United Business Media PLC

Supplementary Report & Accounts 2000

1522298

# the power of information

# Contents

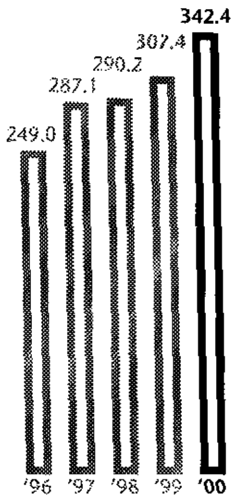


This Supplementary Report & Accounts contains an expanded financial review and remuneration report as well as proforma and full audited financial statements. This together with the accompanying Annual Review constitute the full annual financial statements of the group.

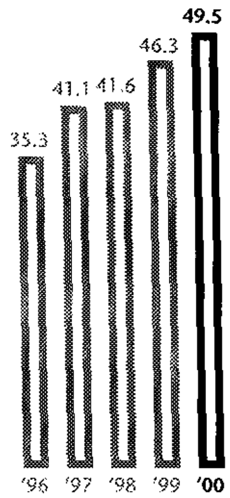
# FINANCIAL RESULTS

A year of tremendous achievement for United with underlying growth in our core business-to-business operations up 9 per cent in revenues and 18 per cent in profits.

| | 2000 | 1999 |
|---|---|---|
| Group turnover | £1,975.0m | £2,171.3m |
| Headline operating profit* | £358.4m | £361.5m |
| Headline profit before tax* | £342.4m | £307.4m |
| Dividend per share | 22.2p | 22.2p |
| Headline EPS** | 49.5p | 46.3p |




Headline profit
pre online businesses (£m)*




Headline earnings per share
pre online businesses (pence)**

* Before investment in online businesses, new ventures, exceptional items, amortisation of intangible assets and taxation.

** Before investment in online businesses, new ventures, exceptional items, amortisation of intangible assets and related taxation.

# FINANCIAL REVIEW

**Andrew Crow**
Group Financial Controller and acting Finance Director

## 2000 has seen an unparalleled level of corporate activity for United, in a year where we have delivered an excellent trading performance.

**THIS HAS CLEARLY DEMONSTRATED** THE VALUE OF OUR STRONG FINANCIAL CONTROLS AND PRO-ACTIVE APPROACH TO RISK MANAGEMENT, TOGETHER WITH OUR FOCUS ON CLEAR AND TIMELY FLOWS OF HIGH QUALITY INFORMATION.

***FINANCIAL HIGHLIGHTS***

*» LIKE FOR LIKE CORE REVENUES UP 8.8 PER CENT*

*» LIKE FOR LIKE CORE OPERATING PROFITS UP 18 PER CENT*

*» HEADLINE EARNINGS PER SHARE (BEFORE ONLINE INVESTMENT) UP 6.9 PER CENT TO 49.5 PENCE*

*» DISPOSAL PROGRAMME SUCCESSFULLY ACHIEVED, REALISING PROCEEDS OF £3.2 BILLION*

*» NET CASH OF £303 MILLION EXCLUDING FUNDS OF £1.25 BILLION TO BE RETURNED TO SHAREHOLDERS*

*» CASH CONVERSION IN CONTINUING BUSINESSES (EXCLUDING ONLINE) OF 97 PER CENT*

**A YEAR OF FUNDAMENTAL CHANGE**

At the end of 1999, we announced our intention to focus the group's portfolio of businesses. We also sought to pursue a consolidation in the UK commercial broadcasting market. Looking back over 2000, these objectives have been unequivocally achieved to the long-term benefit of shareholders. The sale prices achieved for our stock photography business, Visual Communications Group, our US advertising periodicals business, UAP, Inc., and for the trade magazines and exhibitions businesses sold in Europe and the US were at the upper end of our expectations. In television, the findings of the Competition Commission caused the proposed merger with Carlton to be abandoned, and we instead achieved a sale of those businesses to Granada Media for £1.75 billion, a price which has realised excellent value for our shareholders. In November 2000, we announced the sale of Express Newspapers to Northern & Shell, realising proceeds of £125 million.

United enters 2001 as a focused market information media group, with a major presence in professional media, news distribution and market research. Each of these offers strong potential for long-term growth and enhanced revenue opportunities from working closely together in meeting the information needs of customers.

The group's balance sheet shows the strength of our financial position: at 31 December 2000, we have net cash of £303 million, excluding the amount to be returned to shareholders, giving a strong base for investment in future growth.

## SUMMARY PROFIT AND LOSS ACCOUNT

| | 2000 £m | 1999 £m |
|---|---|---|
| **Group turnover** | | |
| Continuing operations | 1,052.1 | 858.3 |
| Discontinued operations | 922.9 | 1,313.0 |
| **Total** | 1,975.0 | 2,171.3 |
| **Headline operating profits before online businesses*** | | |
| Continuing operations | 196.9 | 161.1 |
| Discontinued operations | 161.5 | 200.4 |
| **Total** | 358.4 | 361.5 |
| **Interest (before online businesses)** | (16.0) | (54.1) |
| **Headline profits before online businesses*** | 342.4 | 307.4 |
| **Online businesses** | | |
| Continuing | (91.2) | (21.5) |
| Discontinued | (20.6) | (3.8) |
| | (111.8) | (25.3) |
| Interest | (16.5) | (7.6) |
| **Online businesses** | (128.3) | (32.9) |
| **Headline profits before tax*** | 214.1 | 274.5 |
| **New ventures** | | |
| Operating losses | (7.9) | (14.7) |
| Interest | (10.5) | (7.7) |
| **New ventures** | (18.4) | (22.4) |
| **Profits after new ventures** | 195.7 | 252.1 |
| Headline EPS pre online businesses** | 49.5p | 46.3p |
| Headline EPS post online businesses** | 30.3p | 40.8p |
| EPS before amortisation of intangible assets and exceptional items | 27.4p | 36.9p |
| Tax rate | 25% | 24% |

* Before new ventures, exceptional items, amortisation of intangible assets and taxation

** Before new ventures, exceptional items, amortisation of intangible assets and related taxation

## CONTINUING UNDERLYING PROFIT PERFORMANCE: CORE BUSINESSES

The comparability of the group's profit has been affected by a number of factors, particularly the disposals in 2000, the acquisition of CMP Media, Inc. in 1999 and exchange rate differences. Adjusting for these factors, the underlying growth in the core businesses is 18 per cent.

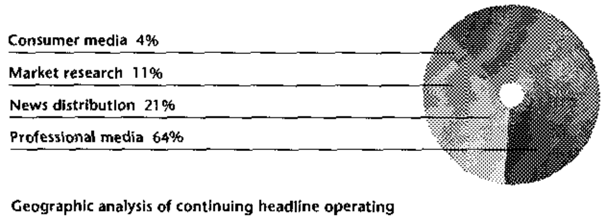
| | 2000 £m | 1999 £m |
|---|---|---|
| Continuing operating profit before online investment | 196.9 | 161.1 |
| Less consumer media | (8.2) | (11.1) |
| Acquisitions | – | 9.7 |
| Exchange | – | 7.9 |
| Other, including biennial shows | (3.5) | (10.6) |
| Continuing core underlying profit | 185.2 | 157.0 |

## ONLINE INVESTMENT

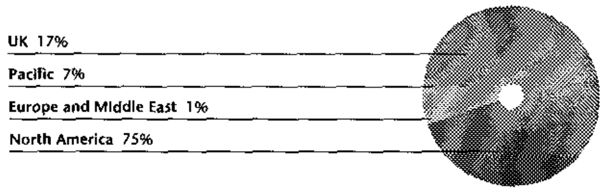
The investment in online activities during 2000 amounted to £111.8 million before funding costs. Looking forward, we will continue to focus our investment in developing online extensions to markets where we already have a leading position and which we believe offer the most likely short term path to profitability. Our investment in core business online markets in 2001 will not exceed £45 million.

## DIVISIONAL PERFORMANCE

Continuing headline operating profit before online by division




Geographic analysis of continuing headline operating profit before online




## DISPOSAL OF BUSINESSES

In November 1999, we announced that we would be divesting certain businesses in line with our strategy of moving towards a more focused group. These were successfully achieved during 2000:

- » Visual Communications Group was sold to Getty Images, Inc. for $220 million.
- » UAP, Inc. our US advertising periodicals business, was sold to Trader Publishing Inc for $520 million.
- » Our magazines and exhibitions portfolio in Continental Europe was sold to Reed Elsevier for £360 million.
- » A part of our US magazines and exhibitions business was sold to VNU for $650 million.

The sale of Express Newspapers to Northern & Shell for £125 million was completed in November 2000.

The sale of the majority of United's television interests to Granada Media was completed in December 2000 for £1.75 billion.

In aggregate, these disposals achieved sale proceeds (before costs) of £3.2 billion, representing an overall exit multiple on 1999 earnings of nearly 17 times.

## RETURN OF CASH TO SHAREHOLDERS

The sale of the group's television interests to Granada Media realised proceeds of £1.75 billion. Under the Sale Agreement, United was entitled to receive £1.25 billion of these proceeds as either Granada Media shares or as cash, and we committed that this part of the proceeds would be returned to shareholders. In view of the downturn in the Granada Media share price during the second half of 2000, United elected to take the proceeds in cash.

We have announced that the return to shareholders will take the form of a subdivision and consolidation of the existing United shares. The subdivision will create a class of 'B' shares with a total value of approximately £1.25 billion. UK shareholders will have the option to sell these shares for 245 pence per share, to receive a single dividend of 245 pence per share, or to receive a continuing dividend linked to LIBOR. The consolidation of the remaining ordinary shares will reduce the actual number of shares in issue, maintain consistency with previous market pricing and, combined with the 'B' share scheme, replicate a buy-back of shares to the value of £1.25 billion. In the opinion of the board, this approach enables the cash value of £1.25 billion to be passed through to shareholders in a quick and effective manner and treats all shareholders on an equal basis.

The proposed scheme, which is subject to shareholder approval, is expected to be completed during April 2001.

# FINANCIAL REVIEW (continued)

## GROUP PROCESS REVIEW

During 2000, we have continued with the implementation of the Group Process Review, which commenced in 1999 and is focused on reducing costs across the group in order to improve margins and to provide additional funds for investment in core businesses.

The total costs incurred in 2000 for the implementation were £16.9 million, bringing the total expenditure in 1999 and 2000 to £31.5 million. Further exceptional costs are expected to arise during 2001 as the remainder of the projects are completed.

Of the total expenditure to date on the Group Process Review, £13.8 million related to businesses which have been divested during 2000. We believe that the actual and prospective cost savings identified within the businesses were reflected in the sale prices achieved for those businesses.

## EXCEPTIONAL ITEMS

The group's earnings for 2000 include the impact of £2.1 billion of exceptional items.

- The sales of businesses during the year referred to above have generated aggregate profits on disposal of £2,146.7 million.
- The group incurred costs of £19.6 million relating to the proposed merger with Carlton Communications Plc, which was abandoned by mutual agreement with Carlton in July 2000 following the announcement of the findings of the Competition Commission.
- The sales of businesses and the subsequent focus of United as a market information media group have resulted in a considerable level of reorganisation and restructuring of the group's operations. The total cost of restructuring in 2000 amounted to £22.3 million.
- The Group Process Review, which is described separately above, incurred costs of £16.9 million during the year.

Overall, the group's exceptional items have increased profit before tax by £2,084.1 million, and have increased basic earnings per share by 375.5 pence.

## DIVIDEND

The proposed final dividend is 11.2 pence, giving a total dividend for the year of 22.2 pence (1999: 22.2 pence). As previously reported, we intend to hold the dividend at this level until a cover of 2.5 times has been reached. The headline profit for 2000, before taking account of losses and funding costs attributable to online activities, equates to a dividend cover of 2.2 times.

Following the proposed return of cash to shareholders and share consolidation, it is our intention to continue to apply this approach of seeking a target dividend cover of 2.5 times to the revised share capital. However, in recognition of the expectation that the group will have a continuing level of investment in developing online businesses across its markets, the dividend cover will in future be measured using the profit after online activities.

## CASH FLOWS

The group continues to focus on cash management. Net operating cash inflow for the year, excluding discontinued and online businesses, was £188.5 million, giving cash conversion of 97 per cent. The continuing businesses spent £29.8 million on capital expenditure, £8.4 million more than depreciation. The excess of capital expenditure over depreciation reflects the levels of IT investment in the business, particularly within news distribution.

Net cash at 31 December 2000 was £1,553.0 million, compared to net debt at 31 December 1999 of £1,304.7 million. The inflow of £2,857.7 million mainly comprises £3,167.1 million of disposal proceeds, net of £145.7 million of investment and £193.0 million of tax and dividend payments.

## TREASURY & FINANCING

United's central treasury is responsible for managing the group's financing and for the overall monitoring and control of financial risks (including liquidity, interest rate and foreign currency risks) arising from the group's activities. Treasury policies are agreed by the board, which has also issued guidelines on the use of financial instruments. The group does not undertake speculative transactions.

Foreign currency transaction exposures are covered as they arise, generally using forward foreign exchange contracts. United does not hedge profit translation exposures, as these are accounting rather than cash exposures. However, foreign currency borrowings are used where appropriate to provide an economic hedge against investment in overseas territories.

The group borrows centrally on behalf of its subsidiaries with the aim of maximising flexibility and price competitiveness. A variety of different funding sources have been used, including syndicated bank facilities, private placements and the public debt markets. Despite the changes in the group's portfolio during 2000, United has maintained its investment grade long-term ratings of Baa2 by Moody's Investor Services Inc. and BBB by Standard & Poor's.

Interest rate exposure is managed by using fixed rate borrowings and financial instruments such as interest swaps. These instruments allow United to select its preferred level of fixed rate net debt. To maximise flexibility the guidelines issued by the board do not stipulate that a minimum proportion of net debt must be at a fixed interest rate. Cash is invested with the emphasis on preservation of capital, with limits for individual counterparties based on credit ratings and liquidity.

At the year end, the group had net cash balances of £1,553 million. Of this, £1,250 million is invested specifically to fund the return of capital to shareholders referred to above. The group has long-term borrowings of £590.5 million, principally the US bonds of $500 million issued in 1999. 94 per cent of the group's borrowings are at fixed rates after taking account of interest rate swaps. Full information on the group's cash and borrowings is given in note 23. Average interest rates on fixed rate borrowings were 7 per cent, and the average maturity of all debt was 4.7 years. Interest cover for the year was 8 times.

Unutilised facilities at the year end were £1,160 million, provided by a group of well known international banks.

## SUMMARY FINANCIAL STATEMENT

In view of the complexity of the analysis and disclosure of financial information required by Accounting Standards, the group prepares a summary financial statement. This is included in the review of operations to provide an overview of the group's performance. The annual review, which contains the summary financial statement, is sent to those shareholders who do not request the full annual report. Copies of this supplementary report and accounts are available to any shareholder if required, and can be obtained from the company secretary's office.

## GOING CONCERN

Having reviewed the group's liquid resources, borrowing facilities and cash flow forecast, the directors believe that the group has adequate resources to continue as a going concern for the foreseeable future.

# Proforma five year financial summary*

| | 2000 £m | Restated 1999 £m | 1998 £m | 1997 £m | 1996 £m |
|---|---|---|---|---|---|
| **Profit and loss account** | | | | | |
| Turnover | **1,975.0** | 2,171.3 | 1,911.5 | 1,931.7 | 1,653.2 |
| Headline profit before online businesses | **342.4** | 307.4 | 290.2 | 287.1 | 249.0 |
| Amortisation of intangible assets | **(186.6)** | (244.4) | (167.0) | (163.8) | (115.6) |
| Profit/(loss) before tax | **2,093.2** | (42.3) | 345.5 | 108.9 | 144.4 |
| **Earnings/(loss) per share** | | | | | |
| Headline pre online businesses | **49.5p** | 46.3p | 41.6p | 41.1p | 35.3p |
| Pre amortisation of intangible assets and exceptional items | **27.4p** | 36.9p | 37.2p | 30.5p | 29.8p |
| Basic | **365.7p** | (21.2)p | 56.3p | 7.4p | 17.4p |
| Ordinary dividends | **22.2p** | 22.2p | 22.9p | 24.0p | 23.5p |

* Proforma figures excluding Garban

# Financial calendar

| | |
|---|---|
| Ex dividend date | 7 March 2001 |
| Record date | 9 March 2001 |
| Annual General Meeting: | 2pm 2 May 2001 |
| Final dividend to be paid: | 15 May 2001 |
| Interim results announced: | 3 August 2001 |
| Interim dividend expected to be paid: | October 2001 |

# Remuneration report

## ROLE OF THE REMUNERATION COMMITTEE

The remuneration committee consists exclusively of independent non-executive directors. It was chaired by Sir James McKinnon and, following his retirement in December 2000, is now chaired by John Botts. The other members of the committee are Sir Ronald Hampel, Christopher Powell, Adair Turner, Geoffrey Unwin and Fields Wicker-Miurin. The committee meets formally on average three times a year.

On matters other than those concerning his own remuneration, the chief executive attends the committee meeting by invitation.

The committee's role is to determine all aspects of the remuneration package and terms of employment for each of the executive directors of the company and, where requested, for other senior executives of the group, and to set the policy and make awards under the group's share option and other long-term incentive plans.

## POLICY ON REMUNERATION OF NON-EXECUTIVE DIRECTORS

The fees of the chairman and non-executive directors are considered and approved by the board as a whole, having regard to current market practice.

During the year the board reviewed its policy on remuneration of non-executive directors and decided that, in order to link the interests of non-executive directors more closely with those of shareholders, part of their fees should be paid in the form of shares. Accordingly, with effect from 1 October 2000, John Botts, Christopher Powell, Adair Turner, Geoffrey Unwin and Fields Wicker-Miurin each receive a fee of £35,000 per annum of which it is proposed that £10,000 per annum will be paid in the form of shares in the company. This fee includes membership of board committees; an additional £5,000 per annum is paid to each of John Botts and Geoffrey Unwin for their chairmanship of the remuneration and audit committees respectively. Sir Ronald Hampel receives a fee of £200,000 per annum for his role as chairman, of which £100,000 per annum is proposed to be paid in the form of shares in the company. Sir James McKinnon received a fee at the rate of £60,000 per annum in respect of his role as deputy chairman during 2000.

The proposal to pay the non-executive directors in the form of shares requires an amendment to the company's articles of association; this has been included in new articles of association for which shareholder approval will be sought in April 2001. It is proposed to award shares in arrears twice a year, the first such award to be made in April 2001 in respect of the six months from 1 October 2000. The number of shares to be awarded will be calculated by reference to the mid-market price on 31 March 2001 and the shares will not be released to the directors until they retire from the board. In the event that shareholders were not to approve the new articles of association, the directors would receive the full amount of their fees in cash.

Sir Ronald Hampel's appointment may be terminated by either party on at least 12 months' notice, not to be given before 1 July 2001.

The other non-executive directors do not have service contracts with the company; each has a notice period of 6 months. Each non-executive director's appointment (including the chairman) is reviewed on a three yearly cycle. Non-executive directors are not entitled to participate in the company's share option or pension schemes; however Roger Laughton, who retired as a non-executive director on 31 December 2000, held a number of options granted while he was an executive director of the company.

## POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS

### Total level of remuneration

The committee aims to ensure that remuneration packages offered to executive directors are aligned with business interests and reflect the company's commitment to long-term profitable growth.

Trends in remuneration during 2000 have been strongly influenced by fierce competition for technical, professional and management talent in the group's core businesses, particularly in the US. The company has had to keep up not only with the remuneration practices of other large companies but also with start-up companies which have offered very attractive share participation to join them. Whilst this pressure from new media ventures has now abated, the company still has to measure up to the remuneration policy and practices in the US, where more than half its business is based, and where remuneration policy is constantly put under the spotlight in response to the intense pressure caused by limited resources on attracting and retaining key people. In response to this the company is seeking to develop total remuneration packages that reward outperformance of demanding targets.

In summary, the company seeks to offer packages which:

- » attract, retain and motivate executives of the highest quality and with the requisite skills and experience
- » provide incentive arrangements which are subject to challenging performance targets and which reflect the group's objectives
- » ensure directors identify with shareholders' interests
- » reflect the underlying performance of the businesses.

The main components of executive directors' remuneration are:

- » basic salary
- » benefits (or a cash allowance instead of the provision of corporate benefits)
- » annual performance related bonus
- » pension
- » longer term incentives.

Long term incentive arrangements were reviewed during 2000 to more closely align them with the goals described above and with the marketplace. Details of these are provided on pages 8 and 9.

It is recognised that by holding the office of a non-executive director of another company, an executive director can gain valuable knowledge and experience that can benefit the company. The policy therefore provides for executive directors to accept not more than one outside appointment where no conflict of interest exists with the group's business. An executive director may retain the fees received for a non-executive directorship.

# Remuneration report

**POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS** (continued)

### Directors' service contracts

Executive directors have service contracts that are terminable on one year's notice by either party except for Clive Hollick and Charles Gregson whose contracts are terminable on two years' notice by either party. These notice periods have been in place since the directors joined the company and the committee does not believe it to be appropriate or cost-effective to buy out these notice periods.

