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Report and Accounts
NTL Group Limited

31 December 1998



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 **ERNST & YOUNG**

NTL Group Limited

Registered No. 2591237

DIRECTORS

L Wood (Chairman)
P G Douglas
D W Kelham
R M Mackenzie
J P Thorp
S Wagner

SECRETARY

R M Mackenzie

AUDITORS

Ernst & Young
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BANKERS

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NTL Group Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £122,257,000 (1997 – profit of £184,000). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of telecommunications services to residential and business customers.

On 30 June 1998, the company participated in a group restructuring programme, which resulted in the transfer of trade, assets and liabilities of fellow group companies to NTL Group Limited, at market value.

REVIEW OF THE BUSINESS

The ntl group (which includes the parent company NTL Incorporated and its subsidiaries) is uniquely poised to deliver advanced digital services throughout the UK on all three technology platforms – fibre optic cable, satellite and broadcast. The outstanding growth of our business in 1998 reflects our success in translating this unmatched technical scope into end-to-end solutions for commercial customers, and into astonishing choice and value for consumers at home.

Networks

The strength of ntl is its unique blend of technology assets and technical expertise: networks that enable the group to deliver more services to more kinds of customers than any other company in our field; and with the know-how to deliver quality and reliability.

ntl's wholly owned national networks are its biggest asset, and among the most advanced in the world. With the latest transmission and switching technologies – Synchronous Digital Hierarchy (SDH), Asynchronous Transfer Mode (ATM) and Internet Protocol (IP) switching – they go further, faster and with greater reliability than any other networks in the UK. ntl's networks are the base for voice, data, video and internet communications services that it sells direct to customers, and in wholesale form to other telecom providers.

The group has already invested over £3.1 billion in these networks, and is still extending its reach nationally and internationally. In 1998, ntl completed the 3,500-mile national network gaining connection to almost all international undersea cable points. It laid a new £30 million submarine loop to Ireland, increased its investment in intelligent networking, and linked up ATM switches in 9 major cities across the UK. Through its stake in a transatlantic cable ring, ntl offers services between European countries and the US, while its satellite links provide connections to the Asia-Pacific region. Above ground, ntl's nationwide network of transmitters makes it the UK's no.1 transmission site operator – generating the biggest income in its field.

ntl is continuing to build its regional networks and extending them significantly by acquiring Comcast UK, ComTel, Diamond Cable and Eastern Group Telecoms. When completed these networks will reach 25% of UK households – some 5.2 million homes. Through extending, interlinking and acquiring new network resources, ntl delivers the vast majority of its services on its own infrastructure – widening both profit margins and the scope for end-to-end solutions for customers.

Digital

The emerging era of digital technology opens boundless opportunities. For telecom providers, virtually unlimited capacity at falling prices is revolutionising their services. Businesses are using fast, high capacity links for competitive advantage, and home users are facing an amazing choice of information, communication and entertainment. ntl's big advantage is a strong position on all the key platforms – digital cable, digital telecoms, digital terrestrial and digital satellite. The group firmly believes that each will be successful, and has invested in all the related services and delivery methods.

REVIEW OF THE BUSINESS (continued)

Digital (continued)

ntl owns the networks that deliver digital services – fibre optic cables, transmitter sites, and satellite links. It has pioneered developments at the earliest days of digital technology, and gained a clear lead in transmission for digital terrestrial television (DTT) and digital radio. The group expects no slowdown in this fast pace of innovation.

Broadcast and Radio Communications

ntl is the leader in this field, with the unique advantage of 40 years experience, and it continues to win long-term transmission contracts generating a continuous stream of revenue from customers such as television channels 3, 4, 5 and S4C. The launch of DTT brought ntl transmission contracts of £250 million and during the year it planned, designed and built the delivery systems – transmission sites, networks and studios – on time and in budget. ntl has now been awarded the ITV transmission contracts for analogue channels until transmission ends, probably around 2010, adding some £500 million to its order book. ntl's radio communications network expanded with the acquisition of some 240 transmission sites from Eastern Group Telecoms and Simoco and major construction projects for UK mobile operators. The network has exciting growth potential, and ntl continues to look for opportunities to buy transmission sites. Currently ntl has more than 1,300 tower sites – prime real estate for operating fixed and mobile radio systems. The group maintains communications systems for over 400 customers including 70% of the emergency services in England and Wales – and manages and operates sites for cellular phone operators like Vodafone and Orange.

ntl is the broadcasting power behind commercial radio in the UK, reaching tens of millions of listeners every week. In 1998, ntl continued the success of recent years by winning the twelfth regional radio transmission contract in a row and – as part of the Digital One consortium – it invested in the future by winning the UK's national digital radio licence, along with the £60 million transmission contract. The company also expects to win more business in 1999 and beyond as the Radio Authority advertises local and metropolitan digital radio networks.

