dividend referred to in Part IV of this document and the impact of the Box Clever transaction set out under the heading *Acquisition of the Granada Technology Group* in note 7.29 of the Accountants' Report, there has been no significant change in the financial or trading position of Granada Media since 25 March 2000, being the date to which its latest audited combined financial statements were issued as set out in Part VII of this document.

15 General

- (a) Lazard Brothers & Co., Limited and Lazard Capital Markets are both members of the Securities and Futures Authority Limited, they are both registered in England and Wales with Nos. 114054 and 178776 respectively and both have 21 Moorfields, London EC2P 2HT as their registered office.
- (b) The registrar of the Company is IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- (c) Full accounts of the Company and its subsidiary undertakings in respect of the two financial years ended 27 September 1997 and 26 September 1998 (each of which received an unqualified audit opinion) have been delivered to the Registrar of Companies in England and Wales. Full accounts of the Company and its subsidiary undertakings in respect of the financial year ended 25 September 1999 (which received an unqualified audit opinion) will be delivered to the Registrar of Companies in England and Wales in due course. KPMG Audit Plc, Chartered Accountants, of 1 Puddle Dock, London EC4V 3PD were auditors of the Company for those periods and are currently the auditors of Granada Media.
- (d) The Company is neither a close company nor a close investment holding company.

16 Summary of Significant Differences between UK and US GAAP

The Company's combined financial information set out in Part VII of this document has been prepared under UK generally accepted accounting principles ("UK GAAP") which differ in certain significant respects from US generally accepted accounting principles ("US GAAP"). This summary should not be taken as an exhaustive list of all principal differences between UK GAAP and US GAAP. Material differences therefore may arise if the combined financial information of the Company were prepared in accordance with US GAAP. No attempt has been made to identify all disclosures, presentations or classification differences that would affect the manner in which transactions or events are presented in the combined financial information or notes thereto. Furthermore, no attempt has been made to identify future differences between UK GAAP and US GAAP as the result of any prescribed changes in accounting standards.

The principal significant differences identified as they relate to the Company are summarised in the following paragraphs.

Basis of Preparation

In connection with the Group reorganisation, Granada Group PLC has sold the Granada Technology Group ("Technology") to Granada Media. In addition, Granada Media has sold the consumer rental activities of Technology to Box Clever in consideration for a 50 per cent. interest in the newly formed company. Thus, Box Clever will be accounted for as a joint venture in Granada Media's financial statements. Under UK GAAP, Granada Media will recognise a gain on the sale of the consumer rental activities of Technology to Box Clever. In addition, the financial statements of Technology are not included in the accompanying historical financial statements of Granada Media although it was under the control of Granada Group PLC for the periods presented.

Under US GAAP, Technology would be included in the combined financial statements of Granada Media for all periods since it is an entity under common control of Granada Group PLC and it forms part of the new ongoing media group. Any excess of the purchase price over the net book value of Technology would be recorded as a charge to shareholders' equity to reflect the Technology acquisition. Further, upon sale of Technology to Box Clever, certain conditions would have to be met before a gain could be recorded.

Programme costs

Under UK GAAP Granada Media expenses certain programme costs upon the first showing of the programme. Under US GAAP, programme costs are expensed in accordance with the income forecast method.

Goodwill and purchase accounting

Under UK GAAP, purchased goodwill arising in respect of acquisitions before 26 September 1998, when UK Financial Reporting Standard No. 10 was adopted, was written off to reserves in the year of acquisition in accordance with accounting standards in effect at that date. A charge would be recognised in respect of any permanent diminution in the value of goodwill previously written off directly to reserves. Purchased goodwill arising from acquisitions on or after 27 September 1998 has been capitalised as an intangible fixed asset and amortised over its useful economic life.

Under UK GAAP the gain or loss on disposal is calculated after taking into account goodwill previously written off to reserves for acquisitions prior to 26 September 1998. Under US GAAP the gain or loss on disposal is calculated after taking into account any related unamortised goodwill and intangible assets. For acquisitions on or after 27 September 1998 the profit and loss on disposal under both US and UK GAAP is calculated after taking into account unamortised goodwill and intangible assets.

Under US GAAP goodwill, which represents the excess of purchase price over fair value of net assets acquired, is recorded as an intangible asset and is amortised on a straight-line basis over the expected periods to be benefited, not to exceed 40 years. Amortisation periods of no more than 20 years have been applied in respect of goodwill arising on acquisition.

Under US GAAP certain elements of UK GAAP goodwill may be required to be classified as other intangible assets which are also capitalised and amortised over their useful economic lives.

Under US GAAP, management are required to review goodwill for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss shall be recognised if the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The impairment loss shall be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. The treatment under UK GAAP is similar except the expected future cashflows are discounted at an appropriate rate.