In the event that either Clive Hollick's or Charles Gregson's service were to be terminated by the company without their consent, they would be entitled to an immediate pension based on their Final Pensionable Salary at the date of termination and the proportion of their pension entitlement at age 60. The proportion would be calculated as the ratio of actual service completed to the date of termination to total service up to age 60.

The committee has agreed that Clive Hollick and Charles Gregson will have the flexibility to request the trustees of the pension plan to pay a transfer value from the plan, rather than requiring the director to draw an immediate pension.

Except for the aforementioned provision, the directors' service contracts do not provide for predetermined amounts of compensation. The duty to mitigate any loss would normally be taken into account if directors' contracts were terminated on less than the contractual notice period.

### Basic salaries

Basic salary for each director is determined annually with effect from 1 January.

The company regularly participates in executive remuneration surveys that provide information on the practice of FT-SE 100 and other major public companies to measure the competitiveness of the directors' base salaries. In addition to measurement against competitive market data, factors such as inflation, the individual's performance, the company's performance and the salary policy throughout the group as a whole are taken into account when determining basic salary levels. Basic salaries are reviewed in the context of the overall remuneration package.

### Benefits

The company offers directors a cash benefits allowance (which is non-pensionable) from which they can purchase benefits, which might typically include a car, private medical insurance, long-term disability insurance and additional life assurance. This practice has the advantage of offering the directors maximum flexibility in choice of benefits whilst controlling the cost of providing these benefits.

### Bonus

Directors can earn an annual bonus of up to a maximum of 50 per cent of basic salary. The receipt of annual bonuses is dependent on the achievement of targets which are agreed at the beginning of the year to encourage performance in a manner which the committee considers will contribute most to increasing shareholder value for that year. Targets might typically include growth in profits, earnings per share, cash conversion levels as well as individual objectives.

During the year bonuses were paid to 160 people in connection with the proposed merger with Carlton Communications and the subsequent sale of the group's television businesses to Granada Media plc. As part of this programme special bonuses were awarded to Clive Hollick, Charles Gregson and Charles Stern.

### Pension entitlement

The table on page 8 shows the amount of the pension entitlement accrued during the year for Clive Hollick and Charles Gregson who both participated in a defined benefit scheme. Former director Nigel Donaldson was in receipt of both a deferred pension within a defined benefit scheme and benefits under a defined contribution arrangement. Details are provided on page 8.

Other directors are entitled to benefits under defined contribution arrangements. Details of the contributions paid during the year by the company under these arrangements can also be found on page 8.

Clive Hollick and Charles Gregson are members of the executive tier of the United Pension Plan (formerly called the MAI Pension Scheme) which is an approved defined benefit scheme. The company meets the full cost of the benefits. Normal retirement age is 60 and the pension entitlement is 2/3rds of Final Pensionable Salary, which is the annual average of the best three consecutive Pensionable Salaries in the last ten years. Under the terms of their service contracts, Pensionable Salary is defined as total taxable earnings, including bonus, less car allowance and any benefits in kind.

Members of the United Pension Plan receive increases on their pensions in payment of 5 per cent pa or RPI, if less, for all pensionable service. The widow's pension for the two executive directors is 2/3rds of their pension.

# Remuneration report

**POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS** (continued)

| Name | Current age | Additional pension earned in excess of inflation during the year ended 31 December 2000 £000 pa | Accrued entitlement at year end 31 December 2000 £000 pa | Accrued entitlement at year end 31 December 1999 £000 pa |
|---|---|---|---|---|
| Clive Hollick | 55 | 24 | 507 | 478 |
| Charles Gregson | 53 | 15 | 309 | 291 |

Directors' defined contribution pension provision is set out in the table below:

| Name | retirement age | Pension contribution | Company pension contributions for the year £000 |
|---|---|---|---|
| Charles Stern | 60 | 41% of basic salary up to £170,000. 15% on the excess. | 89 |
| Tony Tillin | 60 | 20% of full year's basic salary | 57 |
| Nigel Donaldson | 65 | 19% of (pro-rata) basic salary + 401K plan | 32 |

NOTES: **Nigel Donaldson:**

Nigel Donaldson left the group on 20 June 2000 following the sale of UAP, Inc. Mr Donaldson elected to pay his sale bonus of £286,130 into his SERPS. As the retirement age for main board directors is normally 60, he was also awarded £264,568 to partially compensate him for a shortfall in his retirement fund.

Nigel Donaldson has a deferred pension under the United Magazines Final Salary Pension Scheme of £41,111 pa. The deferred pension increases in line with the Retail Prices Index up to 5 per cent per annum from the date he left the scheme (31 December 1993) until Mr Donaldson's retirement age. Mr Donaldson does not contribute to the scheme. Mr Donaldson is presently aged 57. Normal retirement age under the scheme is 65. The widow's pension on death in retirement is 50 per cent of the director's pension. The pension increases once it is in payment at the lesser of 5 per cent per annum or the increase in the Retail Price Index. Any transfer value would be based on the guaranteed benefits outlined above. Early Retirement from age 60 may be given under the scheme without an early retirement reduction applying to the pension if the group agrees to the director's retirement.

**Share options and long-term incentive arrangements**

Executive Share Options

During the year the company undertook an extensive review of its long-term incentive arrangements in the light of changes in the marketplace, as well as the new guidelines issued by the ABI in July 1999. Following this review the company, with the approval of its shareholders, established the United Business Media 2000 Executive Scheme, under which options are granted to senior executives and employees of the group. There are three parts to the scheme, the first of which is approved by the Inland Revenue and is used to grant options to UK resident executives up to a maximum limit of £30,000. The other two parts of the scheme are not designed for Inland Revenue approval; the first of these, Part B, is used to grant options to non UK resident executives and UK resident executives who already hold more than £30,000 worth of outstanding approved options. Options under Part B may be designated as basic options (i.e. those granted at market value) or premium priced options, which may be granted at a premium of 25 per cent, 50 per cent or 75 per cent to the market value of the shares. The third part of the scheme is intended to allow the grant of approved options in the US known as incentive stock options.

There is no specified limit for the grant of options to individuals under this scheme but the committee will determine the appropriate level of each grant, having regard to corporate objectives, market forces and individual circumstances. It is anticipated that awards will be made on a phased basis. The initial awards made in December 2000 included the grant of options to 21 senior executives of the group (including executive directors) at a multiple of approximately four times salary. This was considered to be appropriate given the wish to incentivise these individuals following the major re-focusing of the group's activities, particularly in light of the group's increased exposure to US markets and the need to compete for talent in the US. Half of the options granted will vest after three years and the other half after four years, subject to achievement of the performance condition referred to below.

Options granted under the 2000 Executive Scheme will lapse (if not previously exercised) on the tenth anniversary of their grant date. The exercise of the basic options is subject to a performance condition which requires growth in earnings per share to exceed inflation by an average of 3 per cent per annum for options up to a value of 0.75 times salary. In order for the whole award to vest, growth in earnings per share must exceed inflation by an average of 5 per cent per annum. A sliding scale applies between these two figures. These performance conditions are measured over a period of three to six years from the date of grant. Premium priced options require real earnings per share growth of 3 per cent per annum over a rolling three year period; participants must also comply with the company's minimum shareholding guidelines in order to exercise these options.

# Remuneration report

**POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS** (continued)

### Senior Executive Equity Participation Plan

Under the United Business Media 2000 Senior Executive Equity Participation Plan ("SEEPP"), selected senior executives may opt to waive part of their remuneration and to receive interests in shares in the company to the equivalent value. The trustee of the SEEPP purchases shares in the company in the market to the value of the remuneration foregone by the executive ("bonus shares") which can be exercised at any time at a nominal price. Alternatively the executive could elect to purchase the bonus shares directly and deposit them with the trustee of the SEEPP. The executive may also be granted a right to acquire shares ("matching shares") in the company equal in value to the gross amount of the remuneration foregone or for the gross amount required to purchase bonus shares, at a nominal price. A matching share award will normally be exercisable in full between the fourth and tenth anniversaries of its grant, but only to the extent that the attached bonus shares remain unexercised. One third of a matching share award is not contingent on a performance condition while the remaining two thirds do require a performance condition to be met. The terms of the SEEPP are varied for US residents to take account of local tax legislation.

### Other long-term incentive arrangements

The 2000 Executive Scheme and SEEPP described above replace the following schemes previously operated by the company:-

» The 1994 UK and International Executive Share Option Schemes
These operated in the same way as the 2000 Executive Scheme but with less demanding performance criteria. The maximum level of grants that could be made under these schemes was four times annual salary.

» The 1996 SEEPP
This operated in the same way as the SEEPP which has replaced it, except that the matching awards were subject to a longer vesting period (up to seven years) but no performance conditions.

» Long Term Incentive Plan
This is a performance related plan restricted to executive directors and a small number of senior executives. Awards were made in the form of a provisional entitlement to receive shares in the company up to a maximum value of 100 per cent of the participant's salary (excluding benefits in kind) in any financial year. The allocated shares would be received, subject to satisfaction of the performance condition, no earlier than the third anniversary of the allocation date. The performance condition requires the group's total shareholder return (i.e. share price movement and dividends paid) when compared with that of the other FTSE 100 companies over the three year period, to place the group in at least 50th position within the FTSE 100. If the group's position is 25th or above the shares will vest in full, while 20 per cent of the shares will vest at 50th position. For positions between 25 and 50 these shares will be allocated proportionately on a sliding scale.

Awards are still outstanding under the above arrangements and, in so far as they relate to executive directors, are described in the tables on pages 11 to 12.

No further awards will be made under any of these arrangements.

The company also operated two individual incentive plans for Nigel Donaldson and Tony Tillin, executive directors who left during the year. No awards vested under Nigel Donaldson's plan; Tony Tillin received 15,789 shares following his cessation of employment on 30 June 2000.

### Sharesave

The company also operates both UK and International sharesave plans which enable eligible employees around the group to acquire options over ordinary shares of the company at a discount of up to 20 per cent of their market price, using the proceeds of a related SAYE contract. All employees who have worked for the minimum qualifying period in the relevant countries are eligible to join the scheme. Some options were originally granted under the MAI sharesave scheme on similar terms to the above and have now been rolled over into options over the company's shares. The International plan is currently extended to eligible employees in the USA, Germany, Hong Kong and Singapore. Options under the International plan are granted in local currency.

### All Employee Share Ownership Plan

Following the introduction of this plan in the 2000 Finance Act the company has established an All Employee Share Ownership Plan ("AESOP"). No awards have yet been granted under this plan.

# Remuneration report

**TABLE OF INDIVIDUAL DIRECTORS' REMUNERATION**

| Directors | Position | Basic salary £ | Fees £ | Benefits £ | Termination payments £ | Bonus £ | Total in 2000 £ | Total in 1999 £ |
|---|---|---|---|---|---|---|---|---|
| Clive Hollick | Chief Executive | 648,900 | | 17,850 | | 973,350 | **1,640,100** | 944,850 |
| Charles Gregson | Director | 187,500 | | 6,817 | | 129,988 | **324,305** | 171,283 |
| Charles Stern | Director | 300,000 | | 18,125 | | 201,092 | **519,217** | 403,307 |
| Sir Ronald Hampel | Non-Executive Chairman | | 162,500 | | | | **162,500** | 75,000 |
| John Botts | Non-Executive Director | | 32,500 | | | | **32,500** | 28,750 |
| Christopher Powell | Non-Executive Director | | 29,375 | | | | **29,375** | 26,250 |
| Adair Turner | Non-Executive Director | | 29,375 | | | | **29,375** | |
| Geoffrey Unwin | Non-Executive Director | | 32,500 | | | | **32,500** | 28,750 |
| Fields Wicker-Miurin | Non-Executive Director | | 29,375 | | | | **29,375** | 26,250 |
| **Directors who retired during the year** | | | | | | | | |
| Nigel Donaldson | Director (US) | 146,311 | | 6,319 | 286,130 | | **438,760** | 355,115 |
| Tony Tillin | Director | 142,500 | | 9,327 | 166,575 | 11,967 | **330,369** | 400,757 |
| Sir James McKinnon | Non-Executive Deputy Chairman | | 60,000 | | 15,000 | | **75,000** | 57,500 |
| Roger Laughton | Non-Executive Director | | 27,500 | | 6,875 | | **34,375** | 78,387 |
| **Total emoluments** | | 1,425,211 | 403,125 | 58,438 | 474,580 | 1,316,397 | **3,677,751** | 2,596,199 |

**NOTE 1** Benefits are either non–pensionable car and benefit cash allowances or benefits in kind provided by the company.

**NOTE 2:** Sir James McKinnon retired as non–executive deputy chairman effective 31 December 2000 and received a termination payment as shown above.

**NOTE 3:** Roger Laughton retired as a non–executive director effective 31 December 2000 and received a termination payment as shown above.

**NOTE 4:** Part or all of the bonus can be sacrificed to the United SEEPP.

**NOTE 5:** Clive Hollick was the highest paid director.

**NOTE 6:** The US director's remuneration has been converted to sterling using the average year to date exchange rate of $1.5119 to £1.

**NOTE 7:** Sir Ronald Hampel was appointed on 1 July 1999 and his 1999 figure is based on his remuneration from 1 July to 31 December 1999.

**NOTE 8:** Nigel Donaldson was paid a special termination bonus of £286,130 on the sale of UAP, Inc, which he chose to pay into his pension scheme. He resigned as a director on 18 April 2000 and the figures shown are for the period to 20 June 2000, when UAP, Inc was sold.

**NOTE 9:** Charles Gregson's time is split between his executive chairmanship of Garban Intercapital and his work for United. From 1 July 2000 the split was altered from 2 to 3 days per week with United, and his remuneration shown in the table above reflects the proportion relating to his services for the company.

**NOTE 10:** Adair Turner was appointed as a non–executive director on 1 January 2000 and his remuneration has been included from that date.

**NOTE 11:** Tony Tillin resigned as a director on 18 April 2000 and the figures shown are for the period to 30 June 2000, when his employment with the group ceased.

**NOTE 12:** Non-executive directors' fees include an element which is proposed to be paid in the form of United shares, as shown on page 6.

# Remuneration report

DIRECTORS' INTERESTS

**Directors' interests in United ordinary shares of 25p ("United Shares")**

The interests of the directors in United shares (all of which are beneficial) are shown as follows: at 1 January 2000 and at 31 December 2000.

| Director | Ordinary shares at 1.1.2000 | Ordinary Shares at 31.12.2000 | SEEPP Bonus Shares at 1.1.2000 | SEEPP Bonus Shares at 31.12.2000 |
|---|---|---|---|---|
| Sir Ronald Hampel | 1,750 | 9,250 | – | – |
| Clive Hollick | 524,123 | 557,477 | 362,324 | 362,324 |
| Charles Gregson | 314,885 | 356,986 | 24,757 | 24,757 |
| Charles Stern | 2,734 | 2,734 | 29,566 | 31,725 |
| John Botts | 3,000 | 3,000 | – | – |
| Christopher Powell | 4,032 | 4,032 | – | – |
| Adair Turner | – | – | – | – |
| Geoffrey Unwin | 5,972 | 5,972 | – | – |
| Fields Wicker-Miurin | – | 350 | – | – |

At 31 December 2000, the trustees of the United News & Media Employee Share Ownership Trust, and the Qualifying Employee Share Trust (QUEST) held a total of 3,568,004 United shares (1999: 3,212,302), and options over 2,063,423 United shares (1999: 1,503,980). Under paragraph 2 of Schedule 13 of the Companies Act, the executive directors are deemed to be interested in these shares and options.

DIRECTORS' INTERESTS IN OPTIONS OVER UNITED SHARES

The interests of the directors in options over United shares are shown at 1 January 2000 and at 31 December 2000.

| | Date of Grant | Options held at 1.1.00 | Exercised/ lapsed during 2000 | Options held at 31.12.00 | Exercise period from | Exercise period to | Exercise price (p) | Market price at date of exercise | Total gain on exercise |
|---|---|---|---|---|---|---|---|---|---|
| **Clive Hollick** | | | | | | | | | |
| MAI Executive Schemes | 28.10.91 | 96,000 | – | 96,000 | 28.10.94 | 28.10.01 | 192.188 | | |
| | 30.10.92 | 51,200 | – | 51,200 | 30.10.95 | 30.10.02 | 234.375 | | |
| | 28.10.93 | 28,800 | – | 28,800 | 28.10.96 | 28.10.03 | 363.281 | | |
| | 13.10.94 | 44,800 | – | 44,800 | 13.10.97 | 13.10.04 | 374.219 | | |
| | 20.10.95 | 64,000 | – | 64,000 | 20.10.98 | 20.10.02 | 467.625 | | |
| MAI Sharesave Scheme | 20.10.95 | 1,950 | – | 1,950 | 01.12.02 | 01.06.03 | 400.000 | | |
| United Executive Schemes | 16.09.96 | 153,455 | – | 153,455 | 16.09.99 | 16.09.06 | 686.000 | | |
| | 18.12.00 | – | – | 152,500 | 18.12.03 | 18.12.10 | 843.000 | | |
| | 18.12.00 | – | – | 152,500 | 18.12.04 | 18.12.10 | 843.000 | | |
| United SAYE Scheme | 01.11.96 | 1,464 | – | 1,464 | 01.02.04 | 01.08.04 | 532.600 | | |
| | 31.10.97 | 616 | – | 616 | 01.02.05 | 01.08.05 | 632.700 | | |
| **Charles Gregson** | | | | | | | | | |
| MAI Executive Schemes | 28.10.91 | 96,000 | 96,000 | – | 28.10.94 | 28.10.01 | 192.188 | 843.0 | £624,780 |
| | 30.10.92 | 51,200 | – | 51,200 | 30.10.95 | 30.10.02 | 234.375 | | |
| | 28.10.93 | 28,800 | – | 28,800 | 28.10.96 | 28.10.03 | 363.281 | | |
| | 13.10.94 | 44,800 | – | 44,800 | 13.10.97 | 13.10.04 | 374.219 | | |
| | 20.10.95 | 64,000 | – | 64,000 | 20.10.98 | 20.10.02 | 467.625 | | |
| United Executive Schemes | 16.09.96 | 69,252 | – | 69,252 | 16.09.99 | 16.09.06 | 686.000 | | |
| | 18.12.00 | – | – | 52,500 | 18.12.03 | 18.12.10 | 843.000 | | |
| | 18.12.00 | – | – | 52,500 | 18.12.04 | 18.12.10 | 843.000 | | |
| United SAYE Scheme | 01.11.96 | 2,591 | – | 2,591 | 01.02.02 | 01.08.02 | 532.600 | | |
| | 15.12.98 | 655 | – | 655 | 01.02.04 | 01.08.04 | 514.800 | | |
| **Charles Stern** | | | | | | | | | |
| United Executive Schemes | 13.04.93 | 111,544 | – | 111,544 | 13.04.96 | 13.04.03 | 530.10 | | |
| | 27.04.94 | 12,616 | – | 12,616 | 27.04.97 | 27.04.04 | 630.80 | | |
| | 04.04.95 | 5,182 | – | 5,182 | 04.04.98 | 04.04.05 | 505.50 | | |
| | 19.04.96 | 16,165 | – | 16,165 | 19.04.99 | 19.04.06 | 658.50 | | |
| | 16.09.96 | 6,346 | – | 6,346 | 16.09.99 | 16.09.06 | 686.00 | | |
| United SAYE Scheme | 10.11.95 | 4,097 | – | 4,097 | 01.02.01 | 01.08.01 | 421.00 | | |

# Remuneration report

**DIRECTORS' INTERESTS IN LONG-TERM INCENTIVE SCHEMES**

**Senior Executive Equity Participation Plan ("SEEPP")**

| | Bonus shares /options at 01.01.00 | Matching options at 01.01.00 | Bonus shares /options acquired in 2000 | Matching options granted in 2000 | Bonus shares /options at 31.12.00 | Matching options at 31.12.00 | Bonus amount* | Price paid for shares/ option (p) | Exercisable from | Expiry Date | Market Value§ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Clive Hollick** | 36,728* | 36,728 | – | – | 36,728 | 36,728 | £260,400 | 709.00 | 16.09.00 | 29.06.07 | £312,188 |
| | 20,117* | 20,117 | – | – | 20,117 | 20,117 | £155,006 | 770.50 | 17.03.01 | 29.06.07 | £170,995 |
| | 34,038* | 34,038 | – | – | 34,038 | 34,038 | £263,796 | 775.00 | 18.03.02 | 29.06.07 | £289,323 |
| | 337,567† | 113,273† | – | – | 337,567 | 113,273 | n/a | n/a | 30.09.00 | 29.06.07 | £962,821 |
| | 24,757‡ | 24,757‡ | – | – | 24,757 | 24,757 | n/a | n/a | 03.12.99 | 29.06.10 | £210,435 |
| | – | – | 33,354* | 33,354 | 33,354 | 33,354 | £309,000 | 926.44 | 03.03.04 | 29.06.10 | £283,509 |
| **Charles Gregson** | 13,417* | 13,417 | – | – | 13,417 | 13,417 | £95,120 | 709.00 | 16.09.00 | 26.06.07 | £114,045 |
| | 4,994* | 4,994 | – | – | 4,994 | 4,994 | £38,483 | 770.50 | 17.03.01 | 29.06.07 | £42,449 |
| | 15,152* | 15,152 | – | – | 15,152 | 15,152 | £117,430 | 775.00 | 18.03.02 | 29.06.07 | £128,792 |
| | 9,398* | 9,398* | – | – | 9,398 | 9,398 | £61,513 | 654.56 | 08.03.03 | 29.06.07 | £79,883 |
| | 24,757‡ | 24,757‡ | – | – | 24,757 | 24,757 | n/a | n/a | 03.12.99 | 29.06.10 | £210,435 |
| | – | – | 2,335* | 2,335 | 2,335 | 2,335 | £21,630 | 926.44 | 03.03.04 | 29.06.10 | £19,848 |
| **Charles Stern** | 9,733 | 9,733 | – | – | 9,733 | 9,733 | £75,000 | 770.50 | 17.03.01 | 29.06.10 | £82,731 |
| | 12,194 | 12,194 | – | – | 12,194 | 12,194 | £94,505 | 775.00 | 18.03.02 | 29.06.10 | £103,649 |
| | 7,639 | 7,639 | – | – | 7,639 | 7,639 | £50,000 | 654.56 | 08.03.03 | 29.06.10 | £64,932 |
| | – | – | 2,159 | 2,159 | 2,159 | 2,159 | £20,000 | 926.44 | 03.03.04 | 29.06.10 | £18,352 |

No options were exercised during 2000. These options were granted over the same numbers of United shares and at the same exercise price as options previously held under the SEEPP and given up by each of the above directors.