The company continues to grow its facilities management and outsourcing operations, and to work on emerging opportunities. These include the Metropolitan Police Radio Communications project, and the next generation of mobile technology – which has the bandwidth to transmit video as well as voice and data.

Telecommunications

ntl offers telecom solutions to large national organisations, and to corporate customers in its regions – like Boots, Hyder and Harland & Woelf, as well as numerous local authorities like Hertfordshire County Council, universities including Oxford and Cambridge and hospitals including Bedfordshire NHS Trust. The company designs and builds high speed, private networks to handle data, voice and visual communications.

During the year ntl became a truly national telecom provider – able to connect businesses anywhere in the country into its networks either directly or indirectly through a third party. The result was a 400% increase in business customers – including Electrolux, LEX and Ernst & Young, who chose ntl to develop an integrated solution that links multiple UK sites and off-site employees.

With its investment in regional fibre optic networks, ntl is focusing on the wide opportunities for developing solutions for large users, based in its regions who need a depth of service. In addition to voice access, ntl provides managed voice and data, internet, and enhanced services that include CCTV, video conferencing and telebusiness options such as call centres.

REVIEW OF THE BUSINESS (continued)

Telecommunications (continued)

ntl's large investment under the streets creates a natural link with local communities, and it constantly wins business from local councils, education authorities, NHS trusts, radio stations and police forces as well as major companies. For customers Hyder and Admiral Insurance in Wales, and for Stevenage Borough Council, ntl installed fibre optic links to transfer data at high speed between major offices, reduce call charges, and form a base for new applications.

At the central government level, the group's existing business with the Inland Revenue was extended with contracts throughout the Revenue's locations in Northern Ireland – both for direct voice connections between sites and indirect sites outside the network.

The group also won the UK's largest closed circuit TV contract, to design and build a system that will bring state of the art security surveillance to West Cornwall, linking cameras in six towns to a control room by fibre optic cable.

Carrier Services

ntl has built a strong business carrying traffic for cellular phone companies like Orange and Vodafone – both of whom increased their business with ntl in 1998 – and for international telecom operators like Global One and Energis. The group provides a range of network services for the Global One consortium's UK operations, and the relationship with the consortium was further strengthened over the year with an increase in business value from £600,000 to £8 million. ntl also signed a carrier contract with Energis to run for 6 years.

By growing this business nationally and internationally, ntl is able to both maximise the use of its assets and to offer the end-to-end capacity that carriers require. The group won substantial carrier business on its undersea link to Ireland, and can now offer new links to the east of the UK with the acquisition of Eastern Group Telecoms. ntl also has a stake in a transatlantic cable ring linking European countries and the US, and can offer connection to the Asia-Pacific region using the global coverage that our fixed satellite links provide. For example, the group won its first international satellite voice leased service contract from AT&T for links to Australia.

Satellite Services

Five years ago this business began by transmitting Discovery and other channels on the Astra satellite – picking them up from studios and transmitting them to cable operators to broadcast on their networks. In 1998 ntl won eight of the nine available multiplexes on the new Astra 2A satellite, including orders from Flextech, Turner Communications and the BBC to uplink digital TV news, entertainment and home shopping channels. ntl now has full time contracts to transmit 100 channels and faces even bigger opportunities as hundreds of new digital channels are launched in the coming year. Overall, the group trebled the value of its order book for Satellite Services over the previous year – with contracts extending over 5-10 years.

The boom continues for occasional services: satellite links provided to broadcasters around the world on demand, mainly for news and sporting events. A 24-hour operation, coupled with new resources added in 1998, gives ntl a sharp competitive edge. The group can respond to orders for satellite feeds around the world in minutes. Its Winchester teleport continues to be Europe's fastest growing satellite station, with a new dish added on average every two months. In 1999 ntl plans to increase its existing three teleports to four.

REVIEW OF THE BUSINESS (continued)

Satellite Services (continued)

Other extensions to the satellite business include a step into the news gathering field with the acquisition of Uplynx. This will enable the group to send news gathering vehicles and portable satellite uplinking facilities to news and sports locations, and thus offer end-to-end distribution of breaking stories. ntl has also formed a strategic alliance with Williams Vyvx, a US video service provider, with whom ntl is developing a range of unique offerings to provide seamless services for global news and sports organisations.

Internet Services

ntl networks are also the backbone of internet service providers like Virgin Net and Which? Online, and ntl consistently wins awards for speed of service, customer satisfaction and the quality of its call centres that support customers by handling some 4,000 calls a day. While this business continues to grow, ntl is also taking advantage of an emerging opportunity to provide wholesale internet services to a growing number of companies who wish to extend their reach into the marketplace as a virtual internet service provider.

Companies are increasingly turning to ntl for electronic commerce solutions, and as a result its internet services for business grew rapidly during 1998. For 1999, ntl's sales force is armed with a wider range of internet products and services and can propose, modify, cost and schedule a series of internet solutions for business on the customer's premises.

