NTL

Incorporated

In a class of its own...

Annual report 1998

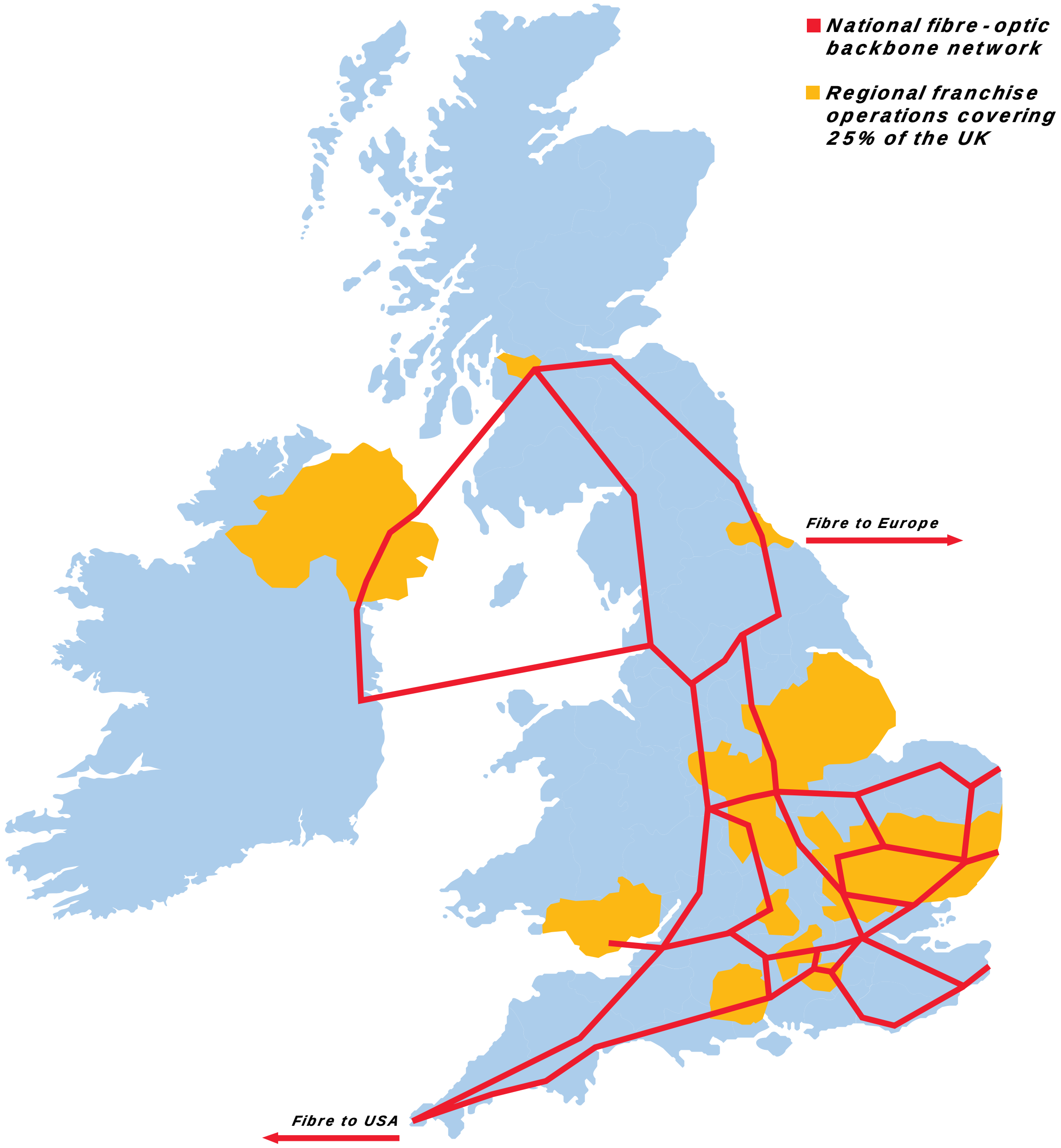
...in local and national telecommunications and in broadcast and transmission services

Contents

NTL is a leading alternative telecommunications provider – delivering a vast range of communications services to 22 million homes, businesses and Government agencies around the UK. We have networks across all the key technologies that are enabling the digital communications revolution – fibre-optic, broadband coax and copper, broadcast, satellite and radio – and we are in all the key application areas: telecoms, television, internet and mobile. This unique combination puts us in a class of our own: NTL offers a diversity of solutions that customers cannot get from any other single supplier.

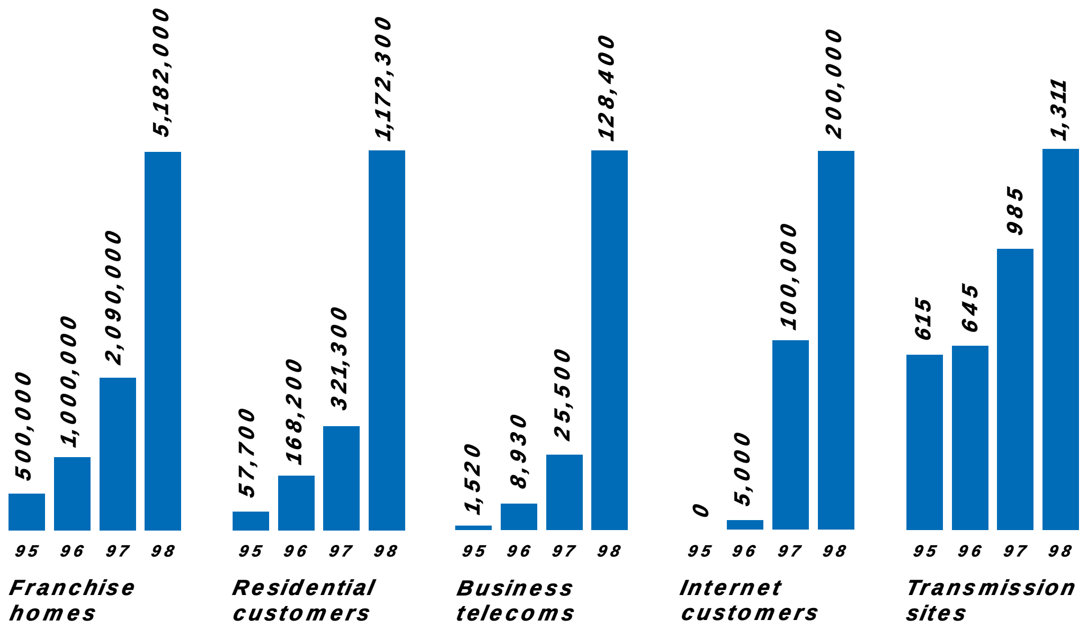
For business users, we provide a range of telecoms, mobile communications, internet, carrier and broadcast services that is unmatched in our field. For the home, NTL is the only company that can deliver telephony, digital and analogue television, pay-per-view movies, interactive services, and internet – all in a seamless, integrated service.

We have invested over £3.1b/$5.2b to build one of the world's most advanced national fibre-optic networks, and to build and manage the most extensive network of transmission sites across the country for radio, television and satellite communications.

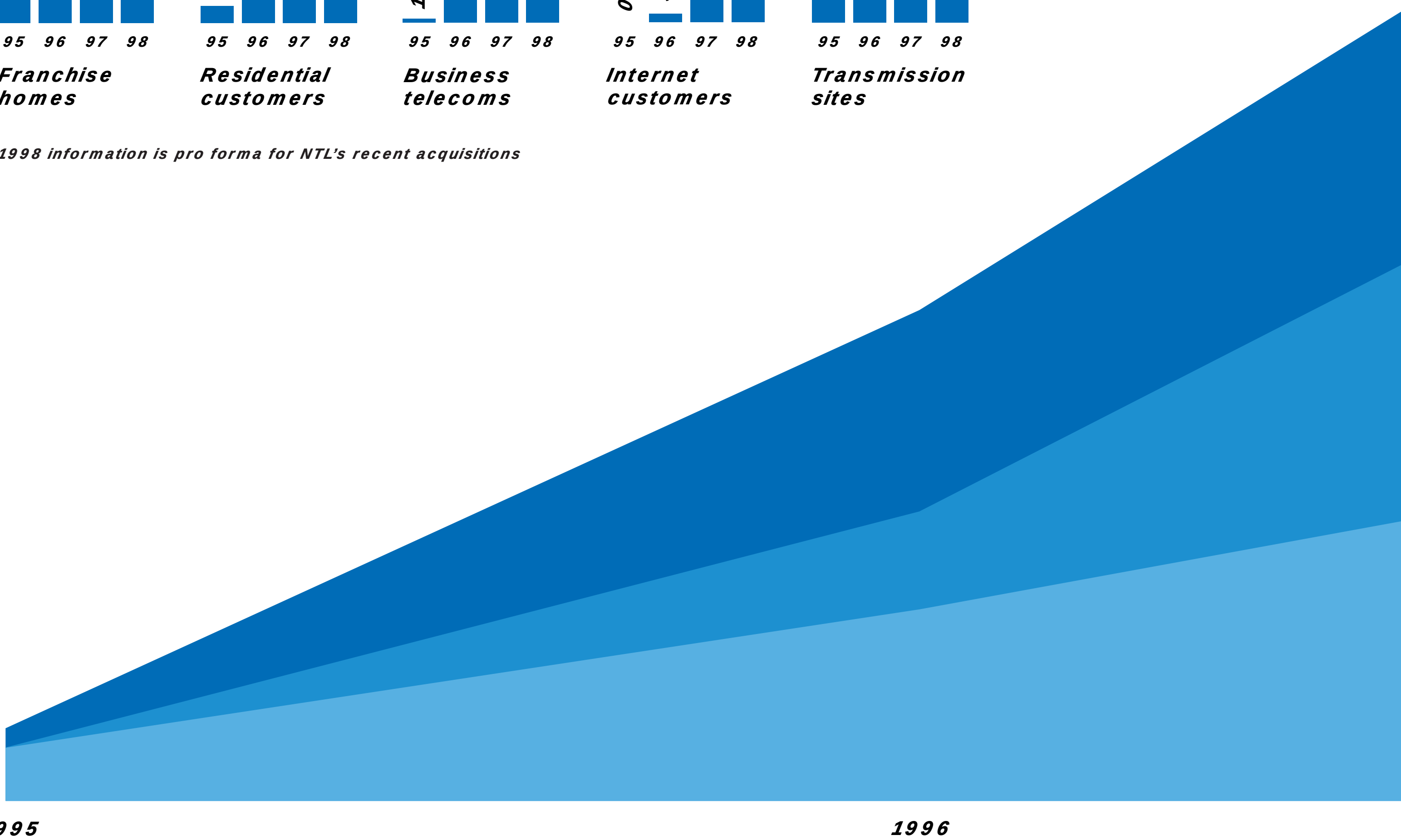

National fibre-optic backbone network
Regional franchise operations covering 25% of the UK
Fibre to Europe
Fibre to USA

Operating and financial highlights

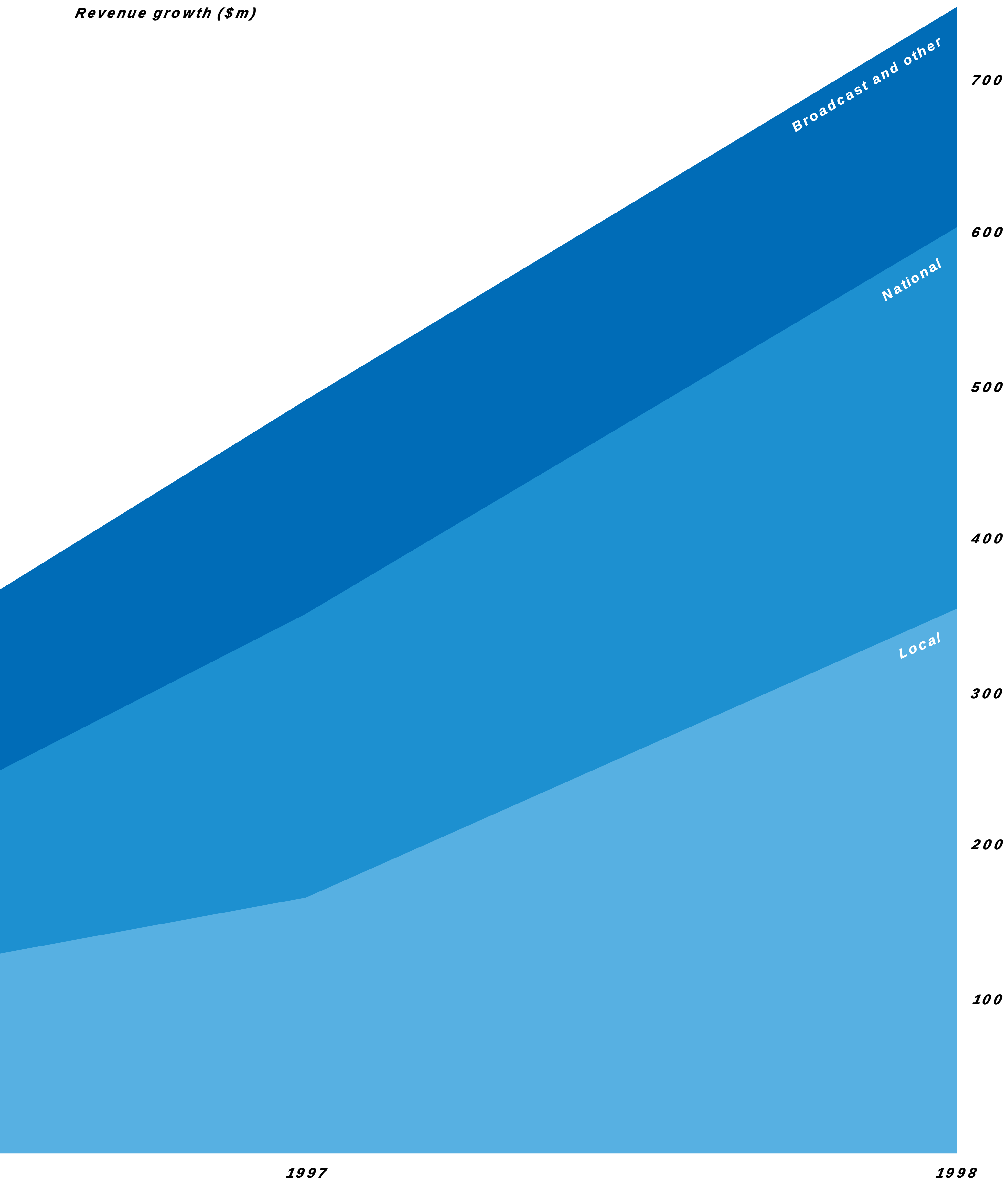
For the year ended December 31	1998*	1997	1996	1995
Franchise homes	5,182,000	2,090,000	1,000,000	500,000
Residential customers	1,172,300	321,300	168,200	57,700
Business telecoms lines	128,400	25,500	8,930	1,520
Internet customers	200,000	100,000	5,000	0
Transmission sites available	1,311	985	645	615
Revenue ($m)	1,094.4	491.8	228.3	33.7
EBITDA ($m)	138.2	21.0	(31.0)	(48.6)
Gross fixed assets ($m)	5,204.2	1,972.7	1,582.9	681.8



* 1998 information is pro forma for NTL's recent acquisitions



Integrated momentum



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

We grew across every line of business, raising revenue from $492m to $747m, and operating profit from $21m to $75m. The rise in our market capitalisation during the year has qualified us for membership of the NASDAQ 100, and would put us in the FTSE 100 if we were listed in the UK.

Our focus on building for the future has taken NTL to new levels of success. With the launch of the first-ever TV-Internet service we took the lead in innovative, converged services for the residential community. We have opened the internet's possibilities to every home in the UK with a television – the true mass market – and made it simple and affordable by packaging it with the UK's first national telephone tariff.

We took advantage of the consolidation in the cable industry to build up our regional operations with the acquisition of Diamond Cable, Comcast UK and ComTel. And we extended further east in the UK with the acquisition of Eastern Group Telecoms. With the resulting influx of new customers and the increase in our own, we are now Britain's leading new entrant local telecoms competitor – with 1.3 million television, telephone and internet customers.

NTL's investment in building digital capability is showing a high return, and we were awarded major, long-term contracts related to the launch of digital television. In the year ahead we will capitalise further on our strengths on all the digital platforms in the expected flood of new digital services and television channels.

1999 has already begun as a momentous year: in a strategic partnership announced in January, Microsoft Corporation invested $500m in NTL to accelerate the creation of high-speed voice, video and data services on our networks. Microsoft and NTL share the vision of bringing advanced digital services to our customers throughout the UK via all platforms, and our different areas of expertise will make a great combination as we work together throughout the year.

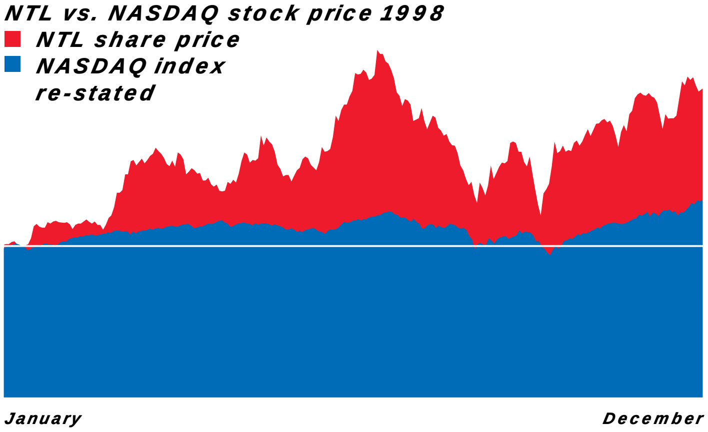
We are also acting as a catalyst in important areas of programming for the future with our investment in Front Row, our share in British Eurosport, and our purchase of a stake in Newcastle United Football Club. This puts us in a strong position to take advantage of any changes in the way sports

George S Blumenthal and J Barclay Knapp

programming is organised in the UK, and to provide a wider choice for consumers.

NTL is always an exciting place to be – but behind the spectacular technology and achievement is a very human company with the minimum of hierarchy and the maximum of encouragement for individual contribution and ideas. It is

NTL vs. NASDAQ stock price 1998



More products and services to more customers

	Local	Long distance	National fibre network	Digital cable	Digital terrestrial	Digital satellite	Broadband access	National backbone	Portal	Programming	Broadcast transmission	Mobile
	Telephone			Television			Internet			Other		
NTL	●	●	●	●	●	W	●	●	●	●	●	W
BT	●	●						●				●
BSkyB						●		●	●	●		
CWC	●	●		●			●	●	●			
Telewest	●	●		●			●	●				
Energis		●	●					●				
AT&T / TCI	●	●	●	●			●	●	●	●		●
Worldcom	B	●	●					●	●			
European PTT	●	●	S	S				●	●		S	●

W = *Wholesale or Carrier Services* ***B*** = *Business only* ***S*** = *In some cases*

the enormous commitment and energy of NTL associates that enables us to drive a fast-growing business in fast-evolving markets.

In 1999 we are managing another high growth curve while working to integrate new associates and networks fully into NTL. We are also readying our older systems for the rollover into 2000, and since most of our systems are new, we are on target to be Year 2000 compliant in good time.

Our thanks to our NTL associates and to our investors, directors, suppliers and customers for the support that helps us move fast to take up the immense opportunities in this new era of communications.