Joint ventures and associates

Under UK GAAP, joint ventures have been accounted for using the gross equity method, which separately reports the investor's share of the turnover and other profit and loss account items of the joint venture as well as the gross assets and liabilities of the joint venture. Under US GAAP, the investor would only report the net investment in the joint venture, as well as the investor's share of the joint venture's net profit and loss results for the period.

In addition under US GAAP, an investor would consolidate the operations of joint ventures in circumstances where the investor has a majority ownership interest in the joint venture, unless the minority investors retain certain participation rights that would preclude the majority investor from effectively controlling the operations of the joint venture.

Further, if investments in common stock of corporate joint ventures or other investments accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarised information as to assets, liabilities, and results of operations of the investees to be presented in the notes or in separate statements, either individually or in groups, as appropriate.

Under UK GAAP, investments in associated undertakings are reflected in the balance sheet at the cost of the investment plus the Company's share of the post acquisition reserves, including revaluation reserves, of the associate determined in accordance with UK GAAP. Profits and losses from such activity are reflected based on the Company's share of the earnings of the associate determined on a UK GAAP basis.

Under US GAAP, the Company's share of the net assets of an associate and joint venture are determined by reference to the US GAAP basis net assets (which exclude property revaluation reserves for example) and earnings of the associate and joint venture. Additionally, under US GAAP the excess of cost over the investors' equity in the net assets of the associate and joint venture is amortised in relation to the tangible or intangible assets to which it relates. The gain on any sale of an investment in an associate or joint venture also varies between UK GAAP and US GAAP as a result of the differing accounting basis used in determining the net assets of the associate and joint venture.

Part X

Additional Information continued

Investments

Under UK GAAP, Granada Media accounts for certain fixed asset investments at cost. Under US GAAP, SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities", management would classify such investments as either held to maturity, available-for-sale, or trading based upon its intentions at the date of purchase. Based upon this classification, the method by which the investment is reported on the balance sheet and income statement will differ. Also under US GAAP, certain derivative financial instruments are marked to market with the change in fair value recorded in the profit and loss account.

Share option schemes

Under US GAAP, compensation cost must be recognised if the option plan contains performance related criteria, provides for any adjustments to the number of shares under option or the option exercise price, or provides for cash awards, which terms result in the option plan being accounted for as a variable plan. Such expense is recorded for increases in the fair value of the underlying ordinary shares over the stated exercise price of the share options.

Further, under SFAS 123, if the Company elects to account for its share option schemes under the provisions of APB 25, additional disclosure of share option schemes would be required, including pro forma results of operations as if the provisions of SFAS 123 were adopted.

Under UK GAAP, stock options are recorded upon exercise as an increase in the Company's share capital and share premium accounts for the amount of the proceeds received regardless of the plan containing performance related criteria.

The companies comprising Granada Media incur an expense in their individual company accounts in relation to the Granada Group Plc qualifying employee share scheme. Under UK GAAP, these costs have been excluded from the aggregated Granada Media profit and loss account and debited against the profit and loss reserve. Under US GAAP, these costs would be recorded in the profit and loss accounts of Granada Media as if the companies within Granada Media had issued the shares in the share option scheme directly.

Accounting for impairment of long-lived assets

Under UK GAAP, periodic tests are performed on fixed assets. The recognition and measurement of recoverable amounts is not prescribed.

Under US GAAP, a company evaluates the carrying value of long-lived assets in accordance with the provisions of SFAS 121, "Accounting for the Impairment of Long Lived Assets and for Long lived Assets to Be Disposed Of". This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Revaluation of fixed assets

Under UK GAAP, fixed assets may be revalued. Gains arising on the revaluation are recognised directly in reserves. Losses on revaluation offset any previously recorded gains on revaluation and any excess losses over this offset are charged to the profit and loss account. Under US GAAP, revaluation would not be permitted, except to reflect diminution in value.

Dividends

Under UK GAAP dividends are recognised in the financial year for which they are provided. Under US GAAP dividends are recognised only in the financial year in which they are declared and approved.

Pension

Both UK and US GAAP have the same objective of recognising the cost of providing benefits on a systematic and rational basis over the period during which employees render service although some differences exist in achieving that objective. We note four major differences. Firstly, UK GAAP does not impose any actuarial method of calculating the liabilities and expenses generated by employee benefit plans whilst US GAAP prescribes the use of the Projected Unit Credit method. Secondly, discount rates under UK GAAP are based on the long term return of plan assets whilst US GAAP uses settlement rates on high quality fixed income investments. Thirdly, the assets under UK GAAP are valued on a basis consistent with that used by the market, for instance the discounted cash flow method is commonly used in the UK whilst US GAAP requires the use of the market value. Fourthly, under UK GAAP gains and losses are amortised over the working life of employees using any systematic method whilst US GAAP gives the option to only amortise gains and

losses that are in excess of the 10 per cent. corridor (maximum of 10 per cent. of assets and 10 per cent. of liabilities) and requires a specific amortisation method to be used.