New Acquisitions

In just a few years, the consolidation across the UK cable industry has seen 28 operators reduced to 3 major players, of which ntl is one. By bringing Comcast UK, ComTel and Diamond Cable into ntl, it has extended its regional cable operations to cover 25% of UK households – some 5.2 million homes.

Comcast UK operates in franchise areas in Teesside and Cambridge. ComTel's franchises in Central and Southern England stretch from Stafford down to Basingstoke, and Diamond Cable operates in cities across the East Midlands.

ntl is progressing well with the technical and cultural aspects of welcoming the new companies into ntl, and also benefiting from economies of scale and wider margins.

Movies on Demand

With ntl's reputation for innovation, it expects customers to look to it for the best in new ideas – with new services, new technology, new entertainment and new packages for TV products every year. 1998 was an exceptional year for exciting new services that were first or best. Front Row, the pay-per-view movie service launched in our franchise areas in March, was both. Because of ntl's unique technology, this is the only pay-per-view movie service that customers can order using the TV remote control. Its success with customers has been far beyond expectations.

Part of the strength of Front Row is its high quality content – the result of ntl's first ever direct negotiations with Hollywood studios. An important dimension of its success is the stature the group has gained with studios like Columbia Tristar, Warner Brothers, Disney and Universal Studios. The enthusiasm of ntl's customers and its delivery capability has secured the direct supply relationship with these major content providers, and laid a base for extending it strategically in the future.

When ntl delivers digital services in its regional networks in 2000, the extra channels available for Front Row will enable the group to offer near video on demand – with the customer's choice of film available at more frequent intervals. ntl is also moving into offering pay-per-view sports and entertainment events, and exploring other popular choices.

NTL Group Limited

DIRECTORS' REPORT

REVIEW OF THE BUSINESS (continued)

New Choices on Cable

Residential cable customers were offered even more choice and value when ntl successfully realigned its Choices packages in mid-year. For the monthly cost of a BT line rental, cable customers receive a telephone line, plus either: the terrestrial television channels plus 6 cable channels; access to the internet; or a second telephone line for a phone, fax or computer link. This attractive package helped to grow ntl's customer base significantly.

By its nature, internet ties up telephone lines, and during 1998, many customers added a second line to the cable TV and telephone services they take. Increasing the penetration of internet and telephony packages continues to be a priority for 1999.

Internet over TV

Another first and best for ntl was the December launch of its unique internet over TV service – making ntl the first internet service provider to bring internet to the truly mass market. This is a responsive, full function internet connection that takes ntl into the high potential market of the 60 million households in Britain without a PC. By using the set top box technology acquired in spring 1998 with the purchase of Net Channel, the innovative ntl package brings customers all the resources of the world wide web, plus competitively priced telephony – without the need to invest in expensive technology.

The launch pad for this revolutionary offer was ntl's introduction of national consumer services. This broke new ground by making packages of ntl telephony and internet services available to consumers everywhere in the UK for the first time, and included the option of internet access through the PC or television. In 1999 ntl will be the only company providing this combination of services nation-wide – both inside and outside its franchise areas.

At the same time, ntl introduced the UK's first national call tariff. ntl customers can call anywhere in the UK at a fixed rate of 3p per minute during the day, 2p in the evening and 1p at the weekend, in many cases savings as much as 40% over competitors' telephone services.

Sports Programming

In June, ntl set up Premium TV Limited, which is a joint venture with Eurosport to create British Eurosport – a sports channel tailored to the interests of the British audience. This was the first strategic step towards ntl's goal of introducing more choice into sports programming. The second, complementary step was its investment in Newcastle United Football Club – a move that gained ntl a national news profile at the end of the year. British Eurosport was available to customers on ntl's regional cable networks from March 1999.

Digital Cable

ntl is preparing for the launch of digital television for its cable customers during 2000 – delivering improved sound and picture quality and more channels. The sophistication of ntl's advanced new digital media centre at Langley will enable customers to pick and mix the services and channels they want to receive, and change them as they wish. As ntl continues its successful approach of developing services from the customers' viewpoint, ntl's technology is enabling it to formulate highly tailored offers that package telephony, digital TV and radio channels for different sectors of the community – such as the elderly, Asian communities, religious and other special interest groups.

NTL Group Limited

DIRECTORS' REPORT

REVIEW OF THE BUSINESS (continued)

Digital Cable (continued)

ntl's digital cable services will grow organically as it continues to innovate and build more services based on its advanced networks. In 2000 ntl will launch fully digital, high-speed interactive cable and internet TV services with the group's own portal. No other provider will be able to match the power of ntl's interactive services portal, and its programming line up will be second to none: ntl is currently working with partners in banking, travel, news, entertainment and retail. ntl is set to become the first company to enable the UK population to shop, bank and buy holidays by two-way communication through their televisions.

Continuing the line up of innovation on the horizon: ntl is preparing to launch cable modems in 2000 to bring the feel of high speed, high function corporate computing to customers in its franchise areas. ntl expects these to be popular with schools and with growing numbers of teleworkers using a PC at home.