George S Blumenthal
Chairman

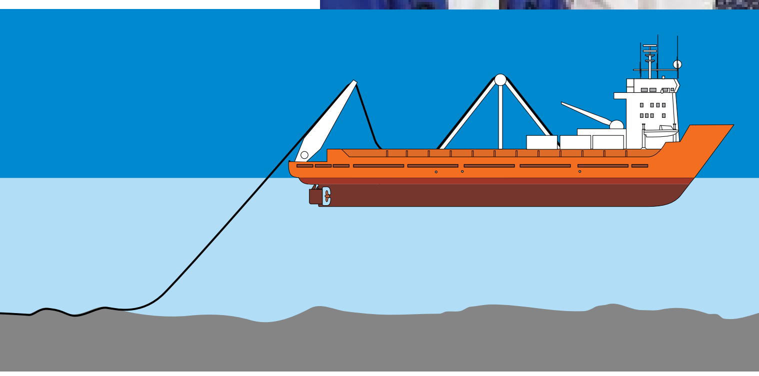
J Barclay Knapp
CEO and President

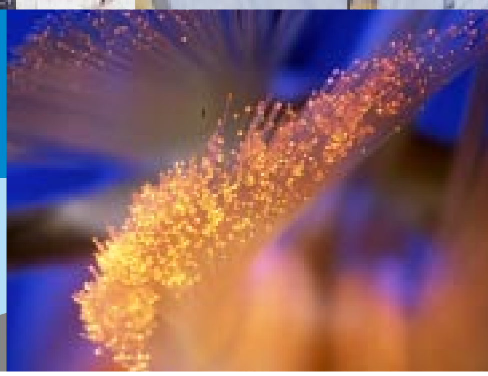
Management

"With NTL's unequalled array of networks, TV-Internet and fast modems we offer a truly high-quality internet service, however customers choose to connect."
Blake Barker, Group MD, Internet

"NTL's networks are among the most advanced in the world. By extending the reach and capability of our national fibre-optic network, we can now offer more services to more customers and reduce our operating unit costs."
Peter Black, Group MD, Network Services

Leigh Wood　　Peter Black　　Jeremy Thorp　　Blake Barker





"We met an enormously tight schedule in powering up the world's first digital terrestrial TV networks for Digital 3 and 4 and S4C Digital Networks – the first stage of a roll-out that will earn us £250 million over the next twelve years."
Peter Douglas, Group MD, Broadcast and Radio Communications

"Our early move to develop interactive services has given us a leading position in this emerging market. Launching first through our cable systems and then through digital terrestrial television gives us a jump start."
Jeremy Thorp, Group MD, Digital Services

“Our vision is to become the premier new era communications company”

Leigh Wood, Chief Operating Officer

“With friendly packaging and exciting innovations we’re helping to take the fear out of technology. And NTL’s flexibility means it’s easy for customers to choose and change the services they get from us.”

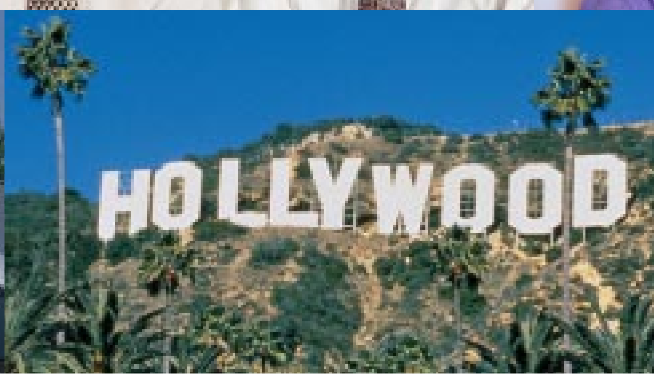
Chris Skudder, Group MD, Residential Services

“Front Row, our pay-per-view movies service, was an immediate success. Our technology which lets customers choose great movies on impulse just by using their TV remote control has played a crucial role.”

Steven Wagner, Group MD, Group Media and Marketing Services

Steven Wagner   Peter Douglas   Chris Skudder   Stephen Rowles   Chris Hutchings



“By growing this business we’re maximising the use of NTL assets and providing the end-to-end capacity carriers require. We’ve won new business on our new link to Ireland; in eastern England through Eastern Group Telecoms’ network; on US links through our stake in a transatlantic cable; and to Asia-Pacific via our satellite connections.”

Chris Hutchings, Group MD, Carrier Services

“Our big advantage in telecoms solutions for business is that we’re nationally competitive but locally accountable. NTL’s large investment under the streets creates a natural link with local communities, and we win business from local councils, education authorities, NHS trusts and police forces, as well as major companies.”

Stephen Rowles, Group MD, Business Solutions

Networks

The strength of NTL is its unique blend of technology assets and technical expertise: networks that enable us to deliver more services to more kinds of customers than any other company in our field; and the knowhow to deliver quality and reliability.

The key is our history. International CableTel (CableTel) acquired NTL – formerly the engineering arm of the Independent Broadcasting Authority – in 1996. As the backbone of independent broadcasting in Britain, NTL brought a 40-year heritage of pioneering technical experience, transmission sites across the country, satellite links, and skilled people. CableTel's investments were in laying state-of-the-art fibre-optic cables – initially in regions where CableTel held franchises to deliver services to homes and businesses, and later in a national fibre network running the length of the country.

Today, these wholly-owned national networks are our biggest asset, and among the most advanced in the world. Using the latest transmission and switching technologies – Synchronous Digital Hierarchy (SDH), Asynchronous Transfer Mode (ATM) and Internet Protocol (IP) switching – they go further, faster and with greater reliability than any other networks in the UK. Our networks are the base for voice, data, video and internet communications services that we sell direct to customers, and in wholesale form to other telecoms providers.

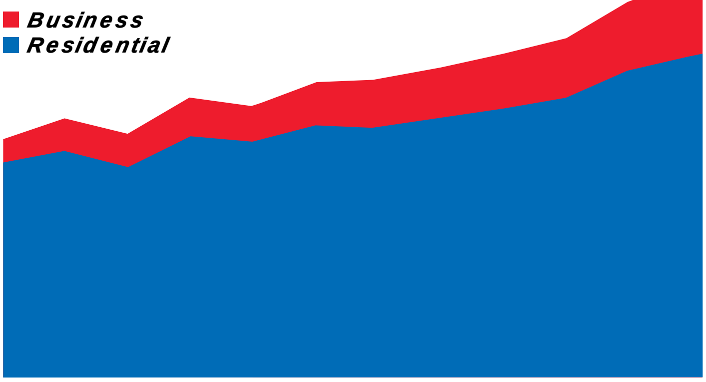
We now have over £3.1b/$5.2b invested in these networks, and are still extending our reach nationally and internationally. In 1998 we completed the 3,500 route-mile national network gaining connection to almost all international undersea cable points. We laid a new £30m submarine loop in Ireland, increased our investment in intelligent networking and linked up ATM switches in nine major cities across the UK. Through our stake in a transatlantic cable ring we offer services between European countries and the US, while our satellite links provide connection to the Asia-Pacific region. Above ground, our nationwide network of transmitters makes us the UK's number one transmission site operator – generating the biggest income in our field.

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

Together, NTL's networks are the building blocks for our vision of a 'digital telenetwork' – a framework for delivering any kind of information, communication, or entertainment services to any kind of customer in the combination of their choice. As we deliver more and more digital services, the digital telenetwork is taking shape.

Growth in switch telephony traffic 1998

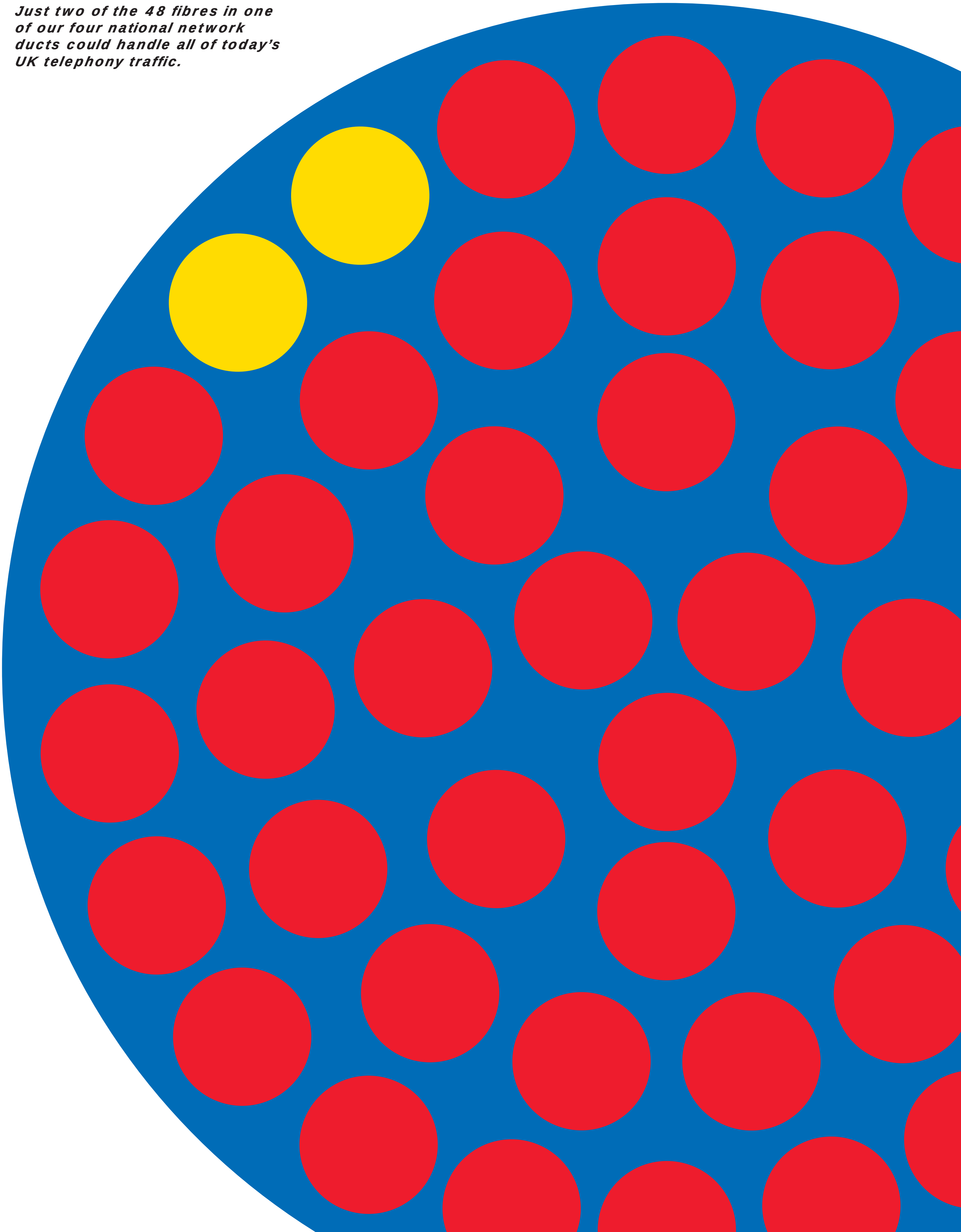
Business
Residential



Built with the latest transmission and switching technologies, our wholly-owned national networks are among the most advanced in the world.

Spot the vast potential in the UK's leading network

Just two of the 48 fibres in one of our four national network ducts could handle all of today's UK telephony traffic.



Digital

Our vision is to be able to handle virtually any kind of communication from anywhere to anywhere, by whatever means the customer chooses. With our strengths in the key digital platforms, we already have all the elements in place.

The emerging era of digital technology opens boundless opportunities. For telecoms providers, virtually unlimited capacity at falling prices is revolutionising their services. Businesses are using fast, high-capacity links for competitive advantage, and home users are facing an amazing choice of information, communication and entertainment.

NTL's big advantage is a strong position on all the key platforms – digital cable, digital telecoms, digital terrestrial and digital satellite. We firmly believe that each will be successful, and have invested in all the related services and delivery methods.

We own the networks that deliver digital services – fibre-optic cables, transmitter sites, and satellite links. We have pioneered developments since the earliest days of digital technology, and gained a clear lead in transmission for digital terrestrial television (DTT) and digital radio. We expect no slowdown in our fast pace of innovation.

In 1998 we won our biggest-ever contracts – £250m/$415m – for DTT playout, distribution and transmission of services for Digital 3 and 4 and S4C Digital Networks (SDN). The network for Digital 3 and 4 is the most sophisticated in the world, delivering both national and regional services. This is the first of a number of digital channels for which we have long-term transmission contracts. Through our one-third share in SDN, one of the digital multiplexes, we also have a stake in providing the content for new digital channels. By the end of 1999 DTT will be available to around 90% of the UK population.

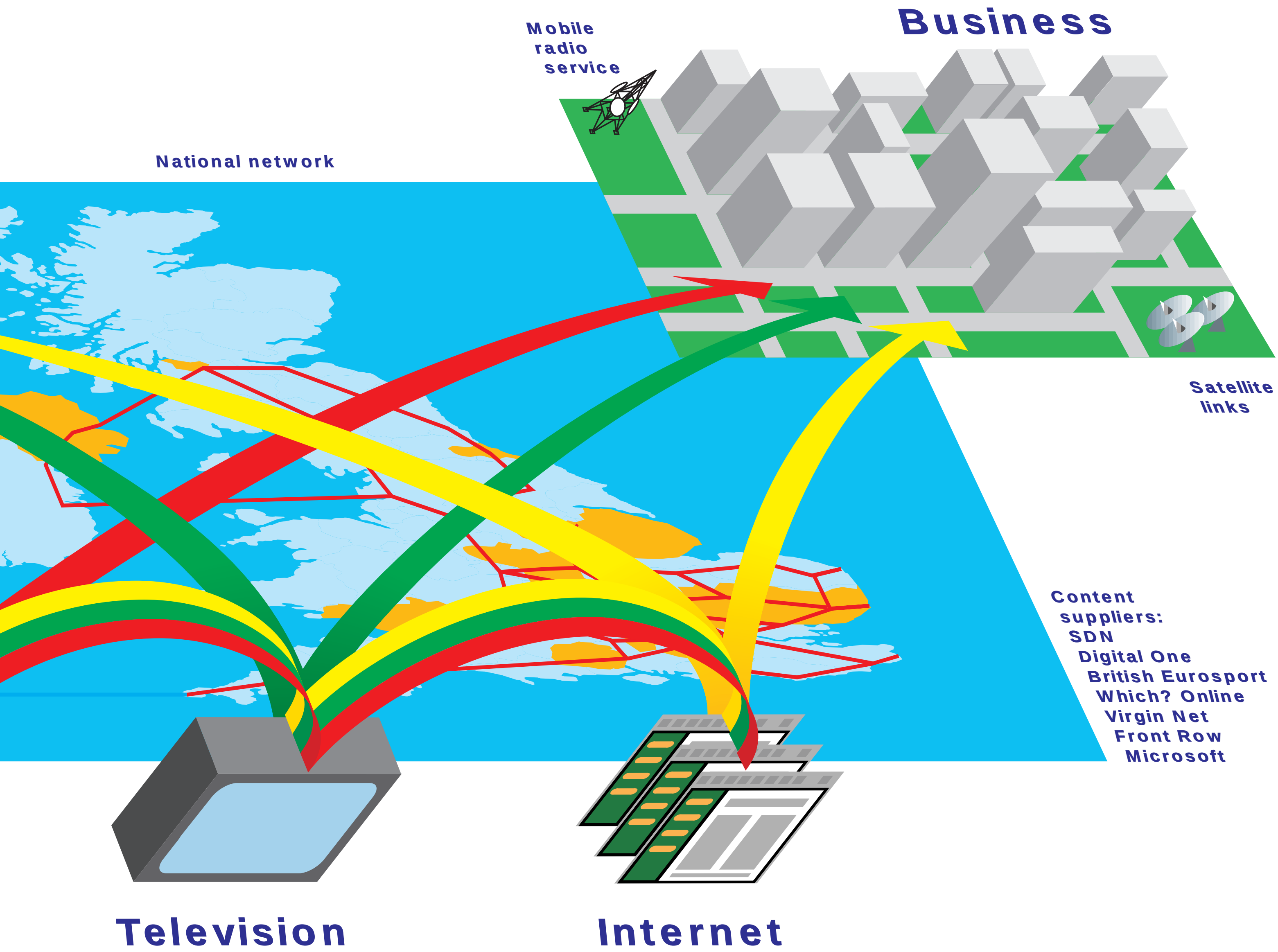
UK radio is also going digital, and as part of a consortium we won the UK's first-ever digital radio licence. For listeners, the immediate benefits are high-quality sound, and the prospect of driving across the UK without retuning the radio. In the future it will carry new national radio channels and interactive services that will enable the listener to respond. We will build and operate the transmission network for digital radio, and carry the digital versions of Classic FM, Talk Radio and Virgin, plus new interactive services.

As a major carrier, we handle an increasing volume of digital traffic for other telecoms companies – both mobile and wired. And we use our networks as the base for the private digital telecoms solutions we create for our large customers' needs. But to the public our most visible digital developments are the ground-breaking services we deliver direct to our own customers. One NTL first in 1998 was the launch of TV-Internet, which makes first-class internet service available to the 16 million UK households without a PC, affordably packaged with our telephony services.

In our regional cable networks, the move from analogue to digital opens exciting new opportunities for 1999. The

We opened the new Digital Media Centre at Langley as the hub of NTL's digital services, with the sophistication to control distribution down to the individual customer. In parallel, NTL completed the complex digital terrestrial television network for Digital 3 and 4 on time for the November 1998 launch.

World class digital technology – platform for growth



advanced technology of NTL networks provides a superb platform for a wide range of high-speed, high-quality services. For example, digital cable turns our pay-per-view movies service Front Row into a near-video-on-demand service. We will be able to deliver many more innovative products providing superior performance and choice – including personalised packages of TV channels, internet and telephony, accessed through the television and a set-top box.

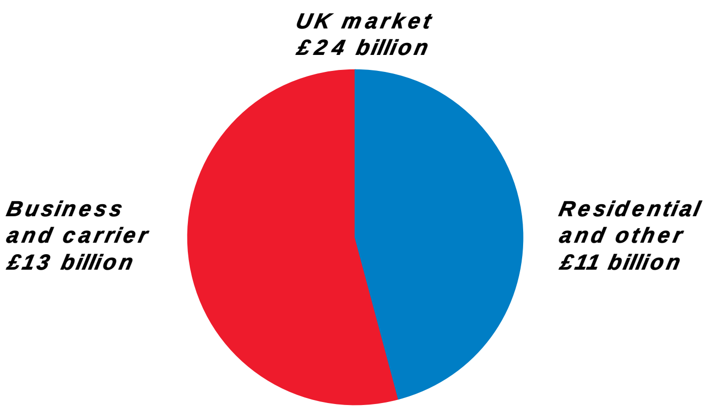
In partnership with major UK companies we will also generate new revenue streams from our digital networks with the launch of digital interactive services that mix video, audio and data on the television screen – delivering information, education, entertainment and electronic commerce. And we will tap into the needs of the rising numbers of teleworkers by offering powerful internet services to PC users across the country through high-speed cable modems.

We are capitalising on this deep expertise in designing, building and operating digital systems by marketing NTL's capability outside the UK. In 1998 we established a base in Singapore to sell UK-developed broadcast services in the Asian area. We are also focusing on opportunities in the US and Middle East.

In the UK, our new and highly sophisticated Digital Media Centre at Langley went live at the end of the year – handling our own digital playout and offering the facilities of a new era broadcast centre to other companies. Its profit-generating potential was underlined by the strong order book in the early part of 1999.

Business solutions designed for the bottom line

Businesses are using NTL's fast, high-capacity links for competitive advantage.



NTL participates in all major areas of the £24 billion UK telecoms market, and focuses on the national business and carrier markets, both inside and outside of its franchise areas.

Technologies that move business forward

NTL provides one of the broadest ranges of services for business in the industry, using the spread of NTL technologies to custom-build complete solutions for customers' needs. Our portfolio of long-term contracts for future revenues grew from £780m/$1,294m to more than £1.2b/$2.1b – primarily in the broadcast, radio communications and carrier businesses. Our business telecoms operations also grew substantially, ending the year with more than 128,000 business lines. Eastern Group Telecoms, acquired in December, adds valuable resources in East Anglia and the south-east with 126 transmission sites, more fibre, and international cable landing points.