Current assets and liabilities

Current assets under UK GAAP include amounts which fall due after more than one year. Under US GAAP, such assets would be reclassified as non-current assets. Provisions for liabilities and charges under UK GAAP include amounts due within one year which would be reclassified to current liabilities under US GAAP.

Deferred taxation

Deferred taxation attributable to differences in the treatment of certain items for accounting and taxation purposes relates under UK GAAP to timing differences on profit and loss account items; deferred tax is accounted for using the partial provisioning method, whereby liabilities are recognised only to the extent that they will probably crystallise, i.e., to the extent that they will reverse in the foreseeable future. Deferred tax assets are recognised to the extent that they will be recoverable without being replaced by other similar assets.

Under US GAAP, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. Valuation allowances are provided to the extent that the realisation of deferred tax assets is more likely than not.

Classification Differences Between UK and US GAAP

Statement of Cash Flows

Under UK GAAP, cash flows are presented for operating activities, returns on investment and servicing of finance, taxation paid, capital expenditure, acquisitions, dividends paid and financing activities. Under UK GAAP, cash includes cash in hand and cash on deposit, net of bank overdrafts.

Under US GAAP, cash flows are reported as operating, investing and financing activities. Cash flows from taxation and returns on investment and servicing of finance would, with the exception of ordinary dividends paid, be included as operating activities. The payment of dividends would be included under financing activities. Cash and cash equivalents would include cash and short-term investments with original maturities of three months or less.

Exceptional items

Under US GAAP, the exceptional items identified in the Company's UK GAAP combined financial information would not be considered exceptional and would be treated as part of income from continuing operations.

Disclosures

In general, the disclosure requirements for UK GAAP are not as extensive as those required by US GAAP. Areas where US GAAP requires specific additional disclosures include: concentrations of credit risk, significant customers and suppliers, use of estimates, income taxes, pensions, financial instruments, fair values, earnings per share, commitments and contingencies, comprehensive income and subsequent events.

Segmental reporting

The disclosures in relation to segmental reporting differ between US and UK GAAP. Broadly, the US GAAP disclosure is more comprehensive.

UK and US GAAP also differ in the definition of segments. This may lead to different segmentation of the business between UK and US GAAP.

Related party disclosure

The disclosures in relation to related parties differ between US and UK GAAP. Broadly, the US GAAP disclosure is more expansive. In addition, US GAAP disclosures would include the impact to the Company of the terms of any significant agreement between parties.

Part X

Additional Information continued

17 US Transfer Restrictions

Purchasers of Shares offered in the United States are advised to consult their own legal counsel prior to making any offer for, purchase of, pledge or other transfer of, Shares.

The Shares being offered have not been and will not be registered under the US Securities Act and may not be offered or sold in the United States, except to (a) Qualified Institutional Buyers ("QIBs") in transactions exempt from the registration requirements of the US Securities Act and (b) certain persons that are not US persons in offshore transactions in reliance on Regulation S.

Each purchaser of Shares in the US will be deemed to have represented and agreed as follows (terms in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (1) The purchaser (i) is a QIB, (ii) is aware that the sale to it may be made in reliance on Rule 144A and (iii) is acquiring such Shares for its own account or for the account of a QIB.
- (2) The purchaser understands that the Shares are being offered in a transaction not involving any public offering in the US within the meaning of the US Securities Act, that the Shares have not been and will not be registered under the US Securities Act and that, (A) if in the future it decides to offer, resell, pledge or otherwise transfer any Shares, such Shares may be offered, resold, pledged or otherwise transferred only (i) to a person who the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in a transaction complying with Regulation S, or (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 (if available), in each of the cases (i) through (iii) in accordance with any applicable securities laws of any State of the US, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of such Shares from it of the resale restrictions referred to in (A) above.
- (3) The purchaser of Shares shall not deposit the Shares into any unrestricted American Depositary Receipt facility established or maintained by a depository bank, unless and until such time as such Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act.

18 Consents

- (a) KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in this document of its letter and report and the references to such letter and report and to its name in the form and context in which they are included and has authorised the contents of that part of this document where its letter and report appear for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (b) Lazard, Credit Suisse First Boston and Hoare Govett Limited have given and have not withdrawn their written consent to the issue of this document with the inclusion of references to their names in the form and context in which they are included.