FUTURE DEVELOPMENTS

The developments in ntl's business during 1998 will see its profile growing considerably through 1999 and beyond, in a marketplace that continues to overturn accepted rules of supply and demand. The telecommunications market in the UK doubled over the past 10 years, with usage rising faster than prices are falling, and is forecast to double again during the coming decade.

The internet is driving demand for capacity and services in business and the home, and ntl is unique in having the networks, delivery technologies, services and back office support to meet the expected surge. This strength has been recognised by Microsoft, which, in a partnership formed at the beginning of 1999, invested US\$500 million in ntl to accelerate the development of new broadband services.

In a very exciting development in July 1999, ntl entered into agreement with Cable & Wireless Plc, Cable & Wireless Communication Plc (CWC) and Bell Atlantic Corporation, pursuant to which ntl will acquire certain consumer related businesses from CWC. These businesses are CWC's residential, internet, business cable and digital television development and services business. CWC is a leading provider of cable telephony services in the UK and is licensed to provide cable television services in 47 franchise areas, estimated by CWC to cover approximately 6 million homes and approximately 420,000 businesses in the UK. This acquisition provides a unique opportunity for ntl to increase its scope as a major force in media and telecommunications in the UK and to become a showcase for innovative telephone, television, internet and interactive services. In addition, through the acquisition ntl will become the largest cable, telephony and television company in the UK, with over 2.8 million customers and passing over half of the UK's cable television households with its cable network.

Assuming certain conditions in the acquisition agreement are satisfied (including obtaining the approval of the Competition Commission) in accordance with ntl's expectations, the group anticipates that the acquisition will be completed in spring 2000.

RESEARCH AND DEVELOPMENT

The company undertakes the development of innovative systems engineering applications to meet a wide range of telecommunications requirements.

DIRECTORS' REPORT

YEAR 2000 COMPLIANCE

The operation of the company's business depends not only on its own computer systems, but also on those of its suppliers and customers. The company could be exposed to risk, in the event that there is a failure by the company or other parties to remedy year 2000 issues.

A group-wide programme, designed to address the impact of the year 2000 on the group's business, has been commissioned by the board and is well underway. Action plans have been developed which will identify the risk areas without disruption to underlying business activities, and also address the impact on the business of failures by our significant suppliers and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no year 2000 problems will remain, because at least some level of failure may still occur. However, the board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures that might arise.

Much of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved. Costs of implementing the action plans are disclosed in the accounts of NTL (UK) Group, Inc.

CHARITABLE DONATIONS

During the year the company made various charitable donations totalling £23,000.

ENVIRONMENTAL

The company continues to place active emphasis on its environmental responsibilities, and its commitment to the environment is an integral part of its corporate programme. A priority for the year was to continue to inform and educate those who work for the group, with regards to the company's concerns for the environment.

EMPLOYMENT POLICIES AND DISABLED EMPLOYEES

ntl remains committed to the continuing introduction and practice of progressive employment policies which reflect changing business, social and employee needs. Particular emphasis continues to be placed on achieving equal opportunities in employment through specific recruitment and training programmes and creating greater awareness among all employees of cultural differences.

The group gives full consideration to applications from disabled persons where a handicapped or disabled person can adequately fulfill the requirements of the job. Depending on their skills and abilities, disabled employees have the same opportunities for promotion, career development and training as other employees.

EMPLOYEE INVOLVEMENT

The group is dedicated to increasing the practical involvement of individuals in the running of their businesses. The group's philosophy is to encourage all employees to contribute to improving business performance through the utilisation of their knowledge, experience, ideas and suggestions. In encouraging an open approach which seeks to involve people in every level of the business, great emphasis is placed on effective communication. Employees are briefed as widely as possible about activities and developments across the group via newsletters, electronic notice boards and presentations by the Chief Executive Officer and Chief Operating Officer.

The group fosters a team spirit among employees and their greater involvement within the group by offering participation in bonus schemes, sharesave plans and share option schemes.

NTL Group Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors during the year and thereafter were as follows:

L Wood	(appointed 30 June 1998)
J P Thorp	(appointed 30 June 1998)
P G Douglas	(appointed 30 June 1998)
S Wagner	(appointed 30 June 1998)
D W Kelham	(appointed 30 September 1999)
R M Mackenzie	
J F Gregg	(resigned 30 June 1998)
R A McKellar	(resigned 30 September 1999)

No director had any interest in the share capital of the company.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors. A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



R M Mackenzie
Secretary

27 JAN 2000

NTL Group Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of NTL Group Limited

We have audited the accounts on pages 12 to 26 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 14 to 16.