Broadcast and radio communications

We are leaders in this field, with the unique advantage of 40 years' experience, and we continue to win long-term transmission contracts that generate a continuous stream of revenue from customers such as television Channels 3, 4, 5 and S4C. The launch of DTT brought us transmission contracts of £250m/$415m, and during the year we planned, designed and built the delivery systems – transmission sites, networks and studios – on time and in budget. We have now been awarded the ITV transmission contracts for analogue channels until transmission ends, probably between 2010-2015, adding some £500m/$830m to our order book.

Our radio communications network expanded with the acquisition of some 240 transmission sites from Eastern Group Telecoms and Simoco and major construction projects for UK mobile operators. The network has exciting growth potential, and we continue to look for opportunities to buy transmission assets. Currently we have more than 1,300 tower sites – prime real estate for operating fixed and mobile radio systems. We maintain communications systems for over 400 customers including 70% of the emergency services in England and Wales – and manage and operate sites for cellular phone operators like Vodafone and Orange.

NTL is the broadcasting power behind commercial radio in the UK, reaching tens of millions of listeners every week. In 1998 we continued the success of recent years by winning the 12th regional radio transmission contract in a row, and – as part of the Digital One consortium – we invested in the future by winning the UK's national digital radio licence, along with the £60m transmission contract. We also expect to win more business in 1999 and beyond as the Radio Authority advertises local and metropolitan digital radio networks.

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

Telecommunications

NTL offers telecoms solutions to large national organisations, and to corporate customers in our regions – like Boots, Hyder, and Harland & Woolf, as well as numerous local authorities like Hertfordshire County Council, universities including Oxford and Cambridge and hospitals including Bedford NHS Trust. We design and build high-speed, private networks to handle their data, voice and visual communications.

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

With our investment in regional fibre-optic networks, we are focusing on the wide opportunities for developing

We maintain communications systems for 70% of the emergency services in England and Wales.

solutions for large users, based in our regions who need a depth of services. In addition to voice access, we provide managed voice and data, internet, and enhanced services that include CCTV, videoconferencing and telebusiness options such as call centres.

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

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

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

Education partnership

We are targeting specific market segments where we can add significant value. One of these is education, where we can use the capacity of NTL's national network to accelerate the connection of schools and colleges to the internet. In July we formed a partnership with the Technology Colleges Trust, part of the Government's specialist schools programme. With private sector support, the Trust works with some 600 secondary schools and 15 City Technology Colleges – innovative schools that emphasise technology, maths and science, and are helping to raise educational standards among 500,000 pupils.

Our partnership is pioneering a National Supergrid for Learning – the first national broadband fibre network for schools in England, with more than 50 schools already online. NTL provides high-speed circuits at the colleges and connections to the NTL networks, giving users access to the internet and to growing volumes of information as more organisations – including the BBC – provide educational content for the service.

NTL's contribution includes breakthroughs for the UK's educational telecoms area, including a fixed price yearly

A new generation is being brought up on NTL

The underlying power of the NTL network is revolutionising the way that schools, colleges and universities use information. In partnership with the Technology Colleges Trust we are pioneering a National Supergrid for Learning – the first national broadband fibre network for schools in England.

End-to-end service: customers use our electronic news-gathering vehicles, satellite stations, fibre-optic cables and broadcast transmitters to carry the news from where it's happening into Britain's homes.

Satellite

Mobile remote satellite news gathering facility

NTL satellite dishes

contract for all Technology Colleges in England, and an ISDN service that allows access speeds up to 15 times faster than the Government's National Grid for Learning, enabling schools to work on multimedia projects with organisations all over the world. Future plans include providing access from home for teachers, parents and students, which will put NTL's internet-over-TV product to exciting use.

National telecoms

We have built a strong business carrying traffic for cellular phone companies like Orange and Vodafone – both of whom increased their business with us in 1998 – and for international telecoms operators like GlobalOne and Energis. We provide a range of network services for the GlobalOne consortium's UK operations, and our relationship with the company was further strengthened over the year with an increase in business value from £600,000 to £8m. We also signed a carrier contract with Energis, to run for six years.

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

Satellite services

Five years ago this business began by transmitting Discovery and other channels on the Astra satellite – picking them up from studios and transmitting them to cable operators to broadcast on their networks. In 1998 we won eight of the nine available multiplexes on the new Astra 2a satellite, including orders from Flextech, Turner Communications and the BBC to uplink digital TV news, entertainment and home shopping channels. We now have full-time contracts to transmit 100 channels, and face an even bigger opportunity as hundreds of new digital channels are launched in the coming year. Overall, we trebled the value of our order book for satellite services over the previous year – with contracts extending over five to ten years.

The boom continues in occasional services: satellite links we provide to broadcasters around the world on

Seamless solutions are making the headlines

Satellite

NTL control room Winchester

Transmitted to your home

demand, mainly for news and sporting events. A 24-hour operation, coupled with new resources added in 1998, gives us a sharp competitive edge. We can respond to orders for satellite feeds around the world in minutes. Our Winchester teleport continues to be Europe's fastest-growing satellite station, with a new dish added on average every two months. In 1999 we plan to increase our existing three teleports to four.

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

Internet services

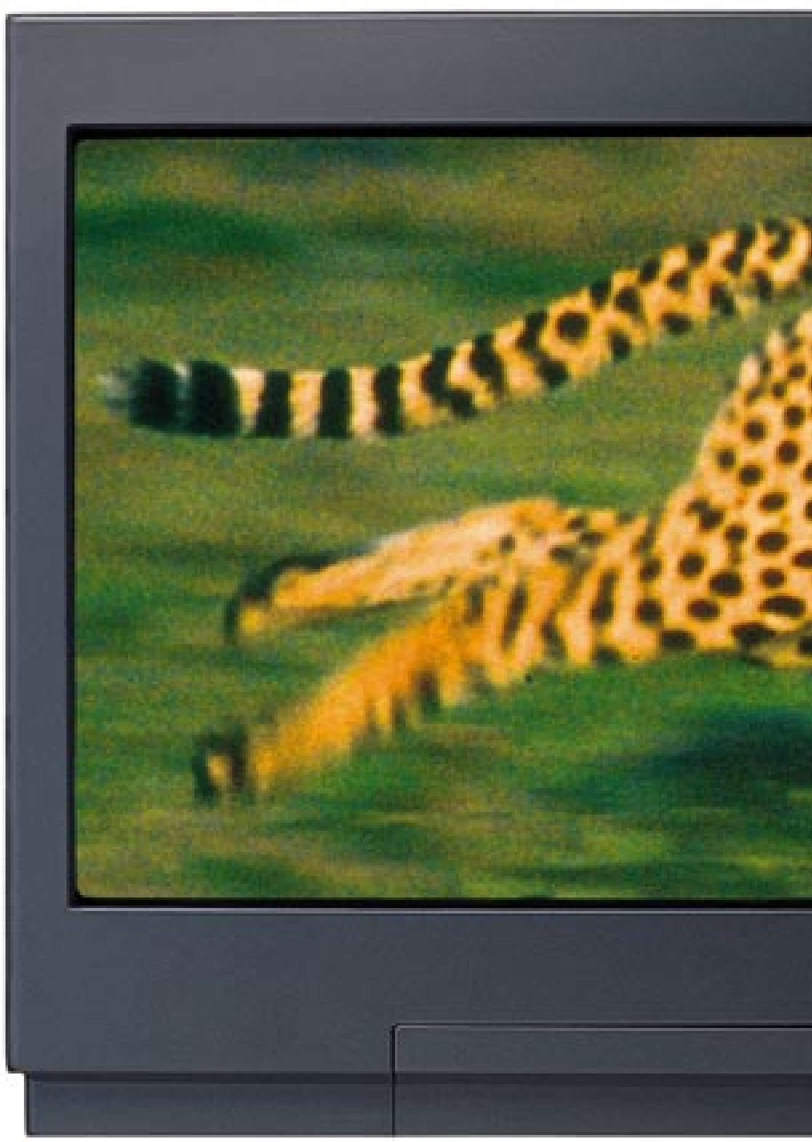
NTL networks are also the backbone of internet service providers like Virgin Net and Which? Online, and we consistently win awards for speed of service, customer satisfaction and the quality of our call centres that support customers by handling some 4,000 calls a day. While we continue to grow this business, we are also taking advantage of an emerging opportunity to provide wholesale internet services to the growing number of companies who wish to extend their reach into the marketplace as a Virtual Internet Service Provider.

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

Inside NTL, we have implemented an intranet service that links NTL associates into a single communications network and gives them access to current information. This is the first step in developing an end-to-end solution that we will eventually offer to customers. It will handle dynamic order processing, scheduling and electronic commerce activity on our internal networks – and provide information and services with rapid response times to NTL customers via the internet.

Moving faster into more homes

TV-Internet uses a customer's television and BT phone line to link into the NTL network. Nationwide, our packages of internet and telephony services are increasing the penetration of second telephone lines into homes.



Review of operations continued

First choice for innovation

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

Comcast UK operates in franchise areas in Teesside, Cambridge, and London (through a 50% stake in Cable London). ComTel's franchises in central and southern England stretch from Stafford down to Basingstoke, and Diamond Cable operates in cities across the East Midlands.

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

We now have 1.1 million residential customers across our cable businesses, up from 320,000 in 1997. This figure does not include nearly 200,000 internet customers – which is double the 1997 level, and is set to rise dramatically in 1999 as our National Consumer Services gains customers across the UK for our combined internet and telephony services. Through two key innovations – TV-Internet and a simple, pricing formula – we have taken the lead in converged services for the residential community. Only NTL has the network technology that makes these breakthroughs possible in the UK.

From the outset, our strategy has focused on customer choice: we develop small packages of combined services, and offer customers as much flexibility as possible in selecting what they want to pay for. By communicating clearly we have gone a long way towards taking the fear out of technology, and removing consumers' anxieties about making the wrong choice.

The value of this approach is underlined every year by rising customer numbers, and our ability to retain them. On these measures, we continue to be the UK's most successful

More big names sign up from the big screen

Front Row, our pay-per-view movies service has been an immediate success. The partnerships with leading studios give our customers access to 80% of Hollywood's output.

MGM

Warner Brothers

communications company – with half the rate of churn and twice the service penetration of our competitors: more than 40% of homes that can connect directly to our networks have now become NTL customers.

Movies on demand

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

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

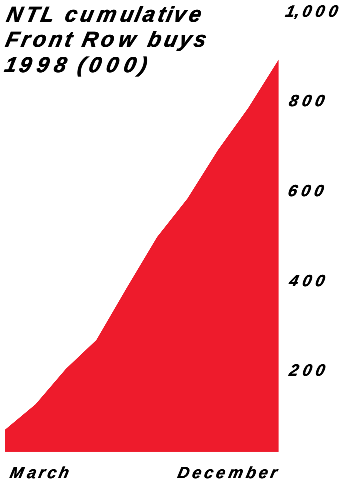
When we deliver digital services on our regional networks in 1999, the extra channels available for Front Row will enable us to offer near-video-on-demand – with the customer's choice of film available at more frequent intervals. We are also moving into offering pay-per-view sports and entertainment events, and exploring other popular interest areas.

New choices on cable

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

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

NTL cumulative Front Row buys 1998 (000)

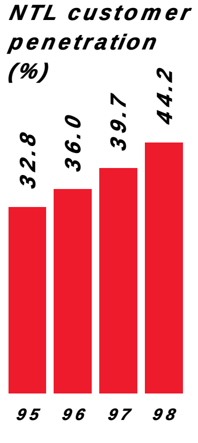


Universal

Columbia Tristar

Disney

Bringing it all home



NTL's services now reach the UK's 22 million households – offering an amazing choice of information, entertainment and communications for the 21st century.

Internet over TV

Another first and best for NTL was the December launch of our unique internet over TV service – making us the first internet service provider to bring internet to the truly mass market. This is a responsive, full-function internet connection that takes us into the high-potential market of the 16m households in Britain without a PC. By using the set-top box technology acquired in Spring 1998 with the purchase of NetChannel, the innovative NTL package brings customers all the resources of the world-wide web, plus competitively priced telephony – without the need to invest in expensive technology.

The launch pad for this revolutionary offer was our introduction of National Consumer Services. This broke new ground by making packages of NTL telephony and internet services available to consumers everywhere in the UK for the first time, and included the option of internet access through a PC or the television. In 1999 we will be the only company providing this combination of services nationwide – both inside and outside of our franchise areas.

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

Sports programming

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

Digital cable

We are preparing for the launch of digital television for our cable customers during 1999 – delivering improved sound and picture quality and more channels. The sophistication of our advanced new Digital Media Centre at Langley will enable customers to pick and mix the services and channels they want to receive, and change them as they wish. As we continue our successful approach of developing services from the customers' viewpoint, our technology is enabling us to formulate highly tailored offers that package telephony, digital TV and radio channels for different sectors of the community – such as the elderly, Asian communities, religious and other special-interest groups.

Our digital cable services will grow organically as we continue to innovate and build more services based on our advanced networks. In 1999 we will launch fully digital, high-speed interactive cable and internet TV services with our own portal. No other provider will be able to match the power of our interactive services portal, and our programming line-up will be second to none: we are currently working with partners in banking, travel, news, entertainment and retail. NTL is set to become the first company to enable the UK population to shop, bank and buy holidays by two-way communication through their televisions.

Continuing the line-up of innovation on the horizon: we are preparing to launch cable modems in 1999 to bring the feel of high-speed, high-function corporate computing to customers in our franchise areas. We expect these to be popular with schools and the growing numbers of teleworkers using a PC at home.

Growing in a growth market

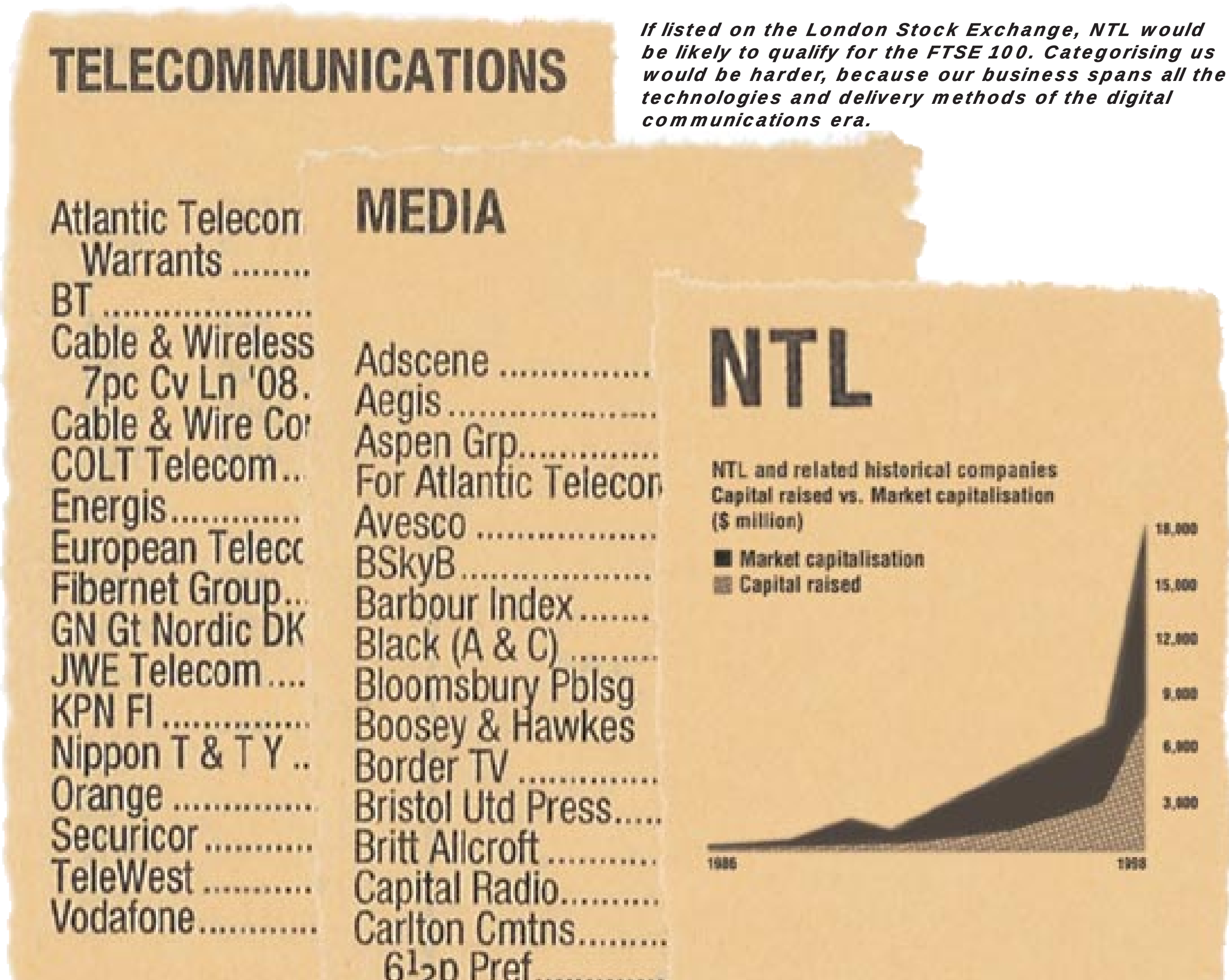
These developments will see NTL's profile growing considerably through 1999 and beyond in a marketplace that continues to overturn accepted rules of supply and demand. The telecommunications market in the UK doubled over the past ten years, with usage rising faster than prices are falling, and is forecast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

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

NTL's management has never viewed the business as simply its components of cable, telephony, satellite and broadcast. Instead, it has built a backbone to serve whatever communications needs arise in the 21st century. We now have the distinct advantage.

In a class of its own

If listed on the London Stock Exchange, NTL would be likely to qualify for the FTSE 100. Categorising us would be harder, because our business spans all the technologies and delivery methods of the digital communications era.



Management's discussion and analysis of financial condition and results of operations

Results of operations

As a result of the completion of the acquisitions of ComTel Limited and Telecential Communications (collectively, "ComTel"), Comcast UK Cable Partners Limited ("NTL Bermuda") and Eastern Group Telecoms ("EGT") in 1998, the Company consolidated the results of operations of these businesses from the date of acquisition. The results of these businesses are not included in the 1997 results.

Years ended December 31, 1998 and 1997

NTL's revenues increased from 1997 to 1998 by approximately 52% to $747,015,000. This $255,240,000 increase in revenues was accompanied by only a $70,490,000 increase in operating expenses, representing a 73% incremental margin.

Local telecommunications and television revenues increased to $355,589,000 from $166,951,000 primarily as a result of customer growth that increased the Company's current revenue stream. The 1998 revenue includes $52,772,000 and $21,441,000 from ComTel and NTL Bermuda, respectively. The Company expects its customer base to continue to increase which will drive further revenue growth as the Company completes the construction of its dual service network past the remaining homes in its franchise areas.

National and international telecommunications revenues increased to $248,895,000 from $185,194,000 primarily as a result of increases in business telecommunications revenues, Internet services revenues and carrier services revenues. Business telecommunications and Internet services revenues increased primarily as a result of customer growth. The Company expects its business telecommunications and Internet services customer bases to continue to increase which will drive further revenue growth. The Company is expanding its sales and marketing effort to business customers and for Internet services in its completed network. Carrier services revenues increased due to growth in satellite services and telephone services provided by the Company's wholesale operation to broadcasters and telephone companies, respectively. Revenue growth in carrier services is primarily dependent upon the Company's ability to continue to attract new customers and expand services to existing customers. Recent new contracts should contribute to revenue growth in the near term.

Broadcast transmission and other revenues increased to $140,156,000 from $130,799,000 primarily due to increases in broadcast television and FM radio customers and accounts, which exceeded price cap reductions in the Company's regulated services. Broadcast television revenues are expected to increase in the future as digital television broadcasting commences.

Other telecommunications revenues decreased to $2,375,000 from $8,831,000 primarily due to the sales of the assets of the Company's wholly-owned subsidiary, OCOM Corporation, to AirTouch Communications, Inc. and to Cellular Communications of Puerto Rico, Inc. during 1998.