* The bonus was paid to the director's Funded Unapproved Retirement Benefit Scheme ("FURBS"). The FURBS Trustees purchased shares from the SEEPP Trustees to the value of the bonus and a matching option was granted over the same number of shares. The bonus shares are included in the director's beneficial interest in shares, shown on page 11.

§ Market value of matching options at 850.0p per share, the closing mid-market price on 31 December 2000.

† These options were granted to Clive Hollick in exchange for options held under the Meridian Scheme.

‡ The options were granted in exchange for options held under the 1989 MAI Purchase Only Scheme, the rights to which were waived. Both the bonus and matching options are exercisable in full.

**Long Term Incentive Plan ("LTIP")**

| | Shares allocated at 01.01.00 | Shares allocated during 2000 | Value of award at date of grant | Shares allocated at 31.12.00 | Earliest date for transfer | Market value* |
|---|---|---|---|---|---|---|
| Clive Hollick | 50,285 | – | £388,000 | 50,285 | 21.05.00 | £427,423 |
| | 77,710 | – | £600,000 | 77,710 | 18.03.01 | £660,535 |
| | 105,027 | – | £610,000 | 105,027 | 23.03.02 | £892,730 |
| | – | 75,435 | £648,900 | 75,435 | 03.03.03 | £641,198 |
| Charles Gregson | 39,528 | – | £305,000 | 39,528 | 21.05.00 | £335,988 |
| | 45,330 | – | £349,993 | 45,330 | 18.03.01 | £385,305 |
| | 62,067 | – | £360,485 | 62,067 | 23.03.02 | £527,570 |
| | – | 43,594 | £375,000 | 43,594 | 03.03.03 | £370,549 |
| Charles Stern | 27,216 | – | £210,000 | 27,216 | 21.05.00 | £231,336 |
| | 32,379 | – | £250,000 | 32,379 | 18.03.01 | £275,222 |
| | 44,335 | – | £257,500 | 44,335 | 23.03.02 | £376,848 |
| | – | 34,875 | £300,000 | 34,875 | 03.03.03 | £296,438 |

*Market value of LTIP shares at 850.0p per share, the closing mid-market price on 31 December 2000.

**Changes in directors' interests since 31 December 2000**

The LTIP awards made to executive directors in 1997 lapsed in January 2001. The 1998 LTIP awards have vested in part and will be transferred to participants following the third anniversary of the date of grant; the unvested portion of the 1998 LTIP awards has also lapsed. There have been no other changes to the interests of directors in United shares nor in options over United shares between the year end and 27 February 2001.

# Independent auditors' report to the members of United Business Media plc

We have audited the financial statements which comprise the group profit and loss account, the balance sheets of the group and company, the group cash flow statement, the statement of group total recognised gains and losses and the reconciliation of movements in group shareholders' funds and the related notes.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

#### BASIS OF AUDIT OPINION

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

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

#### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2000 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

*Chartered Accountants and Registered Auditors*
London

27 February 2001

# Corporate governance statement

## COMBINED CODE COMPLIANCE

The board is committed to compliance with the principles of the combined code on corporate governance which is appended to the Listing Rules of the Financial Services Authority. The board considers that during 2000 the company complied fully with the provisions of section 1 of the combined code, save in relation to provision B.1.7 (directors' notice periods, referred to in the remuneration report on pages 6 to 12). The company has complied with internal control provisions by establishing the procedures necessary to implement the guidance issued in September 1999 (the Turnbull committee report) and by reporting in accordance with that guidance.

## THE BOARD

The company's articles of association require all directors who have been appointed since the last annual general meeting, and one third of the remaining directors, to retire at each annual general meeting. The company complies with provision A.6.2. of the combined code, which requires directors to retire and seek re-election at intervals of no more than three years.

The primary function of the board is to set the group's strategy and to oversee the effective implementation of that strategy. To enable it to carry out its responsibilities, detailed information on the group's operations, including management accounts and reports from the chief executive and divisional heads, is supplied to the board on a monthly basis.

Scheduled board meetings take place eight times a year, with additional meetings being convened if circumstances require. There is an established agenda of items to be considered at board meetings, and the board also receives presentations from executive directors and other senior executives on specific issues. The chairman meets with the chief executive on a weekly basis and other informal meetings and discussions take place between directors as appropriate.

The board comprises the chairman (part-time), chief executive, two other executive and five non-executive directors. The roles of chairman and chief executive are separate. The board has nominated John Botts as the senior independent non-executive director. There are three principal board committees, all of which have written terms of reference. Details of these committees are as follows:-

**The audit committee** is chaired by Geoffrey Unwin and its other members during the year were Sir James McKinnon, John Botts and Sir Ronald Hampel. Following Sir James McKinnon's retirement, he has been replaced on the audit committee by Adair Turner. The committee meets at least three times a year, together with the finance director, head of internal audit and external auditors. Its primary purpose is to review the group's accounting procedures and financial control environment, as well as dealing with matters relating to the appointment of external auditors. The committee also reviews annually the scope and results of the audit, as well as the fees of the auditors for both audit and non-audit services, and makes recommendations to the board on these issues. It also reviews the independence and objectivity of the auditors. The committee is authorised to seek information from any employee of the group and to obtain external professional advice if it considers it necessary. Both internal and external auditors have direct access to the committee.

**The remuneration committee** is chaired by John Botts (who took over from Sir James McKinnon) and its other members are Sir Ronald Hampel, Christopher Powell, Adair Turner, Geoffrey Unwin and Fields Wicker-Miurin. All members of the committee are independent non-executive directors. Further details of the committee's activities are set out in its report on pages 6 to 12. The company was among the first to invite its shareholders to vote on its remuneration policy, and will do so again at this year's annual general meeting.

**The nomination committee** is chaired by Sir Ronald Hampel and its other members are Clive Hollick and John Botts. The committee meets as required to review the structure, size and composition of the board and to identify candidates, both executive and non-executive, to fill board vacancies as they arise.

## NON-EXECUTIVE DIRECTORS

The directors believe that effective corporate governance is strengthened by the presence of a strong independent element on the board. Biographies of all the directors currently in office are set out on pages 20 to 21 of the Annual Review, and illustrate the range of experience of directors. All non-executive directors are considered by the company to be independent for the purposes of the combined code.

## RELATIONS WITH SHAREHOLDERS

The company maintains an ongoing dialogue with its major institutional shareholders by means of meetings and presentations as appropriate. Consultation is undertaken with the ABI and other bodies representing shareholders' interest on matters which the company considers appropriate; one example of this is the discussion that took place regarding the establishment and implementation of new incentive schemes during the year. Shareholders are welcome at the annual general meeting where they have the opportunity to ask questions of all the directors, including the chairman as well as the chairmen of the audit and remuneration committees. The company considers its annual and interim reports to be of primary importance in keeping shareholders informed about the activities and progress of the group. Financial and other information about the company is published on its website, which has links to the websites of other businesses in the group.

# Corporate governance statement

## INTERNAL CONTROL

The board is responsible for the effectiveness of the group's system of internal controls. Such systems can provide only reasonable and not absolute assurance against material mis-statement or loss.

There is an ongoing process for identifying, evaluating and managing the key financial, operating and compliance risks faced by the group, which has been in place during the year and continues in force. This process accords with the Turnbull guidance issued in September 1999. The process aims to identify and evaluate risks which are specific to each of its businesses; it is undertaken at a divisional level and the results co-ordinated and reviewed by the audit committee. The board, through the audit committee, has reviewed the effectiveness of the group's system of internal control.

Day to day management of the group's businesses is delegated to the chief executive and the executive directors within the financial and strategic objectives for the group as approved by the board. The chief executives of the individual businesses are accountable for the conduct and performance of their division within the agreed strategy and they are authorised to act in accordance with a system of delegated authorities which is monitored by the internal audit department.

Individual businesses are responsible for complying with the group's financial reporting mechanism which includes a comprehensive budgeting and financial reporting mechanism, providing monthly trading results, balance sheets and cash flow statements recorded against corresponding figures for the budget and the previous year. They are also responsible for compliance with certain group policies and guidelines set out in the group's financial policies and procedures manual and the group policy manual.

Compliance with the foregoing is monitored by the internal audit department, which undertakes periodic reviews of individual businesses to assess their control status.

# Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that in preparing the financial statements for the year ended 31 December 2000 the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2000.

### ACTIVITIES, BUSINESS REVIEW AND DEVELOPMENT

During 2000 the group's principal activities were in the areas of business services, consumer media and online. The current activities of the group are described in more detail on pages 10 to 16 of the Annual Review. The financial review on pages 17 to 19 contains details of the performance of the group and its divisions during the year.

On 28 July 2000 the company announced that, following the decision not to proceed with its merger with Carlton Communications plc, it intended to dispose of its ITV broadcasting and production businesses to Granada Media plc. This disposal was completed on 19 December 2000. Other disposals during the year include the group's stock photography business, VCG; its US advertising periodicals business, UAP, Inc.; its European and part of its US exhibitions business, Miller Freeman; and Express Newspapers.

### RESULTS FOR THE YEAR AND DIVIDENDS

The results for the year are set out in the group profit and loss account on page 20. After accounting for dividends totalling £112.1 million (including the proposed dividend of £56.8 million), the balance to be transferred to reserves is £1,721.1 million. The directors recommend a final dividend of 11.2p per share for the year ended 31 December 2000 to be paid on 15 May 2001 to those shareholders on the register on 9 March 2001. An interim dividend of 11p per share was paid on 27 October 2000, making a total for the year of 22.2p (1999: 22.2p).

### DIRECTORS AND THEIR INTERESTS

Biographical details of directors in office as at 27 February 2001 are set out on pages 20 to 21 of the Annual Review. The following directors held office during the year:

Sir Ronald Hampel, Clive Hollick, John Botts, Nigel Donaldson (resigned 18 April 2000), Charles Gregson, Roger Laughton (retired 31 December 2000), Sir James McKinnon (retired 31 December 2000), Christopher Powell, Charles Stern (resigned 26 February 2001), Tony Tillin (resigned 18 April 2000), Adair Turner, Geoffrey Unwin and Fields Wicker-Miurin. Malcolm Wall, who has been appointed to the board since the last annual general meeting, will retire and stand for election at the forthcoming annual general meeting. He has a service contract which may be terminated by either party on 12 months notice. John Botts and Fields Wicker-Miurin will retire in accordance with the company's articles of association at the annual general meeting and, being eligible, will offer themselves for re-election. Neither of them has a service contract.

The interests of the directors in office at 31 December 2000 in the shares of the company and its subsidiary undertakings are set out in the remuneration report on pages 6 to 12.

No director had a material interest in any contract other than a service contract with the company or any subsidiary at any time during the year.

### CHANGES IN SHARE CAPITAL

During 2000 a total of 5,498,137 ordinary shares were issued in connection with the exercise of options under the company's share option schemes.

### POST BALANCE SHEET EVENT

On 9 February 2001 the company announced its proposal to return to shareholders approximately £1.25 billion arising from the sale of its ITV businesses to Granada Media by means of a capital reorganisation and consolidation. This is expected to be completed by the end of April 2001.

# Report of the Directors

## EMPLOYEE INVOLVEMENT

The company recognises the talents, professionalism and commitment of its employees and continues to place emphasis on their involvement and development.

Over the past year the company has introduced a range of employment initiatives to attract, motivate and retain employees to the group. The group is committed to the improvement of performance through training and development of employees. While most training is provided at local level, in 2001 the company has launched a group-wide management development programme which is designed to create a pool of high potential managers within the group who network and share knowledge across businesses;

The company believes that it is important that all employees should achieve a good work/life balance. In 2000 a flexible working policy called WorkChoice was introduced into the company and subsidiaries are being encouraged to roll this out into their operations. Other policies such as a parental leave and sabbatical policy have been introduced.

In 2000 the company set up an Alumni programme to identify any steps that need to be taken in order to continue to attract and retain employees and to develop ongoing dialogue with key talent after leaving the company so that ex-employees feel more comfortable about returning to United at some future time.

The group is committed to a programme of action to make our equal opportunities policy fully effective. Selection of employees for recruitment training, development and promotions is determined solely on their aptitude, skills and ability that are relevant to the job and in accordance with the laws in the country concerned. Consideration is given to making reasonable adjustment to premises or employment arrangements if these substantially disadvantage a disabled employee or potential employee and efforts are made to provide appropriate re-training should employees become disabled during their employment.

The company updates employees on corporate performance, business objectives and development through various formal and informal channels of communications, including local intranet sites, in order to promote a better understanding of the group's business. Each division is responsible for deciding on the appropriate forum for and level of consultation with its staff. A European Works Council with a formally agreed constitution meets as appropriate to consult over transnational European issues.

Participation in the company's savings related share options schemes continues to be strong.

## ENVIRONMENTAL POLICY

The company recognises the increasing importance attached by its shareholders, employees and other stake holders to the role that businesses have in promoting responsible environmental management, and seeks to ensure that all its subsidiaries pay due regard to these issues. The company's statement of environmental policy can be seen on its website.

A review initiated in 1999 to identify relevant environmental impacts for the group's businesses and to collect and report on environmental data indicated that approximately 90 per cent of our environmental impact in the UK is accounted for by energy consumption. We continue to monitor our energy consumption and to seek ways of reducing this.

The radical restructuring of the group which took place during 2000 means that it has not been possible to produce relevant comparative data for the year.

The company participates in the BiE Environmental Index of Engagement.

## DONATIONS

In 2000 the group donated £329,000 to charitable organisations (1999: £564,000). The group made no political donations during 2000 (1999: nil).

## SUBSTANTIAL SHAREHOLDINGS

As at 27 February 2001 the company had been notified of the following interests of 3 per cent or more in its issued ordinary share capital:

| | Number of ordinary shares held | Percentage of ordinary shares held |
|---|---|---|
| Schroders plc | 53,988,877 | 10.64% |
| FMR Corp | 18,590,492 | 3.66% |
| Prudential Group of Companies | 16,723,964 | 3.30% |
| HSBC Investment Bank plc | 16,550,891 | 3.26% |
| Putnam Investment Management LLC | 16,054,319 | 3.16% |
| Legal & General | 15,536,612 | 3.07% |

# Report of the Directors

### CREDITOR PAYMENT POLICY

In view of the diversity of its business the group does not offer or operate a uniform timetable for payment of suppliers. Each operating company is responsible for agreeing with is own suppliers the terms and conditions on which it will transact business with them, including payment terms. The group's policy is to pay suppliers in accordance with these agreed terms. The company has no trade creditors.

### ANNUAL GENERAL MEETING

The next annual general meeting of the company will be held on 2 May 2001. The notice of meeting and a description of the business to be transacted is contained in the accompanying document.

### AUDITORS

The company's auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their reappointment and on their remuneration will be proposed at the annual general meeting.

By order of the board

Anne Siddell

**Anne Siddell**
*Secretary*

27 February 2001

Registered Office:
Ludgate House
245 Blackfriars Road
London SE1 9UY

# Group profit and loss account

for the year ended 31 December 2000

| Notes | | Before exceptional items 2000 £m | Exceptional items (note 7) 2000 £m | Total 2000 £m | Before exceptional items 1999 £m | Exceptional items (notes 7) 1999 £m | Total 1999 £m |
|---|---|---|---|---|---|---|---|
| | **Turnover – group and share of joint ventures** | | | | | | |
| | Continuing operations | **1,087.3** | – | **1,087.3** | 872.4 | – | 872.4 |
| | Discontinued operations | **1,019.1** | – | **1,019.1** | 1,430.0 | – | 1,430.0 |
| | | **2,106.4** | – | **2,106.4** | 2,302.4 | – | 2,302.4 |
| 1 | Less: share of joint ventures' turnover | **(131.4)** | – | **(131.4)** | (131.1) | – | (131.1) |
| 1 | **Group turnover** | **1,975.0** | – | **1,975.0** | 2,171.3 | – | 2,171.3 |
| | **Group operating profit** | | | | | | |
| | Continuing operations | **(9.2)** | **(37.4)** | **(46.6)** | 10.1 | (33.0) | (22.9) |
| | Discontinued operations | **75.0** | **(25.2)** | **49.8** | 59.5 | (11.8) | 47.7 |
| | **Group operating profit** | **65.8** | **(62.6)** | **3.2** | 69.6 | (44.8) | 24.8 |
| 5 | Share of operating (loss)/profit in joint ventures and associates | | | | | | |
| | Continuing operations | **(30.2)** | – | **(30.2)** | (9.7) | – | (9.7) |
| | Discontinued operations | **11.6** | – | **11.6** | 14.5 | (5.2) | 9.3 |
| | | **(18.6)** | – | **(18.6)** | 4.8 | (5.2) | (0.4) |
| 4 | Income from other participating interests | **4.9** | – | **4.9** | 2.7 | – | 2.7 |
| 1 | **Total operating (loss)/profit** | **52.1** | **(62.6)** | **(10.5)** | 77.1 | (50.0) | 27.1 |
| | Profit on sale and closure of businesses (discontinued operations) | – | **2,146.7** | **2,146.7** | – | – | – |
| | **Profit on ordinary activities before interest** | **52.1** | **2,084.1** | **2,136.2** | 77.1 | (50.0) | 27.1 |
| 8 | Net interest expense | **(43.0)** | – | **(43.0)** | (69.4) | – | (69.4) |
| | **Profit/(loss) on ordinary activities before tax** | **9.1** | **2,084.1** | **2,093.2** | 7.7 | (50.0) | (42.3) |
| 9 | Tax on profit on ordinary activities | **(49.6)** | **(201.5)** | **(251.1)** | (60.5) | 5.7 | (54.8) |
| | **Profit/(loss) on ordinary activities after tax** | **(40.5)** | **1,882.6** | **1,842.1** | (52.8) | (44.3) | (97.1) |
| | Equity minority interests | **(8.9)** | – | **(8.9)** | (8.3) | – | (8.3) |
| | **Profit/(loss) for the year** | **(49.4)** | **1,882.6** | **1,833.2** | (61.1) | (44.3) | (105.4) |
| 11 | Equity dividends | | | **(112.1)** | | | (110.8) |
| 26 | **Retained profit/(loss) for the year** | | | **1,721.1** | | | (216.2) |
| | **Earnings/(loss) per share** | | | | | | |
| 12 | – headline pre online businesses | | | **49.5p** | | | 46.3p |
| 12 | – headline post online businesses | | | **30.3p** | | | 40.8p |
| 12 | – before amortisation of intangible assets and exceptional items | | | **27.4p** | | | 36.9p |
| 12 | – basic | | | **365.7p** | | | (21.2)p |
| 12 | – diluted | | | **348.9p** | | | (21.2)p |