19 Documents Available for Inspection

Copies of the following documents may be inspected at the offices of Lovells at 65 Holborn Viaduct, London EC1A 2DY during usual business hours on weekdays (Saturdays and public holidays excepted) from the date of issue of these Listing Particulars up to and including 25 July 2000:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Trust Deed and Rules of the Granada Supplementary Pension Scheme and Charge over securities granted and to be granted by Granada to the Law Debenture Trust Corporation plc;
- (c) the rules and trust deeds of the share schemes referred to in paragraph 6 above;
- (d) the written consents referred to in paragraph 18 above;
- (e) these Listing Particulars;
- (f) the material contracts referred to in paragraph 10 above;
- (g) the Directors' service agreements referred to in paragraph 5 above; and
- (h) KPMG Audit Plc's Accountant's Report as found in Part VII of these Listing Particulars and the Pro Forma Statement of Net Assets as found in Part VIII of these Listing Particulars.

Part XI

Tax Considerations

1 UK Taxation

The following advice has been received by Granada Media as a general guide only. It is based on current UK legislation and Inland Revenue practice and applies only to persons who are resident or ordinarily resident in the UK for UK tax purposes and who hold Shares which have been issued under the Offer, or Granada Compass Shares (which are proposed to be issued pursuant to the Mandatory Exchange) beneficially as an investment (otherwise than under a personal equity plan or individual savings account). Shareholders who are in any doubt as to their taxation position or who may be subject to taxation in a jurisdiction other than the UK should consult an appropriate professional adviser. Persons who may be subject to taxation in the US should also refer to the section headed "US Taxation" below.

(a) Dividends

- (i) Under current UK tax legislation neither Granada Media nor Granada Compass is required to withhold tax at source from dividend payments it makes.
- (ii) Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of any dividend equal to one-ninth of the amount of the dividend received. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit (the "gross dividend") which, with certain other investment income, will be regarded as the top slice of the individual's income and which will be subject to UK income tax at special rates of tax as described below. The tax credit (which equals 10 per cent. of the gross dividend) will be available to set against such shareholder's liability (if any) to income tax on the gross dividend.

Individual shareholders who are not liable to income tax at a higher rate than the basic rate will be liable to tax on dividend income received at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy the income tax liability of such shareholders.

The rate of income tax applied to UK company dividends received by UK resident individuals liable to income tax at the higher rate will be 32.5 per cent. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

With limited exceptions (relating to dividends paid before 6 April 2004 on shares held in individual savings accounts or personal equity plans) individual shareholders who are resident in the UK cannot claim repayment of the tax credit from the Inland Revenue.

- (iii) UK resident trustees of discretionary trusts are liable to income tax on UK company dividends at 25 per cent. of the gross dividend. After taking into account the 10 per cent. tax credit, the trustees will be liable to additional income tax of 15 per cent. of the gross dividend, equal to 16.67 per cent. of the net dividend.
- (iv) A corporate shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received but cannot reclaim from the Inland Revenue tax credits in respect of dividends.
- (v) Tax exempt pension funds will not normally be liable to corporation tax or income tax on any dividend received but cannot reclaim from the Inland Revenue tax credits in respect of dividends.
- (vi) Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands and certain other persons are entitled to a tax credit as if they were resident for tax purposes in the UK which they may set off against their total UK income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.
- (vii) Other non-UK resident shareholders should consult their own advisers concerning their tax liabilities on dividends received. They should note that following the reduction in the rate of UK tax credits on UK company dividends to 10 per cent. from 6 April 1999, they will not generally be entitled to claim repayment of any part of their tax credit from the Inland Revenue under any double taxation treaty or otherwise.

(b) Chargeable gains

Sub-paragraph (ii) below sets out the chargeable gains position of shareholders if the Mandatory Exchange takes place. Sub-paragraph (i) below sets out the general position of shareholders with regard to chargeable gains arising on any disposal of Shares in situations other than the Mandatory Exchange.

Part XI

Tax Considerations continued

- (i) A disposal (or deemed disposal) of Shares by a shareholder who is either resident, or in the case of an individual, ordinarily resident for tax purposes in the UK or who is not UK resident but carries on a trade, profession or vocation in the UK through a branch or agency to which the Shares are attributable, may, depending on the shareholder's circumstances and subject to any available exemptions and reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of Shares during that period may be liable upon his return to UK taxation of chargeable gains arising during his period of absence (subject to any available exemption or relief).

For a shareholder not within the charge to corporation tax, such as an individual, trustee or personal representative, taper relief (which reduces a chargeable gain depending on the length of time for which an asset is held) may be available to reduce the amount of chargeable gain realised on a subsequent disposal.

For a shareholder within the charge to corporation tax, indexation allowance should be available to reduce the amount of chargeable gain realised on a subsequent disposal (but not to create or increase any loss).

- (ii) Where, pursuant to the Mandatory Exchange, shareholders who acquired their Shares pursuant to the Offer have their Shares cancelled in consideration for being issued Granada Compass Shares, the chargeable gains tax position will (pursuant to section 136 of the TCGA) generally be as follows.