Operating expenses increased to $372,134,000 from $301,644,000 primarily as a result of increases in interconnection costs and programming costs due to customer growth. The 1998 expenses include $26,745,000 and $8,453,000 related to ComTel and NTL Bermuda, respectively.

Selling, general and administrative expenses increased to $299,494,000 from $169,133,000 as a result of increases in telecommunications and CATV sales and marketing costs and increases in additional personnel and overhead to service the increasing customer base. The 1998 expense includes $31,212,000 and $9,502,000 related to ComTel and NTL Bermuda, respectively.

Franchise fees increased to $25,036,000 from $23,587,000 primarily as a result of the inflation adjustment to the Northern Ireland license payment.

Corporate expenses decreased to $17,048,000 from $18,324,000 primarily due to the sale of OCOM's assets in 1998. Certain OCOM personnel were included in corporate expenses in 1997.

Nonrecurring charges of $20,642,000 in 1997 were comprised of restructuring costs of $15,629,000 and deferred costs written-off of $5,013,000. The deferred costs written off arose in connection with the Company's unsuccessful bid for Digital Terrestrial Television multiplex licenses. Restructuring costs relate to the Company's announcement in September 1997 of a reorganization of certain of its operations. The Company consolidated the Customer Operations departments that serve three franchise areas in England (excluding the ComTel and NTL Bermuda franchises) into one department and consolidated certain operations and management groups within the Broadcast Services division, as well as certain other consolidations or cessation of activities. This charge consisted of employee severance and related benefit costs of $6,726,000 for approximately 280 employees to be terminated, lease exit costs of $6,539,000 and penalties of $2,364,000 associated with the cancellation of contractual obligations. The consolidations have been completed, the lease exit costs are for leases that extend over a number of years and the contract cancellations have been completed. As of December 31, 1998, $9,172,000 of the provision has been used, including $5,558,000 for severance and related costs, $1,450,000 for lease exit costs and $2,164,000 for penalties associated with the cancellation of contractual obligations. As of December 31, 1998, 177 employees had been terminated. The $4,194,000 reversed in 1998 from changes in estimates of costs to be incurred includes $1,168,000 for severance and related costs, $2,826,000 for lease exit costs and $200,000 for penalties associated with the cancellation of contractual obligations. This reversal was necessary because employees whose positions were eliminated chose to remain with the Company in other positions rather than leave the Company and receive severance pay; and the real estate markets in which the Company sublet space improved increasing the sublet rentals and shortening the period of time required to find subtenants. The remaining restructuring reserve of $2,263,000 is for lease costs net of sublease revenue.

Depreciation and amortization expense increased to $266,112,000 from $150,509,000 primarily due to an increase in depreciation of telecommunications and CATV equipment. The 1998 expense includes $31,091,000 and $14,702,000 from ComTel and NTL Bermuda, respectively, including amortization of acquisition related intangibles.

Interest expense increased to $328,815,000 from $202,570,000 due to the issuance of additional debt in 1998 and the increase in the accretion of original issue discount on the deferred coupon notes. Interest of $118,273,000 and $78,817,000 was paid in the years ended December 31, 1998 and 1997, respectively.

Other gains of $21,497,000 in 1997 include a gain on sale of fixed assets of $11,497,000 and a $10,000,000 payment from LeGroupe Videotron Ltee pursuant to the settlement of a lawsuit.

Foreign currency transaction gains increased to $4,152,000 from $574,000 due to favorable changes in the exchange rate subsequent to the issuance in March 1998 of new debt denominated in British pounds sterling.

The Company recorded an extraordinary loss from the early extinguishment of debt of $30,689,000 in 1998 as a result of the redemption of the 10 7/8% Notes and the repayment of the bank loan. In connection with the repayment of debt, a subsidiary recorded an extraordinary loss of $4,500,000 in 1997 from the write-off of unamortized deferred financing costs.

Years ended December 31, 1997 and 1996

Local telecommunications and television revenues increased to $166,951,000 from $89,209,000 as a result of customer growth that increased the Company's current revenue stream.

National and international telecommunications revenues increased to $185,194,000 from $45,430,000 as a result of the acquisition of NTL Group Limited in May 1996, plus the new site acquisition, installation, design and construction projects and additional site sharing revenue in 1997.

Broadcast transmission and other revenues increased to $130,799,000 from $83,618,000 as a result of the acquisition of NTL Group Limited in May 1996, plus the revenues from NTL Group Limited's ten-year contract to broadcast Channel 5 in the United Kingdom which commenced in 1997.

Operating expenses increased to $301,644,000 from $144,315,000. NTL Group Limited operating expenses in the year ended December 31, 1997 and in the period from May 9, 1996, the date of acquisition, to December 31, 1996 were $185,995,000 and $71,871,000, respectively. The remainder of the increase was primarily the result of increases in programming and interconnection costs.

Selling, general and administrative expenses increased to $169,133,000 from $114,992,000. NTL Group Limited selling, general and administrative expenses in the year ended December 31, 1997 and in the period from May 9, 1996, the date of acquisition, to December 31, 1996 were $18,799,000 and $9,384,000, respectively. The remainder of the increase was the result of increases in telecommunications and CATV sales and marketing costs and in additional personnel and overhead to service the increasing customer base.

Franchise fees of $23,587,000 and $13,117,000 in 1997 and 1996, respectively, are for the Northern Ireland license. Franchise fee expense was incurred upon the start of operations in Northern Ireland in June 1996.

Corporate expenses increased to $18,324,000 from $14,899,000 primarily due to an increase in personnel and related costs. The 1997 and 1996 amounts include $1,852,000 and $2,906,000, respectively, of non-cash expense related to non-compete agreements.

Nonrecurring charges of $20,642,000 in 1997 include restructuring costs of $15,629,000 and deferred costs written-off of $5,013,000. Restructuring costs include costs of employee severance and related costs, lease exit costs and penalties associated with the cancellation of contractual obligations. The deferred costs of $5,013,000 written-off arose in connection with the Company's unsuccessful bid for DTT multiplex licenses.

Depreciation and amortization expense increased to $150,509,000 from $98,653,000. The increase was primarily due to an increase in depreciation of telecommunications and CATV equipment. Depreciation and amortization expense of NTL Group Limited and amortization of goodwill as a result of the acquisition was $37,724,000 and $20,339,000 in the year ended December 31, 1997 and in the period from May 9, 1996, the date of acquisition, to December 31, 1996, respectively.

Interest expense increased to $202,570,000 from $137,032,000 due to the issuance of the 10% Senior Notes in February 1997, the issuance of the 7% Convertible Subordinated Notes in June 1996 and the increase in accretion of the original issue discount on the deferred coupon notes. Interest of $78,817,000 and $37,889,000 was paid in the years ended December 31, 1997 and 1996, respectively.

Other gains of $21,497,000 in 1997 include a gain on sale of fixed assets of $11,497,000 and a $10,000,000 payment from LeGroupe Videotron Ltee pursuant to the settlement of a lawsuit.

In connection with the repayment of debt, a subsidiary of NTL Group Limited recorded an extraordinary loss in 1997 of $4,500,000 from the write-off of unamortized deferred financing costs.

Liquidity and capital resources

The Company will continue to require significant amounts of capital to finance construction of its local and national networks, for connection of telephone, telecommunications and CATV customers to the networks, for other capital expenditures and for debt service. The Company estimates that these requirements will aggregate approximately $1.6 billion in 1999. This amount includes the requirements of ComTel, NTL Bermuda and EGT acquired in 1998, as well as the requirements of Diamond Cable Communications plc ("Diamond") which was acquired in March 1999. The Company intends to fund these requirements from cash, cash equivalents and marketable securities on hand of $1.8 billion as of December 31, 1998 (including Diamond's cash and cash equivalents as of December 31, 1998 and the cash received from Microsoft Corp. in January 1999 (see below), and funds internally generated by the operations of the Company's subsidiaries. The Company's commitments for equipment and services at December 31, 1998 of approximately $264 million are included in the anticipated requirements.

In January 1999, the Company sold $500 million of 5.25% convertible preferred stock to Microsoft Corp. The preferred stock is convertible into the Company's common stock at a conversion price of $100 per share. Dividends are payable quarterly, at the Company's option, in cash, shares of common stock or additional shares of convertible preferred stock. The Company also issued a warrant to Microsoft Corp. to purchase 1.2 million shares at an exercise price of $84 per share which expires in January 2004.

The Company is highly leveraged. The accreted value at December 31, 1998 of the Company's consolidated long-term indebtedness, including the Redeemable Preferred Stock, and adjusted for the Diamond acquisition and the Microsoft transaction is approximately $6.4 billion, representing approximately 82% of total capitalization. The following table summarizes the terms of those notes and Redeemable Preferred Stock issued by the Company.

	11½% Series B Senior Deferred Coupon Notes	12¾% Series A Senior Deferred Coupon Notes	10¾% Senior Sterling Deferred Coupon Notes	9¾% Senior Deferred Coupon Notes	12⅜% Senior Deferred Coupon Notes
Denomination	$	$	£	$	$
Net Proceeds (in 000's)	582,000	145,125	170,584	778,340	241,967
Issue Date	January 30, 1996	April 20, 1995	March 13, 1998	March 13, 1998	November 6, 1998
Issue Price (1)	57.155%	53.995%	58.62%	61.724%	55.505%
Aggregate Principal Amount at Maturity (in 000's)	1,050,000	277,803	300,000	1,300,000	450,000
Maturity Date	February 1, 2006	April 15, 2005	April 1, 2008	April 1, 2008	October 1, 2008
Yield or Interest Rate (2)	11½%	12¾%	10¾%	9¾%	12⅜%
Interest or Dividend Payment Dates	February 1 and August 1 from 8-1-01	April 15 and October 15 from 10-15-00	April 1 and October 1 from 10-1-2003	April 1 and October 1 from 10-1-2003	April 1 and October 1 from 4-1-2004
Earliest Optional Redemption Date (4)	February 1, 2001	April 15, 2000	April 1, 2003	April 1, 2003	October 1, 2003
Redemption Price (%) (5)	105.75 (2001) to 100 (2003)	103.64 (2000) to 100 (2002)	105.375 (2003) to 100 (2006)	104.875 (2003) to 100 (2006)	106.188 (2003) to 100 (2006)
Conversion Price (6)	N/A	N/A	N/A	N/A	N/A
Senior/Subordinated	Senior	Senior	Senior	Senior	Senior

	11½% Senior Notes	7% Convertible Subordinated Notes	7% Convertible Subordinated Notes	9½% Senior Sterling Notes	10% Series B Senior Notes	Redeemable Preferred Stock
Denomination	$	$	$	£	$	$
Net Proceeds (in 000's)	607,031	583,500	267,437	121,161	389,000	96,625
Issue Date	Nov 2, 1998	Dec 16, 1998	June 12, 1996	March 13, 1998	February 14, 1997	February 14, 1997
Issue Price (1)	100%	100%	100%	99.670%	100%	100%
Aggregate Principal Amount at Maturity (in 000's)	625,000	600,000	275,000	125,000	400,000	100,000
Maturity Date	October 1, 2008	Dec 15, 2008	June 15, 2008	April 1, 2008	February 15, 2007	February 15, 2009
Yield or Interest Rate (2)	11½%	7%	7%	9½%	10%	13%
Interest or Dividend Payment Dates	April l and October 1 from 4-1-99	June 15 and December 15 from 6-15-99	June 15 and December 15 from 12-15-96	April 1 and October 1 from 10-1-98	February 15 and August 15 from 8-15-97	May 15, August 15, November 15 and February 15 from 5-15-97 (3)
Earliest Optional Redemption Date (4)	October 1, 2003	Dec 15, 2001	June 15, 1999	April 1, 2003	February 15, 2002	February 15, 2002
Redemption Price (%) (5)	105.75 (2003) to 100 (2006)	104.4 (2001) to 100 (2006)	104.9 (1999) to 100 (2006)	104.75 (2003) to 100 (2006)	105 (2002) to 100 (2005)	106.5 (2002) to 100 (2005)
Conversion Price (6)	N/A	61.25	37.875	N/A	N/A	N/A
Senior/Subordinated	Senior	Subordinated	Subordinated	Senior	Senior	N/A

(1) Percent of aggregate principal amount at maturity (or aggregate liquidation preference in the case of the Redeemable Preferred Stock).
(2) Percent per annum.
(3) Dividend payments on the Redeemable Preferred Stock are payable in cash or additional shares of Redeemable Preferred Stock, at the Company's option. From May 15, 2004, dividend payments are payable in cash.
(4) This is the first date when redeemable at the Company's option. The Redeemable Preferred Stock is mandatorily redeemable for cash on February 15, 2009.
(5) Expressed as a percentage of principal amount or liquidation preference, as applicable, plus, in each case, accrued and unpaid interest or dividends thereon to the applicable redemption date.
(6) This is the conversion price per share of the Company's common stock, adjusted for the four-for-three stock split in August 1995 and subject to further adjustments in certain events.

In addition to the notes issued by the Company summarized above, NTL Bermuda and Diamond have issued the following notes. NTL Bermuda has $517.3 million principal at maturity Discount Debentures which are due on November 15, 2007. Interest accretes at 11.2% per annum compounded semi-annually until November 15, 2000, after which date interest will be paid in cash beginning on May 15, 2001. NTL Bermuda also has a £8,456,000 note payable to Comcast U.K. Holdings, Inc. that incurs interest at 9% per annum, compounded semi-annually. The note plus accrued interest is due in September 1999. Accrued interest was £3,854,000 as of December 31, 1998.

Diamond was acquired in March 1999 when the Company issued an aggregate of approximately 13 million shares in exchange for each ordinary share and deferred share of Diamond at a ratio of approximately .85 shares of the Company's common stock for four Diamond ordinary shares or one deferred share. Diamond had the following notes outstanding as of December 31, 1998:

(i) 13¼% Senior Discount Notes due September 30, 2004, principal amount at maturity of $285 million, interest payable semi-annually beginning on March 31, 2000, redeemable at Diamond's option after September 30, 1999,
(ii) 11¾% Senior Discount Notes due December 15, 2005, principal amount at maturity of $531 million, interest payable semi-annually beginning on June 15, 2001, redeemable at Diamond's option on or after December 15, 2000,
(iii) 10¾% Senior Discount Notes due February 15, 2007, principal amount at maturity of $421 million, interest payable semi-annually beginning on August 15, 2002,
(iv) 10% Senior Notes due February 1, 2008, issued by Diamond Holdings plc, a wholly-owned subsidiary of Diamond, principal amount of £135 million ($224 million), interest payable semi-annually as of August 1, 1998,
(v) 9⅛% Senior Notes due February 1, 2008, issued by Diamond Holdings plc, principal amount of $110 million, interest payable semi-annually as of August 1, 1998, and
(vi) mortgage of £2.5 million ($3.7) million to fund the construction of an office building, repayable over 20 years as of July 31, 1995, interest at LIBOR plus 1½%.

The Company intends to commence an offer to repurchase its outstanding notes at 101% of their accreted value or principal amount on or about April 1, 1999 pursuant to the "change of control" provisions of the indentures. The offer will expire 30 days thereafter. NTL has entered into a bridge facility to finance the redemption of Diamond bonds tendered, if any, which is subject to certain funding conditions.

The Company has other significant commitments or potential commitments in addition to those described above. These are as follows:

(i) Pursuant to the terms of the Northern Ireland LDL, a subsidiary of the Company is required to make annual cash payments to the ITC for 15 years in the amount of approximately £14.4 million (subject to adjustment for inflation) in addition to the percentages of qualifying revenue payments of 0% for the first ten years and 2% for the last five years of the LDL.
(ii) Pursuant to an agreement with TeleWest Communications plc relating to NTL Bermuda's and TeleWest's respective 50% ownership interests in Cable London PLC, between April 29 and July 29, 1999, NTL Bermuda can notify TeleWest of the price at which it is willing to sell its 50% ownership in Cable London to TeleWest. Following such notification, TeleWest at its option is required at that price to either purchase NTL Bermuda's 50% interest or sell its 50% interest to NTL Bermuda. If NTL Bermuda fails to give notice to TeleWest by July 29, 1999, it will be deemed to have delivered an offer notice for £100 million ($166 million).
(iii) In December 1998, a wholly-owned subsidiary of the Company acquired 9 million shares, representing 6.3% of the issued share capital, of Newcastle United PLC (the Newcastle United football club) for cash of approximately $17 million. In conjunction with the sale of shares, the seller entered into an irrevocable commitment to the Company that if the Company makes an offer for all of the issued share capital of Newcastle United, it will accept that offer in respect of the remaining balance of its shares representing 50.8% of the issued share capital at a price of 111.7 pence per share in cash, or at the Company's option, in a zero coupon note aggregating approximately $135 million.
(iv) In March 1999, the Commonwealth of Australia accepted the Company's bid to own and operate the Australian National Transmission Network ("NTN"). NTN operates from over 560 tower sites and provides exclusive television and radio transmission services to Australia's only national TV and radio broadcasters, serves regional and community TV and radio broadcasters, and provides equipment hosting services to telecom operators and emergency service communications providers on its towers. A subsidiary of the Company will purchase the company that will hold the NTN assets for an aggregate purchase price of approximately $407 million.

The development, construction and operations of the Company's combined telecommunications networks will require substantial capital. In addition, the Company will require significant amounts of capital to finance the other capital expenditures and other obligations of its subsidiaries. The Company intends to fund a portion of these requirements from cash and securities on hand and cash from operations. However, under certain circumstances, additional funding will be necessary to meet these requirements. There can be no assurance that: (i) actual construction costs will not exceed the amounts estimated or that additional funding substantially in excess of the amounts estimated will not be required, (ii) additional financing will be obtained or will be available on acceptable terms, (iii) conditions precedent to advances under future credit facilities will be satisfied when funds are required, (iv) the Company and its subsidiaries will be able to generate sufficient cash from operations to meet capital requirements, debt service and other obligations when required, (v) the Company will be able to access such cash flow or (vi) the Company will not incur losses from its exposure to exchange rate fluctuations or be adversely affected by interest rate fluctuations.

Management does not anticipate that the Company and its subsidiaries will generate sufficient cash flow from operations to repay at maturity the entire principal amount of the outstanding indebtedness of the Company and its subsidiaries. Accordingly, the Company may be required to consider a number of measures, including: (i) refinancing all or a portion of such indebtedness, (ii) seeking modifications to the terms of such indebtedness, (iii) seeking additional debt financing, which may be subject to obtaining necessary lender consents, (iv) seeking additional equity financing, or (v) a combination of the foregoing.

The Company's operations are conducted through its direct and indirect wholly-owned subsidiaries. As a holding company, the Company holds no significant assets other than its investments in and advances to its subsidiaries. The Company is therefore dependent upon the receipt of sufficient funds from its subsidiaries to meet its own obligations. Accordingly, the Company's ability to make scheduled interest and principal payments when due to holders of indebtedness of the Company and the Company's ability to pay cash dividends to its stockholders is dependent upon the receipt of sufficient funds from its subsidiaries.

Condensed consolidated statements of cash flows

Cash used in operating activities was $18,943,000 and $17,271,000 in the years ended December 31, 1998 and 1997, respectively. The change is primarily due to an increase in the operating loss and changes in operating assets and liabilities.

Purchases of fixed assets were $772,144,000 in 1998 and $503,656,000 in 1997 as a result of the continuing fixed asset purchases and construction in 1998.

Proceeds from borrowings, net of financing costs, of $3,525,588,000 in 1998 is comprised of the proceeds from the various notes issued during the year plus proceeds from borrowings under the bank loan. Principal payments of $845,018,000 represent the repayment of borrowings under the bank loan. Cash placed in escrow of $217,622,000 was used to redeem the Company's 10⁷⁄₈% Senior Deferred Coupon Notes which was completed in October 1998.

Year 2000

The Company has a comprehensive Year 2000 project designed to identify and assess the risks associated with its information systems, products, operations and infrastructure, suppliers, and customers that are not Year 2000 compliant, and to develop, implement and test remediation and contingency plans to mitigate these risks. The project comprises four phases: (1) identification of risks, (2) assessment of risks, (3) development of remediation and contingency plans and (4) implementation and testing.