# Balance sheets

at 31 December 2000

| Notes | | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|---|
| | **Fixed assets** | | | | |
| 13 | Intangible assets | **1,105.6** | 1,755.9 | **-** | - |
| 14 | Tangible assets | **78.3** | 290.8 | **-** | - |
| 15 | Investments in subsidiary undertakings | **-** | - | **3,804.4** | 2,488.3 |
| | Investments in joint ventures: | | | | |
| 15 | – share of gross assets | **42.2** | 120.2 | **-** | - |
| 15 | – share of gross liabilities | **(58.7)** | (113.9) | **-** | - |
| | | **(16.5)** | 6.3 | **-** | - |
| | Loans to joint ventures | **33.8** | 39.1 | **-** | - |
| | Investments in joint ventures | **17.3** | 45.4 | **-** | - |
| 15 | Investments in associated undertakings | **34.7** | 76.1 | **-** | - |
| 15 | Other investments | **48.6** | 30.5 | **0.1** | 0.1 |
| | | **1,284.5** | 2,198.7 | **3,804.5** | 2,488.4 |
| | **Current assets** | | | | |
| 16 | Stocks | **17.1** | 138.9 | **-** | - |
| 17 | Debtors | **279.8** | 436.2 | **26.3** | 10.1 |
| 18 | Investments | **3.4** | 4.5 | **-** | - |
| 18 | Short term liquid funds | **1,066.0** | - | **-** | - |
| | Cash at bank and in hand | **1,115.2** | 67.9 | **-** | - |
| | | **2,481.5** | 647.5 | **26.3** | 10.1 |
| 19 | **Creditors:** amounts falling due within one year | **(717.5)** | (802.3) | **(106.2)** | (107.1) |
| | **Net current assets/(liabilities)** | **1,764.0** | (154.8) | **(79.9)** | (97.0) |
| | **Total assets less current liabilities** | **3,048.5** | 2,043.9 | **3,724.6** | 2,391.4 |
| | **Creditors: amounts falling due after more than one year** | | | | |
| 20 | Bank and other loans | **(413.0)** | (1,135.3) | **(413.0)** | (382.9) |
| 21 | Other creditors | **(23.7)** | (16.8) | **(608.2)** | (1,086.6) |
| 22 | Convertible debt | **(177.5)** | (176.9) | **(177.5)** | (176.9) |
| | | **(614.2)** | (1,329.0) | **(1,198.7)** | (1,646.4) |
| 15 | Provision for net liabilities of associated undertaking | **-** | (42.9) | **-** | - |
| 24 | Other provisions for liabilities and charges | **(8.4)** | (10.8) | **-** | - |
| | **Total provisions for liabilities and charges** | **(8.4)** | (53.7) | **-** | - |
| | **Net assets** | **2,425.9** | 661.2 | **2,525.9** | 745.0 |
| | **Capital and reserves** | | | | |
| 25 | Called up share capital | **126.8** | 125.4 | **126.8** | 125.4 |
| 26 | Share premium account | **299.5** | 267.1 | **299.5** | 267.1 |
| 26 | Merger reserve | **31.3** | 31.3 | **-** | - |
| 26 | Other reserves | **125.0** | 560.5 | **83.3** | 103.0 |
| 26 | Profit and loss account | **1,841.3** | (341.5) | **2,016.3** | 249.5 |
| | **Equity shareholders' funds** | **2,423.9** | 642.8 | **2,525.9** | 745.0 |
| | Equity minority interests | **2.0** | 18.4 | **-** | - |
| | | **2,425.9** | 661.2 | **2,525.9** | 745.0 |

These financial statements were approved by a duly appointed and authorised committee of the board of Directors on 27 February 2001 and were signed on its behalf by:

**Sir Ronald Hampel** *Director*

**Clive Hollick** *Director*

# Group cash flow statement

for the year ended 31 December 2000

| Notes | | 2000 £m | 1999 £m |
|---|---|---|---|
| 28 | **Net cash inflow from operating activities** | **112.0** | 271.3 |
| | **Dividends received from joint ventures and associated undertakings** | **7.7** | 13.2 |
| | **Returns on investments and servicing of finance** | | |
| | Interest received | **43.0** | 14.3 |
| | Interest paid | **(74.6)** | (48.6) |
| | Dividends paid to minority shareholders | **(5.4)** | (4.3) |
| | Income from participating interests | **4.9** | 2.7 |
| | Finance costs incurred in raising debt | **–** | (5.1) |
| | **Net cash outflow from returns on investments and servicing of finance** | **(32.1)** | (41.0) |
| | **Taxation** | | |
| | UK corporation tax (paid)/received (including ACT) | **(8.0)** | 16.5 |
| | Overseas tax paid | **(73.6)** | (36.0) |
| | **Taxation paid** | **(81.6)** | (19.5) |
| | **Capital expenditure and financial investment** | | |
| | Purchase of tangible fixed assets | **(39.0)** | (48.1) |
| | Sale of tangible fixed assets | **76.5** | 3.8 |
| | Sale of investments | **6.0** | 0.3 |
| | Purchase of investments | **(19.6)** | (17.4) |
| | Loans to joint ventures and associated undertakings | **(37.4)** | (28.0) |
| | **Net cash outflow from capital expenditure and financial investment** | **(13.5)** | (89.4) |
| | **Acquisitions and disposals** | | |
| | Purchase of subsidiary undertakings and businesses | **(8.0)** | (760.3) |
| | Investments in joint ventures and associated undertakings | **(80.7)** | (6.4) |
| | Sale of joint ventures and associated undertakings | **–** | 1.0 |
| 30 | Sale of subsidiary undertakings and businesses | **3,167.1** | – |
| | Exceptional costs incurred on sale of subsidiary undertakings | **(65.3)** | – |
| | **Net cash inflow/(outflow) from acquisitions and disposals** | **3,013.1** | (765.7) |
| | **Equity dividends paid to shareholders** | **(111.4)** | (113.5) |
| | **Net cash inflow/(outflow) before use of liquid resources and financing** | **2,894.2** | (744.6) |
| | **Management of liquid resources** | | |
| | Sale of current asset investments | **–** | 107.1 |
| | Purchase of current asset investments | **(1,066.2)** | – |
| | Cash (put on)/taken off short term deposits | **(1,059.3)** | 27.2 |
| | **Net cash (outflow)/inflow from management of liquid resources** | **(2,125.5)** | 134.3 |
| | **Financing** | | |
| | Issue of ordinary share capital | **29.5** | 7.6 |
| | (Decrease)/increase in bank loans | **(785.1)** | 323.0 |
| | Repayment of loan stock | **(3.2)** | – |
| | Increase in other loans | **–** | 247.3 |
| | Capital element of finance lease rental payments | **–** | (0.7) |
| | **Net cash (outflow)/inflow from financing** | **(758.8)** | 577.2 |
| | **Increase/(decrease) in cash in the period** | **9.9** | (33.1) |

| | 2000 £m | 1999 £m |
|---|---|---|
| **Reconciliation of net cash flow to movement in net cash/(debt)** | | |
| **Increase/(decrease) in cash in the period** | **9.9** | (33.1) |
| Cash outflow/(inflow) from decrease/(increase) in debt and lease financing (including finance costs) | **788.3** | (564.5) |
| Cash outflow/(inflow) from increase/(decrease) in liquid resources | **2,125.5** | (134.3) |
| Changes in net cash/(debt) resulting from cash flows | **2,923.7** | (731.9) |
| Movement in net cash/(debt) from sale and purchase of subsidiaries | **1.2** | – |
| Other non-cash movements | **(1.3)** | 8.0 |
| Translation difference | **(65.9)** | 18.8 |
| **Movement in net cash/(debt) in period** | **2,857.7** | (705.1) |
| **Opening net debt** | **(1,304.7)** | (599.6) |
| **Closing net cash/(debt)** | **1,553.0** | (1,304.7) |

Liquid resources includes term deposits and government and corporate securities.

# Statement of group total recognised gains and losses

for the year ended 31 December 2000

| | 2000 £m | 1999 £m |
|---|---|---|
| Profit/(loss) for the financial year | **1,833.2** | (105.4) |
| Unrealised profit on the sale of assets to associated undertakings | **4.0** | - |
| Currency translation differences on foreign currency net investments: | | |
| Group | **29.1** | (13.3) |
| Joint ventures | **(0.2)** | (0.9) |
| Associates | **(2.4)** | 6.5 |
| | **26.5** | (7.7) |
| **Total gains and losses recognised since last annual report** | **1,863.7** | (113.1) |

The historical cost result is not materially different from the reported profit/(loss) in either year.

# Reconciliation of movements in group shareholders' funds

for the year ended 31 December 2000

| | 2000 £m | 1999 £m |
|---|---|---|
| Opening shareholders' funds | **642.8** | 859.1 |
| Profit/(loss) for the financial year | **1,833.2** | (105.4) |
| Equity dividends | **(112.1)** | (110.8) |
| | **2,363.9** | 642.9 |
| Other recognised gains/(losses) relating to the year | **30.5** | (7.7) |
| New share capital subscribed | **29.5** | 7.6 |
| **Closing shareholders' funds** | **2,423.9** | 642.8 |

# Group accounting policies

### BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention, on a basis consistent with prior years and in accordance with applicable Accounting Standards in the United Kingdom.

### CONSOLIDATION

The group financial statements include the financial statements of the company and all its subsidiaries, made up to 31 December, or within one week of that date, together with the group's share of results of joint ventures and associates. The results of subsidiaries and joint ventures and associates acquired or sold during the year are included from or to the effective date of acquisition or disposal.

### TURNOVER

Turnover comprises sales, fees and amounts invoiced in respect of television production and broadcasting, completed exhibitions, publications, market research, online activities and news distribution and is stated net of trade discounts, VAT and other sales related taxes.

### GOODWILL AND INTANGIBLE FIXED ASSETS

Purchased goodwill is capitalised as an intangible asset and amortised on a straight-line basis over its estimated useful life, being a period generally between six and twenty years based on the nature of the business acquired. Where a business is sold, or where goodwill has been impaired, the net book value of goodwill or the amount of impaired goodwill, as applicable, is charged through the profit and loss account as part of the profit or loss on disposal or through operating profit in the year of impairment. Other intangible assets comprise certain publishing rights and titles, which are now fully amortised, and purchased Internet domain names and web-sites, which are amortised on a straight line basis over their estimated lives of two years.

### TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost. Depreciation is provided on all tangible fixed assets except freehold land. Depreciation rates are calculated so that assets are written down to residual value in equal annual installments over their expected useful lives, which are as follows:

| | |
|---|---|
| Freehold buildings and long leasehold property | 10–70 years |
| Short leasehold property | Term of lease |
| General plant, machinery and equipment | 5–20 years |
| Computer equipment | 3 years |
| Motor vehicles | 3–5 years |

# Group accounting policies

### INVESTMENTS

Listed and unlisted investments are stated at the lower of cost and market value or directors' valuation. Investments in subsidiaries included in the company's balance sheet are stated at cost or nominal value of shares issued where merger relief is taken, less any provision for impairment. Investments in companies where the group both has a participating interest and exercises significant influence over the entity's financial and operating policies (through board representation and participation in financial and operating policy decisions) are included as associates under the equity method of accounting. Similarly, investments in companies where the group holds a long-term interest that arises as a result of a contractual arrangement and is jointly controlled by the reporting entity and other venturers are included as joint ventures under the gross equity method of accounting. The figures included in the financial statements are based on audited accounts, adjusted where necessary by reference to management accounts for the period up to 31 December. Where the accounting policies of associates and/or joint ventures do not conform in all material respects to those of the group, adjustments are made on consolidation.

### STOCKS

Stocks and work in progress are valued on the first in first out basis at the lower of cost and net realisable value. Cost comprises materials, direct labour and a proportion of attributable production and other overheads.

### DEFERRED TAX

Deferred tax represents corporation tax, calculated on the liability basis, deferred by accelerated capital allowances and other timing differences, to the extent that the liabilities are regarded as likely to crystallise in the foreseeable future. Full provision is made in respect of pension costs accounted for in accordance with SSAP 24.

### FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheet. The trading results of foreign subsidiary undertakings are translated into sterling at the average rate for the year. Differences arising on the retranslation of investments, including goodwill, in foreign subsidiary undertakings and related net foreign currency borrowings, and from the translation of the results of those companies at average rate, are taken to reserves, and are reported in the statement of total recognised gains and losses. All other differences are taken to the profit and loss account.

### PENSION COSTS

Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employee's service. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the relevant scheme.

### OPERATING LEASES

Operating lease rentals are charged to the profit and loss account as they arise.

# Group accounting policies

### FINANCIAL INSTRUMENTS

The group currently uses several types of financial instrument as part of an overall risk management strategy. It does not enter into financial instruments for trading purposes. The accounting treatment adopted depends upon the risk that is being hedged. Interest rate risk associated with net debt is managed centrally by using fixed rate borrowings and financial instruments such as interest rate swaps. Interest differentials under interest rate swaps, forward rate agreements, caps and collars are recognised by adjustment of the underlying interest receivable or payable over the term of the agreement and as such are accrued to the profit and loss account on a time apportioned basis. To mitigate the effect of currency translation risks relating to foreign currency denominated net assets, the group uses foreign currency borrowings to provide an economic hedge. Gains and losses arising on overseas net assets and the financial instruments used to hedge the associated currency risks are taken to reserves and are reported in the statement of total recognised gains and losses (see Foreign currencies above). Currency net transaction risks on monetary assets and liabilities and forecast trading flows of the group are hedged in all material respects as they arise, generally using forward foreign exchange contracts. Any gains or losses arising on such arrangements are deferred and recognised in operating profit or as adjustments to carrying amount when the hedged transaction has itself been reflected in the group's financial statements upon maturity of the contract. The forward premium or discount for these contracts is not accounted for as interest but as part of the hedge achieved. If underlying forecast flows do not materialise as envisaged, the hedges are either reversed or swapped forward to a future financing period. The adjusting hedges are then accounted for through the profit and loss account to match the revised underlying exposure being hedged. Currency options may be purchased to hedge forecast trading flows. These are accounted for in the same manner as the forward foreign exchange contracts above except that the premium paid is deferred to the point of exercise or lapse of the option. Further information on the accounting policy for financial instruments can be found in note 23.

### NEW VENTURES

The group has made strategic investments in certain joint ventures and associates which are viewed as being in the process of development. The initial trading results of these new ventures are considered to represent a part of the group's overall investment, and accordingly are excluded in the calculation of headline profit and headline earnings per share. The directors consider that this presentation is more meaningful in assessing the performance of the group. Further details are provided in note 6.

### ONLINE BUSINESSES

The group has made investments in Internet businesses which are viewed as being in the process of development. The initial trading losses of these online businesses, being identifiable online revenues less direct costs and an allocation of identifiable overheads and other costs, including attributable interest, are considered to represent a part of the group's overall investment, and accordingly are excluded in the calculation of headline profit pre online businesses and headline earnings per share pre online businesses. The directors consider that this presentation is more meaningful in assessing the performance of the group.

# Notes to the financial statements

| 1. BUSINESS ANALYSIS | Group 2000 £m | Group share of joint ventures 2000 £m | Group 1999 £m | Group share of joint ventures 1999 £m |
|---|---|---|---|---|
| **Turnover by division** | | | | |
| Continuing operations: | | | | |
| Professional media | **666.8** | **11.6** | 531.3 | 4.2 |
| News distribution | **121.6** | **8.7** | 87.3 | 6.2 |
| Market research | **162.1** | **-** | 152.0 | - |
| Business to business media | **950.5** | **20.3** | 770.6 | 10.4 |
| Consumer media | **62.0** | **5.4** | 63.4 | 0.9 |
| Continuing operations before online businesses | **1,012.5** | **25.7** | 834.0 | 11.3 |
| Online businesses | **39.6** | **9.5** | 24.3 | 2.8 |
| Continuing operations | **1,052.1** | **35.2** | 858.3 | 14.1 |
| Discontinued operations: | | | | |
| Professional media | **158.6** | **18.2** | 296.3 | 16.4 |
| Consumer media | **757.9** | **78.0** | 1,010.7 | 100.6 |
| Online businesses | **6.4** | **-** | 6.0 | - |
| Discontinued operations | **922.9** | **96.2** | 1,313.0 | 117.0 |
| | **1,975.0** | **131.4** | 2,171.3 | 131.1 |
| **by geographic market** | | | | |
| United Kingdom | **921.1** | **92.9** | 1,127.9 | 104.3 |
| North America | **948.2** | **17.4** | 869.2 | 6.2 |
| Europe and Middle East | **59.1** | **18.0** | 134.7 | 16.4 |
| Pacific | **46.6** | **3.1** | 39.5 | 4.2 |
| | **1,975.0** | **131.4** | 2,171.3 | 131.1 |

Further details on disposals are given in note 30.
Turnover analysis is based on turnover by origin. Turnover by destination would not be materially different.

| | 2000 £m | 1999 £m |
|---|---|---|
| **Net operating assets by division** | | |
| Professional media | **813.6** | 1,191.7 |
| News distribution | **83.6** | 64.1 |
| Market research | **59.6** | 53.0 |
| Business to business media | **956.8** | 1,308.8 |
| Consumer media | **63.5** | 616.5 |
| Online businesses | **128.8** | 122.2 |
| | **1,149.1** | 2,047.5 |
| **by geographic market** | | |
| United Kingdom | **295.1** | 844.6 |
| North America | **823.9** | 1,010.8 |
| Europe and Middle East | **17.6** | 156.3 |
| Pacific | **12.5** | 35.8 |
| | **1,149.1** | 2,047.5 |
| **Reconciliation of net operating assets to net assets** | | |
| Net operating assets | **1,149.1** | 2,047.5 |
| Investments | **1,075.2** | 76.2 |
| Corporation tax | **(225.2)** | (93.4) |
| Net cash/(borrowings) | **483.6** | (1,309.2) |
| Proposed dividend | **(56.8)** | (59.9) |
| **Net assets** | **2,425.9** | 661.2 |

As a result of the disposals during 2000 the segmental analysis has been amended, and comparative amounts have been restated, to reflect the continuing business-to-business focus of United. The business services segment has been broken out into more detail, and now comprises the offline business of professional media, news distribution and market research. It has also been renamed business-to-business media. The offline business within the former broadcasting and entertainment and consumer publishing segments are now disclosed within consumer media. All online businesses are now shown separately in the online businesses segment. The impact of redefining the business segments previously reported in 1999 is as follows:

Business to business media – a decrease of £23.6 million in group turnover, an increase of £34.6 million in operating profit and a decrease of £122.2 million in operating net assets.

Consumer media – a decrease of £6.7 million in group turnover, an increase of £5.3 million in operating profit and £nil in operating net assets.

# Notes to the financial statements

| 1. BUSINESS ANALYSIS (continued) | Group 2000 £m | Group share of joint ventures 2000 £m | Group share of associates 2000 £m | Subtotal 2000 £m | Exceptional items 2000 £m | Total 2000 £m |
|---|---|---|---|---|---|---|
| ***Operating profit before amortisation of intangible assets by division** | | | | | | |
| Continuing operations: | | | | | | |
| Professional media | 126.8 | – | (1.4) | 125.4 | (25.2) | 100.2 |
| News distribution | 37.9 | 2.8 | – | 40.7 | (4.7) | 36.0 |
| Market research | 22.6 | – | – | 22.6 | – | 22.6 |
| Business to business media | 187.3 | 2.8 | (1.4) | 188.7 | (29.9) | 158.8 |
| Consumer media (excluding new ventures) | 7.8 | – | 0.4 | 8.2 | (2.2) | 6.0 |
| Continuing operations before online businesses | 195.1 | 2.8 | (1.0) | 196.9 | (32.1) | 164.8 |
| Online businesses | (78.2) | (9.1) | (3.9) | (91.2) | (5.3) | (96.5) |
| Consumer media – new ventures | – | (3.6) | 0.2 | (3.4) | – | (3.4) |
| Continuing operations | 116.9 | (9.9) | (4.7) | 102.3 | (37.4) | 64.9 |
| Discontinued operations (Note 1a) | 121.4 | 10.5 | 4.5 | 136.4 | (25.2) | 111.2 |
| ***Operating profit before amortisation of intangible assets** | 238.3 | 0.6 | (0.2) | 238.7 | (62.6) | 176.1 |
| **Amortisation of intangible assets** | (167.6) | (0.2) | (18.8) | (186.6) | – | (186.6) |
| ***Operating profit/(loss) by division** | | | | | | |
| Continuing operations: | | | | | | |
| Professional media | 23.8 | – | (1.4) | 22.4 | (25.2) | (2.8) |
| News distribution | 33.8 | 2.7 | – | 36.5 | (4.7) | 31.8 |
| Market research | 19.7 | – | – | 19.7 | – | 19.7 |
| Business to business media | 77.3 | 2.7 | (1.4) | 78.6 | (29.9) | 48.7 |
| Consumer media (excluding new ventures) | 6.9 | – | (0.7) | 6.2 | (2.2) | 4.0 |
| Continuing operations before online businesses | 84.2 | 2.7 | (2.1) | 84.8 | (32.1) | 52.7 |
| Online businesses | (88.5) | (9.0) | (8.2) | (105.7) | (5.3) | (111.0) |
| Consumer media – new ventures | – | (3.6) | (10.0) | (13.6) | – | (13.6) |
| Continuing operations | (4.3) | (9.9) | (20.3) | (34.5) | (37.4) | (71.9) |
| Discontinued operations (Note 1a) | 75.0 | 10.3 | 1.3 | 86.6 | (25.2) | 61.4 |
| ***Operating profit/(loss)** | 70.7 | 0.4 | (19.0) | 52.1 | (62.6) | (10.5) |
| Non-operating exceptional items | | | | | | 2,146.7 |
| Net interest expense | | | | | | (43.0) |
| **Profit on ordinary activities before tax** | | | | | | 2,093.2 |
| **by geographic market** | | | | | | |
| United Kingdom | 2.3 | (8.1) | (17.8) | (23.6) | (34.9) | (58.5) |
| North America | 59.3 | 2.2 | (4.1) | 57.4 | (27.7) | 29.7 |
| Europe and Middle East | (1.1) | 6.0 | – | 4.9 | – | 4.9 |
| Pacific | 10.2 | 0.3 | 2.9 | 13.4 | – | 13.4 |
| ***Operating profit/(loss)** | 70.7 | 0.4 | (19.0) | 52.1 | (62.6) | (10.5) |
| Non-operating exceptional items | | | | | | 2,146.7 |
| Net interest expense | | | | | | (43.0) |
| **Profit on ordinary activities before tax** | | | | | | 2,093.2 |

*Includes income from other participating interests

Further details on disposals are given in note 30.