Any shareholder who, either alone or together with persons connected with such shareholder, does not hold more than 5 per cent. of any class of Shares in or debenture of Granada Media will not be treated as having made a disposal of Shares for the purposes of UK taxation of chargeable gains to the extent that such shareholder receives Granada Compass Shares in consideration for Shares and will be treated in the manner described below.

Any shareholder who, either alone or together with persons connected with such shareholder, holds more than 5 per cent. of any class of Shares in or debentures of Granada Media is advised that clearance had been obtained from the Inland Revenue pursuant to Section 138 of the TCGA in respect of the issue of Granada Compass Shares on the cancellation of the Granada Media shares. However, due to certain minor amendments to the terms of that cancellation after the original clearance was obtained, confirmation has been sought from the Inland Revenue that those amendments do not affect the clearance for such shareholders in respect of the Granada Compass Shares under the Mandatory Exchange as now proposed. On the basis that they do not, any gain or loss which would otherwise have arisen on a disposal of Shares by such shareholders should be "rolled over" into the Granada Compass Shares. The Granada Compass Shares will be treated as the same asset as the Shares, acquired at the same time and price as the Shares.

A subsequent disposal of Granada Compass Shares may, depending on individual circumstances, give rise to a liability to tax on chargeable gains.

- (iii) Granada Media is currently a member of the same group of companies as Granada for capital gains tax purposes and will remain so following the issue of Shares pursuant to the Offer. If Granada Media ceases to be a member of such capital gains tax group within six years of the date on which any of the Media Interests were transferred to it, the Company will become liable to an amount of corporation tax on chargeable gains calculated as the difference between the market value of such Media Interests at the date of their transfer to Granada Media and their indexed base cost at such date multiplied by the percentage rate of corporation tax applicable to the profits of Granada Media in the accounting period in which Granada Media ceases to be a member of its current capital gains tax group. The Directors currently estimate that such liability would not exceed £195 million. The Directors' estimate is subject to the following principal uncertainties: (i) the rate of corporation tax applicable at the time of exit from the Granada capital gains tax group; and (ii) the valuation attributable to the Media Interests by the Inland Revenue as at the date of their transfer to Granada Media.

(c) Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The statements below are intended as a general guide to the current position. Certain categories of person including certain intermediaries are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the duty or tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

In relation to stamp duty and SDRT:

- (i) The allocation and issue of Shares or Granada Compass Shares will not give rise to a liability to stamp duty or SDRT.
- (ii) Any subsequent conveyance or transfer on sale of the Shares or Granada Compass Shares will usually be subject to stamp duty on the instrument of transfer, generally at a rate of 0.5 per cent of the amount or value of the consideration given, rounded up to the next multiple of £5. A charge to SDRT at the rate of 0.5 per cent. will arise in relation to an unconditional agreement to transfer such Shares. However, where within six years of the date of the agreement (or, if the agreement was conditional, the date the agreement became unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.
- (iii) A transfer of Shares or Granada Compass Shares effected on a paperless basis through CREST (where there is a change in the beneficial ownership of Shares or Granada Compass Shares) will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration given. The duty will be payable by the new beneficial owner.

(iv) De-materialisation of Shares into CREST

Where Shares or Granada Compass Shares are transferred to a member of CREST who will hold those Shares or Granada Compass Shares in uncertificated form (de-materialised) as nominee for the transferor no stamp duty or SDRT will generally be payable.

(v) Re-materialisation of Shares out of CREST

Where Shares or Granada Compass Shares which are held in uncertificated form are transferred by a member of CREST to the beneficial owner (re-materialised) (on whose behalf it has held them as nominee) and no onward sale is contemplated, then no stamp duty or SDRT will generally be payable.

(d) *Inheritance tax*

In relation to inheritance tax, the position is as follows. Shares and Granada Compass Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or on the death of, an individual holder, such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled in the UK, nor deemed to be domiciled in the UK under special rules relating to long-term residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies (as defined by section 414 of the Income and Corporation Taxes Act 1988) and trustees of certain settlements holding Shares or Granada Compass Shares, bringing them within the charge to inheritance tax.

2 US Taxation

The following is a summary of certain US Federal income tax considerations relevant to the purchase, ownership and disposition of Shares.