The Company has completed its compilation of equipment and systems that might be affected by Year 2000 noncompliance. An impact and risk assessment is underway on all items to determine whether items are business critical, high priority or low priority. This assessment will include all information systems ("IS") and non-IS equipment with embedded technology such as air conditioning, generators and power supplies. All business critical and high priority items have been identified. The Company's billing, provisioning and customer service systems are being reviewed and modified for Year 2000 readiness. Although this was expected to be completed by the end of 1998, it is now expected to be completed in March 1999. Integration testing of the complete system will begin in the second quarter of 1999 and is expected to require three months. Testing of other business critical and high priority items is in various stages with some areas 100% complete. The target for the completion of this testing is the end of June 1999, although a small portion of such testing is scheduled to extend into the third quarter of 1999. Where appropriate, remedial work has been minimized by bringing forward planned system revisions and retiring old equipment. The Company is also communicating with its suppliers with respect to the high priority and business critical items. A central database has been established to insure all issues are resolved. This communication is virtually complete. A Millennium Operations Plan is being created that details the key resources needed for problems that may arise over the Year 2000 weekend. All Business Continuity Plans are being reviewed and are being revised to account for special circumstances related to the Year 2000. These plans are expected to be finalized in the third quarter of 1999.

The Company expects to incur $13 million primarily in labor costs to compile inventories, assess risks, prioritize remediation projects, communicate with suppliers, maintain the supplier communications database, test remediations and implement remediations. The Company incurred approximately $3.2 million of this amount in 1998. The expected cost includes enhancements and upgrades that are part of the normal upgrades and system revisions.

The Company currently believes that the most reasonably likely worst case scenario with respect to the Year 2000 is the failure of public electricity supplies during the millennium period. A number of critical sites have permanent automatic standby generators and uninterruptible power supplies. Where critical sites do not have permanent standby power, the Company intends to deploy its mobile generators. In addition, other telephone operators have suggested that the telephone network may overload due to excessive traffic. The Company is reviewing its "cold start" scenarios and alternative interconnection routes in the event of interruptions in the service of other telephone companies. The Company expects the UK Telecoms Regulator to require evidence of contingency plans from all the major operators and the results will be shared through the Inter-Operator Forum. Either or both of the above mentioned scenarios could have a material adverse effect on operations, although it is not possible at this time to quantify the amount of revenues and gross profit that might be lost, or the costs that could be incurred.

As the Year 2000 project continues, the Company may discover additional problems, may not be able to develop, implement or test remediation or contingency plans, or may find that the costs of these activities exceed current expectations. In many cases, the Company is relying on assurances from suppliers that new and upgraded information systems and other products will be Year 2000 ready. The Company plans to test such third-party products, but cannot be sure that its tests will be adequate or that, if problems are identified, they will be addressed by the supplier in a timely and satisfactory way.

Because the Company uses a variety of information systems and has additional systems embedded in its operations and infrastructure, the Company cannot be sure that all of its systems will work together in a Year 2000-ready fashion. Furthermore, the Company cannot be sure that it will not suffer business interruptions, either because of its own Year 2000 problems or those of third-parties upon whom the Company is reliant for services. The Company is continuing to evaluate its Year 2000-related risks and corrective actions. However, the risks associated with the Year 2000 problem are pervasive and complex; they can be difficult to identify and address, and can result in material adverse consequences to the Company. Even if the Company, in a timely manner, completes all of its assessments, identifies and tests remediation plans believed to be adequate, and develops contingency plans believed to be adequate, some problems may not be identified or corrected in time to prevent material adverse consequences to the Company.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain statements contained herein constitute "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. When used herein, the words, "believe", "anticipate", "should", "intend", "plan", "will", "expects", "estimates", "projects", "positioned", "strategy", and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from those contemplated, projected, forecasted, estimated or budgeted, whether expressed or implied, by such forward-looking statements. Such factors include the following: general economic and business conditions in the United Kingdom, the Company's ability to continue to design networks, install facilities, obtain and maintain any required governmental licenses or approvals and finance construction and development, all in a timely manner at reasonable costs and on satisfactory terms and conditions, as well as assumptions about customer acceptance, churn rates, overall market penetration and competition from providers of alternative services, the impact of new business opportunities requiring significant up-front investment, Year 2000 readiness, and availability, terms and deployment of capital.

Quantitative and qualitative disclosure about market risk

Market risk

The Company is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company enters into financial instruments to manage and reduce the impact of changes in foreign currency exchange rates, primarily US dollar/UK Pound Sterling. The counterparties are major financial institutions. The Company does not enter into derivatives or financial instruments to manage or reduce the impact of changes in interest rates.

Foreign exchange contracts

To the extent that the Company obtains financing in United States dollars and incurs costs in the construction and operation of its networks in the United Kingdom in British pounds sterling, it will encounter currency exchange rate risks. At December 31, 1998, the Company had approximately $195 million in pounds sterling cash and cash equivalents to reduce this risk. In addition, the Company's pounds sterling denominated Notes issued in March 1998 will also reduce this risk. Furthermore, the Company's revenues are generated primarily in British pounds sterling while its interest and principal obligations with respect to most of the Company's existing indebtedness are payable in U.S. dollars. The Company has entered into an option agreement to hedge some of the risk of exchange rate fluctuations related to interest and principal payments on U.S. dollar denominated debt and for parent company expenses up to an annual limit of approximately $13 million. The Company may purchase U.S. dollars at a fixed rate of £1 to $1.40 on specified dates through June 2001 for specified amounts of U.S. dollars. The dates and U.S. dollar amounts correspond to the Company's interest and principal payment dates and amounts for its U.S. dollar denominated debt and anticipated amounts of parent company expenses. In addition, NTL Bermuda has option agreements of £250 million notional amount to purchase U.S. dollars at a fixed rate of £1 to $1.35 in November 2000. This option provides a hedge against an adverse change in exchange rates when interest payments commence on NTL Bermuda's U.S. dollar denominated Discount Debentures.

The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. At December 31, 1998, the difference between the fair value of the outstanding contracts and the contract amounts was immaterial.

Interest rates

The fair market value of long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. Fair values were determined from quoted market prices.

Interest rate sensitivity
Principal amount by expected maturity
Average interest rate

(dollars in thousands)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value 12/31/98
Long-term Debt, including Current Portion								
12.75% Series A Senior Deferred Coupon Notes due 2005								
Fixed Rate	–	–	–	–	–	$ 277,804	$ 277,804	$252,801
Average Interest Rate						12.75%		
11.50% Series B Senior Deferred Coupon Notes due 2006								
Fixed Rate	–	–	–	–	–	$1,050,000	$1,050,000	$882,000
Average Interest Rate						11.50%		
7% Covertible Subordinated Notes due 2008 (1996 issue)								
Fixed Rate	–	–	–	–	–	$ 275,000	$ 275,000	$411,125
Average Interest Rate						7%		
7% Convertible Subordinated Notes due 2008 (1998 issue)								
Fixed Rate	–	–	–	–	–	$ 600,000	$ 600,000	$656,340
Average Interest Rate						7%		
10% Series B Senior Notes due 2007								
Fixed Rate	–	–	–	–	–	$ 400,000	$ 400,000	$408,000
Average Interest Rate						10%		
9.75% Senior Deferred Coupon Notes due 2008								
Fixed Rate	–	–	–	–	–	$1,300,000	$1,300,000	$835,250
Average Interest Rate						9.75%		
11.5% Senior Notes due 2008								
Fixed Rate	–	–	–	–	–	$ 625,000	$ 625,000	$681,250
Average Interest Rate						11.5%		
12.375% Senior Deferred Coupon Notes due 2008								
Fixed Rate	–	–	–	–	–	$ 450,000	$ 450,000	$274,500
Average Interest Rate						12.375%		

Interest rate sensitivity
Principal amount by expected maturity
Average interest rate and average forward foreign exchange rate
(USD/British Sterling)

(pounds in thousands)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value 12/31/98
Long-term Debt (including Current Portion) Denominated in Foreign Currency								
9.5% Senior Notes (Sterling) due 2008								
Fixed Rate	–	–	–	–	–	£125,000	£125,000	£116,250
Average Interest Rate								
Average Forward						9.5%		
Exchange Rate						1.6506		
10.75% Senior Deferred Coupon Notes (Sterling) due 2008								
Fixed Rate	–	–	–	–	–	£300,000	£300,000	£177,000
Average Interest Rate								
Average Forward						10.75%		
Exchange Rate						1.6506		

Interest rate sensitivity
Principal amount by expected maturity
Average interest rate and average forward foreign exchange rate
(USD/British Sterling)

(dollars in thousands)	1999	2000	2001	2002	2003	Thereafter	Total	Fair value 12/31/98
Long-term Debt, (including Current Portion)								
11.20% Senior Discount Debentures due 2007								
Fixed Rate	–	–	–	–	–	$517,300	$517,300	$437,119
Average Interest Rate								
Average Forward Exchange						11.20%		
Rate						1.6506		

Quarterly results of operations

The following is a summary of the quarterly results of operations for the years ended December 31, 1998 and 1997.

				1998 Three months ended
(In thousands, except per share data)	***March 31***	***June 30***	***September 30***	***December 31***
Revenues	***$147,792***	***$154,314***	***$182,484***	***$262,425***
Operating loss	***(41,962)***	***(40,665)***	***(55,640)***	***(90,348)***
Loss before extraordinary item	***(93,672)***	***(104,302)***	***(133,892)***	***(172,061)***
Net loss	***(93,672)***	***(104,302)***	***(138,131)***	***(198,511)***
Basic and diluted loss per common share before extraordinary item	***(3.02)***	***(2.80)***	***(3.34)***	***(3.29)***
Basic and diluted net loss per common share	***(3.02)***	***(2.80)***	***(3.44)***	***(3.79)***

				1997 Three months ended
(In thousands, except per share data)	March 31	June 30	September 30	December 31
Revenues	$106,817	$114,822	$126,734	$143,402
Operating loss	(45,231)	(51,772)	(54,438)	(40,623)
Loss before extraordinary item	(85,761)	(87,674)	(83,357)	(71,765)
Net loss	(85,761)	(87,674)	(83,357)	(76,265)
Basic and diluted loss per common share before extraordinary item	(2.73)	(2.84)	(2.70)	(2.34)
Basic and diluted net loss per common share	(2.73)	(2.84)	(2.70)	(2.48)

Consolidated Balance Sheets

December 31	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	***$ 736,265,000***	$ 98,902,000
Marketable securities	***260,631,000***	4,998,000
Accounts receivable – trade, less allowance for doubtful accounts of $38,475,000 (1998) and $8,056,000 (1997)	***152,356,000***	66,022,000
Other	***55,248,000***	67,232,000
Total current assets	***1,204,500,000***	237,154,000
Fixed assets, net	***3,854,430,000***	1,756,985,000
Intangible assets, net	***725,028,000***	364,479,000
Investment in Cable London PLC, net of accumulated amortization of $3,093,000	***229,093,000***	–
Other assets, net of accumulated amortization of $56,264,000 (1998) and $25,889,000 (1997)	***181,046,000***	63,021,000
Total assets	***$6,194,097,000***	$2,421,639,000
Liabilities and shareholders' equity (deficiency)		
Current liabilities:		
Accounts payable	***$ 167,079,000***	$ 45,475,000
Accrued expenses and other	***221,070,000***	163,158,000
Accrued construction costs	***88,033,000***	26,930,000
Interest payable	***34,258,000***	18,875,000
Deferred revenue	***69,820,000***	35,060,000
Current portion of long-term debt	***23,691,000***	–
Total current liabilities	***603,951,000***	289,498,000
Long-term debt	***5,043,803,000***	2,015,057,000
Commitments and contingent liabilities		
Deferred income taxes	***67,062,000***	70,218,000
Senior redeemable exchangeable preferred stock – $.01 par value, plus accreted dividends; liquidation preference $125,000,000; less unamortized discount of $3,133,000 (1998) and $3,444,000; (1997); issued and outstanding 125,000 (1998) and 110,000 (1997) shares;	***124,127,000***	108,534,000
Shareholders' equity (deficiency):		
Series preferred stock – $.01 par value; authorized 10,000,000 shares;		
Series A – liquidation preferences $128,760,000; issued and outstanding 125,000 (1998) and none (1997) shares;	***2,000***	–
Series B – liquidation preferences $52,517,000; issued and outstanding 52,000 (1998) and none (1997) shares;	***–***	–
Series A – issued and outstanding none (1998) and 780 (1997) shares	***–***	–
Common stock – $.01 par value; authorized 400,000,000 shares; issued and outstanding 60,249,000 (1998) and 32,210,000 (1997) shares	***602,000***	322,000
Additional paid-in capital	***1,501,561,000***	538,054,000
Accumulated other comprehensive income	***104,657,000***	117,008,000
(Deficit)	***(1,251,668,000)***	(717,052,000)
	355,154,000	(61,668,000)
Total liabilities and shareholders' equity (deficiency)	***$6,194,097,000***	$2,421,639,000

See accompanying notes.

Consolidated statements of operations

Year ended December 31	***1998***	1997	1996
Revenues			
Local telecommunications and television	***$ 355,589,000***	$ 166,951,000	$ 89,209,000
National and international telecommunications	***248,895,000***	185,194,000	45,430,000
Broadcast transmission and other	***140,156,000***	130,799,000	83,618,000
Other telecommunications	***2,375,000***	8,831,000	10,086,000
	747,015,000	491,775,000	228,343,000
Costs and expenses			
Operating expenses	***372,134,000***	301,644,000	144,315,000
Selling, general and administrative expenses	***299,494,000***	169,133,000	114,992,000
Franchise fees	***25,036,000***	23,587,000	13,117,000
Corporate expenses	***17,048,000***	18,324,000	14,899,000
Nonrecurring charges	***(4,194,000)***	20,642,000	–
Depreciation and amortization	***266,112,000***	150,509,000	98,653,000
	975,630,000	683,839,000	385,976,000
Operating (loss)	***(228,615,000)***	(192,064,000)	(157,633,000)
Other income (expense)			
Interest and other income	***46,024,000***	28,415,000	33,634,000
Interest expense	***(328,815,000)***	(202,570,000)	(137,032,000)
Other gains	***–***	21,497,000	–
Foreign currency transaction gains	***4,152,000***	574,000	2,408,000
(Loss) before income taxes, minority interests and extraordinary item	***(507,254,000)***	(344,148,000)	(258,623,000)
Income tax benefit (provision)	***3,327,000***	15,591,000	(7,653,000)
(Loss) before minority interests and extraordinary item	***(503,927,000)***	(328,557,000)	(266,276,000)
Minority interests	***–***	–	11,822,000
(Loss) before extraordinary item	***(503,927,000)***	(328,557,000)	(254,454,000)
Loss from early extinguishment of debt	***(30,689,000)***	(4,500,000)	–
Net (loss)	***$(534,616,000)***	$(333,057,000)	$(254,454,000)
Basic and diluted net (loss) per common share:			
(Loss) before extraordinary item	***$ (12.69)***	$ (10.60)	$ (8.20)
Extraordinary item	***(.74)***	(.14)	–
Net (loss) per common share	***$ (13.43)***	$ (10.74)	$ (8.20)

See accompanying notes.

Consolidated statements of shareholders' equity (deficiency)

	Series A Preferred Stock		Series A Preferred Stock		Series B Preferred Stock	
	Shares	Par	Shares	Par	Shares	Par
Balance, December 31, 1995						
Exercise of stock options						
Exercise of warrants						
Issuance of warrants in connection with consent solicitations						
Shares issued for acquisitions	780	$ –				
Comprehensive income:						
Net loss for the year ended December 31, 1996						
Currency translation adjustment						
Total						
Balance, December 31, 1996	780	–				
Exercise of stock options						
Exercise of warrants						
Accreted dividends on senior redeemable exchangeable preferred stock						
Accretion of discount on senior redeemable exchangeable preferred stock						
Comprehensive income:						
Net loss for the year ended December 31, 1997						
Currency translation adjustment						
Total						
Balance, December 31, 1997	780	–				
Exercise of stock options						
Exercise of warrants						
Accreted dividends on preferred stock						
Accretion of discount on preferred stock						
Conversion of 7¼% Convertible Subordinated Notes						
Conversion of Series Preferred Stock	***(780)***					
Preferred stock issued for acquisition			***125,000***	***$2,000***	***52,000***	***–***
Common stock issued for acquisition						
Issuance of warrants in connection with consent solicitations						
Comprehensive income:						
Net loss for the year ended December 31, 1998						
Currency translation adjustment						
Total						
Balance, December 31, 1998	***–***	***$ –***	***125,000***	***$2,000***	***52,000***	***$ –***

See accompanying notes.

Common Stock 3.01 par value Shares	Par	Additional paid-in capital	Comprehensive loss	Accumulated other comprehensive income	(Deficit)
30,202,000	$ 302,000	$ 462,223,000		$ 6,273,000	$ (129,541,000)
396,000	4,000	1,362,000			
53,000	1,000	298,000			
		1,641,000			
1,415,000	14,000	83,123,000			
			$ (254,454,000)		(254,454,000)
			156,868,000	156,868,000	
			$ (97,586,000)		
32,066,000	321,000	548,647,000		163,141,000	$ (383,995,000)
119,000	1,000	1,532,000			
25,000		138,000			
		(11,978,000)			
		(285,000)			
			$ (333,057,000)		(333,057,000)
			(46,133,000)	(46,133,000)	
			$ (379,190,000)		
32,210,000	322,000	538,054,000		117,008,000	$ (717,052,000)
298,000	***3,000***	***6,331,000***			
70,000		***508,000***			
		(18,761,000)			
		(311,000)			
6,958,000	***70,000***	***186,942,000***			
1,950,000	***20,000***	***(20,000)***			
		178,493,000			
18,763,000	***187,000***	***600,245,000***			
		10,080,000			
			$ (534,616,000)		***(534,616,000)***
			(12,351,000)	***(12,351,000)***	
			$(546,967,000)		
60,249,000	***$602,000***	***$1,501,561,000***		***$104,657,000***	***$(1,251,668,000)***

Consolidated statements of cash flows

Year ended December 31	***1998***	1997	1996
Operating activities			
Net loss	***$ (534,616,000)***	$(333,057,000)	$ (254,454,000)
Adjustment to reconcile net loss to net cash (used in) operating activities:			
Depreciation and amortization	***266,112,000***	150,509,000	98,653,000
Loss from early extinguishment of debt	***30,689,000***	4,500,000	–
Amortization of non competition agreements	***1,389,000***	1,852,000	2,906,000
Provision for losses on accounts receivable	***27,282,000***	6,891,000	2,597,000
Minority interests	***–***	–	(11,822,000)
Deferred income taxes	***(3,327,000)***	(16,852,000)	5,063,000
Amortization of original issue discount	***232,691,000***	122,639,000	104,264,000
Other	***(30,916,000)***	(8,148,000)	8,578,000
Changes in operating assets and liabilities, net of effect from business acquisitions:			
Accounts receivable	***(70,364,000)***	(30,430,000)	10,050,000
Other current assets	***22,631,000***	(6,563,000)	(20,316,000)
Other assets	***6,000***	2,303,000	(24,000)
Accounts payable	***(2,564,000)***	(4,615,000)	(2,869,000)
Accrued expenses and other	***15,272,000***	74,706,000	35,691,000
Deferred revenue	***26,772,000***	18,994,000	278,000
Net cash (used in) operating activities	***(18,943,000)***	(17,271,000)	(21,405,000)
Investing activities			
Purchase of fixed assets	***(772,144,000)***	(503,656,000)	(505,664,000)
Payment of deferred purchase price	***–***	(57,330,000)	–
Increase in other assets	***(35,595,000)***	(4,322,000)	(6,013,000)
Acquisitions of subsidiaries and minority interests, net of cash acquired	***(746,817,000)***	–	(332,693,000)
Proceeds from sales of assets	***1,312,000***	–	–
Purchase of marketable securities	***(540,639,000)***	(145,939,000)	–
Proceeds from sales of marketable securities	***291,276,000***	142,596,000	–
Net cash (used in) investing activities	***(1,802,607,000)***	(568,651,000)	(844,370,000)
Financing activities			
Proceeds from borrowings and sale of preferred stock, net of financing costs	***3,525,588,000***	490,302,000	1,146,190,000
Principal payments	***(845,018,000)***	(242,424,000)	(95,283,000)
Cash placed in escrow	***(217,622,000)***	–	–
Cash released from escrow	***–***	–	1,600,000
Proceeds from borrowings from minority partner	***–***	–	31,232,000
Consent solicitation payments	***(11,333,000)***	–	–
Proceeds from exercise of stock options and warrants	***6,842,000***	1,671,000	1,665,000
Net cash provided by financing activities	***2,458,457,000***	249,549,000	1,085,404,000
Effect of exchange rate changes on cash	***456,000***	(10,609,000)	50,972,000
Increase (decrease) in cash and cash equivalents	***637,363,000***	(346,982,000)	270,601,000
Cash and cash equivalents at beginning of year	***98,902,000***	445,884,000	175,283,000
Cash and cash equivalents at end of year	***$ 736,265,000***	$ 98,902,000	$ 445,884,000
Supplemental disclosure of cash flow information			
Cash paid during the period for interest exclusive of amounts capitalized	***$ 90,513,000***	$ 72,047,000	$ 27,595,000
Income taxes paid	***336,000***	1,107,000	367,000
Supplemental schedule of noncash financing activities			
Accretion of dividends and discount on preferred stock	***$ 19,072,000***	$ 12,263,000	$ –
Conversion of Convertible Notes, net of unamortized deferred financing costs of $4,738,000	***187,012,000***	–	–
Preferred stock issued for acquisitions	***178,495,000***	–	–
Common stock issued for acquisitions	***600,432,000***	–	34,137,000
Warrants issued in connection with consent solicitations	***10,080,000***	–	1,641,000
Preferred stock issued for acquisition of minority interest, including notes payable to minority partner	***–***	–	49,000,000
Liabilities incurred in connection with acquisitions	***–***	–	81,906,000

See accompanying notes.