In 2000, discontinued operations comprise United Advertising Periodicals, Inc. certain television businesses and Express Newspapers (all part of consumer media), Visual Communications Group Ltd, Miller Freeman Europe and certain Miller Freeman businesses in the US (all part of professional media). Non-operating exceptional items of £2,146.7 million comprise a profit of £591.6 million relating to professional media and £1,555.1 million relating to consumer media. Operating exceptional items are described in note 7.

# Notes to the financial statements

| 1. BUSINESS ANALYSIS (continued) | Group 1999 £m | Group share of joint ventures 1999 £m | Group share of associates 1999 £m | Subtotal 1999 £m | Exceptional items 1999 £m | Total 1999 £m |
|---|---|---|---|---|---|---|
| ***Operating profit before amortisation of intangible assets by division** | | | | | | |
| Continuing operations: | | | | | | |
| Professional media | 103.9 | 1.4 | (0.9) | 104.4 | (28.0) | 76.4 |
| News distribution | 24.0 | 2.1 | – | 26.1 | (3.3) | 22.8 |
| Market research | 19.5 | – | – | 19.5 | (1.3) | 18.2 |
| Business to business media | 147.4 | 3.5 | (0.9) | 150.0 | (32.6) | 117.4 |
| Consumer media (excluding new ventures) | 9.3 | – | 1.8 | 11.1 | (0.4) | 10.7 |
| Continuing operations before online businesses | 156.7 | 3.5 | 0.9 | 161.1 | (33.0) | 128.1 |
| Online businesses | (17.6) | (3.9) | – | (21.5) | – | (21.5) |
| Consumer media – new ventures | – | (3.7) | (4.2) | (7.9) | – | (7.9) |
| Continuing operations | 139.1 | (4.1) | (3.3) | 131.7 | (33.0) | 98.7 |
| Discontinued operations (Note 1a) | 169.9 | 11.5 | 8.4 | 189.8 | (17.0) | 172.8 |
| ***Operating profit before amortisation of intangible assets** | 309.0 | 7.4 | 5.1 | 321.5 | (50.0) | 271.5 |
| **Amortisation of intangible assets** | (236.7) | (1.2) | (6.5) | (244.4) | – | (244.4) |
| ***Operating profit by division** | | | | | | |
| Continuing operations: | | | | | | |
| Professional media | (3.0) | 1.2 | (0.9) | (2.7) | (28.0) | (30.7) |
| News distribution | 20.9 | 2.1 | – | 23.0 | (3.3) | 19.7 |
| Market research | 16.5 | – | – | 16.5 | (1.3) | 15.2 |
| Business to business media | 34.4 | 3.3 | (0.9) | 36.8 | (32.6) | 4.2 |
| Consumer media (excluding new ventures) | 8.6 | – | 0.7 | 9.3 | (0.4) | 8.9 |
| Continuing operations before online businesses | 43.0 | 3.3 | (0.2) | 46.1 | (33.0) | 13.1 |
| Online businesses | (31.2) | (4.9) | – | (36.1) | – | (36.1) |
| Consumer media – new ventures | – | (3.7) | (4.2) | (7.9) | – | (7.9) |
| Continuing operations | 11.8 | (5.3) | (4.4) | 2.1 | (33.0) | (30.9) |
| Discontinued operations (Note 1a) | 60.5 | 11.5 | 3.0 | 75.0 | (17.0) | 58.0 |
| ***Operating profit** | 72.3 | 6.2 | (1.4) | 77.1 | (50.0) | 27.1 |
| Non-operating exceptional items | | | | | | – |
| Net interest expense | | | | | | (69.4) |
| **Loss on ordinary activities before tax** | | | | | | (42.3) |
| **by geographic market** | | | | | | |
| United Kingdom | 21.4 | (3.0) | (6.6) | 11.8 | (17.4) | (5.6) |
| North America | 46.8 | 2.7 | (0.9) | 48.6 | (26.6) | 22.0 |
| Europe and Middle East | 8.6 | 6.0 | – | 14.6 | (0.8) | 13.8 |
| Pacific | (4.5) | 0.5 | 6.1 | 2.1 | (5.2) | (3.1) |
| ***Operating profit** | 72.3 | 6.2 | (1.4) | 77.1 | (50.0) | 27.1 |
| Non-operating exceptional items | | | | | | – |
| Net interest expense | | | | | | (69.4) |
| **Loss on ordinary activities before tax** | | | | | | (42.3) |

* Includes income from other participating interests.

# Notes to the financial statements

1. BUSINESS ANALYSIS (continued)

(a) Analysis of discontinued operations

| | Group 2000 £m | Group share of joint ventures 2000 £m | Group share of associates 2000 £m | Subtotal 2000 £m | Exceptional items 2000 £m | Total 2000 £m |
|---|---|---|---|---|---|---|
| ***Operating profit before amortisation of intangible assets by division** | | | | | | |
| Professional media | **37.4** | **6.1** | **–** | **43.5** | **(0.2)** | **43.3** |
| Consumer media (excluding new ventures) | **104.6** | **4.4** | **9.0** | **118.0** | **(25.0)** | **93.0** |
| Online businesses | **(20.6)** | **–** | **–** | **(20.6)** | **–** | **(20.6)** |
| Consumer media – new ventures | **–** | **–** | **(4.5)** | **(4.5)** | **–** | **(4.5)** |
| **Discontinued operations** | **121.4** | **10.5** | **4.5** | **136.4** | **(25.2)** | **111.2** |
| **Amortisation of intangible assets** | **(46.4)** | **(0.2)** | **(3.2)** | **(49.8)** | **–** | **(49.8)** |
| ***Operating profit by division** | | | | | | |
| Professional media | **25.9** | **6.0** | **–** | **31.9** | **(0.2)** | **31.7** |
| Consumer media (excluding new ventures) | **69.7** | **4.3** | **5.8** | **79.8** | **(25.0)** | **54.8** |
| Online businesses | **(20.6)** | **–** | **–** | **(20.6)** | **–** | **(20.6)** |
| Consumer media – new ventures | **–** | **–** | **(4.5)** | **(4.5)** | **–** | **(4.5)** |
| **Discontinued operations** | **75.0** | **10.3** | **1.3** | **86.6** | **(25.2)** | **61.4** |

| | Group 1999 £m | Group share of joint ventures 1999 £m | Group share of associates 1999 £m | Subtotal 1999 £m | Exceptional items 1999 £m | Total 1999 £m |
|---|---|---|---|---|---|---|
| ***Operating profit before amortisation of intangible assets by division** | | | | | | |
| Professional media | 66.5 | 6.0 | – | 72.5 | (0.5) | 72.0 |
| Consumer media (excluding new ventures) | 107.2 | 5.5 | 15.2 | 127.9 | (16.5) | 111.4 |
| Online businesses | (3.8) | – | – | (3.8) | – | (3.8) |
| Consumer media – new ventures | – | – | (6.8) | (6.8) | – | (6.8) |
| **Discontinued operations** | 169.9 | 11.5 | 8.4 | 189.8 | (17.0) | 172.8 |
| **Amortisation of intangible assets** | (109.4) | – | (5.4) | (114.8) | – | (114.8) |
| ***Operating profit by division** | | | | | | |
| Professional media | 36.2 | 6.0 | – | 42.2 | (0.5) | 41.7 |
| Consumer media (excluding new ventures) | 28.1 | 5.5 | 9.8 | 43.4 | (16.5) | 26.9 |
| Online businesses | (3.8) | – | – | (3.8) | – | (3.8) |
| Consumer media – new ventures | – | – | (6.8) | (6.8) | – | (6.8) |
| **Discontinued operations** | 60.5 | 11.5 | 3.0 | 75.0 | (17.0) | 58.0 |

*Includes income from other participating interests.

# Notes to the financial statements

| 2. RECONCILIATION OF HEADLINE GROUP PROFIT BEFORE TAX TO PROFIT/(LOSS) BEFORE TAX | 2000 £m | Restated 1999 £m |
|---|---|---|
| Headline profit on ordinary activities before tax and online businesses | **342.4** | 307.4 |
| Net operating loss attributable to online businesses | **(111.8)** | (25.3) |
| Net interest expense attributable to online businesses | **(16.5)** | (7.6) |
| Headline profit on ordinary activities before tax | **214.1** | 274.5 |
| New ventures | | |
| – Operating loss | **(7.9)** | (14.7) |
| – Interest expense | **(10.5)** | (7.7) |
| Amortisation of intangible assets | | |
| – Group | **(167.6)** | (236.7) |
| – Joint ventures and associates | **(19.0)** | (7.7) |
| Exceptional items charged to operating profit | **(62.6)** | (50.0) |
| Exceptional items credited to profit before tax | **2,146.7** | – |
| **Profit/(loss) before tax** | **2,093.2** | (42.3) |

The operating losses of online businesses include attributable direct costs and overheads. Interest has been allocated, at the average cost of net debt, to online businesses to reflect the cost of funding these activities. As a result, the headline profit before losses of online businesses has been restated for 1999.

| 3. OPERATING COSTS | Before exceptional items Continuing 2000 £m | Before exceptional items Discontinued 2000 £m | Before exceptional items Total 2000 £m | Exceptional items 2000 £m | Total 2000 £m |
|---|---|---|---|---|---|
| Changes in stocks | **1.1** | – | **1.1** | – | **1.1** |
| Other operating income | **11.4** | – | **11.4** | – | **11.4** |
| Raw materials and consumables | **(100.1)** | **(142.4)** | **(242.5)** | – | **(242.5)** |
| Other external charges | **(499.7)** | **(479.7)** | **(979.4)** | **(61.6)** | **(1,041.0)** |
| Staff costs | **(331.4)** | **(161.2)** | **(492.6)** | **(1.0)** | **(493.6)** |
| | **(918.7)** | **(783.3)** | **(1,702.0)** | **(62.6)** | **(1,764.6)** |
| Depreciation of tangible assets | **(21.4)** | **(18.2)** | **(39.6)** | – | **(39.6)** |
| Amortisation of intangible assets – group | **(121.2)** | **(46.4)** | **(167.6)** | – | **(167.6)** |
| Depreciation and amortisation written off tangible and intangible fixed assets | **(142.6)** | **(64.6)** | **(207.2)** | – | **(207.2)** |
| | **(1,061.3)** | **(847.9)** | **(1,909.2)** | **(62.6)** | **(1,971.8)** |

| | 1999 £m | 1999 £m | 1999 £m | 1999 £m | 1999 £m |
|---|---|---|---|---|---|
| Changes in stocks | (2.9) | (0.1) | (3.0) | – | (3.0) |
| Other operating income | 5.7 | 4.3 | 10.0 | – | 10.0 |
| Raw materials and consumables | (96.1) | (216.8) | (312.9) | – | (312.9) |
| Other external charges | (371.7) | (655.6) | (1,027.3) | (23.8) | (1,051.1) |
| Staff costs | (234.1) | (248.1) | (482.2) | (21.0) | (503.2) |
| | (699.1) | (1,116.3) | (1,815.4) | (44.8) | (1,860.2) |
| Depreciation of tangible assets | (21.8) | (27.8) | (49.6) | – | (49.6) |
| Amortisation of intangible assets – group | (127.3) | (109.4) | (236.7) | – | (236.7) |
| Depreciation and amortisation written off tangible and intangible fixed assets | (149.1) | (137.2) | (286.3) | – | (286.3) |
| | (848.2) | (1,253.5) | (2,101.7) | (44.8) | (2,146.5) |

# Notes to the financial statements

| 3. OPERATING COSTS (continued) | Before exceptional items Continuing 2000 £m | Before exceptional items Discontinued 2000 £m | Before exceptional items Total 2000 £m | Exceptional items 2000 £m | Total 2000 £m |
|---|---|---|---|---|---|
| Included within other external charges: | | | | | |
| Operating lease charges | | | | | |
| – hire of plant, machinery and vehicles | **(6.6)** | **(1.9)** | **(8.5)** | **–** | **(8.5)** |
| – property | **(33.6)** | **(5.2)** | **(38.8)** | **–** | **(38.8)** |
| Auditors' remuneration – as auditors | **(0.5)** | **(0.1)** | **(0.6)** | **–** | **(0.6)** |

| | 1999 £m | 1999 £m | 1999 £m | 1999 £m | 1999 £m |
|---|---|---|---|---|---|
| Included within other external charges: | | | | | |
| Operating lease charges | | | | | |
| – hire of plant, machinery and vehicles | (7.8) | (0.2) | (8.0) | – | (8.0) |
| – property | (19.8) | (9.8) | (29.6) | – | (29.6) |
| Auditors' remuneration – as auditors | (0.5) | (0.5) | (1.0) | – | (1.0) |

Non-audit fees paid to PricewaterhouseCoopers in the year totalled £13.3 million (1999: £13.1 million), including £6.5 million charged as exceptional items relating to the Group Process Review (1999: £7.4 million) and £3.1 million charged as costs against exceptional profits on disposal of subsidiaries. Other non-audit services of £3.7 million (1999: £5.7 million) relate to taxation services and support to other corporate activity.

Professional firms are selected to provide advisory services on the basis of their relevant experience and expertise. For major projects, it is the group's policy to undertake a competitive tendering process. In certain circumstances, for example for reasons of confidentiality or knowledge of the group's businesses and structures, it is appropriate to employ the group's auditors to provide such services without a competitive tender being undertaken.

| 4. INCOME FROM OTHER PARTICIPATING INTERESTS | 2000 £m | 1999 £m |
|---|---|---|
| Income from unlisted investments | **4.9** | 2.7 |

| 5. SHARE OF OPERATING (LOSS)/PROFIT IN JOINT VENTURES AND ASSOCIATES (BEFORE EXCEPTIONAL ITEMS) | 2000 £m | 1999 £m |
|---|---|---|
| New ventures – continuing | **(3.4)** | (7.9) |
| Other joint ventures and associates | **(11.2)** | 0.5 |
| Joint ventures and associates within discontinued operations | **15.0** | 19.9 |
| Amortisation of goodwill | **(19.0)** | (7.7) |
| | **(18.6)** | 4.8 |

# Notes to the financial statements

6. **NEW VENTURES**

The group's share of the trading results (before exceptional items and amotisation of goodwill) and financing costs of new ventures, all of which are within the consumer media division, comprises:

| | Operating profit/(loss) 2000 £m | Interest 2000 £m | Total 2000 £m | Operating loss 1999 £m | Interest 1999 £m | Total 1999 £m |
|---|---|---|---|---|---|---|
| Channel 5 Television Group Limited | **0.2** | **(9.4)** | **(9.2)** | (4.2) | (7.2) | (11.4) |
| SDN Limited | **(0.1)** | **(0.5)** | **(0.6)** | (3.7) | (0.2) | (3.9) |
| Onrequest Limited | **(3.5)** | **-** | **(3.5)** | – | – | – |
| ITV2 Limited (discontinued) | **(4.5)** | **(0.6)** | **(5.1)** | (6.8) | (0.3) | (7.1) |
| | **(7.9)** | **(10.5)** | **(18.4)** | (14.7) | (7.7) | (22.4) |

LineOne, previously shown as a new venture, is now included within online businesses.

| 7. **EXCEPTIONAL ITEMS** | 2000 £m | 1999 £m |
|---|---|---|
| Charged to operating profits: | | |
| Continuing operations: | | |
| Costs of acquisition and integration of CMP Media, Inc. and others | **(3.8)** | (23.4) |
| Group Process Review costs* | **(11.5)** | (6.2) |
| Other restructuring costs** | **(22.1)** | – |
| Year 2000 and Euro costs | **-** | (3.4) |
| Continuing operations | **(37.4)** | (33.0) |
| Discontinued operations: | | |
| Cost of abandoned merger | **(19.6)** | - |
| Group Process Review costs* | **(5.4)** | (8.4) |
| Other restructuring costs** | **(0.2)** | - |
| Year 2000 and Euro costs | **-** | (3.4) |
| Share of exceptional losses of associates | **-** | (5.2) |
| Discontinued operations | **(25.2)** | (17.0) |
| Total charged to operating profit | **(62.6)** | (50.0) |
| Profits on sale and closure of businesses (Note 30): | | |
| Sale of professional media businesses | **591.6** | - |
| Sale of consumer media businesses | **1,555.1** | – |
| | **2,146.7** | - |
| **Total credited/(charged) to profit/(loss) on ordinary activities before tax** | **2,084.1** | (50.0) |
| Tax on exceptional items: | | |
| Restructuring and integration costs | **-** | 3.6 |
| Year 2000 and Euro costs | **–** | 0.9 |
| Share of exceptional losses of associates | **-** | 1.2 |
| Profits on sale and closure of businesses | **201.5** | – |
| | **201.5** | 5.7 |

* The Group Process Review is a project that aims to improve operating efficiencies. Further information is given in the Financial review on pages 3 to 4.

** Other restructuring costs comprise the reorganisation and restructuring costs arising from the refocussing of United as a business-to-business media group following the sale of certain television businesses, together with the costs incurred in preparing CMP Net for a potential public offer, which has now been cancelled.

# Notes to the financial statements

| 8. NET INTEREST EXPENSE | 2000 £m | 1999 £m |
|---|---|---|
| Interest receivable | **43.1** | 18.5 |
| Interest payable – on bank loans and overdrafts | **(25.2)** | (38.5) |
| – on other loans | **(47.1)** | (38.0) |
| Group | **(29.2)** | (58.0) |
| Joint ventures | **(2.8)** | (2.0) |
| Associates | **(11.0)** | (9.4) |
| | **(43.0)** | (69.4) |

Net interest expense may also be analysed as follows:

| | | 2000 £m | 1999 £m |
|---|---|---|---|
| Group | – excluding online businesses | **(14.4)** | (51.4) |
| | – online businesses | **(14.8)** | (6.6) |
| | | **(29.2)** | (58.0) |
| Joint ventures and associates | – excluding online businesses and new ventures | **(1.6)** | (2.7) |
| | – online businesses | **(1.7)** | (1.0) |
| | – new ventures | **(10.5)** | (7.7) |
| | | **(13.8)** | (11.4) |
| | | **(43.0)** | (69.4) |

| 9. TAX ON PROFIT ON ORDINARY ACTIVITIES | 2000 £m | 1999 £m |
|---|---|---|
| UK corporation tax at 30.0% (1999: 30.25%) | **9.6** | – |
| Overseas corporate tax | **243.2** | 51.5 |
| Tax relating to share of losses of joint ventures | **1.5** | 5.7 |
| Tax relating to share of losses of associates | **(3.2)** | (2.4) |
| | **251.1** | 54.8 |

# Notes to the financial statements

**10. PROFIT FOR THE YEAR OF THE COMPANY**

As permitted by Section 230 Companies Act 1985, the profit and loss account of the company is not presented. The consolidated profit for the financial year includes a profit of £1,859.2 million (1999: profit of £206.4 million) which is dealt with in the financial statements of the company.

| 11. DIVIDENDS | 2000 £m | 1999 £m |
|---|---|---|
| **Equity dividends** | | |
| Ordinary shares: | | |
| Interim of 11 pence (1999: 11 pence) | **55.3** | 54.7 |
| Proposed final of 11.2 pence (1999: 11.2 pence) | **56.8** | 56.1 |
| | **112.1** | 110.8 |

| 12. EARNINGS/(LOSS) PER SHARE | 2000 Earnings £m | 2000 Weighted average number of shares million | 2000 Earnings per share pence | 1999 Earnings £m | 1999 Weighted average number of shares million | 1999 Earnings per share pence |
|---|---|---|---|---|---|---|
| **Headline before investment in online businesses** | **247.9** | **501.2** | **49.5** | 230.1 | 496.9 | 46.3 |
| Net losses attributable to online businesses | **(96.2)** | **–** | **(19.2)** | (27.2) | – | (5.5) |
| **Headline after investment in online businesses** | **151.7** | **501.2** | **30.3** | 202.9 | 496.9 | 40.8 |
| Adjustment in respect of new ventures | **(14.5)** | **–** | **(2.9)** | (19.5) | – | (3.9) |
| **Earnings per share before amortisation of intangible assets and exceptional items** | **137.2** | **501.2** | **27.4** | 183.4 | 496.9 | 36.9 |
| Adjustment in respect of amortisation of intangible assets | **(186.6)** | **–** | **(37.2)** | (244.4) | – | (49.2) |
| Adjustment in respect of exceptional items | | | | | | |
| – charged to operating profits | **(62.6)** | **–** | **(12.5)** | (44.3) | – | (8.9) |
| – profit on sale and closure of businesses | **1,945.2** | **–** | **388.0** | – | – | – |
| **Basic earnings/(loss) per share** | **1,833.2** | **501.2** | **365.7** | (105.3) | 496.9 | (21.2) |
| Effect of dilutive securities: | | | | | | |
| Options | **–** | **2.6** | **(1.8)** | – | – | – |
| Convertible debt | **7.7** | **23.8** | **(15.0)** | – | – | – |
| ***Diluted earnings/(loss) per share*** | **1,840.9** | **527.6** | **348.9** | (105.3) | 496.9 | (21.2) |

Headline earnings per share before investment in online businesses is based on profits before investment in online businesses, new ventures, amortisation of intangible assets and exceptional items. Headline earnings per share is based on profits before new ventures, amortisation of intangible assets and exceptional items. The directors believe that these, along with earnings per share before amortisation of intangible assets and exceptional items, are more meaningful measures of performance.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has three categories of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year, those shares which may be issued under the LTIP and shares attributable to convertible debt.