This summary is not a complete analysis or listing of all the possible US tax consequences of an investment in the Shares. In particular the summary deals only with US Holders that will hold Shares as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code") and who do not at any time own individually, nor are treated as owning, 10 per cent. or more of the Shares of the Company, or that will own, after giving effect to the Mandatory Exchange, directly or by attribution 5 per cent. or more of the shares of Granada Compass. In addition, this summary does not address the tax treatment of US Holders that may be subject to special rules, such as banks, insurance companies, securities dealers, persons that hold Shares as a position in a hedging, straddle, conversion, integrated or constructive sale transaction for tax purposes, and holders whose functional currency is not the US dollar. Moreover, the effect of any applicable state, local or foreign tax laws is not discussed. In addition, this summary does not address any aspect of US federal gift and estate tax and does not consider the tax treatment of persons who hold the Shares through a partnership or other pass-through entity. The summary is based upon the Code, Treasury regulations, US Internal Revenue Service (the "IRS") rulings and pronouncements and judicial decisions all as in effect of the date hereof, all of which are subject to change, possibly retroactively. Holders of Shares should consult their own tax advisers regarding the consequences to them of an investment in Shares.

Part XI

Tax Considerations continued

(a) General

As used herein, the term US Holder means a beneficial owner of shares who or that is (i) an individual who is a citizen or resident of the US, (ii) a corporation or other entity organised in or under the laws of the US or any state thereof, (iii) an estate that is subject to US federal income taxation without regard to the source of its income, (iv) a trust if a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust or if the trust elects under US Treasury regulations to be treated as a US person.

(b) Tax Consequences of the Mandatory Exchange

The receipt of Granada Compass Shares by US Holders in consideration for the cancellation of their Shares in the Company under the Mandatory Exchange will be treated as in pursuance of a plan of reorganisation as described in Section 368(a) of the Code. As a result, a US Holder will not recognise gain or loss on the exchange of such US Holder's Shares for Granada Compass Shares pursuant to the Mandatory Exchange. The aggregate tax basis of the Granada Compass Shares received by such US Holder will be equal to the aggregate tax basis of the Shares surrendered and the holding period of the Granada Compass Shares will include the holding period of the Shares surrendered.

Each US Holder will be required to retain records and file with such holder's US federal income tax return a statement setting forth certain facts relating to the Mandatory Exchange. Also, information reporting requirements may apply to the exchange by US Holders of Shares for Granada Compass Shares pursuant to the Mandatory Exchange.

(c) Taxation of Dividends

To the extent paid out of current or accumulated earnings and profits of the Company as determined for US Federal income tax purposes, distributions made with respect to Shares (other than certain distributions of capital stock of the Company or rights to subscribe for Shares of the Company) are includable in the income of a US Holder as ordinary income on the date such distributions are received by the US Holder. Such dividends will not be eligible for the dividend received deduction generally allowed to corporations under the Code. Any distribution that exceeds the Company's current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's tax basis in the Shares and thereafter as a capital gain. The Company does not maintain calculations of its earnings and profits for US Federal income tax purposes, which may differ from the distributable profits calculated by the Company under English law. Dividends paid in Pounds Sterling will be included in the income of a US Holder as a dollar amount calculated by reference to the exchange rate in effect on the date of receipt, whether or not converted into US dollars. US Holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any Pounds Sterling received that are not converted into dollars at the exchange rate in effect on the date of distribution. Dividends generally will constitute foreign source "passive income" (or, in the case of certain holders, "financial services" income) for US foreign tax credit purposes.

A US Holder entitled to the benefits of the US/UK income tax treaty (the "Treaty") may claim from the UK Inland Revenue a payment equal to the amount of the tax credit that UK resident individuals can claim against UK tax imposed on the dividend (a "Treaty Payment"). The dividend and the Treaty Payment are subject to a UK withholding tax equal to the lesser of 15 per cent. of the sum of these payments or the amount of the Treaty Payment. The UK withholding tax will exactly equal the Treaty Payment due to US Holders, and the offsetting payments will not actually be made. Under the Treaty, a US Holder may elect to include the Treaty Payment in income and to claim a US foreign tax credit for the UK withholding tax subject to generally applicable limitations. A US Holder making that election must file a completed US Internal Revenue Service Form 8833 with its US federal income tax return for the relevant year. The Treaty is being renegotiated, and a new or modified treaty is likely to alter the treatment of dividends. US Holders should consult their tax advisers about the US tax treatment of the Treaty Payment and the UK withholding tax.

(d) Taxation of Capital Gains

Gain or loss realised by a US Holder on the sale or other disposition of Shares will be subject to US Federal income tax as capital gain or loss in an amount equal to the difference between the amount realised on the disposition and such US Holder's adjusted tax basis in the Shares. The excess of net long-term capital gains over net short-term capital losses generally will be taxed at a lower rate than ordinary income for non-corporate taxpayers. A capital gain or loss is long-term if the asset is held for more than one year and short-term if held for one year or less. Deduction of capital losses is subject to limitations. Any such capital gain or loss generally will be treated as US source income or loss for purposes of applying the limitations on foreign tax credits that may be claimed by the US Holder.