Notes to consolidated financial statements

1. Business

NTL Incorporated (the "Company"), through its subsidiaries and joint ventures, owns and operates television and radio broadcasting, cable television, telephone and telecommunications systems in the United Kingdom. Based on revenues and identifiable assets, the Company's predominant lines of business are television and radio broadcasting, cable television, telephone and telecommunications services in the United Kingdom.

2. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and entities where the Company's interest is greater than 50%. Significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign currency translation

The financial statements of the Company's foreign subsidiaries have been translated into U.S. dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." All balance sheet accounts have been translated using the current exchange rates at the respective balance sheet dates. Statement of operations amounts have been translated using the average exchange rates for the respective years. The gains or losses resulting from the change in exchange rates have been reported as a component of accumulated other comprehensive income.

Cash equivalents

Cash equivalents are short-term highly liquid investments purchased with a maturity of three months or less. Cash equivalents were $651,242,000 and $55,894,000 at December 31, 1998 and 1997, respectively, which consisted primarily of corporate commercial paper. At December 31, 1998 and 1997, $120,734,000 and none, respectively, of the cash equivalents were denominated in British pounds sterling.

Marketable securities

Marketable securities are classified as available-for-sale, which are carried at fair value. Unrealized holding gains and losses on securities, net of tax, are carried as a component of accumulated other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other than temporary are included in interest income. The cost of securities sold or matured is based on the specific identification method. Interest on securities is included in interest income.

Marketable securities at December 31, 1998 consisted principally of corporate commercial paper. Marketable securities at December 31, 1997 consisted of federal agency notes. During the years ended December 31, 1998, 1997 and 1996, there were no realized gains or losses on sales of securities. All of the marketable securities as of December 31, 1998 and 1997 had a contractual maturity of less than one year.

Fixed assets

Fixed assets are stated at cost, which includes amounts capitalized for labor and overhead expended in connection with the design and installation of operating equipment. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: operating equipment – 5 to 40 years and other equipment – 3 to 40 years.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset.

Investments

Investments in entities in which the Company has the ability to exercise significant influence over the operating and financial policies of the investee are accounted for under the equity method. Equity method investments are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the investees' net income or losses after the date of investment, additional contributions made and dividends received. The difference between the Company's recorded investment and its proportionate interest in the book value of the investees' net assets are being amortized on a straight-line basis over 10 years.

Intangible assets

Intangible assets include goodwill, license acquisition costs and customer lists. Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Goodwill is amortized on a straight-line basis over the periods benefited of 15 or 30 years. License acquisition costs represent the portion of purchase price allocated to the licenses acquired in business combinations. License acquisition costs are amortized on a straight-line basis over the remaining lives of the licenses at acquisition, which vary from approximately two years to 23 years. Customer lists represent the portion of the purchase price allocated to the value of the customer base. Customer lists are amortized on a straight-line basis over 5 years. The Company continually reviews the recoverability of the carrying value of these assets using the same methodology that it uses for the evaluation of its other long-lived assets.

Deferred financing costs

Deferred financing costs were incurred in connection with the issuance of debt and are amortized over the term of the related debt.

Capitalized interest

Interest is capitalized as a component of the cost of fixed assets constructed. In 1998, 1997 and 1996, interest of $27,760,000, $6,770,000 and $10,294,000, respectively, was capitalized.

Revenue recognition

Revenues are recognized at the time the service is provided to the customer.

Cable television system costs, expenses and revenues

The Company accounts for costs, expenses and revenues applicable to the construction and operation of its cable television, telephone and telecommunications systems in accordance with SFAS No. 51, "Financial Reporting by Cable Television Companies."

Advertising expense

The Company charges the cost of advertising to expense as incurred. Advertising costs were $33,951,000, $31,003,000 and $22,727,000 in 1998, 1997 and 1996, respectively.

Net (Loss) per share

The Company reports its basic and diluted net (loss) per share in accordance with Financial Accounting Standards Board ("FASB") SFAS No. 128, "Earnings Per Share".

Stock-based compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 1998 presentation.

3. Recent accounting pronouncements

In 1998, the Company adopted the following Statements of Financial Accounting Standards:

- SFAS 130, "Reporting Comprehensive Income", which requires the components of comprehensive income to be disclosed in the financial statements.
- SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", which requires disclosures of certain information about the Company's operating segments on a basis consistent with the way in which the Company is managed and operated.
- SFAS 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits", which revises disclosures about pensions and other postretirement benefits and requires presentation of information about such plans in a standardized format.

Adoption of these new standards required that the Company make certain new disclosures in the consolidated financial statements or in the notes to the consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted by the Company effective January 1, 2000. The Company is currently evaluating the impact the adoption of SFAS No. 133 will have on its earnings and financial position.

4. Certain significant risks and uncertainties

Need for additional financing

The Company will require additional financing in the future. There can be no assurance that the required financing will be obtainable on acceptable terms.

Concentrations

The Company's television and radio broadcasting business is substantially dependent upon contracts with a small group of companies for the right to broadcast their programming, and upon a site sharing agreement for a large number of its transmission sites. The loss of any one of these contracts or the site sharing agreement could have a material adverse effect on the business of the Company.

Currency risk

To the extent that the Company obtains financing in United States dollars and incurs construction and operating costs in British pounds sterling, it will encounter currency exchange rate risks. In addition, the Company's revenues are generated primarily in British pounds sterling while its interest and principal obligations with respect to most of the Company's existing indebtedness are payable in United States dollars.

5. Fixed assets

Fixed assets consist of:

		December 31
	1998	1997
Operating equipment	***$3,528,973,000***	$1,612,440,000
Other equipment	***376,518,000***	225,514,000
Construction-in-progress	***369,923,000***	134,795,000
	4,275,414,000	1,972,749,000
Accumulated depreciation	***(420,984,000)***	(215,764,000)
	$3,854,430,000	$1,756,985,000

6. Intangible assets

Intangible assets consist of:

		December 31
	1998	1997
License acquisition costs, net of accumulated amortization of $69,202,000 (1998) and $46,620,000 (1997)	***$153,007,000***	$123,116,000
Goodwill, net of accumulated amortization of $32,358,000 (1998) and $13,449,000 (1997)	***514,529,000***	241,363,000
Customer lists, net of accumulated amortization of $3,375,000	***57,492,000***	–
	$725,028,000	$364,479,000

The Company made the following acquisitions in 1998:

(i) The Company acquired ComTel Limited and Telecential Communications (collectively, "ComTel") for a total of £550 million comprised of £475 million in cash and 125,000 shares of 9.9% Non-voting Mandatorily Redeemable Preferred Stock, Series A in two stages completed in June and September 1998. The Company financed the cash portion of the transaction through a bank loan, completed through an amendment to the Company's then existing bank facility with The Chase Manhattan Bank. The preferred stock was valued at £75 million, based on an appraisal as of the date of issuance. ComTel is a provider of cable television and telecommunications services in England.

(ii) In October 1998, a wholly-owned subsidiary of the Company, NTL (Bermuda) Limited ("NTL Bermuda") acquired all of the outstanding common stock of Comcast UK Cable Partners Limited ("Partners") in exchange for 18,763,000 shares of the Company's common stock. The Company's common stock was valued at $600,432,000, the fair value on the date prior to the announcement. Partners provides cable television and telecommunications services in England.

(iii) In December 1998, the Company acquired Eastern Group Telecoms ("EGT") for £60 million in cash and 52,000 shares of 9.9% Non-voting Mandatorily Redeemable Preferred Stock, Series B. The preferred stock was valued at $52,217,000, based on an appraisal as of the date of issuance. EGT's telecoms division has a fibre-optic network across portions of England, and its radio sites division serves mobile phone operators in portions of England.

These acquisitions have been accounted for as purchases, and accordingly, the net assets and results of operations of the acquired businesses have been included in the consolidated financial statements from the dates of acquisition. The aggregate purchase price of $1.7 billion, which includes the related acquisition costs and the return of cash acquired in the ComTel transaction of £31 million, exceeded the fair value of the net tangible assets acquired by $591 million, which has been allocated as follows: $185.6 million to the investment in Cable London PLC, $52.4 million to license acquisition costs, $60.9 million to customer lists and $292.1 million to goodwill.

The pro forma unaudited consolidated results of operations for the years ended December 31, 1998 and 1997 assuming consummation of the above mentioned transactions as of January 1, 1997 is as follows:

	December 31	
	1998	1997
Total revenue	***$966,694,000***	$667,534,000
(Loss) before extraordinary item	***(627,249,000)***	(618,510,000)
Net loss	***(657,938,000)***	(623,010,000)
Basic and diluted net loss per share:		
(Loss) before extraordinary item	***(11.54)***	(12.64)
Net (loss)	***(12.08)***	(12.73)

In 1996, the Company acquired (i) the remaining 40% interest it did not already own in CableTel Newport, which owns and operates cable television and telecommunications franchises in South Wales, (ii) the remaining 30% interest it did not already own in English Cable Enterprises, Inc., which owns and operates cable television and telecommunications franchises in the northern suburbs of London and (iii) all of the outstanding shares of NTL Group Limited, which provides television and radio transmission services and a range of other services in the broadcasting and telecommunications industries. The NTL Group Limited acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of NTL Group Limited was included in the consolidated financial statements from the date of acquisition. The aggregate purchase price for these acquisitions including the costs incurred was $526 million, consisting of 780 shares of Series A Preferred Stock, 1,415,000 shares of common stock and cash of £256.1 million (of which £35 million was paid in 1997). The 780 shares of Series A Preferred Stock were valued at $49 million, based on an appraisal as of the date of issuance. The 1,415,000 shares of common stock were valued at $34 million, based on the market price on the date of issuance. The aggregate purchase price exceeded the aggregate fair value of the net tangible assets acquired by $273 million, which was allocated $10 million to license acquisition costs and $263 million to goodwill.

7. Investment in Cable London PLC

NTL Bermuda has a 50% ownership interest in Cable London PLC ("Cable London"). Cable London operates integrated cable television and telecommunications systems in the London metropolitan area. Included in the investment in Cable London as of December 31, 1998 are loans to Cable London of £28.5 million ($47.3 million) and accrued interest of £8.6 million ($14.3 million). The loans accrue interest at a rate of 2% above the published base lending rate of Barclays Bank PLC (8.25% effective rate as of December 31, 1998) and are subordinate to Cable London's revolving bank credit facility. Of these loans, £21.0 million ($34.8 million) are convertible into ordinary shares of Cable London at a conversion price of £2.00 ($3.32) per share.

In August 1998, Partners and Telewest Communications plc ("Telewest') entered into an agreement to rationalize their joint ownership of Cable London pursuant to an agreed procedure (the "Shoot-out"). Between April 29 and July 29, 1999, NTL Bermuda can notify Telewest of the price at which it is willing to sell its 50% ownership interest in Cable London to Telewest. Following such notification, Telewest at its option will be required at that price to either purchase NTL Bermuda's 50% ownership interest in Cable London or sell its 50% ownership interest in Cable London to NTL Bermuda. If NTL Bermuda fails to give notice to Telewest by July 29, 1999, it will be deemed to have delivered an offer notice for £100 million ($166 million).

8. Diamond acquisition

The Company acquired Diamond Cable Communications plc ("Diamond") in March 1999. The Company issued an aggregate of approximately 13 million shares in exchange for each ordinary share and deferred share of Diamond at a ratio of .85 shares of the Company's common stock for four Diamond ordinary shares or one deferred share. Diamond had five different notes outstanding at December 31, 1998 for an aggregate principal amount at maturity of $1.6 billion. Diamond intends to commence an offer to repurchase its outstanding notes at 101% of their accreted value or principal amount on or about April 1, 1999 pursuant to the "change of control" provisions of the indentures. The offer will expire 30 days thereafter. The Company has entered into a bridge facility to finance the redemption of Diamond bonds tendered, if any, which is subject to certain funding conditions.

9. Long-term debt

Long-term debt consists of:

	December 31	
	1998	1997
10 7/8% Senior Deferred Coupon Notes ("10 7/8% Notes") (a)	***$ –***	$ 194,959,000
12 3/4% Series A Senior Deferred Coupon Notes ("12 3/4% Notes") (b)	***236,935,000***	209,387,000
11 1/2% Series B Senior Deferred Coupon Notes ("11 1/2% Series B Notes") (c)	***831,976,000***	743,961,000
10% Series B Senior Notes ("10% Notes") (d)	***400,000,000***	400,000,000
9 1/2% Senior Sterling Notes, less unamortized discount of $639,000 ("Sterling Senior Notes") (e)	***206,800,000***	–
10 3/4% Senior Deferred Coupon Sterling Notes ("Sterling Deferred Coupon Notes") (f)	***317,511,000***	–
9 3/4% Senior Deferred Coupon Notes (9 3/4% Notes) (g)	***865,880,000***	–
11 1/2% Senior Notes ("11 1/2% Notes") (h)	***625,000,000***	–
12 3/8% Senior Deferred Coupon Notes ("12 3/8% Notes") (i)	***254,718,000***	–
7 1/4% Convertible Subordinated Notes ("7 1/4% Convertible Notes") (j)	***–***	191,750,000
7% Convertible Subordinated Notes ("7% Convertible Notes") (k)	***275,000,000***	275,000,000
7% Convertible Subordinated Notes ("New Convertible Notes") (l)	***600,000,000***	–
11.2% Senior Discount Debentures ("11.2% Debentures) (m)	***421,835,000***	–
Other (n)	***31,839,000***	–
	5,067,494,000	2,015,057,000
Less current portion	***23,691,000***	–
	$5,043,803,000	$2,015,057,000

(a) In October 1998, the Company redeemed the 10 7/8% Notes with an accreted value of $211 million for cash of $218 million. The Company recorded an extraordinary loss from the early extinguishment of the 10 7/8% Notes of approximately $12.1 million in 1998, which includes $4.8 million of unamortized deferred financing costs. In October 1993, the Company issued $212,000,000 aggregate principal amount of 10 7/8% Notes due 2003 at a price to the public of 58.873% or $124,811,000. During 1998, 1997 and 1996, the Company recognized

$15,344,000, $19,591,000 and $17,620,000, respectively, of the original issue discount as interest expense.

(b) In April 1995, the Company issued $277,803,500 aggregate principal amount of 12$^{3}/_{4}$% Senior Deferred Coupon Notes due 2005. The 12$^{3}/_{4}$% Notes were issued at a price to the public of 53.995% or $150,000,000. The Company incurred $6,192,000 in fees and expenses in connection with the issuance of 12$^{3}/_{4}$% Notes which is included in deferred financing costs. The original issue discount accretes at a rate of 12$^{3}/_{4}$%, compounded semiannually, to an aggregate principal amount of $277,803,500 by April 15, 2000. Interest will thereafter accrue at 12$^{3}/_{4}$% per annum, payable semiannually beginning on October 15, 2000. During 1998, 1997 and 1996, the Company recognized $27,548,000, $24,344,000 and $21,515,000, respectively, of original issue discount as interest expense. The 12$^{3}/_{4}$% Notes may be redeemed at the Company's option, in whole or in part, at any time on or after April 15, 2000 at 103.64% the first year, 101.82% the second year and 100% thereafter, plus accrued and unpaid interest to the date of redemption.

(c) In January 1996, the Company issued $1,050,000,000 aggregate principal amount of 11$^{1}/_{2}$% Series B Senior Deferred Coupon Notes due 2006. The 11$^{1}/_{2}$% Series B Notes were issued at a price of 57.155% of the aggregate principal amount at maturity or $600,127,500. The Company incurred $19,273,000 in fees and expenses in connection with the issuance of the 11$^{1}/_{2}$% Series B Notes which is included in deferred financing costs. The original issue discount accretes at a rate of 11$^{1}/_{2}$%, compounded semiannually, to an aggregate principal amount of $1,050,000,000 by February 1, 2001. Interest will thereafter accrue at 11$^{1}/_{2}$% per annum, payable semiannually beginning on August 1, 2001. During 1998, 1997 and 1996, the Company recognized $88,015,000, $78,704,000 and $65,129,000 of original issue discount as interest expense. The 11$^{1}/_{2}$% Series B Notes may be redeemed at the Company's option, in whole or in part, at any time on or after February 1, 2001 at 105.75% the first year, 102.875% the second year and 100% thereafter, plus accrued and unpaid interest to the date of redemption.

(d) In February 1997, the Company issued $400,000,000 aggregate principal amount of 10% Series B Senior Notes due 2007. The Company received net proceeds of $389,000,000 after discounts and commissions from the issuance of the 10% Notes. Discounts, commissions and other fees incurred of $11,885,000 are included in deferred financing costs. The 10% Notes accrue interest at 10% per annum, payable semiannually as of August 15, 1997. The 10% Notes may be redeemed at the Company's option, in whole or in part, at any time on or after February 15, 2002 at a redemption price of 105% that declines annually to 100% in 2005, in each case together with accrued and unpaid interest to the date of redemption.

(e) In March 1998, the Company issued £125,000,000 aggregate principal amount of 9$^{1}/_{2}$% Senior Notes due 2008. The Sterling Senior Notes were issued at 99.67% or £124.6 million. The aggregate of the discounts, commisions and other fees incurred of $5,981,000 is included in deferred financing costs. The Sterling Senior Notes accrue interest at 9$^{1}/_{2}$% per annum, payable semiannually, which commenced on October 1, 1998. The Sterling Senior Notes may be redeemed at the Company's option, in whole or in part, at any time on or after April 1, 2003, at a redemption price of 104$^{3}/_{4}$% to 105$^{3}/_{8}$% that declines annually to 100% in 2006, in each case together with accrued and unpaid interest to the date of redemption.