# Notes to the financial statements

| 13. INTANGIBLE FIXED ASSETS | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2000 | 2,816.7 | 63.5 | 2,880.2 |
| Currency translation | 104.9 | 0.3 | 105.2 |
| Additions | 10.1 | 1.8 | 11.9 |
| Disposals | (1,298.6) | (50.8) | (1,349.4) |
| **At 31 December 2000** | **1,633.1** | **14.8** | **1,647.9** |
| **Amortisation** | | | |
| At 1 January 2000 | 1,062.4 | 61.9 | 1,124.3 |
| Currency translation | 29.0 | 0.1 | 29.1 |
| Charge for the year | 165.7 | 1.9 | 167.6 |
| Disposals | (728.7) | (50.0) | (778.7) |
| **At 31 December 2000** | **528.4** | **13.9** | **542.3** |
| **Net book amount** | | | |
| **At 31 December 2000** | **1,104.7** | **0.9** | **1,105.6** |
| At 31 December 1999 | 1,754.3 | 1.6 | 1,755.9 |

| 14. TANGIBLE FIXED ASSETS | Land and buildings £m | Plant, machinery and vehicles £m | Total £m |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| At 1 January 2000 | 212.0 | 438.3 | 650.3 |
| Currency translation | 1.6 | 7.3 | 8.9 |
| On disposal of subsidiary undertakings and businesses | (71.4) | (322.1) | (393.5) |
| Additions | 5.3 | 33.7 | 39.0 |
| Disposals | (84.4) | (10.6) | (95.0) |
| **At 31 December 2000** | **63.1** | **146.6** | **209.7** |
| **Depreciation** | | | |
| At 1 January 2000 | 62.9 | 296.6 | 359.5 |
| Currency translation | 0.6 | 4.2 | 4.8 |
| On disposal of subsidiary undertakings and businesses | (24.0) | (221.4) | (245.4) |
| Charge for the year | 6.0 | 33.6 | 39.6 |
| Disposals | (18.4) | (8.7) | (27.1) |
| **At 31 December 2000** | **27.1** | **104.3** | **131.4** |
| **Net book amount** | | | |
| **At 31 December 2000** | **36.0** | **42.3** | **78.3** |
| At 31 December 1999 | 149.1 | 141.7 | 290.8 |

| | 2000 £m | 1999 £m |
|---|---|---|
| Land and buildings at net book amount comprise: | | |
| Freehold | **18.3** | 103.7 |
| Long leasehold | **0.1** | 5.7 |
| Short leasehold | **17.6** | 39.7 |
| | **36.0** | 149.1 |

# Notes to the financial statements

| 15. FIXED ASSET INVESTMENTS | Unlisted £m | Loans to unlisted £m | Goodwill £m | Total £m |
|---|---|---|---|---|
| **Group** | | | | |
| **Joint ventures** | | | | |
| **Cost** | | | | |
| At 1 January 2000 | 3.1 | 39.1 | 12.3 | 54.5 |
| Currency translation | (0.2) | – | – | (0.2) |
| Additions | 4.3 | 20.5 | – | 24.8 |
| Transfers in from subsidiary undertakings | 9.3 | – | – | 9.3 |
| Disposals | (27.8) | (25.8) | (0.6) | (54.2) |
| Dividends received | (4.0) | – | – | (4.0) |
| Share of profits less losses | (3.7) | – | – | (3.7) |
| **At 31 December 2000** | **(19.0)** | **33.8** | **11.7** | **26.5** |
| **Amortisation** | | | | |
| At 1 January 2000 | | | 9.1 | 9.1 |
| Disposals | | | (0.1) | (0.1) |
| Charge for the year | | | 0.2 | 0.2 |
| **At 31 December 2000** | | | **9.2** | **9.2** |
| **Net book amount** | | | | |
| **At 31 December 2000** | **(19.0)** | **33.8** | **2.5** | **17.3** |
| At 31 December 1999 | 3.1 | 39.1 | 3.2 | 45.4 |

| | Overseas listed £m | Unlisted £m | Loans to unlisted £m | Goodwill £m | Total £m |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Associated undertakings** | | | | | |
| **Cost** | | | | | |
| At 1 January 2000 | 34.9 | (2.0) | 9.0 | 68.7 | 110.6 |
| Currency translation | (2.9) | – | – | (0.3) | (3.2) |
| Additions | – | 3.2 | 3.2 | 29.5 | 35.9 |
| Transfer from provision for net liabilities of associated undertaking | – | (129.1) | 76.0 | 71.6 | 18.5 |
| Transfer to other fixed asset investments | – | (1.8) | – | (22.4) | (24.2) |
| Dividends received | – | (3.7) | – | – | (3.7) |
| Disposals | (33.7) | 11.0 | (12.2) | (34.8) | (69.7) |
| Dividends paid to preference shareholders | (1.5) | – | – | – | (1.5) |
| Share of profits less losses | 3.2 | (11.2) | – | – | (8.0) |
| **At 31 December 2000** | **–** | **(133.6)** | **76.0** | **112.3** | **54.7** |
| **Amortisation** | | | | | |
| At 1 January 2000 | | | | 34.5 | 34.5 |
| Currency translation | | | | (0.8) | (0.8) |
| Transfer to other fixed asset investments | | | | (15.1) | (15.1) |
| Disposals | | | | (17.4) | (17.4) |
| Charge for the year | | | | 18.8 | 18.8 |
| **At 31 December 2000** | | | | **20.0** | **20.0** |
| **Net book amount** | | | | | |
| **At 31 December 2000** | **–** | **(133.6)** | **76.0** | **92.3** | **34.7** |
| At 31 December 1999 | 34.9 | (2.0) | 9.0 | 34.2 | 76.1 |

# Notes to the financial statements

| 15. FIXED ASSET INVESTMENTS (continued) | Unlisted £m | Loans to unlisted £m | Goodwill £m | Total £m |
|---|---|---|---|---|
| **Provision for net liabilities of associated undertaking** | | | | |
| **Cost** | | | | |
| At 1 January 2000 | (105.2) | 62.3 | – | (42.9) |
| Additions | (23.9) | 13.7 | 71.6 | 61.4 |
| Transfer to associated undertakings | 129.1 | (76.0) | (71.6) | (18.5) |
| **At 31 December 2000** | **–** | **–** | **–** | **–** |
| At 31 December 1999 | (105.2) | 62.3 | – | (42.9) |

Following the sale of the television businesses, the directors believe that United's ability to influence SIS (Holdings) Ltd has reduced. As a result United no longer equity accounts for SIS (Holdings) Ltd and the investment has been transferred to other fixed asset investments.

United's aggregate share of its associates' turnover, fixed assets, current assets, liabilities due in less than one year and liabilities due after one year is £98.9 million, £11.7 million, £76.6 million, £(51.6) million and £(170.3) million respectively.

| | Type of business | Country of incorporation | Class of shares held | Shareholding % | Accounting Year end |
|---|---|---|---|---|---|
| Principal fixed asset investments are as follows: | | | | | |
| Joint ventures: | | | | | |
| SDN Limited | Multiplex operator | Great Britain | Ordinary | 33.3 | 31 December |
| PL Holdings LLC (Paperloop) | Internet business | USA | Ordinary | 50.0 | 31 December |
| Springboard Internet Services Limited (Line One) | Internet Service Provider | Great Britain | "C" Ordinary | 50.0 | 30 June |
| Associates: | | | | | |
| Creative Planet, Inc. | Internet business | USA | Series D Convertible Preference | 21.8 | 31 December |
| Independent Television News Limited | Broadcasting | Great Britain | Ordinary | 20.0 | 31 December |
| Channel 5 Television Group Limited | Broadcasting | Great Britain | Ordinary | 35.37 | 31 December |

The market value of listed associates at 31 December 2000 was £nil million (1999: £51.6 million). There are no listed joint ventures.

| | Listed investments £m | Unlisted investments £m | Investment in own shares £m | Total £m |
|---|---|---|---|---|
| **Investments: other** | | | | |
| At 1 January 2000 | 5.5 | 21.8 | 3.2 | 30.5 |
| Additions | 0.3 | 10.7 | 13.8 | 24.8 |
| Transfer from associated undertakings | – | 9.1 | – | 9.1 |
| Disposals | (6.5) | (2.8) | (3.8) | (13.1) |
| Amounts released/(provided) | 1.0 | – | (3.7) | (2.7) |
| **At 31 December 2000** | **0.3** | **38.8** | **9.5** | **48.6** |

The market value of other listed investments at 31 December 2000 was £0.3 million (1999: £6.1 million). The group also holds investments in own shares through the ESOP and QUEST. The market value of these shares at 31 December 2000 was £30.5 million (1999: £25.3 million) and the nominal value was £0.9 million (1999:£ 0.8million).

### Employee Share Ownership Plan

An Employee Share Ownership Plan (the "United ESOP") was established by the company on 24 June 1996. MAI already had an Employee Share Ownership Plan established in 1989 (the "MAIESOP"). The United ESOP has purchased in the open market, or has received from the MAIESOP, or has been granted options over, United shares which are held on trust for employees participating in the plans listed below. The purchase of shares in the open market is financed through bonuses sacrificed by senior executives under the terms of the SEEPP and contributions in cash by the company to finance the acquisition of the matching element of such bonuses.

Dividends on the shares held by the United ESOP have not been waived. The costs of running these schemes have been included in the profit and loss account.

### Qualifying Employee Share Trust

In January 1998 a Qualifying Employee Share Trust ("the QUEST") was established for the purpose of satisfying exercises of options under the MAI Sharesave Scheme and the United SAYE Share Option Scheme. A new company, United QUEST Trustee Limited, was incorporated for the purposes of administering the QUEST. On 28 January 1998, the company issued 3,579,947 shares to the QUEST for a total consideration of £25,732,629, equal to 719p per share, the mid-market price at the close of business on 28 January 1998.

On 17 March 2000, the company issued 500,185 shares to the QUEST for a total consideration of £4,321,600 equal to 869p per share, the mid-market price at the close of business on 17 March 2000.

The dividends on the shares held by the QUEST have been waived.

# Notes to the financial statements

| 15. **FIXED ASSET INVESTMENTS** (continued) | **Options over United shares 2000** | Options over United shares 1999 | **Number of United shares 2000** | Number of United shares 1999 |
|---|---|---|---|---|
| At 31 December 2000 the holdings of the United ESOP and the QUEST were as follows: | | | | |
| United ESOP | **2,028,079** | 1,503,980 | **2,829,660** | 2,116,323 |
| QUEST | **-** | - | **754,636** | 1,095,979 |
| | **2,028,079** | 1,503,980 | **3,584,296** | 3,212,302 |

The market value of United shares at 31 December 2000 was 850p (1999: 789p) per share.

The group has taken advantage of the exemption in UITF 17 (revised) and has not applied the abstract to its SAYE and equivalent overseas schemes.

| | **Number of shares over which options were outstanding 2000** | Number of shares over which options were outstanding 1999 |
|---|---|---|
| As at 31 December 2000 the aggregate liabilities of the United ESOP and the QUEST were as follows: | | |
| MAI 1989 Scheme | **128,000** | 156,972 |
| SEEPP – bonus options | **1,192,511** | 1,551,008 |
| SEEPP – matching options | **880,818** | 1,141,433 |
| Harlow Butler Share Bonus Plan | **7,752** | 26,900 |
| LTIP | **1,498,523** | 562,156 |
| Senior executive allocations | **60,544** | 76,333 |
| Equity incentive plan | **-** | 123,830 |
| MAI Sharesave Scheme | **78,160** | 331,873 |
| United SAYE Scheme | **1,912,245** | 764,106 |
| | **5,758,553** | 4,734,611 |

| | **Shares in group companies £m** | **Loans to group companies £m** | **Total £m** |
|---|---|---|---|
| **Company** | | | |
| **Investments: subsidiary undertakings** | | | |
| **Cost** | | | |
| At 1 January 2000 | 1,702.5 | 785.8 | 2,488.3 |
| Additions | 1,302.4 | 13.7 | 1,316.1 |
| **At 31 December 2000** | **3,004.9** | **799.5** | **3,804.4** |

Additions in the year comprise additional investments by the company in existing subsidiaries.

| | **Unlisted investments £m** | **Total £m** |
|---|---|---|
| **Company** | | |
| **Investments: other** | | |
| **Cost** | | |
| **At 1 January 2000 and 31 December 2000** | **0.1** | **0.1** |

# Notes to the financial statements

| 16. STOCKS | 2000 £m | 1999 £m |
|---|---|---|
| **Group** | | |
| Raw materials and consumables – paper stocks | **2.2** | 4.4 |
| Work in progress: | | |
| – short term market research contracts | **12.6** | 10.6 |
| – programmes in production | **–** | 21.8 |
| – other | **0.8** | 2.6 |
| Finished goods and goods for resale: | | |
| – film rights acquired | **–** | 97.0 |
| – other | **1.5** | 2.5 |
| | **17.1** | 138.9 |

| 17. DEBTORS | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Trade debtors | **182.4** | 286.5 | **–** | – |
| Amounts owed by joint ventures | **–** | 4.6 | **–** | – |
| Amounts owed by associates | **22.8** | 13.4 | **–** | – |
| Other debtors | **22.2** | 45.0 | **0.1** | 0.8 |
| Prepayments and accrued income | **46.2** | 79.6 | **1.1** | 0.8 |
| Corporation tax | **–** | – | **24.7** | 8.1 |
| Pension prepayments | **3.0** | 5.0 | **–** | – |
| Deferred tax (note 24) | **–** | – | **0.4** | 0.4 |
| | **276.6** | 434.1 | **26.3** | 10.1 |
| Amounts falling due after more than one year | **3.2** | 2.1 | **–** | – |
| | **279.8** | 436.2 | **26.3** | 10.1 |

| 18. CURRENT ASSET INVESTMENTS | Investments 2000 £m | Short term liquid funds 2000 £m | Total 2000 £m | Investments 1999 £m | Short term liquid funds 1999 £m | Total 1999 £m |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Overseas** | | | | | | |
| Listed investments | **–** | **1,066.0** | **1,066.0** | – | – | – |
| Unlisted investments | **3.4** | **–** | **3.4** | 4.5 | – | 4.5 |
| | **3.4** | **1,066.0** | **1,069.4** | 4.5 | – | 4.5 |

The aggregate market value of current asset listed investments at 31 December 2000 was £1,067.2 million (1999: £nil).

# Notes to the financial statements

| 19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Unsecured bank overdrafts | – | 19.4 | – | – |
| Bank and other loans | 41.1 | 45.5 | 31.2 | 34.5 |
| Trade creditors | 73.5 | 153.3 | – | – |
| Amounts owed to joint ventures | – | 12.7 | – | – |
| Other creditors | 126.0 | 110.7 | – | 0.2 |
| Corporation tax | 225.2 | 93.4 | – | – |
| Other taxes and social security | 8.7 | 27.8 | 0.2 | 0.3 |
| Accruals and deferred income | 186.2 | 279.6 | 18.0 | 16.0 |
| Proposed dividends: | | | | |
| – Group | 56.8 | 56.1 | 56.8 | 56.1 |
| – Minority interests | – | 3.8 | – | – |
| | 717.5 | 802.3 | 106.2 | 107.1 |

| 20. BANK AND OTHER LOANS DUE AFTER MORE THAN ONE YEAR | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Bank loans | – | 752.4 | – | – |
| Other loans | 413.0 | 382.9 | 413.0 | 382.9 |
| | 413.0 | 1,135.3 | 413.0 | 382.9 |

See note 23.

| 21. OTHER CREDITORS DUE AFTER MORE THAN ONE YEAR | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Amounts owed to group companies | – | – | 607.5 | 1,085.7 |
| Other creditors | 23.7 | 16.8 | 0.7 | 0.9 |
| | 23.7 | 16.8 | 608.2 | 1,086.6 |

| 22. CONVERTIBLE DEBT | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| 6.125% subordinated convertible bonds due 2003 | 177.5 | 176.9 | 177.5 | 176.9 |

See note 23.

# Notes to the financial statements

23. FINANCIAL INSTRUMENTS

**Objectives, policies and procedures**

The group's funding, liquidity and exposure to currency and interest rate risk is managed by the group's treasury department. Treasury operations are conducted within a framework of policies and guidelines authorised by the board and are subject to internal control procedures. The objective of the framework is to provide flexibility whilst minimising risk and prohibiting speculative transactions or positions to be taken.

Through its central treasury function the company borrows centrally on behalf of its subsidiaries, with the aim of maximising flexibility and price competitiveness. A variety of different funding sources are used, including syndicated bank facilities and the public and private debt markets. Surplus funds are invested with the emphasis on preservation of capital, with limits for individual counter-parties being based on credit ratings and liquidity.

For the purposes of the disclosures which follow in this note (other than the currency risk disclosures), short term debtors and creditors which arise directly from the group's operations have been excluded, as permitted under FRS 13.

**Interest rate management**

The group is exposed to movements in interest rates. In order to minimise this exposure the net debt or cash position is managed centrally by using fixed rate borrowings and financial instruments such as interest rate swaps, caps and forward rate agreements. The transactions must have a clear objective and be approved by the board. The actual mixture of fixed to floating debt/cash will vary throughout the year although the underlying principle is to limit exposure to interest rate movements.

**Foreign exchange management**

For currencies in which there is an active market, the group hedges, in all material respects, the transactional foreign exchange risk, generally using forward exchange contracts. The gain or loss on the hedge is recognised at the same time as the underlying transaction. Foreign currency borrowings are used, where appropriate, to provide an economic hedge against investments in overseas territories.

**Interest rate risk profile of financial liabilities**

The interest rate risk profile of the group's financial liabilities at 31 December was:

| Currency | Total 2000 £m | Floating rate financial liabilities 2000 £m | Fixed rate financial liabilities 2000 £m | Financial liabilities on which no interest is paid 2000 £m | Fixed rate liabilities Weighted average interest rate 2000 % | Fixed rate liabilities Weighted average period for which rate is fixed 2000 Years |
|---|---|---|---|---|---|---|
| Sterling | **222.1** | **33.5** | **185.1** | **3.5** | **6.6** | **3.1** |
| US dollar | **426.6** | **–** | **413.0** | **13.6** | **7.2** | **5.5** |
| Euro currencies | **–** | **–** | **–** | **–** | **–** | **–** |
| Other currencies | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total** | **648.7** | **33.5** | **598.1** | **17.1** | | |

| Currency | Total 1999 £m | Floating rate financial liabilities 1999 £m | Fixed rate financial liabilities 1999 £m | Financial liabilities on which no interest is paid 1999 £m | Fixed rate liabilities Weighted average interest rate 1999 % | Fixed rate liabilities Weighted average period for which rate is fixed 1999 Years |
|---|---|---|---|---|---|---|
| Sterling | 234.8 | 38.4 | 184.5 | 11.9 | 6.7 | 4.1 |
| US dollar | 999.8 | 38.8 | 958.1 | 2.9 | 6.4 | 4.7 |
| Euro currencies | 158.3 | 6.8 | 150.4 | 1.1 | 3.3 | 2.0 |
| Other currencies | 0.1 | 0.1 | – | – | – | – |
| **Total** | 1,393.0 | 84.1 | 1,293.0 | 15.9 | | |

**23. FINANCIAL INSTRUMENTS** (continued)

**Interest rate risk profile of financial liabilities** (continued)

In 1999, the effect of the group's interest rate swaps and caps was to classify as fixed rate in the above table £575.2 million of US dollar floating rate borrowings and £150.5 million of euro currency floating rate borrowings. Following repayment in 2000 of the group's US dollar and euro floating rate debt, the swaps and caps were unwound or offsetting swaps put in place.

In January 1999 the coupon of 8.04 per cent on the US dollar private placement was swapped to a fixed rate of 7.255 per cent for the period January 1999 to September 2004.

Floating rate financial liabilities comprise borrowings which bear interest at rates based on the Libor less a margin for each relevant currency for periods between one and six months, and (in 1999 only) bank overdrafts which incur interest at local prevailing rates.