If a US Holder receives Pounds Sterling (or another foreign currency) on a redemption, sale or exchange of Shares, such holder may recognise ordinary income or loss as a result of currency fluctuations between the date of such redemption, sale or exchange and the date the proceeds are converted into US dollars.

(e) *Passive Foreign Investment Company Considerations*

Based on the Company's current and projected income, assets and activities, the Company believes that it is not currently a passive foreign investment company ("PFIC") for US Federal income tax purposes and the Company does not expect to become a PFIC in the foreseeable future. However, because the determination of whether the Company is a PFIC is based upon the composition of the Company's income and assets from time to time, there can be no assurance that the Company will not become a PFIC for any future taxable year. In general, a non-US corporation will be classified as a PFIC if either (a) at least 75 per cent. of its gross income for a taxable year consists of certain specified types of "passive" income or (b) if the average quarterly value of assets held by it during a taxable year which produce or are held for the production of passive income represent at least 50 per cent. of the value of all its assets. For purposes of applying these income and asset tests, the corporation must take into account a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25 per cent. interest. US Holders of a PFIC are potentially subject to certain adverse US Federal income tax consequences, including the taxation of any gain and "excess distributions" as ordinary income and as if earned *pro rata* over the shareholder's holding period with the amounts allocated to earlier years subject to maximum marginal income tax rates and an interest charge.

(f) *Information Reporting and Backup Withholding*

Under current US Treasury regulations dividend payments on the Shares and proceeds from the sale, exchange or redemption of Shares may be subject to information reporting to the IRS and possible US backup withholding at a 31 per cent. rate. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Finalized US Department of Treasury regulations, generally expand the circumstances under which information reporting and backup withholding rules are applicable for payments made after December 31, 2000. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder's US Federal income tax liability, provided that the required returns are filed with the IRS on a timely basis.

Part XII

Definitions and Glossary

1 Definitions

"ABN AMRO Rothschild"	the unincorporated equity capital markets joint venture between ABN AMRO Bank N.V. and N M Rothschild & Sons Limited. ABN AMRO Bank N.V. is regulated by The Securities and Futures Authority Limited for the conduct of Investment Business in the UK. N M Rothschild & Sons Limited is regulated by The Securities and Futures Authority Limited;
"Admission"	the admission of the Shares to the Official List becoming effective and the admission of the Shares to trading having been granted by the London Stock Exchange;
"Articles"	the Articles of Association of the Company;
"Board" or "Granada Media Board"	the board of Directors of the Company;
"Broadcasting Act"	the Broadcasting Act 1990 (as amended) and the Broadcasting Act 1996;
"Canada"	Canada, its provinces and territories and all areas subject to its jurisdiction or any political subdivision of these;
"Carlton Communications"	Carlton Communications PLC;
"certificated" or in "certificated form"	in relation to a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form;
"Combined Code"	the principles of good governance and code of best practice appended to the Listing Rules;
"Company"	Granada Media plc (registered no. 3106798);
"Companies Act"	the Companies Act 1985 (as amended);
"Compass"	Compass Group PLC;
"Compass Hospitality"	the hospitality business of Granada Compass comprising the combined business of Compass and Granada's hospitality division;
"Credit Suisse First Boston"	Credit Suisse First Boston Equities Limited;
"CREST"	the relevant system (as defined in the Regulations) in respect of which CRESTCo is the operator (as defined in the Regulations);
"CRESTCo"	CRESTCO Limited;
"Demerger"	the demerging of the hospitality business of Granada Compass to be effected on the basis set out in Part III;
"Directors"	the Directors of the Company whose names appear on page 5 of this document;
"Effective Date"	the day on which the schemes pursuant to the Merger become effective, which is expected to be Thursday, 27 July 2000;
"Exchange Shares"	the Ordinary Shares other than those which are (i) registered in the names of Granada Compass, Granada or any member of their respective Groups or held in trust for any of them, or (ii) subject to the purchase option as described in Article 8.4 of the Company's Articles.
"EU"	the European Union;
"Forte Sharesave Scheme"	the Forte Sharesave Scheme (1993);
"the Group"	the Company and its subsidiary undertakings (as defined in Section 258 of the Companies Act);