(f) In March 1998, the Company issued £300,000,000 aggregate principal amount at maturity of 10$^{3}/_{4}$% Senior Deferred Coupon Sterling Notes due 2008. The Sterling Deferred Coupon Notes were issued at 58.62% or £175.9 million. The aggregate of the discounts, commissions and other fees incurred of $9,181,000 is included in deferred financing costs. The original issue discount of the Sterling Deferred Coupon Notes accretes at a rate of 10$^{3}/_{4}$%, compounded semiannually, to an aggregate principal amount of £300,000,000 by April 1, 2003. Interest on the Sterling Deferred Coupon Notes will thereafter accrue at 10$^{3}/_{4}$% per annum payable semiannually beginning on October 1, 2003. In 1998, the Company recognized $25,697,000 of the original issued discount as interest expense. The Sterling Deferred Coupon Notes may be redeemed at the Company's option, in whole or in part, at any time on or after April 1, 2003, at a redemption price of 105$^{3}/_{8}$% that declines annually to 100% in 2006, together with accrued and unpaid interest to the date of redemption.

(g) In March 1998, the Company issued $1.3 billion aggregate principal amount at maturity of 9$^{3}/_{4}$% Senior Deferred Coupon Notes due 2008. The 9$^{3}/_{4}$% Notes were issued at 61.724% or $802.4 million. The aggregate of the discounts, commissions and other fees incurred of $24,931,000 is included in deferred financing costs. The original issue discount of the 9$^{3}/_{4}$% Notes accretes at a rate of 9$^{3}/_{4}$%, compounded semiannually, to an aggregate principal amount of $1.3 billion by April 1, 2003. Interest on the 9$^{3}/_{4}$% Notes will thereafter accrue at 9$^{3}/_{4}$% per annum payable semiannually beginning on October 1, 2003. In 1998, the Company recognized $63,468,000 of the original issued discount as interest expense. The Sterling Deferred Coupon Notes may be redeemed at the Company's option, in whole or in part, at any time on or after April 1, 2003, at a redemption price of 105$^{3}/_{8}$% that declines annually to 100% in 2006, together with accrued and unpaid interest to the date of redemption.

(h) In November 1998, the Company issued $625,000,000 aggregate principal amount of 11$^{1}/_{2}$% Senior Notes due 2008. The aggregate of the discounts, commissions and other fees incurred of $18,253,000 is included in deferred financing costs. The 11$^{1}/_{2}$% Notes accrue interest at 11$^{1}/_{2}$% per annum, payable semiannually beginning on April 1, 1999. The 11$^{1}/_{2}$% Notes may be redeemed, at the Company's option, in whole or in part, at any time on or after October 1, 2003 at a redemption price of 105.75% that declines annually to 100% in 2006, in each case together with accrued and unpaid interest to the date of redemption.

(i) In November 1998, the Company issued $450,000,000 aggregate principal amount at maturity of 12$^{3}/_{8}$% Senior Deferred Coupon Notes due 2008. The 12$^{3}/_{8}$% Notes were issued at 55.505% or $249,773,000. The aggregate of the discounts, commissions and other fees incurred of $8,040,000 is included in deferred financing costs. The original issue discount on the 12$^{3}/_{8}$% Notes accretes at a rate of 12$^{3}/_{8}$%, compounded semiannually, to an aggregate principal amount of $450,000,000 by October 1, 2003. Interest will thereafter accrue at 12$^{3}/_{8}$% per annum, payable semiannually beginning on April 1, 2004. In 1998, the Company recognized $4,945,000 of the original issue discount as interest expense. The 12$^{3}/_{8}$% Notes may be redeemed, at the Company's option, in whole or in part, at any time on or after October 1, 2003 at a redemption price of 106.188% that declines annually to 100% in 2006, in each case together with accrued and unpaid interest to the date of redemption.

(j) In April and May 1995, the Company issued $191,750,000 principal amount of 7$^{1}/_{4}$% Convertible Subordinated Notes due 2005. In March 1998, the Company called for redemption all of the 7$^{1}/_{4}$% Convertible Notes. The redemption date was April 20, 1998, at a redemption price of 105.08% of the principal amount plus accrued and unpaid interest through the date of redemption. The 7$^{1}/_{4}$% Convertible Notes were convertible into common stock at a conversion price of $27.56 per share.

In April 1998, all of the 7 1/4% Convertible Notes were converted into approximately 6,958,000 shares of the Company's common stock.

(k) In June 1996, the Company issued $275,000,000 aggregate principal amount of 7% Convertible Subordinated Notes due 2008. Interest payments began on December 15, 1996 and interest is payable every six months thereafter. The 7% Convertible Notes mature on June 15, 2008. The 7% Convertible Notes are unsecured obligations convertible into shares of common stock prior to maturity at a conversion price of $37.875 per share, subject to adjustment. There are approximately 7,261,000 shares of common stock reserved for issuance upon conversion of the 7% Convertible Notes. The 7% Convertible Notes are redeemable, in whole or in part, at the option of the Company at any time on or after June 15, 1999, at a redemption price of 104.9% that declines annually to 100% in 2006, in each case together with accrued and unpaid interest to the redemption date. The Company incurred $8,616,000 in fees and expenses in connection with the issuance of the 7% Convertible Notes, which is included in deferred financing costs.

(l) In December 1998, the Company issued $600,000,000 aggregate principal amount of 7% Convertible Subordinated Notes due 2008. Interest is payable semiannually on June 15 and December 15 of each year, commencing June 15, 1999. The New Convertible Notes mature on December 15, 2008. The New Convertible Notes are unsecured obligations convertible into shares of common stock prior to maturity at a conversion price of $61.25 per share, subject to adjustment. There are approximately 9,796,000 shares of common stock reserved for issuance upon conversion of the New Convertible Notes. The New Convertible Notes are redeemable, in whole or in part, at the option of the Company, at any time on or after December 15, 2001, at a redemption price of 104.375% that declines annually to 100% in 2006, in each case together with accrued and unpaid interest to the redemption date. The Company incurred $16,729,000 in fees and expenses in connection with the issuance of the New Convertible Notes which is included in deferred financing costs.

(m) NTL Bermuda has assumed the obligations of Partners' $517.3 million principal amount at maturity, 11.2% Debentures. Interest accretes on the 11.2% Debentures at 11.20% per annum compounded semiannually from November 15, 1995 to November 15, 2000, after which date interest will be paid in cash on each May 15 and November 15 through November 15, 2007. In 1998, the Company recognized $7,674,000 of the original issue discount as interest expense.

(n) Other includes notes payable by NTL Bermuda to Comcast U.K. Holdings, Inc. (an affiliate of a shareholder of the Company) of $20,428,000 and other obligations of subsidiaries of NTL Bermuda of $11,411,000. The notes payable accrue interest at 9% and are due in September 1999.

The indentures governing the notes issued by the Company and the 11.2% Debentures contain restrictions relating to, among other things: (i) incurrence of additional indebtedness and issuance of preferred stock, (ii) dividend and other payment restrictions and (iii) mergers, consolidations and sales of assets.

In connection with the ComTel acquisition, the Company borrowed an aggregate of £475 million under its credit facility from The Chase Manhattan Bank. In November 1998, the Company received net proceeds of $849 million from the issuance of the 11 1/2% Notes and the 12 3/8% Notes, a substantial portion of which was used to repay the $799 million outstanding under the bank loan. The Company recorded an extraordinary loss from the early extinguishment of the bank loan of $18,579,000 in 1998.

The Company required consents from the holders of some of its notes to modify certain indenture provisions in order to proceed with the Partners acquisition. In October 1998, the Company paid $11,333,000 in consent payments and issued warrants to purchase 766,000 shares of common stock in lieu of additional consent payments of $10,080,000. In 1996, pursuant to the terms of the consent solicitations to the holders of the 10 7/8% Notes and to the holders of the 12 3/4% Notes to gain consent to modify certain indenture provisions, the Company paid an aggregate of $3,592,000 in consent payments and issued warrants to purchase 164,000 shares of common stock in lieu of additional consent payments of $1,641,000.

The 11.2% Debentures restrict the payment of cash dividends and loans from NTL Bermuda to the Company. At December 31, 1998, restricted net assets of NTL Bermuda were approximately $587 million.

Long-term debt repayments are due as follows:

Year ended December 31:	
1999	$ 23,691,000
2000	1,539,000
2001	1,261,000
2002	1,090,000
2003	999,000
Thereafter	5,038,914,000
	$5,067,494,000

10. Redeemable preferred stock

In February 1997, the Company issued $100,000,000 of its 13% Senior Redeemable Exchangeable Preferred Stock (the "Redeemable Preferred Stock"). The Company received net proceeds of $96,625,000 after discounts and commissions from the issuance of the Redeemable Preferred Stock. Discounts, commissions and other fees incurred of $3,729,000 were recorded as unamortized discount at issuance.

Of the 2,500,000 authorized shares of Series Preferred Stock, 100,000 shares of Redeemable Preferred Stock were issued. Dividends accrue at 13% per annum ($130 per share) and are payable quarterly in arrears as of May 15, 1997. Dividends, whether or not earned or declared, will accrue without interest until declared and paid, which declaration may be for all or part of the accrued dividends. Dividends accruing on or prior to February 15, 2004 may, at the option of the Company, be paid in cash, by the issuance of additional Redeemable Preferred Stock or in any combination of the foregoing. As of December 31, 1998, the Company has accrued $27,260,000 for dividends and has issued approximately 25,000 shares for $25,225,000 of such accrued dividends. The Redeemable Preferred Stock may be redeemed, at the Company's option, in whole or in part, at any time on or after February 15, 2002 at a redemption price of 106.5% of the liquidation preference of $1,000 per share that declines annually to 100% in 2005, in each case together with accrued and unpaid dividends to the redemption date. The Redeemable Preferred Stock is subject to mandatory redemption on February 15, 2009. On any scheduled dividend payment date, the Company may, at its option, exchange all of the shares of Redeemable Preferred Stock then outstanding for the Company's 13% Subordinated Exchange Debentures due 2009 (the "Subordinated Debentures").

The Subordinated Debentures, if issued, will bear interest at a rate of 13% per annum, payable semiannually in arrears on February 15 and August 15 of each year commencing with the first such date to occur after the date of exchange. Interest accruing on or prior to February 15, 2004 may, at the option of the Company, be paid in cash, by the issuance of additional Subordinated Debentures or in any combination of the foregoing. The Subordinated Debentures will be redeemable, at the Company's option, in whole or in part, on or after February 15, 2002 at a redemption price of 106.5% that declines annually to 100% in 2005, in each case together with accrued and unpaid interest to the redemption date.

11. Nonrecurring charges including restructuring charges

Nonrecurring charges of $20,642,000 in 1997 include deferred costs written-off of $5,013,000 and restructuring costs of $15,629,000. The deferred costs written-off arose in connection with the Company's unsuccessful bid for United Kingdom digital terrestrial television multiplex licenses. Restructuring costs relate to the Company's announcement in September 1997 of a reorganization of certain of its operations. This charge consisted of employee severance and related costs of $6,726,000 for approximately 280 employees to be terminated, lease exit costs of $6,539,000 and penalties of $2,364,000 associated with the cancellation of contractual obligations. As of December 31, 1998, $9,172,000 of the provision has been used, including $5,558,000 for severance and related costs, $1,450,000 for lease exit costs and $2,164,000 for penalties associated with the cancellation of contractual obligations. As of December 31, 1998, 177 employees had been terminated. The $4,194,000 reversed in 1998 from changes in estimates of costs to be incurred includes $1,168,000 for severance and related costs, $2,826,000 for lease exit costs and $200,000 for penalties associated with the cancellation of contractual obligations. This reversal was necessary because employees whose positions were eliminated chose to remain with the Company in other positions rather than leave the Company and receive severance pay; and the real estate markets in which the Company sublet space improved increasing the sublet rentals and shortening the period of time required to find sub tenants. The remaining restructuring reserve of $2,263,000 is for lease costs net of sublease revenue.

12. Other gains

Other gains of $21,497,000 in 1997 include a legal settlement of $10,000,000 and a gain on the sale of fixed assets of $11,497,000. In October 1997, following the U.S. District Court's decision to dismiss the Company's complaint against LeGroupe Videotron Ltee and its subsidiary, the Company entered into a Settlement Agreement dismissing the Company's complaint in exchange for a payment of $10,000,000. In December 1997, a U.S. subsidiary of the Company sold its fixed and other assets utilized in its microwave transmission service business and recognized a gain of $11,497,000.

13. Income taxes

The provision (benefit) for income taxes consists of the following:

	Year ended December 31		
	1998	1997	1996
Current:			
Federal	**$ –**	$ –	$ –
State and local	**–**	1,261,000	344,000
Foreign	**–**	–	2,246,000
Total current	**–**	1,261,000	2,590,000
Deferred:			
Federal	**–**	–	–
State and local	**–**	–	–
Foreign	**(3,327,000)**	(16,852,000)	5,063,000
Total deferred	**(3,327,000)**	(16,852,000)	5,063,000
	$(3,327,000)	$(15,591,000)	$7,653,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax liabilities and assets are as follows:

	December 31	
	1998	1997
Deferred tax liabilities:		
Fixed assets	**$68,766,000**	$68,380,000
Other	**6,598,000**	4,894,000
Total deferred tax liabilities	**75,364,000**	73,274,000
Deferred tax assets:		
Net operating losses	**244,394,000**	107,208,000
Net deferred interest expense	**113,993,000**	94,689,000
Depreciation and amortization	**107,378,000**	16,935,000
Other	**19,975,000**	18,164,000
Total deferred tax assets	**485,740,000**	236,996,000
Valuation allowance for deferred tax assets	**(477,438,000)**	(233,940,000)
Net deferred tax assets	**8,302,000**	3,056,000
Net deferred tax liabilities	**$67,062,000**	$70,218,000

At December 31, 1998, the Company had net operating loss carry forwards of approximately $280,000,000 for U.S. federal income tax purposes that expire in varying amounts commencing in 2009. The Company also has United Kingdom net operating loss carry forwards of approximately $470,000,000 which have no expiration date. Pursuant to United Kingdom law, these losses are only available to offset income of the separate entity that generated the loss.

The Company is currently undergoing a U.S. federal income tax audit. The Internal Revenue Service has issued notices of proposed adjustment. The Company does not expect that the audit adjustments, if any, will have a material adverse effect on its financial position, results of operations or cash flows.

The reconciliation of income taxes computed at U.S. federal statutory rates to income tax expense is as follows:

	Year ended December 31		
	1998	1997	1996
Provision (benefit) at federal statutory rate (35%)	**$(188,309,000)**	$(120,452,000)	$(90,518,000)
Add (deduct):			
State and local income tax, net of federal benefit	**–**	820,000	224,000
Foreign losses with no benefit	**83,500,000**	59,804,000	44,610,000
Amortization of goodwill and license acquisition costs	**4,366,000**	3,925,000	4,031,000
U.S. losses with no benefit	**97,116,000**	40,312,000	49,184,000
Other	**–**	–	122,000
	$ (3,327,000)	$ (15,591,000)	$ 7,653,000

14. Fair values of financial instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Long-term debt: The fair values of the Company's debt are based on the quoted market prices.

Redeemable Preferred Stock: The fair value is based on the quoted market price.

The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 1998		December 31, 1997	
	Carrying amount	***Fair value***	Carrying amount	Fair value
Cash and cash equivalents	***$736,265,000***	***$736,265,000***	$98,902,000	$98,902,000
Long-term debt:				
$10^7/_8$% Notes	–	–	194,959,000	199,810,000
$12^3/_4$% Notes	***236,935,000***	***252,801,000***	209,387,000	230,577,000
$11^1/_2$% Series B Notes	***831,976,000***	***882,000,000***	743,961,000	819,000,000
10% Notes	***400,000,000***	***408,000,000***	400,000,000	422,000,000
Sterling Senior Notes	***206,800,000***	***192,917,000***	–	–
Sterling Deferred Coupon Notes	***317,511,000***	***293,732,000***	–	–
$9^3/_4$% Notes	***865,880,000***	***835,250,000***	–	–
$11^1/_2$% Notes	***625,000,000***	***681,250,000***	–	–
$12^3/_8$% Notes	***254,718,000***	***274,500,000***	–	–
$7^1/_4$% Convertible Notes	–	–	191,750,000	212,843,000
7% Convertible Notes	***275,000,000***	***411,125,000***	275,000,000	264,688,000
New Convertible Notes	***600,000,000***	***656,340,000***	–	–
11.2% Debentures	***421,835,000***	***437,119,000***	–	–
Redeemable Preferred Stock	***124,127,000***	***124,127,000***	108,534,000	121,846,000

15. Related party transactions

On July 25, 1990, Cellular Communications, Inc. ("CCI") and AirTouch Communications, Inc. ("AirTouch") entered into a Merger and Joint Venture Agreement, as amended as of December 14, 1990. In connection with this agreement, on July 31, 1991, CCI distributed to its shareholders the stock of the Company.

Through August 1996, CCI provided management, financial and legal services to the Company. Amounts charged to the Company included direct costs where identifiable, and indirect costs allocated utilizing direct labor hours as reported by the common officers and employees of CCI and the Company. For the year ended December 31, 1996, CCI charged $1,194,000 which is included in corporate expenses. In August 1996, upon the merger of CCI with AirTouch, the Company commenced providing management, financial, legal and technical services to Cellular Communications International, Inc. ("CCII") and Cellular Communications of Puerto Rico, Inc. (formerly CoreComm Incorporated) ("CCPR"). In 1996, the Company charged CCII and CCPR $351,000 and $200,000, respectively, which included direct costs where identifiable and allocated corporate overhead based upon the amount of time incurred on CCII and CCPR business by the common officers and employees of the Company, CCII and CCPR. These charges reduced corporate expenses in 1996.

In January 1997, the Company, CCPR and CCII agreed to a change in the Company's fee for the provision of services. In 1997, the Company charged CCPR and CCII $1,492,000 and $871,000, respectively, for direct costs where identifiable and a fixed percentage of its corporate overhead. In 1998, the Company charged CCPR, CCII and CoreComm Limited (which was formed in 1998 and has certain common officers and directors with the Company) $1,148,000, $982,000 and $313,000, respectively, for direct costs where identifiable and a fixed percentage of its corporate overhead. These charges reduced corporate expenses. In the opinion of management of the Company, the allocation methods are reasonable.

As of December 31, 1998 and 1997, the Company had receivables of none and $69,000 from CCII, $588,000 and $71,000 from CCPR and $1,038,000 and none from CoreComm Limited, respectively.

16. Net loss per common share

The following table sets forth the computation of basic and diluted net loss per share:

			Year ended December 31
	1998	1997	1996
Numerator:			
Loss before extraordinary item	***$(503,927,000)***	$(328,557,000)	$(254,454,000)
Preferred stock dividend	***(18,761,000)***	(11,978,000)	–
	(522,688,000)	(340,535,000)	(254,454,000)
Extraordinary item	***(30,689,000)***	(4,500,000)	–
Loss available to common shareholders	***$(553,377,000)***	$(345,035,000)	$(254,454,000)
Denominator for basic net loss per common share	***41,202,000***	32,117,000	31,041,000
Effect of dilutive securities	–	–	–
Denominator for diluted net loss per common share	***41,202,000***	32,117,000	31,041,000
Basic and diluted net loss per common share:			
Loss before extraordinary item	***$ (12.69)***	$ (10.60)	$ (8.20)
Extraordinary item	***(.74)***	(14)	–
Net loss	***$ (13.43)***	$ (10.74)	$ (8.20)

Stock options, warrants and convertible securities are excluded from the calculation of net loss per common share as their effect would be antidilutive.

17. Shareholders' equity (deficiency)

Series preferred stock

In September 1998, the Company issued 125,000 shares of 9.9% Non-voting Mandatorily Redeemable Preferred Stock, Series A (the "Series A Preferred Stock") in connection with the ComTel acquisition. Each share of Series A Preferred Stock has a stated value of $1,000. Cumulative dividends accrue at 9.9% of the stated value per share. Dividends are payable when and if declared by the Board of Directors and may be paid, in the sole discretion of the Board, in cash, in shares of common stock, in shares of Convertible Preferred Stock or through any combination of the foregoing. As of December 31, 1998, accrued and unpaid dividends were $3,480,000. On December 22, 1999, all outstanding shares of the Series A Preferred Stock shall be redeemed for $1,000 per share together with accrued and unpaid dividends, at the Company's option, in cash, in shares of common stock, in shares of Convertible Preferred Stock or through any combination of the foregoing.