Respective responsibilities of directors and auditors

As described on page 10 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

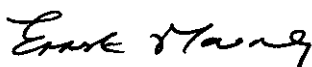
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

27 JAN 2000

NTL Group Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £000	1997 £000
TURNOVER	3	62,847	–
Cost of sales		25,374	–
		<hr/>	<hr/>
GROSS PROFIT		37,473	–
Other operating costs		26,692	–
Administrative expenses		75,539	19
		<hr/>	<hr/>
OPERATING LOSS	4	(64,758)	(19)
Income from investments	5	264	200
Interest receivable	8	12,963	3
Interest payable	9	(70,726)	–
		<hr/>	<hr/>
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(122,257)	184
Tax on loss on ordinary activities	10	–	–
		<hr/>	<hr/>
(LOSS) / PROFIT FOR THE FINANCIAL YEAR	20	(122,257)	184
		<hr/>	<hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss for the year of £122,257,000 (1997 – profit of £184,000).

NTL Group Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Intangible assets	11	396,613	—
Tangible assets	12	527,961	—
Investments	13	647,688	58,489
		<u>1,572,262</u>	<u>58,489</u>
CURRENT ASSETS			
Debtors	14	279,482	677
CREDITORS: amounts falling due within one year	15	1,913,428	169
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,633,946)</u>	<u>508</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(61,684)</u>	<u>58,997</u>
CREDITORS: amounts falling due after more than one year	16	705	—
PROVISION FOR LIABILITIES AND CHARGES	18	871	—
		<u>(63,260)</u>	<u>58,997</u>
CAPITAL AND RESERVES			
Called up share capital	19	726	726
Share premium account	20	48,484	48,484
Capital redemption reserve	20	11	11
Profit and loss account	20	(112,481)	9,776
EQUITY SHAREHOLDERS' FUNDS		<u>(63,260)</u>	<u>58,997</u>

D. W. Kelham

D W Kelham
Director

27 JAN 2000

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. FUNDAMENTAL ACCOUNTING CONCEPT

The accounts have been prepared on the going concern basis because the ultimate parent undertaking has given the necessary assurances such that sufficient resources will be made available for the foreseeable future so that the company can meet its liabilities as and when they fall due.

2. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Group accounts

As the company is a wholly owned subsidiary of another undertaking incorporated in the United Kingdom, it has taken advantage of section 228 of the Companies Act 1985 and not prepared group accounts. These accounts therefore present information about NTL Group Limited as an individual undertaking and not about its group.

Intangible fixed assets

Goodwill is being amortised as follows:

Goodwill arising on the acquisition of the trade of part of the ntl group is being amortised evenly over the directors' estimate of its useful economic life of 15 years.

Goodwill arising on the acquisition of the trade of Net Channel Limited is being amortised evenly over the directors' estimate of its useful economic life of 15 years.

Depreciation and prematurity period

Cable system assets:

During the time while the cable systems are partially under construction and partially in service, ("the prematurity period"), depreciation of the network is charged monthly on its estimated costs at the end of the prematurity period, which is taken as two years, using the rates as follows scaled down by the ratio of average, actual or estimated number of subscribers whichever is greater, in the current period to the estimated subscriber base at the end of this period:

Leasehold buildings	-	Length of lease
Cable and ducting	-	40 years
Network	-	15 years
Head end equipment	-	15 years
Subscriber equipment	-	4 to 15 years
Computer equipment	-	3 to 5 years

As stocks relate to network construction, they have been included in fixed assets. Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials and consumables	-	purchase cost
Work in progress	-	cost of direct materials and labour

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

2. ACCOUNTING POLICIES (continued)

Depreciation and prematurity period (continued)

Non-cable system assets:

Depreciation is provided on a straight line basis on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its estimated useful life as follows:

Freehold buildings	- 50 years
Leasehold land and buildings	- Length of lease
Furniture and fixtures	- 10 years
Plant, machinery and office equipment	- 3 to 10 years
Capitalised overhead	- 15 years
Motor vehicles	- 4 years

Capitalised overhead

Overheads, including staff costs, relating to the design, construction and development of the network and related services have been capitalised. Depreciation of capitalised overheads is provided on a straight line basis over fifteen years.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate which it is anticipated the timing differences will reverse.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

2. ACCOUNTING POLICIES (continued)

Pensions

The company makes a defined contribution to the ntl sponsored group personal pension plans for eligible employees. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Cash flow statement

The company has taken advantage of the exemption under FRS1 (revised) not to prepare a cash flow statement as it is a subsidiary undertaking which is at least 90% owned by the ultimate parent undertaking.

3. TURNOVER

Turnover represents the invoiced amount of services provided, stated net of value added tax, and is attributable to one continuing activity, being the provision of information, communications and entertainment services, all of which is attributable to the United Kingdom.