"Granada"	Granada Group PLC;
"Granada 1984 Executive Option Scheme"	the Granada Group PLC 1984 Executive Share Option Scheme;
"Granada 1994 Executive Option Scheme"	the Granada Group PLC 1994 Executive Share Option Scheme;
"Granada 1998 Executive Option Scheme"	the Granada Group PLC 1998 Executive Share Option Scheme;
"Granada Compass"	Granada Compass plc, the new holding company to be put in place in connection with and on completion of the Merger;
"Granada Compass Group"	Granada Compass and its subsidiary undertakings (as defined in Section 258 of the Companies Act);
"Granada Compass Shares"	the shares to be issued by Granada Compass in connection with the Mandatory Exchange;
"Granada Executive Option Schemes"	the Granada 1984 Executive Option Scheme, the Granada 1994 Executive Option Scheme, the Granada 1998 Executive Option Scheme and the YTT Executive Option Scheme;
"Granada Group"	Granada and its subsidiary undertakings (as defined in Section 258 of the Companies Act);
"Granada Media"	the Company or, where the context so requires, the Group or any member thereof;
"Granada Option Schemes"	the Granada SAYE Schemes and the Granada Executive Option Schemes;
"Granada SAYE Scheme"	the Granada Group PLC Savings-Related Share Option Scheme;
"Granada SAYE Schemes"	the Granada SAYE Scheme and the Forte Sharesave Scheme;
"Granada Share Award Schemes"	the Granada Group PLC Directors' Deferred Share Award Plan, the Granada Group PLC Executive Share Award Plan, the Granada Group PLC Restricted Share Plan and the Granada Group PLC Performance Share Plan;
"Granada Shares"	the ordinary shares of Granada;
"group"	any company and its subsidiary undertakings (as defined in section 258 of the Companies Act);
"Hoare Govett"	Hoare Govett Limited
"IMRO"	the Investment Management Regulatory Organisation;
"ITC"	the Independent Television Commission;
"Lazard"	Lazard Brothers & Co., Limited and Lazard Capital Markets in their capacity as Sponsor and/or Lazard Capital Markets in its capacity as Underwriter, Bookrunner and Global Co-ordinator in each case as the context requires;
"Listing Particulars"	this document issued by Granada Media dated 11 July 2000;
"Listing Rules"	the Listing Rules of the UK Listing Authority;
"London Stock Exchange"	London Stock Exchange plc;
"Mandatory Exchange"	the mandatory exchange of Ordinary Shares as described in Part III of this document;
"Media Interests"	means the assets transferred to Granada Media pursuant to the Reorganisation Agreement as described in Part III of this document;
"Media Ventures"	means Granada Media's 50 per cent. interest in each of ONdigital and Box Clever;

Part XII

Definitions and Glossary continued

"Merger"	the merger of Granada and Compass to form Granada Compass as described in Part III of this document;
"Offer"	the offer of the Shares described in this document;
"Offer Price"	515p for each Share;
"Official List"	the official list of the UK Listing Authority;
"Ordinary Share"	an ordinary share in the capital of the Company;
"Over-Allotment Option"	the agreement between the Company and Credit Suisse First Boston on behalf of the Underwriters pursuant to which Credit Suisse First Boston may subscribe, or procure subscribers, for up to 39,130,435 additional Shares as described in paragraph 8(c) of Part X of this document;
"QIB"	Qualified Institutional Buyer within the meaning of Rule 144A;
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272);
"Regulation S"	Regulation S under the US Securities Act;
"Rule 144A"	Rule 144A under the US Securities Act;
"Shares"	the Ordinary Shares of Granada Media which are the subject of the Offer and/or, when the context requires, of the Over-Allotment Option;
"Shareholder"	a holder of Granada Media share(s);
"TCGA"	the Taxation of Chargeable Gains Act 1992;
"Technology Business"	Granada Media's consumer rental business comprising of Granada UK Rental & Retail Limited and Granada Business Technology Limited;
"U.K." or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland;
"UK Listing Authority"	The Financial Services Authority Limited;
"uncertificated" or "in uncertificated form"	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST;
"Underwriters"	Lazard, Credit Suisse First Boston, ABN AMRO Rothschild, Deutsche Bank AG and Salomon Brothers International Limited;
"Underwriting Agreement"	the underwriting agreement between Granada Media, Granada, the Directors, the Sponsor and the Underwriters as described in Part X of this document;
"United News & Media"	United News & Media plc;
"US or United States"	United States of America;
"US Securities Act"	means the US Securities Act of 1933 (as amended);
"YTT Executive Option Scheme"	the Yorkshire Tyne-Tees Television Executive Share Option Scheme 1995; and
"\$" or "dollar"	United States dollar.

2 Glossary

"Broadband"	A type of data transmission in which a single transmission medium can carry several channels at once, which enables the introduction of services such as interactive television and t-commerce;
"DSL"	Digital Subscriber Line – a transmission technology which can increase the usable bandwidth of a standard telephone line;
"DTT"	Digital Terrestrial Television;
"iDTV"	Integrated digital TV, a television which decodes the digital signal (subject to registration of a smart card) without the requirement for any additional equipment;
"ISP"	Internet Service Provider;
"ISTB"	Internet set top box; and
"STB"	Set top box, the equipment attached to a standard television through which a customer decodes the digital signal (as an alternative to an iDTV).