The total financial liabilities include £13.6 million of other creditors falling due after more than one year (1999: £12.9 million) and £3.5 million of vacant property provisions (1999: £3.0 million).

Sterling financial liabilities on which no interest is paid, as in 1999, have a maturity of between one and five years. US dollar financial liabilities on which no interest is paid, have a weighted average period until maturity of 1.8 years (1999: 1.6 years).

**Interest rate risk profile of financial assets**

The interest rate risk profile of the groups' financial assets at 31 December was:

| Currency | Total 2000 £m | Cash at bank and deposits 2000 £m | Other financial assets 2000 £m | Floating rate 2000 £m | Fixed rate 2000 £m | Non interest bearing 2000 £m |
|---|---|---|---|---|---|---|
| Sterling | **2,044.8** | **972.6** | **1,072.2** | **114.7** | **1,906.9** | **23.2** |
| US dollar | **283.2** | **134.6** | **148.6** | **8.8** | **255.8** | **18.6** |
| Euro currencies | **7.3** | **6.8** | **0.5** | **6.8** | – | **0.5** |
| Other currencies | **1.2** | **1.2** | – | **1.2** | – | – |
| **Total** | **2,336.5** | **1,115.2** | **1,221.3** | **131.5** | **2,162.7** | **42.3** |

| Currency | As restated Total 1999 £m | As restated Cash at bank and deposits 1999 £m | As restated Other financial assets 1999 £m | As restated Floating rate 1999 £m | As restated Fixed rate 1999 £m | As restated Non interest bearing 1999 £m |
|---|---|---|---|---|---|---|
| Sterling | 154.0 | 24.8 | 129.2 | 102.0 | 29.8 | 22.2 |
| US dollar | 45.7 | 31.6 | 14.1 | 9.0 | 30.0 | 6.7 |
| Euro currencies | 8.8 | 8.3 | 0.5 | 8.3 | – | 0.5 |
| Other currencies | 3.2 | 3.2 | – | 3.2 | – | – |
| **Total** | 211.7 | 67.9 | 143.8 | 122.5 | 59.8 | 29.4 |

Non-interest bearing financial assets comprise other fixed asset investments for which there is no maturity and debtors maturing in over one year which have a weighted average period to maturity of 1.5 years (1999: 1.3 years).

For the year ended 31 December 1999 amounts have been restated to include other fixed asset investments of £27.3 million and debtors greater than one year on a basis consistent with the year ended 31 December 2000.

The benchmark rate for loans to joint ventures and associates included in sterling floating rate financial assets is Libor. Other floating rate financial assets principally comprise cash at bank earning interest at local prevailing rates for current accounts.

# Notes to the financial statements

23. FINANCIAL INSTRUMENTS (continued)

| Currency | Fixed rate assets weighted average interest rate 2000 % | Fixed rate assets weighted average period for which rate is fixed 2000 Months |
|---|---|---|
| Sterling | **5.8** | **1.7** |
| US dollar | **6.5** | **0.6** |

At 31 December 1999 fixed rate assets had a weighted average rate of interest of 6.2 per cent and were fixed for a weighted average period of 3 years.

### Maturity of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities at 31 December was:

| Maturity<br>Group | Debt 2000 £m | Other financial liabilities 2000 £m | Total 2000 £m |
|---|---|---|---|
| Within one year, or on demand | **41.1** | **6.0** | **47.1** |
| Between one and two years | **–** | **7.7** | **7.7** |
| Between two and five years | **426.4** | **3.4** | **429.8** |
| Over five years | **164.1** | **–** | **164.1** |
| **Total** | **631.6** | **17.1** | **648.7** |
| Finance charges allocated to future periods | | | |
| Unamortised issue costs | **7.6** | **–** | **7.6** |

| Maturity<br>Group | Debt 1999 £m | Other financial liabilities 1999 £m | Total 1999 £m |
|---|---|---|---|
| Within one year, or on demand | 64.9 | – | 64.9 |
| Between two and five years | 1,159.4 | 15.9 | 1,175.3 |
| Over five years | 152.8 | – | 152.8 |
| **Total** | 1,377.1 | 15.9 | 1,393.0 |
| Finance charges allocated to future periods | | | |
| Unamortised issue costs | 8.0 | – | 8.0 |

The maturity profile of the carrying amount of the company's financial liabilities at 31 December was:

| Maturity<br>Company | Debt 2000 £m | Other financial liabilities 2000 £m | Total 2000 £m |
|---|---|---|---|
| Within one year, or on demand | **31.3** | **–** | **31.3** |
| Between one and two years | **–** | **–** | **–** |
| Between two and five years | **426.4** | **–** | **426.4** |
| Over five years | **164.1** | **–** | **164.1** |
| **Total** | **621.8** | **–** | **621.8** |
| Finance charges allocated to future periods | | | |
| Unamortised issue costs | **7.6** | **–** | **7.6** |

| Maturity<br>Company | Debt 1999 £m | Other financial liabilities 1999 £m | Total 1999 £m |
|---|---|---|---|
| Within one year, or on demand | 34.5 | – | 34.5 |
| Between two and five years | 407.2 | – | 407.2 |
| Over five years | 152.8 | – | 152.8 |
| Total | 594.5 | – | 594.5 |
| Finance charges allocated to future periods | | | |
| Unamortised issue costs | 8.0 | – | 8.0 |

# Notes to the financial statements

**23. FINANCIAL INSTRUMENTS** (continued)

Included in the above tables are the following:

**Borrowing facilities**

At 31 December 2000 there were no borrowings under the £1 billion syndicated bank credit facility (1999: £752.3 million). The facility expires in May 2002. All conditions precedent to the committed borrowing facilities were met at 31 December 2000 and the facility incurs commitment fees of 0.09 per cent per annum (1999: 0.09% per annum). On 31 May 2000, a one year facility of $240 million was renewed. The group has the option to extend this facility until 31 May 2002. There are no drawings under this facility at 31 December 2000. The facility incurs no commitment fees.

**Sterling convertible bond**

Sterling fixed rate financial liabilities include subordinated convertible bonds with a total par value of £180 million due 2003. The fixed annual coupon interest rate is 6.125 per cent payable semi-annually and the bonds are convertible into fully paid ordinary shares of 25 pence. Bondholders have the right to convert bonds in an authorised denomination into shares at any time up to the seventh calendar day before the date fixed for redemption. The company may redeem the bonds at their principal amount:

a) in whole or in part at any time after 17 December 2001, in aggregate principal amount of £5 million or in an integral multiple thereof; or
b) in whole but not in part at any time if conversion rights shall have been exercised and/or purchases (and cancellations) shall have been effected in respect of 85 per cent in principal of the bonds originally issued.

**US dollar private placement**

US dollar fixed rate financial liabilities include a private placement of £83.7 million which is repayable in September 2004 (1999: £77.6 million).

**US dollar senior unsecured loan notes**

US dollar fixed rate financial liabilities include £329.3 million (1999: £310.0 million) of senior unsecured loan notes (stated net of issue costs). The notes were issued in two tranches: £167.4 million 7.25 per cent notes due July 2004, and £167.4 million 7.75% notes due July 2009 (stated at par value).

**Fair values of financial assets and financial liabilities**

The following tables provide a comparison by category of the carrying amounts and the fair values of the group's financial assets and financial liabilities at 31 December 2000 and 31 December 1999. The fair value of US dollar private placements (included in long-term borrowings) was calculated by discounting expected future cash flows at risk adjusted interest rates. Market value obtained from third parties has been used to determine the fair value of interest rate swaps, forward foreign exchange contracts, the fixed rate convertible bonds and the US dollar senior unsecured loan notes and other financial assets (excluding unlisted fixed asset investments). The fair value of cash at bank and deposits approximates to their book value due to their short maturity. The fair value of unlisted fixed asset investments (included in other financial assets) have been calculated on the basis of discontinued future cash flows. Listed investments are valued at market value. For all other financial assets and liabilities the carrying amount has been used as the fair value as it is estimated that the difference between the carrying amount and the fair value is not material.

| | Book value 2000 £m | Fair value 2000 £m |
|---|---|---|
| **Primary financial instruments held or issued to finance the group's operations:** | | |
| Financial liabilities: | | |
| – Short-term borrowings | (41.1) | (41.1) |
| – Long-term borrowings | (590.5) | (634.6) |
| – Other financial liabilities | (17.1) | (17.1) |
| Financial assets: | | |
| – Cash at bank and deposits | 1,115.2 | 1,115.2 |
| – Other financial assets | 1,221.3 | 1,226.6 |
| **Derivative financial instruments held to manage the interest rate profile:** | | |
| Interest rate swaps | | |
| – assets | – | 14.8 |
| – liabilities | – | (0.9) |
| **Derivative financial instruments held or issued to hedge the currency exposure on expected future sales:** | | |
| Forward foreign currency contracts | | |
| – assets | – | – |
| – liabilities | – | – |

# Notes to the financial statements

| 23. FINANCIAL INSTRUMENTS (continued) | As restated Book value 1999 £m | As restated Fair value 1999 £m |
|---|---|---|
| **Primary financial instruments held or issued to finance the group's operations :** | | |
| Financial liabilities: | | |
| – Short-term borrowings (up to two years) | (64.9) | (64.9) |
| – Long-term borrowings (over two years) | (1,312.2) | (1,340.6) |
| – Other financial liabilities | (15.9) | (15.9) |
| Financial assets: | | |
| – Cash at bank and deposits | 67.9 | 67.9 |
| – Other financial assets | 143.8 | 144.4 |
| **Derivative financial instruments held to manage the interest rate profile :** | | |
| Interest rate swaps | | |
| – assets | – | 23.6 |
| – liabilities | – | – |
| **Derivative financial instruments held or issued to hedge the currency exposure on expected future sales :** | | |
| Forward foreign currency contracts | | |
| – assets | – | – |
| – liabilities | – | (3.5) |

### Hedges

The group's policy is to hedge interest rate risk using fixed rate borrowings and financial instruments such as interest rate swaps. Net foreign transaction risks are hedged as they arise, generally using forward foreign exchange contracts, whilst foreign currency borrowings are used to provide an economic hedge against investments in overseas territories. The group's policy for accounting for hedges can be found in the "Group accounting policies" section of this report.

The tables below show the extent to which the group has unrecognised gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

| | **Unrecognised gains 2000 £m** | **Unrecognised losses 2000 £m** | **Total net gains/ (losses) 2000 £m** |
|---|---|---|---|
| **Unrecognised gains and losses on hedges at 1 January 2000** | **23.6** | **(3.5)** | **20.1** |
| Arising in previous years included in 2000 income | **(10.1)** | **3.5** | **(6.6)** |
| **Gains and losses not included in 2000 income** | | | |
| Arising before 1 January 2000 | **13.5** | **–** | **13.5** |
| Arising in 2000 | **1.3** | **(0.9)** | **0.4** |
| **Gains and losses on hedges at 31 December 2000** | **14.8** | **(0.9)** | **13.9** |
| of which | | | |
| Gains and losses expected to be included in 2001 income | **4.7** | **(0.4)** | **4.3** |
| Gains and losses expected to be included in 2002 income or later | **10.1** | **(0.5)** | **9.6** |

| | Unrecognised gains 1999 £m | Unrecognised losses 1999 £m | Total net gains/ (losses) 1999 £m |
|---|---|---|---|
| **Unrecognised gains and losses on hedges at 1 January 1999** | 0.2 | (4.5) | (4.3) |
| Arising in previous years included in 1999 income | – | 2.3 | 2.3 |
| **Gains and losses not included in 1999 income** | | | |
| Arising before 1 January 1999 | 0.2 | (2.2) | (2.0) |
| Arising in 1999 | 23.4 | (1.3) | 22.1 |
| **Gains and losses on hedges at 31 December 1999** | 23.6 | (3.5) | 20.1 |
| of which | | | |
| Gains and losses expected to be included in 2000 income | 1.8 | (3.5) | (1.7) |
| Gains and losses expected to be included in 2001 income or later | 21.8 | – | 21.8 |

# Notes to the financial statements

23. **FINANCIAL INSTRUMENTS** (continued)

**Currency exposures**

As outlined above in the "Objectives, policies and procedures" section of this note, the group policy is to hedge, where possible, in all material respects exposures on monetary assets and liabilities.

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their functional currencies as at 31 December 2000. At 31 December 1999 no group companies had material balances in currencies other than their functional currencies.

| | Net foreign currency monetary assets/(liabilities) | | | | |
|---|---|---|---|---|---|
| | Sterling £m | US Dollar £m | Euro £m | Other £m | Total £m |
| **Functional currency of group operation** | | | | | |
| Sterling | – | 196.2 | 0.5 | (0.2) | 196.5 |
| US Dollar | (0.4) | – | – | 3.5 | 3.1 |
| Euro currencies | – | – | – | 1.6 | 1.6 |
| Other currencies | – | (3.9) | (1.0) | – | (4.9) |
| **Total** | (0.4) | 192.3 | (0.5) | 4.9 | 196.3 |

| 24. OTHER PROVISIONS FOR LIABILITIES AND CHARGES | Property £m | Former financial services £m | Total £m |
|---|---|---|---|
| **Group** | | | |
| At 1 January 2000 | 4.9 | 5.9 | 10.8 |
| Provided in the year | 3.4 | – | 3.4 |
| On disposal of subsidiary undertakings | (1.3) | (3.1) | (4.4) |
| Utilised in the year | (0.9) | (0.5) | (1.4) |
| **At 31 December 2000** | 6.1 | 2.3 | 8.4 |

**Liabilities arising from former financial services activities**

One subsidiary of the group was formerly engaged in the selling of personal pensions prior to 1996. As a result of the industry-wide review into pension misselling by the Personal Investment Authority, the group is exposed to actual and potential future claims by investors in respect of policies found to have been missold. Although work is now progressing with respect to the identification and review of all pension policies sold, the number and amount of such claims can not be finally determined until all potential compensation costs have been agreed. A second subsidiary which also formerly engaged in the selling of personal pensions prior to 1996 was sold during the year; no liability remains with the group. The amount of the provisions at 31 December 2000 has been determined on the basis of independent financial advice.

**Liabilities on property**

The group has lease obligations in respect of the continuing costs of vacant property, the quantification of which depends upon the ability to exit the leases early or sublet the properties, and for dilapidations on certain leasehold properties which are dependent principally on actual reinstatement costs on expiry of the leases. The provision in respect of these obligations at 31 December 2000 has been determined following external professional advice and will be utilised over the period of the leases in question, which range from 1 to 5 years.

| | Deferred tax £m |
|---|---|
| **Company** | |
| **At 1 January 2000 and 31 December 2000** (note 17) | (0.4) |

# Notes to the financial statements

| 24. OTHER PROVISIONS FOR LIABILITIES AND CHARGES (continued) | 2000 Provided £m | 2000 Unprovided £m | 1999 Provided £m | 1999 Unprovided £m |
|---|---|---|---|---|
| The amount of provided and unprovided deferred tax liability/(asset) is as follows: | | | | |
| **Group** | | | | |
| Accelerated capital allowances | – | **(3.9)** | – | 9.6 |
| Other timing differences | – | **(84.1)** | – | (108.3) |
| | – | **(88.0)** | – | (98.7) |
| **Company** | | | | |
| Other timing differences | **(0.4)** | **(49.1)** | (0.4) | (22.8) |

The above tables do not include any tax on the distribution of retained profits and reserves by overseas subsidiaries or joint ventures or associated undertakings as there is currently no intention to remit such amounts to the UK.

| 25. CALLED UP SHARE CAPITAL | 2000 £m | 1999 £m |
|---|---|---|
| **Authorised** | | |
| 660,000,000 (1999: 660,000,000) ordinary shares of 25 pence each | **165.0** | 165.0 |

| | 2000 Number | 2000 £m |
|---|---|---|
| **Allotted and fully paid** | | |
| In issue at 1 January 2000 | **501,472,875** | **125.4** |
| Allotted in respect of share option schemes | **5,498,137** | **1.4** |
| **In issue at 31 December 2000** | **506,971,012** | **126.8** |

| 26. SHARE PREMIUM ACCOUNT AND RESERVES | Share premium account £m | Merger reserve £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| **Group** | | | | | |
| At 1 January 2000 | 267.1 | 31.3 | 560.5 | (341.5) | 517.4 |
| Retained profit for the year | – | – | – | 1,721.1 | 1,721.1 |
| On disposal of subsidiary undertakings | – | – | (435.5) | 435.5 | – |
| Premium on shares issued, net of costs | 32.4 | – | – | (4.3) | 28.1 |
| Unrealised profit on the sale of assets to associated undertakings | – | – | – | 4.0 | 4.0 |
| Currency translation | – | – | – | 26.5 | 26.5 |
| **At 31 December 2000** | **299.5** | **31.3** | **125.0** | **1,841.3** | **2,297.1** |

The total group reserves at 31 December 2000 include £3.4 million (1999: £7.5 million) in respect of joint ventures and £(27.3) million (1999: £2.7 million) in respect of associated undertakings, of which £(13.8) million (1999: £16.9 million) has been dealt with in the profit and loss account and £(10.1) million (1999: £(6.7) million) of exchange has been dealt with in reserves, in line with SSAP 20.

# Notes to the financial statements

| 26. SHARE PREMIUM ACCOUNT AND RESERVES (continued) | Share premium account £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|
| **Company** | | | | |
| At 1 January 2000 | 267.1 | 103.0 | 249.5 | 619.6 |
| Retained profit for the year | – | – | 1,747.1 | 1,747.1 |
| On disposal of subsidiary undertakings | – | (19.7) | 19.7 | – |
| Premium on shares issued | 32.4 | – | – | 32.4 |
| **At 31 December 2000** | **299.5** | **83.3** | **2,016.3** | **2,399.1** |
| Non-distributable | 299.5 | 83.3 | – | 382.8 |
| Distributable | – | – | 2,016.3 | 2,016.3 |

The company received £33.8 million (1999: £7.6 million) on the issue of shares in respect of the exercise of options awarded under various share option plans, of which £29.5 million (1999: £7.6 million) is payable by employees to the group for the issue of these shares.

The net amount of foreign currency losses on foreign exchange borrowings less deposits offset in the reserves of the group and company was £65.9 million (1999: gain of £17.9 million) and £nil million (1999: £nil) respectively.

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2000 the group is committed to make payments during the following year under non cancellable operating leases as follows:

| | Land and buildings 2000 £m | Land and buildings 1999 £m | Other 2000 £m | Other 1999 £m |
|---|---|---|---|---|
| **Group** | | | | |
| **Operating leases which expire** | | | | |
| Within one year | **2.4** | 4.3 | **3.0** | 3.0 |
| Two to five years | **2.9** | 8.7 | **0.5** | 2.4 |
| After five years | **8.4** | 12.7 | – | – |
| | **13.7** | 25.7 | **3.5** | 5.4 |

At 31 December 2000 the company is committed to make payments during the following year under non-cancellable operating leases as follows:

| | Land and buildings 2000 £m | Land and buildings 1999 £m | Other 2000 £m | Other 1999 £m |
|---|---|---|---|---|
| **Company** | | | | |
| **Operating leases which expire** | | | | |
| After five years | **3.8** | 4.7 | – | – |
| | **3.8** | 4.7 | – | – |

Capital expenditure contracted for but not provided in the financial statements amounts to £7.4 million (1999: £3.5 million).

Under the demerger agreement between United and Garban plc, United granted call options to Garban to require United to subscribe for up to £8 million of redeemable preference shares to be subscribed at any time within 5 years of the demerger to meet certain uninsured liabilities of Garban in relation to US litigation.

As at 31 December 2000 the group has committed to subscribe for further loan stock in Channel 5 Television Group Limited, as necessary to comply with bank facilities, up to a maximum of £23.2 million (1999: £23.2 million). On 2 January 2001, United subscribed for £5.3 million of additional loan stock.

The company acts as guarantor over a net overdraft facility of £70 million and a foreign exchange line of £50 million that are available to subsidiary undertakings. The company also acts as guarantor over the fixed interest payable on interest rate swaps taken out by a subsidiary undertaking.

The company has received a legal claim of £30 million in connection with one of the disposals which took place during 2000. Having taken external advice, the company views this claim as without merit and will resist it vigorously. On this basis, no provision has been made for any liability arising.