Turnover is analysed as follows:

	1998 £000	1997 £000
Cable television	18,993	-
Telephony	36,005	-
Internet	6,845	-
Other	1,004	-
	<u>62,847</u>	<u>-</u>

4. OPERATING LOSS

This is stated after charging:

	1998 £000	1997 £000
Depreciation of owned fixed assets	13,624	-
Depreciation of assets held under finance leases	1,196	-
Amortisation of goodwill	22,193	-
Operating lease rentals - land and buildings	2,691	-
- plant and machinery	288	-
Auditors' remuneration - audit services	-	-
- other services	-	-
Exchange difference on foreign currency borrowings	284	-
Reorganisation costs	2,531	-
	<u>25,329</u>	<u>-</u>

Auditors' remuneration is disclosed in the accounts of NTL (UK) Group, Inc.

5. INCOME FROM INVESTMENTS

	1998 £000	1997 £000
Dividends receivable from subsidiary undertaking	264	200
	<u>264</u>	<u>200</u>

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

6. STAFF COSTS

	1998 £000	1997 £000
Wages and salaries	28,796	-
Social security costs	2,856	-
Other pension costs	683	-
	<u>32,335</u>	<u>-</u>

The average number of employees during the year was as follows:

	1998 No.	1997 No.
Selling, general and administration	1,295	-
Operations	816	-
Networks	188	-
	<u>2,299</u>	<u>-</u>

7. DIRECTORS' EMOLUMENTS

	1998 £,000	1997 £,000
Emoluments	416	-
Company contributions paid to money purchase pension schemes	4	-

	1998 No.	1997 No.
Members of defined benefit pension scheme	2	-

The amounts in respect of the highest paid director are as follows:

	1998 £000	1997 £000
Emoluments	181	-

No contributions were paid to money purchase pension schemes by the company in respect of the highest paid director.

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

7. DIRECTORS' EMOLUMENTS (continued)

The following emoluments were paid by the company to directors of fellow subsidiaries of the company, who are not also directors of NTL Group Limited. These emoluments were included in the management charges to these fellow subsidiaries

	<i>Company contributions to money purchase pension schemes £000</i>	<i>Emoluments £000</i>
ntl Kirklees	2	40

CableTel West Glamorgan Limited, CableTel Newport, CableTel South Wales Limited and Metro South Wales Limited paid a joint director £155,000 total emoluments during the year.

8. INTEREST RECEIVABLE

	<i>1998 £000</i>	<i>1997 £000</i>
Bank interest	406	3
Notes receivable from group companies	12,557	-
	<u>12,963</u>	<u>3</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>1998 £000</i>	<i>1997 £000</i>
Bank loans and overdrafts	11,782	-
Finance charges payable under leases and hire purchase contracts	70	-
Interest payable to group companies	58,874	-
	<u>70,726</u>	<u>-</u>

10. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no taxation charge due to tax losses arising in the year.

11. INTANGIBLE ASSETS

	<i>Goodwill £000</i>
Cost:	
At 1 January 1998	-
Additions in the year	410,237
At 31 December 1998	<u>410,237</u>
Amortisation:	
At 1 January 1998	-
Amortised in the year	13,624
At 31 December 1998	<u>13,624</u>
Net book amounts:	
At 31 December 1998	<u>396,613</u>
At 1 January 1998	-

NTL Group Limited

NOTES TO THE ACCOUNTS at 31 December 1998

12. TANGIBLE FIXED ASSETS

	<i>Network</i> £000	<i>Construction in progress</i> £000	<i>Other</i> £000	<i>Total</i> £000
Cost:				
At 1 January 1998	-	-	-	-
Additions	42,261	14,180	44,451	100,892
Transfers from subsidiary undertakings	417,943	14,073	96,113	528,129
Transfers	14,073	(14,073)	-	-
Disposals	-	-	(2,459)	(2,459)
At 31 December 1998	474,277	14,180	138,105	626,562
Depreciation:				
At 1 January 1998	-	-	-	-
Charge for the year	19,018	-	3,677	22,695
Transfers from subsidiary undertakings	46,050	-	31,127	77,177
Disposals	-	-	(1,271)	(1,271)
At 31 December 1998	65,068	-	33,533	98,601
Net book value:				
at 31 December 1998	409,209	14,180	104,572	527,961
At 1 January 1998	-	-	-	-

Motor vehicles are all held under finance leases or hire purchase contracts. Their net book value at 31 December 1998 was £1,533,000 (1997 - £nil).

Included in network and other are the following net book values of freehold and leasehold land and buildings:

	1998		
	<i>Network</i> £000	<i>Other</i> £000	<i>Total</i> £000
Freehold	2,856	-	2,856
Long leasehold	2,134	-	2,134
Short leasehold	3,151	3,811	6,962
	8,141	3,811	11,952

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

13. INVESTMENTS

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 January 1998	58,489
Additions	589,499
Refund of share capital from subsidiary undertaking	(300)
At 31 December 1998	647,688
Amounts written off:	
At 1 January 1998	—
Amounts written off in year	—
At 31 December 1998	—
Net book amounts: at 31 December 1998	647,688
At 1 January 1998	58,489

The issued share capital of NTL Insurance Limited, a company registered in Guernsey, was reduced by £300,000 by special resolution and sanctioned by the court on 23 January 1998.

In the opinion of the directors the aggregate value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the accounts.

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital, all of which are unlisted, are as follows:

<i>Name of Company</i>	<i>Holdings</i>	<i>Proportion held</i>	<i>Nature of business</i>
National Transcommunications Limited	Ordinary shares	100%	Transmission services
DTELS Limited	Ordinary shares	100%	Radio communications services
NTL Insurance Limited	Ordinary shares	100%	* Offshore insurance
Prospectre Limited	Ordinary shares	100%	@ Satellite uplinking
Andover Cablevision Limited	Ordinary shares	100%	Telecommunications
Oxford Cable Limited	Ordinary shares	100%	Telecommunications
ComTel Cable Services Limited	Ordinary shares	100%	Telecommunications
Stafford Communications Limited	Ordinary shares	100%	Telecommunications
ComTel Limited	Ordinary shares	100%	Telecommunications

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

13. INVESTMENTS (continued)

<i>Name of Company</i>	<i>Holdings</i>	<i>Proportion held</i>		<i>Nature of business</i>
Maza Limited	Ordinary shares	100%	#	Telecommunications
NTL Limited	Ordinary shares	100%		Non-trading
NTL Trustees Limited	Ordinary shares	100%		Non-trading
NTL Networks Limited	Ordinary shares	100%		Non-trading
CableTel Northern Ireland Limited	Ordinary shares	100%	**	Non-trading
NTL Internet Limited	Ordinary shares	100%		Non-trading
CableTel Hertfordshire Limited	Ordinary shares	100%		Non-trading
CableTel Surrey and Hampshire Limited	Ordinary shares	100%		Non-trading
Enablis Limited	Ordinary shares	100%		Non-trading
CableTel Telecom Supplies Limited	Ordinary shares	100%		Non-trading
Columbia Management Limited	Ordinary shares	100%		Non-trading
Secure Backup Systems Limited	Ordinary shares	100%		Non-trading
CableTel Central Hertfordshire Limited	Ordinary shares	100%		Non-trading
CableTel Herts and Beds Limited	Ordinary shares	100%		Non-trading
CableTel North Bedfordshire Limited	Ordinary shares	100%		Non-trading
Digital Television Network Limited	Ordinary shares	100%		Non-trading
Metro Hertfordshire Limited	Ordinary shares	100%		Non-trading
NTL Systems Limited	Ordinary shares	100%		Non-trading
CableTel (UK) Limited	Ordinary shares	100%		Non-trading
CableTel Investments Limited	Ordinary shares	100%		Non-trading
CableTel Limited	Ordinary shares	100%		Non-trading
Tamworth Cable Communications Limited	Ordinary shares	100%		Non-trading
Lichfield Cable Communications Limited	Ordinary shares	100%		Non-trading

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

13. INVESTMENTS (continued)

<i>Name of Company</i>	<i>Holdings</i>	<i>Proportion held</i>	<i>Nature of business</i>	
Vision Networks Services UK Limited	Ordinary shares	100%	Non-trading	
Wessex Cable Limited	Ordinary shares	100%	Non-trading	
Heartland Cablevision (UK) Limited	Ordinary shares	100%	Non-trading	
Heartland Cablevision II (UK) Limited	Ordinary shares	100%	Non-trading	
Cable Thames Valley Limited	Ordinary shares	100%	#	Non-trading
Berkhamstead Properties & Building Contractors Limited	Ordinary shares	100%	#	Non-trading
Bracknell Cable TV Limited	Ordinary shares	100%	#	Non-trading
Swindon Cable Limited	Ordinary shares	100%	#	Non-trading
South Yorkshire Cablevision (UK) Limited	Ordinary shares	100%	#	Non-trading
Chiltern Cable Limited	Ordinary shares	100%	#	Non-trading
Cable Television Limited	Ordinary shares	100%	#	Non-trading
Northampton Cable Television Limited	Ordinary shares	80%	#	Non-trading
Herts Cable Limited	Ordinary shares	90%	#	Non-trading
X-Tant Limited	VCPS	100%	##	Telecommunications
	CRPS	100%		

* Registered in Guernsey

** Registered in Northern Ireland

@ Registered in Scotland

Held by subsidiary undertaking

VCPS – voting cumulative preference shares

CRPS – cumulative redeemable preference shares

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

13. INVESTMENTS (continued)

The company has taken advantage of the exemption under section 228 of the Companies Act 1985 not to disclose the aggregate amount of capital and reserves, and the result for the year for each of the subsidiary undertakings on the basis that their results are included in the group financial statements of NTL Communications Limited.

The company acquired the ComTel group of companies in two stages on 15 June 1998 and 22 September 1998 for a total consideration of £581,958,000. The investment has been included in the balance sheet at its fair value at the dates of acquisition.