# Notes to the financial statements

| 28. RECONCILIATION OF OPERATING PROFIT TO CASH INFLOW FROM OPERATING ACTIVITIES | Total Continuing 2000 £m | Discontinued 2000 £m | Total 2000 £m |
|---|---|---|---|
| Operating (loss)/profit | **(71.9)** | **61.4** | **(10.5)** |
| Depreciation charges | **21.4** | **18.2** | **39.6** |
| Amortisation of intangible assets – group | **121.2** | **46.4** | **167.6** |
| Share of results of joint ventures | **9.9** | **(10.3)** | **(0.4)** |
| Share of results of associates | **20.3** | **(1.3)** | **19.0** |
| Income from participating interests | **(4.9)** | **–** | **(4.9)** |
| Profit on sale of fixed asset investments | **(2.4)** | **–** | **(2.4)** |
| Profit on sale of tangible fixed assets | **(6.1)** | **(0.1)** | **(6.2)** |
| Payment against provisions | **(1.1)** | **(0.3)** | **(1.4)** |
| Increase in stocks | **(0.5)** | **(34.5)** | **(35.0)** |
| Increase in debtors | **(27.4)** | **(27.2)** | **(54.6)** |
| Increase/(decrease) in creditors | **29.7** | **(27.3)** | **2.4** |
| Other non-cash items including movements on provisions | **10.2** | **(11.4)** | **(1.2)** |
| **Cash inflow from operating activities** | **98.4** | **13.6** | **112.0** |

| | Continuing 1999 £m | Discontinued 1999 £m | Total 1999 £m |
|---|---|---|---|
| Operating (loss)/profit | (30.9) | 58.0 | 27.1 |
| Depreciation charges | 21.8 | 27.8 | 49.6 |
| Amortisation of intangible assets – group | 127.3 | 109.4 | 236.7 |
| Share of results of joint ventures | 5.3 | (11.5) | (6.2) |
| Share of results of associates | 5.5 | 1.1 | 6.6 |
| Income from participating interests | (1.7) | (1.0) | (2.7) |
| Profit on sale of tangible fixed assets | (0.3) | (0.6) | (0.9) |
| Payments against provisions | (1.9) | – | (1.9) |
| Decrease in stocks | 7.1 | 7.2 | 14.3 |
| (Increase)/decrease in debtors | (40.1) | 23.0 | (17.1) |
| Increase in creditors | 25.9 | 6.1 | 32.0 |
| Payments against pre acquisition transaction related liabilities of CMP Media, Inc. | (57.4) | – | (57.4) |
| Profit on sale of current asset investments | (4.5) | – | (4.5) |
| Other non-cash items including movements on provisions | (8.6) | 4.3 | (4.3) |
| **Cash inflow from operating activities** | 47.5 | 223.8 | 271.3 |

| 29. ANALYSIS OF NET DEBT | At 1 January 2000 £m | Cash flow £m | Acquisitions (excl. cash & overdrafts) £m | Disposals (excl. cash & overdrafts) £m | Other non-cash movements £m | Exchange movements £m | At 31 December 2000 £m |
|---|---|---|---|---|---|---|---|
| Cash at bank and in hand | 67.9 | | | | | | **1,115.2** |
| Overdrafts | (19.4) | | | | | | **–** |
| | 48.5 | | | | | | **1,115.2** |
| Less deposits treated as liquid resources | (35.8) | | | | | | **(1,093.3)** |
| | 12.7 | 9.9 | – | – | – | (0.7) | **21.9** |
| Debt due after one year | (1,312.2) | 785.1 | – | – | (1.3) | (62.1) | **(590.5)** |
| Debt due within one year | (45.5) | 3.2 | (2.2) | 3.4 | – | – | **(41.1)** |
| | (1,345.0) | 798.2 | (2.2) | 3.4 | (1.3) | (62.8) | **(609.7)** |
| Deposits included in cash | 35.8 | 1,059.3 | – | – | – | (1.8) | **1,093.3** |
| Current asset investments | 4.5 | 1,066.2 | – | – | – | (1.3) | **1,069.4** |
| **Total** | **(1,304.7)** | **2,923.7** | **(2.2)** | **3.4** | **(1.3)** | **(65.9)** | **1,553.0** |

# Notes to the financial statements

| 30. DISPOSAL OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES | £m |
|---|---|
| Net assets disposed of during 2000 | |
| – Intangible assets | 570.7 |
| – Tangible fixed assets | 148.1 |
| – Joint ventures and associates | 106.3 |
| – Stock | 157.1 |
| – Debtors | 237.7 |
| – Cash | 4.0 |
| – Creditors | (283.3) |
| – Minority interests | (23.1) |
| | 917.5 |
| Costs of disposals | 106.9 |
| Profits on disposals | 2,146.7 |
| Satisfied by cash | 3,171.1 |

| | £m |
|---|---|
| The analysis of the net inflow of cash in respect of the sale of subsidiary undertakings is as follows: | |
| Cash consideration | 3,171.1 |
| Cash at bank of subsidiary sold | (4.0) |
| Net cash inflow from sale of subsidiary undertakings | 3,167.1 |

The subsidiaries sold during the year contributed an inflow of £4.5 million (1999: £204.4 million) of the group's net operating cash flows and utilised £9.2 million (1999: £19.5 million) for capital expenditure.

At 1 January 2000 the accrual for the costs of the acquisition and integration of CMP Media, Inc. was £17.4 million. At 31 December 2000 this accrual was £4.6 million (having been reduced through utilisation) and principally comprises payments due to former employees and owners which are payable over a period of three years from acquisition.

| 31. PARTICULARS OF EMPLOYEES | 2000 | 1999 |
|---|---|---|
| The average number of persons employed in the group, including directors, during the year was as follows: | | |
| **Category** | | |
| United Kingdom | **6,406** | 6,877 |
| North America | **6,079** | 7,825 |
| Europe and Middle East | **659** | 809 |
| Pacific | **315** | 331 |
| | **13,459** | 15,842 |

| | 2000 £m | 1999 £m |
|---|---|---|
| Staff costs, including directors' emoluments, were: | | |
| Wages and salaries | **425.8** | 421.4 |
| Social security costs | **52.2** | 48.8 |
| Other pension costs | **14.6** | 12.0 |
| | **492.6** | 482.2 |

| | 2000 £m | 1999 £m |
|---|---|---|
| **Directors' emoluments** | | |
| Fees | **0.4** | 0.3 |
| Remuneration and benefits in kind | **1.5** | 1.8 |
| Compensation for loss of office | **0.5** | – |
| Bonuses | **1.3** | 0.6 |
| Pension contributions | **0.2** | 0.2 |
| | **3.9** | 2.9 |

Details of executive and non-executive directors' emoluments and their interest in shares and options of the company are shown within the report of the remuneration committee on pages 6 to 12 in the sections "Policy on remuneration of executive directors: pension entitlement", "Table of individual directors' remuneration", "Directors' interests" and "Directors' interests in options over United shares".

# Notes to the financial statements

32. **PENSIONS**

The group operates a number of pension schemes in the UK and overseas of both defined benefit type, with benefits accruing based on final salary and length of service, and of defined contribution type. The ten main schemes in operation at the start of the year are shown in the table below:

| Defined benefit schemes | Defined contribution scheme | Both defined benefit and defined contribution scheme |
|---|---|---|
| Anglia Television Group Pension Scheme | United Money Purchase Scheme | United Pension Plan |
| United Magazines Final Salary Pension Scheme | MFI Defined Contribution Plan | |
| United Provincial Newspapers Scheme | CMP Defined Contribution Plan | |
| HTV Pension Scheme | | |
| Express Newspapers 1988 Pension Fund | | |
| Miller Freeman Cash Balance Plan (US) | | |

During the year, the group disposed of Anglia Television, HTV and Express Newspapers and therefore no longer operates the Anglia Television Group Pension Scheme, the HTV Pension Scheme and Express Newspapers 1998 Pension Fund.

The pension cost relating to the UK and US defined benefit schemes is assessed in accordance with the advice of independent qualified actuaries using the attained age method and the projected unit method respectively. Assets were valued at market value. The latest actuarial assessments for accounting purposes were carried out on 6 April 1999 for the United Provincial Newspapers Scheme and 6 April 1998 for all other schemes. The principal actuarial assumptions for accounting purposes were as follows:

| Financial assumptions | UK schemes % a year | US schemes % a year |
|---|---|---|
| Investment return | 6.00 | 6.75 |
| Salary increases | 4.75 | 6.00 |
| Pre 5 April 1997 service pension increases | Promised benefit, which can range from 0% to 3% | n/a |
| Post 5 April 1997 service pension increases | 2.75 | n/a |
| Retail Prices Inflation | 3.00 | n/a |

A summary of the results of the latest actuarial valuations and pension costs for the defined benefit schemes is shown in the table below.

| | Regular cost £m | Interest cost £m | Variation from regular cost £m | Pension cost £m | Provision/ (prepayment) at 1 January 2000 £m | Contributions paid £m | Eliminated provision on disposal £m | Provision/ (prepayment) at 31 December 2000 £m |
|---|---|---|---|---|---|---|---|---|
| UK plans | 6.9 | (0.4) | (7.1) | (0.6) | (8.4) | (11.9) | 10.7 | (10.2) |
| US plans | 7.1 | 0.1 | 0.1 | 7.3 | 1.5 | (3.3) | – | 5.5 |
| **Total** | **14.0** | **(0.3)** | **(7.0)** | **6.7** | **(6.9)** | **(15.2)** | **10.7** | **(4.7)** |

The assets of the schemes are held as separate trustee administered funds. The market value of the combined assets of the six UK defined benefit schemes at the latest valuation was £856.2 million corresponding to a funding level of 113 per cent. The market value of the US defined benefit scheme at 1 January 1999 was $28 million corresponding to a funding level of 83 per cent.

The increase in regular cost of the US plan over that in 1999 was mainly as a result of an increased membership due to the participation in the plan from 1 January 2000 of CMP Media, Inc. employees. During the year, the company disposed of certain businesses in the US; as a result the regular cost of the US plan will reduce in the future.

The funding policy is to fund to at least local minimum funding regulations and to take a full or partial contribution holiday where surplus allows. Surpluses and deficits are recognised on a systematic basis over the average remaining service lifetimes, using the level cash amount method over 12 years.

# Notes to the financial statements

32. **PENSIONS** (continued)

The pension cost for the defined contribution schemes for the year ended 31 December 2000 is as follows:

| | 2000 £m | 1999 £m |
|---|---|---|
| **Defined contribution schemes** | | |
| – UK | **1.1** | 4.5 |
| – US | **4.0** | 2.5 |
| **Total for the year** | **5.1** | 7.0 |

33. **RELATED PARTY TRANSACTIONS**

The group entered into the following transactions with joint ventures and associates during the year:

| Transactions with joint ventures and associates | Nature of transactions | Balances (owed by)/due to the group at 31 December 2000 £m | Value of transactions 2000 £m | Balances (owed by)/due to the group at 31 December 1999 £m | Value of transactions 1999 £m |
|---|---|---|---|---|---|
| West Ferry Printers Limited | Purchases | **–** | **(25.9)** | (0.2) | (25.8) |
| | Operating lease income | **–** | **6.7** | – | 7.3 |
| Newsprint Management and Supply Services Limited | Purchases | **–** | **(58.7)** | (1.2) | (65.7) |
| Channel 5 Television Group Limited | Sales | **–** | **3.4** | 3.9 | 1.4 |
| | Loans and interest receivable | **100.9** | **9.4** | 77.6 | 7.2 |
| Springboard Internet Services Limited (Line One) | Loans and interest receivable | **26.0** | **1.7** | 15.4 | 0.6 |
| SDN Limited | Loans and interest receivable | **9.4** | **0.5** | 4.9 | 0.3 |
| Other joint ventures and associates | Purchases | **(0.3)** | **(0.4)** | (3.3) | (10.9) |
| | Sales | **2.0** | **1.1** | 13.5 | 10.5 |
| | Loans and interest receivable | **–** | – | 28.9 | 0.7 |

During the year the group also invoiced £0.3 million to former television subsidiaries for pension and other services. The balance outstanding at 31 December 2000 totalled £0.2 million.

During the year ended 31 December 2000, payments of £nil (1999: £15,000 ) were made to Cap Gemini Ernst & Young in connection with the development and implementation of new systems for the group. Geoffrey Unwin, a non-executive director of United, is chief executive officer of Cap Gemini Ernst & Young. Additionally, payments of £36,250 (1999: £20,000) were made to Botts & Company Ltd. John Botts, who is a non-executive director of United, is chairman of Botts & Company Ltd.

34. **POST BALANCE SHEET EVENTS**

On 9 February 2001 the company announced its proposal to return to shareholders £1.25 billion arising from the sale of its ITV businesses to Granada Media by means of a capital reorganisation and consolidation. This is expected to be completed by the end of April 2001.

# Notes to the financial statements

35. **SHARE OPTIONS**

At 31 December 2000 options granted over the company's ordinary shares of 25 pence under employee share option schemes were outstanding as follows:

| Date of grant | Number of shares | Exercise price (p) | Exercise dates From | Exercise dates To |
|---|---|---|---|---|
| **United UK Executive Schemes** | | | | |
| 10/04/1992 | 12,420 | 354.1 | 10/04/1995 | 10/04/2002 |
| 13/04/1993 | 126,964 | 530.1 | 13/04/1996 | 13/04/2003 |
| 27/04/1994 | 32,616 | 630.8 | 27/04/1997 | 27/04/2004 |
| 04/04/1995 | 10,182 | 505.5 | 04/04/1998 | 04/04/2005 |
| 19/04/1996 | 13,200 | 681.5 | 19/04/1999 | 19/04/2006 |
| 24/09/1996 | 30,100 | 692.5 | 24/09/1999 | 24/09/2006 |
| 26/03/1997 | 53,700 | 754.5 | 26/03/2000 | 26/03/2007 |
| 25/09/1997 | 36,523 | 765.0 | 25/09/2000 | 25/09/2007 |
| 14/12/1998 | 316,980 | 511.0 | 14/12/2001 | 14/12/2008 |
| 16/09/1999 | 9,880 | 607.0 | 16/09/2002 | 16/09/2009 |
| 03/03/2000 | 446,150 | 867.2 | 03/03/2003 | 03/03/2010 |
| **United International Executive Schemes** | | | | |
| 10/04/1992 | 5,140 | 331.1 | 10/04/1995 | 10/04/2002 |
| 27/04/1994 | 58,764 | 607.8 | 27/04/1997 | 27/04/2004 |
| 04/04/1995 | 10,000 | 482.5 | 04/04/1998 | 04/04/2005 |
| 19/04/1996 | 93,565 | 658.5 | 19/04/1999 | 19/04/2006 |
| 05/06/1996 | 101,568 | 702.5 | 05/06/1999 | 05/06/2006 |
| 16/09/1996 | 312,268 | 686.0 | 16/09/1999 | 16/09/2006 |
| 24/09/1996 | 484,200 | 669.5 | 24/09/1999 | 24/09/2006 |
| 26/03/1997 | 392,200 | 731.5 | 26/03/2000 | 26/03/2007 |
| 25/09/1997 | 191,477 | 742.0 | 25/09/2000 | 25/09/2007 |
| 14/12/1998 | 1,989,760 | 511.0 | 14/12/2001 | 14/12/2008 |
| 16/09/1999 | 29,120 | 607.0 | 16/09/2002 | 16/09/2009 |
| 03/03/2000 | 2,695,918 | 867.2 | 03/03/2003 | 03/03/2010 |
| 09/05/2000 | 89,957 | 753.0 | 09/05/2003 | 09/05/2010 |
| 18/12/2000 | 3,356,100 | 843.0 | 17/12/2003 | 17/12/2010 |
| 18/12/2000 | 1,111,000 | 843.0 | 17/12/2004 | 17/12/2010 |
| **MAI 1980 Executive Scheme** | | | | |
| 13/10/1994 | 28,800 | 351.2 | 13/10/1997 | 13/10/2004 |
| 18/10/1995 | 22,080 | 467.6 | 18/10/1998 | 18/10/2005 |
| **MAI 1984 Executive Scheme** | | | | |
| 28/10/1991 | 96,000 | 192.2 | 28/10/1994 | 28/10/2001 |
| **MAI 1989 Purchase Only Executive Scheme** | | | | |
| 20/10/1995 | 128,000 | 467.6 | 20/10/1998 | 20/10/2002 |
| **MAI 1991 Executive Scheme** | | | | |
| 30/10/1992 | 102,400 | 234.4 | 30/10/1995 | 30/10/2002 |
| 20/04/1993 | 35,840 | 289.1 | 20/04/1996 | 20/04/2003 |
| 28/10/1993 | 105,600 | 363.3 | 28/10/1996 | 28/10/2003 |
| 13/10/1994 | 151,680 | 374.2 | 13/10/1997 | 13/10/2004 |
| 18/10/1995 | 64,640 | 490.6 | 18/10/1998 | 18/10/2005 |
| **Blenheim Executive Share Option Scheme** | | | | |
| 03/12/1992 | 751 | 605.3 | 03/12/1995 | 03/12/2002 |

# Notes to the financial statements

35. **SHARE OPTIONS** (continued)

| Date of grant | Number of shares | Exercise price (p) | Exercise dates From | Exercise dates To |
|---|---|---|---|---|
| **United SAYE Schemes** | | | | |
| 10/11/1995 | 147,123 | 421.0 | 01/02/2001 | 01/08/2001 |
| 01/11/1996 | 226,544 | 532.6 | 01/02/2000 | 01/08/2004 |
| 31/10/1997 | 324,977 | 632.7 | 01/02/2001 | 01/08/2005 |
| 15/12/1998 | 654,380 | 514.8 | 01/02/2002 | 01/08/2006 |
| 17/09/1999 | 559,221 | 497.0 | 01/12/2002 | 01/06/2007 |
| **United International Sharesave Plan *** | | | | |
| 15/01/1998 | 118,512 | 723.9* | 01/02/2001 | 01/08/2003 |
| 04/01/1999 | 132,299 | 514.8* | 01/02/2002 | 01/08/2004 |
| 30/09/1999 | 131,955 | 497.0* | 01/12/2002 | 01/06/2005 |
| **MAI Sharesave Scheme** | | | | |
| 19/10/1993 | 2,668 | 292.2 | 01/12/1998 | 01/06/2001 |
| 17/10/1994 | 22,506 | 315.6 | 01/12/1999 | 01/06/2002 |
| 20/10/1995 | 52,986 | 400.0 | 01/12/2000 | 01/06/2003 |

*The option price is quoted in each country in the local currency, and has been translated at the exchange rate on the date of grant.

| | United Executive schemes* | United SAYE schemes | MAI Executive schemes | MAI SAYE schemes | International sharesave plan |
|---|---|---|---|---|---|
| The movement in shares under option during the year was as follows: | | | | | |
| Shares under option at 1 January 2000 | 9,454,166 | 3,011,910 | 936,736 | 331,873 | 1,049,271 |
| Granted during the year | 7,934,600 | – | – | – | – |
| Exercised during the year | (4,748,063) | (616,550) | (201,696) | (225,614) | (48,193) |
| Expired, cancelled or lapsed | (630,200) | (483,115) | – | (28,099) | (618,312) |
| **Balance at 31 December 2000** | **12,010,503** | **1,912,245** | **735,040** | **78,160** | **382,766** |

*Including the Blenheim scheme.

# Principal group subsidiaries

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the figures of the group.

| | Country of incorporation and operation | Percentage interest and voting rights at 31 December 2000 |
|---|---|---|
| **Business to business media** | | |
| Miller Freeman, Inc. | USA | 100 |
| CMP Media, Inc. | USA | 100 |
| CMP Europe Ltd | Great Britain | 100 |
| United Business Media International Ltd | Great Britain | 100 |
| Miller Freeman Asia Ltd | Hong Kong | 100 |
| Miller Freeman PSN, Inc. | USA | 100 |
| Miller Freeman BV | Netherlands | 100 |
| PR Newswire Association, Inc. | USA | 100 |
| PR Newswire Europe Ltd | Great Britain | 100 |
| Audits & Surveys Worldwide, Inc. | USA | 100 |
| MMI Holdings, Inc. | USA | 100 |
| Mediamark Research, Inc. | USA | 100 |
| NOP Research Group Ltd | Great Britain | 100 |
| **Online businesses** | | |
| CMP Net, Inc. | USA | 100 |
| E Business Media Ltd | Great Britain | 100 |
| **Consumer media** | | |
| United Advertising Publications plc | Great Britain | 100 |
| United Finance (Jersey) Ltd | Jersey | 100 |

All companies stated as being incorporated in Great Britain are registered in England and Wales. None of the above subsidiaries are held directly by the company.

# Website addresses

| | |
|---|---|
| **United Business Media plc** | **www.unitedbusinessmedia.com** |
| CMP Media | www.cmp.com |
| CMP Media Europe | www.cmpeurope.com |
| CME Inc. | www.cmeinc.com |
| Miller Freeman Asia | www.mfasia.com |
| Paperloop | www.paperloop.com |
| CMPnet | www.cmp.net.com |
| ChannelWEB | www.channelweb.com |
| CommWeb | www.commweb.com |
| EDTN.com | www.edtn.com |
| Planetit | www.www.planetit.com |
| PR Newswire | www.prnewswire.com |
| PR Newswire Europe | www.prnewswire.co.uk |
| NOP Research Group | www.nop.co.uk |
| Market Measures Interactive | www.mmi-research.com |
| Mediamark Research Inc | www.mediamark.com |
| Audits & Surveys Worldwide | www.surveys.com |
| Strategic Marketing Corporation | www.smcresearch.com |
| United Business Media International | www.ubminternational.com |
| Rapture | www.rapture.co.uk |
| Channel 5 | www.channel5.co.uk |
| Exchange & Mart | www.ixm.co.uk |

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