In addition the company acquired, for a total consideration of £23,237,000, the following businesses:

Date of Acquisition

8 April 1998	Net Channel
15 May 1998	Uplynx
29 June 1998	Simoco
21 August 1998	Cymrunet
11 December 1998	X-Tant Limited

As part of a group restructuring programme the company acquired at market value the trades of the following group companies on 30 June 1998 for a consideration of £187,769,000: CableTel Surrey & Hampshire Limited, CableTel Northern Ireland Limited, NTL Internet Limited, Enablis Limited, CableTel Hertfordshire Limited, CableTel Telecom Supplies Limited, Columbia Management Limited, Secure Backup Systems Limited, CableTel Central Hertfordshire Limited, CableTel Herts and Beds Limited, CableTel North Bedfordshire Limited, Digital Television Network Limited, Metro Hertfordshire Limited, NTL Systems Limited, CableTel Investments Limited and CableTel Limited.

Analysis of the acquisitions of these businesses is as follows:

	<i>Book value and fair value £000</i>
Tangible fixed assets	450,952
Debtors	78,703
Cash	8,439
Creditors due within one year	(760,038)
Net liabilities	(221,944)
Goodwill arising on acquisition	409,713
	<hr/> 187,769 <hr/>
Discharged by:	
Loan notes	187,769 <hr/>

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

14. DEBTORS

	1998 £000	1997 £000
Trade debtors	16,005	—
Interest on loan notes receivable from subsidiary undertaking	12,557	—
Loan notes due from fellow subsidiaries	147,894	—
Loan notes due from parent undertaking	42,800	—
Long-term advances to subsidiary undertakings	48,928	—
Amounts due from group undertakings	2,186	673
Other debtors	2,564	4
Prepayments and accrued income	6,548	—
	<u>279,482</u>	<u>677</u>

15. CREDITORS: amounts falling due within one year

	1998 £000	1997 £000
Bank overdraft	1,750	—
Obligations under finance leases and hire purchase contracts (note 17)	1,285	—
Trade creditors	7,679	—
Amounts due to group undertakings	415,530	166
Notes payable to parent undertakings	831,408	—
Long-term advances from parent undertakings	296,960	—
Interest payable on loan notes	72,229	—
Loan notes to fellow subsidiaries	187,948	—
Other creditors	3,685	—
Other taxes and social security costs	20,587	—
Accruals and deferred income	74,367	3
	<u>1,913,428</u>	<u>169</u>

Included in accruals and deferred income is £560,000 (1997 – £nil) of regional development grants which remain unamortised at the balance sheet date.

16. CREDITORS: amounts falling due after more than one year

	1998 £000	1997 £000
Obligations under finance leases and hire purchase contracts (note 17)	<u>705</u>	<u>—</u>

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

17. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	1998 £000	1997 £000
Amounts payable:		
within one year	1,331	-
within two to five years	715	-
	<u>2,046</u>	<u>-</u>
Less: finance charges allocated to future periods	(56)	-
	<u>1,990</u>	<u>-</u>
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations	1,285	-
Non-current obligations	705	-
	<u>1,990</u>	<u>-</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Reorganisation £000
Cost:	
At 1 January 1998	-
Arising in the year	(2,531)
Transferred from group undertakings	4,970
Utilised	(1,568)
At 31 December 1998	<u>871</u>

Deferred tax

The deferred tax assets in respect of accelerated capital allowances and unutilised losses have not been recognised in the accounts on the grounds of prudence.

19. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1998 No.	1997 No.	1998 £000	1997 £000
Ordinary shares of £0.01 each	5,378,375	5,378,375	52	52
Ordinary shares of US\$0.20	5,243,153	5,243,153	674	674
	<u>10,621,528</u>	<u>10,621,528</u>	<u>726</u>	<u>726</u>

NTL Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Capital redemption reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 1997	726	48,484	11	9,592	58,813
Profit for the year	—	—	—	184	184
At 31 December 1997	726	48,484	11	9,776	58,997
Loss for the year	—	—	—	(122,257)	(122,257)
At 31 December 1998	726	48,484	11	(112,481)	(63,260)

21. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £8,911,000 (1997 – £nil)

22. OTHER FINANCIAL COMMITMENTS

At 31 December 1998, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	116	—	—	—
Within two to five years	—	—	341	—
In over five years	3,232	—	87	—
	3,348	—	428	—

23. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is NTL Communications Limited. It has included the company in its group accounts, copies of which are available from its registered office: ntl House, Bartley Wood Business Park, Hook, Hampshire RG27 9XA.

In the directors' opinion, the ultimate parent undertaking and controlling party is NTL Incorporated, a company incorporated in the State of Delaware, United States of America. Copies of its group accounts, which include the company, are available from the Secretary, NTL Incorporated, 110 East 59th Street, 26th Floor, New York, NY 10022, USA.

24. RELATED PARTIES

The company has taken advantage of the exemption under FRS 8 not to disclose transactions with group undertakings as a subsidiary undertaking which is at least 90% controlled by the ultimate parent undertaking.