In December 1998, the Company issued 52,000 shares of 9.9% Non-voting Mandatorily Redeemable Preferred Stock, Series B (the "Series B Preferred Stock") in connection with the EGT acquisition. Each share of Series B Preferred Stock has a stated value of $1,000. Cumulative dividends accrue at 9.9% of the stated value per share. Dividends are payable when and if declared by the Board of Directors and may be paid, in the sole discretion of the Board, in cash, in shares of common stock, or through a combination of the foregoing. The Series B Preferred Stock may be redeemed, at the Company's option, any time at a price equal to $1,000 per share, together with accrued and unpaid dividends to the redemption date. On July 1, 2000 all outstanding shares of Series B Preferred Stock shall be redeemed for $1,000 per share together with accrued and unpaid dividends, at the Company's option, in cash, in shares of common stock, or through a combination of the foregoing.

As of December 31, 1998, the Series A Preferred Stock and the Series B Preferred Stock would have been redeemable into an aggregate of 3,140,000 shares of the Company's common stock.

In October 1996, 780 shares of Non-Voting Convertible Preferred Stock, Series A ("Convertible Preferred Stock") were issued in connection with the CableTel Newport acquisition. In May 1998, the 780 outstanding shares of Convertible Preferred Stock were converted into 1,950,000 shares of Common Stock.

Warrants

The Company has the following warrants outstanding as of December 31, 1998: (i) warrants to purchase an aggregate of 756,000 shares of common stock at $5.57 per share issued in 1993 that expire in 2000 (899,000 were originally issued), (ii) warrants to purchase an aggregate of 158,000 shares of common stock at $23.78 per share issued in 1996 that expire in 2006 (164,000 were originally issued) and (iii) warrants to purchase an aggregate of 766,000 shares of common stock at $43.39 per share issued in 1998 that expire in 2008 (766,000 were originally issued).

Shareholder rights plan

The Rights Agreement provides that one Right will be issued with each share of common stock issued on or after October 13, 1993. The Rights are exercisable upon the occurrence of certain potential takeover events and will expire in October 2003 unless previously redeemed by the Company. When exercisable, each Right entitles the owner to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock ("Rights Preferred Stock") at a purchase price of $100.

The Rights Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $.01 per share and will be entitled to an aggregate dividend of 100 times the dividend, if any, declared per share of common stock. In the event of liquidation, the holders of Rights Preferred Stock will be entitled to a minimum preferential liquidation payment of $1 per share and will be entitled to an aggregate payment of 100 times the payment made per share of common stock. Each share of Rights Preferred Stock will have 100 votes and will vote together with the common stock. In the event of any merger, consolidation or other transaction in which shares of common stock are changed or exchanged, each share of Rights Preferred Stock will be entitled to receive 100 times the amount received per share of common stock. The Rights are protected by customary antidilution provisions.

There are 2,500,000 authorized shares of Series Preferred Stock of which 1,000,000 shares are designated Rights Preferred Stock.

Stock options

There are 2,164,000 shares of common stock reserved for issuance under the OCOM Corporation (a wholly-owned subsidiary of the Company) 1991 Stock Option Plan. The plan provides that incentive stock options ("ISOs") be granted at the fair market value of OCOM's common stock on the date of grant, and nonqualified stock options ("NQSOs") be granted at not less than 85% of the fair market value of OCOM's common stock on the date of grant. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each January 1 thereafter, while the optionee remains an employee of the Company. Options will expire ten years after the date of the grant.

There are 6,653,000 shares of common stock reserved for issuance under the NTL Incorporated 1993 Stock Option Plan. The exercise price of an ISO may not be less than 100% of the fair market value of the Company's common stock on the date of grant, and the exercise price of a NQSO may not be less than 85% of the fair market value of the Company's common stock on the date of grant. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each January 1 thereafter, while the optionee remains an employee of the Company. Options will expire ten years after the date of the grant.

There are 100,000 shares of common stock reserved for issuance under the OCOM Corporation Non-Employee Director Stock Option Plan. The plan provides that all options be granted at the fair market value of OCOM's common stock on the date of grant, and options will expire ten years after the date of the grant. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each subsequent anniversary of the grant date, while the optionee remains a director of the Company. Options will expire ten years after the date of the grant.

There are 320,000 shares of common stock reserved for issuance under the NTL Incorporated 1993 Non-Employee Director Stock Option Plan. Under the terms of this plan, options will be granted to members of the Board of Directors who are not employees of the Company or any of its affiliates. The plan provides that all options be granted at the fair market value of the Company's common stock on the date of grant, and options will expire ten years after the date of the grant. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each subsequent anniversary of the grant date while the optionee remains a director of the Company. Options will expire ten years after the date of the grant.

There are 15,000,000 shares of common stock reserved for issuance under the 1998 Non-Qualified Stock Option Plan. The exercise price of a NQSO shall be determined by the Compensation and Option Committee. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each January 1 thereafter, while the optionee remains an employee of the

Company. Options will expire ten years after the date of the grant.

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996: risk-free interest rates of 5.02%, 5.89% and 6.56%, respectively, dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of .331, .276 and .255, respectively, and a weighted-average expected life of the option of 10 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Following is the Company's pro forma information:

			Year ended December 31
	1998	1997	1996
Pro forma net (loss)	***$(580,747,000)***	$(343,850,000)	$(261,245,000)
Basic and diluted pro forma net (loss) per share	***$(14.55)***	$(11.08)	$(8.42)

A summary of the Company's stock option activity and related information for the years ended December 31 follows:

		1998		1997		1996
	Number of options	***Weighted-average exercise price***	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding-beginning of year	***8,157,000***	***$15.98***	6,738,000	$14.10	5,934,000	$11.04
Granted	***8,864,000***	***37.59***	1,571,000	23.97	1,390,000	25.94
Exercised	***(298,000)***	***21.24***	(119,000)	12.85	(396,000)	3.44
Forfeited	***(275,000)***	***46.47***	(33,000)	23.78	(190,000)	27.39
Outstanding-end of year	***16,448,000***	***$27.02***	8,157,000	$15.98	6,738,000	$14.10
Exercisable at end of year	***7,046,000***	***$16.55***	5,663,000	$12.39	4,258,000	$10.71

Weighted-average fair value of options, calculated using the Black-Scholes option pricing model, granted during 1998, 1997 and 1996 is $20.54, $12.74 and $13.98, respectively.

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 1998:

			Stock options outstanding		Stock options exercisable
Range of exercise prices	Number of options	Weighted-remaining contractual life	Weighted-average exercise price	Number of options	Weighted-average exercise price
$0.18 to $0.56	77,000	2.6 years	$ 0.245	77,000	$ 0.245
$0.70 to $1.12	150,000	2.6 Years	$ 0.745	150,000	$ 0.745
$1.53 to $2.69	355,000	2.5 Years	$ 2.157	355,000	$ 2.157
$3.00 to $4.50	47,000	3.5 Years	$ 3.230	47,000	$ 3.230
$8.00 to $14.70	3,289,000	4.4 Years	$ 8.833	3,289,000	$ 8.833
$15.00 to $22.88	1,390,000	6.4 Years	$21.704	1,087,000	$21.671
$23.00 to $33.25	2,676,000	8.0 Years	$25.581	1,399,000	$26.088
$36.50 to $45.00	8,192,000	9.2 Years	$36.912	591,000	$40.485
$46.00 to $55.69	272,000	9.9 Years	$49.014	51,000	$49.202
Total	16,448,000			7,046,000	

As of December 31,1998, the Company has 38,325,000 shares of its common stock reserved for issuance upon the exercise of warrants and stock options and the conversion of debt and preferred stock.

18. Employee benefit plans

Certain subsidiaries of NTL Group Limited operate a defined benefit pension plan in the United Kingdom. The assets of the Plan are held separately from those of NTL Group Limited and are invested in specialized portfolios under the management of an investment group. The pension cost is calculated using the attained age method. The Company's policy is to fund amounts to the defined benefit plan necessary to comply with the funding requirements as prescribed by the laws and regulations in the United Kingdom

	Year ended December 31	
	1998	1997
	(In thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	***$202,645***	$157,002
Service cost	***13,365***	10,693
Interest cost	***14,684***	12,765
Actuarial losses/(gains)	***(14,640)***	26,732
Foreign currency exchange rate changes	***2,363***	–
Benefits paid	***(4,968)***	(4,547)
Benefit obligation at end of year	***$ 213,449***	$202,645
Change in plan assets		
Fair value of plan assets at beginning of year	***$ 193,607***	$158,965
Actual return on plan assets	***24,144***	30,852
Foreign currency exchange rate changes	***2,257***	–
Company contributions	***10,233***	8,905
Benefits paid	***(4,968)***	(4,547)
Other	***–***	(568)
Fair value of plan assets at end of year	***$225,273***	$193,607
Funded status of the plan (underfunded)	***$11,824***	$(9,038)
Unrecognized net actuarial losses/(gains)	***(23,060)***	(1,057)
Unrecognized transition obligation	***9,306***	10,118
Prepaid/(accrued)benefit cost	***$ (1,930)***	$ 23
Actuarial assumptions:		
Weighted average discount rate	***5.75%***	7.25%
Weighted average rate of compensation increase	***5.50%***	8.00%
Expected long-term rate of return on plan assets	***8.00%***	9.00%

The components of net pension costs are as follows:

	Year ended December 31		
	1998	1997	1996
Service cost	***$13,365,000***	$10,693,000	$7,997,000
Interest cost	***14,684,000***	12,765,000	11,679,000
Actual return on plan assets	***(24,144,000)***	(30,852,000)	(16,103,000)
Net amortization and deferral	***8,282,000***	17,327,000	4,241,000
	$ 12,187,000	$ 9,933,000	$7,814,000

19. Leases

Leases for buildings, office space and equipment extend through 2031. Total rental expense for the years ended December 31, 1998, 1997 and 1996 under operating leases was $29,356,000, $20,674,000 and $14,886,000, respectively.

Future minimum lease payments under noncancellable operating leases as of December 31, 1998 are as follows:

	Operating leases
Year ended December 31:	
1999	$ 33,730,000
2000	35,499,000
2001	36,658,000
2002	33,231,000
2003	22,048,000
Thereafter	287,797,000
	$448,963,000

20. Commitments and contingent liabilities

As of December 31, 1998, the Company was committed to pay approximately $264,000,000 for equipment and services.

The Company has various licenses for its cable television, telephone and telecommunications business, and for its transmission and distribution services. The Company's license fees in 1998 were $5,924,000.

Pursuant to the terms of the Company's local delivery operator license ("LDL") for Northern Ireland, a subsidiary of the Company is required to make annual cash payments to the ITC for 15 years in the amount of approximately £15.4 million (subject to adjustment for inflation). This is in addition to the percentages of qualifying revenue payments of 0% for the first ten years and 2% for the last five years of the LDL.

In December 1998, a wholly-owned subsidiary of the Company acquired 9 million shares, representing 6.3% of the issued share capital, of Newcastle United PLC (the Newcastle United football club) for cash of approximately $17 million. In conjunction with the sale of shares, the seller entered into an irrevocable commitment to the Company that if the Company makes an offer for all of the issued share capital of Newcastle United, it will accept that offer in respect of the remaining balance of its shares. The seller would sell Newcastle United shares representing 50.8% of the issued share capital at a price of 111.7 pence per share in cash, or at the Company's option, in a zero coupon note.

The Company is involved in, or has been involved in, certain disputes and litigation arising in the ordinary course of its business. None of these matters are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

21. Industry segments

The Company has four reportable segments: Local Telecoms and Television, National Telecoms, Broadcast and Corporate and Other. The Local Telecoms and Television segment delivers residential telephony and cable television services in regional franchise areas in the United Kingdom. The National Telecoms segment includes the Company's national business telecoms, national and international carrier telecoms, radio communications, satellite services and national Internet services business units. The Broadcast segment provides television and radio broadcasters with broadcast transmission services from owned and shared tower sites throughout the United Kingdom. Corporate and other includes the Company's shared services departments in the United Kingdom and OCOM, a subsidiary that operated long distance and microwave transmission businesses in the United States until June 1998.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. The Company's management evaluates segment performance based on various financial and non-financial measurements. The results of operations data utilized in financial measurements are revenues and EBITDA, which is revenues less operating and selling, general and administrative expenses. Certain selling, general and administrative expenses are allocated to segments based on revenues. Segment assets include only those assets that are specific to the segment. Management does not allocate shared services departments and jointly used assets for purposes of measuring segment performance.

The reportable segments are strategic business units that offer different services. They are managed separately because each business requires different technology and marketing strategies.

	Broadcast	Local telecoms and television	National telecoms	Corporate and other	Total
			(In thousands)		
Year ended December 31, 1998					
Revenues	***$140,156***	***$ 355,589***	***$248,895***	***$ 2,375***	***$ 747,015***
Depreciation and amortization	***29,974***	***143,479***	***29,476***	***63,183***	***266,112***
EBITDA (1)	***91,687***	***67,587***	***35,848***	***(119,735)***	***75,387***
Expenditures for long-lived assets	***88,476***	***413,917***	***297,745***	***67,141***	***867,279***
Total assets	***289,068***	***3,100,492***	***761,097***	***2,043,440***	***6,194,097***
Year ended December 31, 1997					
Revenues	$ 130,799	$ 166,951	$ 185,194	$ 8,831	$ 491,775
Depreciation and amortization	13,584	78,730	9,666	48,529	150,509
EBITDA (1)	73,636	18,693	13,522	(84,853)	20,998
Expenditures for long-lived assets	36,142	304,656	105,076	20,519	466,393
Total assets	230,920	1,323,808	220,318	646,593	2,421,639
Year ended December 31, 1996					
Revenues	$ 83,618	$ 89,209	$ 45,430	$ 10,086	$ 228,343
Depreciation and amortization	6,752	51,014	3,704	37,183	98,653
EBITDA (1)	49,684	(52,215)	10,800	(39,233)	(30,964)
Expenditures for long-lived assets	29,195	505,345	29,224	24,311	588,075
Total assets	220,077	1,184,156	98,912	951,466	2,454,611

(1) Represents earnings before interest, taxes, depreciation and amortization, corporate expenses, franchise fees, nonrecurring charges, other gains, minority interest and extraordinary items.

The reconciliation of segment combined EBITDA to loss before income taxes, minority interest and extraordinary item is as follows:

	Year ended December 31		
	1998	1997	1996
		(In thousands)	
Segment Combined EBITDA	***$ 75,387***	$ 20,998	$ (30,964)
(Add) Deduct:			
Franchise fees	***25,036***	23,587	13,117
Corporate expenses	***17,048***	18,324	14,899
Nonrecurring charges	***(4,194)***	20,642	–
Depreciation and amortization	***266,112***	150,509	98,653
Interest and other income	***(46,024)***	(49,912)	(33,634)
Interest expense	***328,815***	202,570	137,032
Foreign currency transaction gains	***(4,152)***	(574)	(2,408)
	582,641	365,146	227,659
Loss before income taxes, minority interest and extraordinary item	***$(507,254)***	$(344,148)	$(258,623)

22. Geographic information

	United States	United Kingdom
	(In thousands)	
1998		
Revenues	***$ 2,375***	***$ 744,640***
Long-lived assets	***137,223***	***4,852,374***
1997		
Revenues	8,831	482,944
Long-lived assets	55,173	2,129,312
1996		
Revenues	10,086	218,257
Long-lived assets	56,881	1,856,689

23. Subsequent events

In January 1999, the Company received $500 million in cash from Microsoft Corp. in exchange for 500,000 shares of the Company's 5.25% Convertible Preferred Stock, Series A and warrants to purchase 1,200,000 shares of the Company's common stock at an exercise price of $84 per share. The preferred stock is convertible into common stock at a conversion price of $100 per share. The preferred stock is redeemable 10 years from the date of issuance in cash or shares of common stock. The preferred stock may be redeemed by the Company on the earlier of seven years or the date on which the Company's common stock has traded above $120 per share for 25 consecutive trading days. Dividends are payable at the Company's option in cash, common stock or additional shares of preferred stock. The warrants expire in 2004.

In March 1999, the Commonwealth of Australia accepted the Company's bid to own and operate the Australian National Transmission Network ("NTN"). NTN operates from over 560 tower sites and provides exclusive television and radio transmission services to Australia's only national TV and radio broadcasters, serves regional and community TV and radio broadcasters, and provides equipment hosting services to telecom operators and emergency service communications providers on its towers. A subsidiary of the Company will purchase the company that will hold the NTN assets for an aggregate purchase price of approximately $407 million.

Report of independent auditors

The Board of Directors and Shareholders
NTL Incorporated

We have audited the consolidated balance sheets of NTL Incorporated and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NTL Incorporated and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst + Young LLP

New York, New York
March 26, 1999

Corporate information

Independent auditors
Ernst & Young LLP
787 Seventh Avenue, New York, NY 10019

Form 10-K and quarterly shareholder information
The Company's 1998 annual report on Form 10-K excluding exhibits, but including financial statements and financial statement schedules, is available without charge upon written request to the address below. The Form 10-K is also available on the Internet at www.ntli.com.

Quarterly information will be available to all shareholders immediately upon its release, free of charge, via fax, by calling (212) 906-8440 or through the Internet at www.ntli.com. To receive a copy by mail, please send your written request to:

Investor Relations
NTL Incorporated
110 East 59th Street, 26th Floor
New York, NY 10022

Transfer agent and registrar for common stock
Continental Stock Transfer & Trust Company
2 Broadway, New York, NY 10004

Stock listing
The Company's Common Stock is traded on The Nasdaq Stock Market under the symbol "NTLI" and on EASDAQ under the symbol "NTLI.ED". From October 14, 1993 through March 26, 1997, the Common Stock traded on Nasdaq Stock Market's National Market under the symbol "ICTL". The following table sets forth, for the periods indicated, the high and low last sale prices as reported on Nasdaq Stock Market's National Market.

	Last sale price	
	High	Low
1997		
First Quarter	$26.75	$18.25
Second Quarter	27.00	19.25
Third Quarter	27.63	20.75
Fourth Quarter	29.13	25.25
1998		
First Quarter	45.75	26.75
Second Quarter	54.00	35.75
Third Quarter	65.00	35.50
Fourth Quarter	59.50	32.00
1999		
First Quarter (through March 29)	83.13	53.75

On March 29, 1999, the closing sale price for the Company's Common Stock, as reported on the Nasdaq Stock Market's National Market was $81.44. As of March 29, 1999, there were approximately 583 recorded holders of the Common Stock. This figure does not reflect beneficial ownership of shares held in nominee name.

The Company has never paid cash dividends on its Common Stock. Pursuant to the indentures governing the Company's Senior Notes and the Certificates of Designation governing the Company's Preferred Stock, certain provisions currently materially limit the Company's ability to pay dividends on the Company's equity securities. In addition, there are legal and contractual restrictions on the ability of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources". The Company does not currently intend to pay cash dividends in the foreseeable future on shares of its capital stock. The Company anticipates that for the foreseeable future any cash flow generated from subsidiaries' operations will be used to develop and expand the Company's business and for debt service. Any future determination as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's operating results, financial condition and capital requirements, indenture and other contractual restrictions, general business conditions and such other factors as the Company's Board of Directors deems relevant. There can be no assurance that the Company will pay dividends at any time in the future.

The New Holding Company
On April 1, 1999, the Company completed a corporate restructuring to create a holding company. The holding restructuring was accomplished through a merger so that all of the stockholders of NTL became stockholders of the new holding company, and NTL became a subsidiary of the new holding company. The new holding company took the NTL incorporated name and trading symbols, and the holding company's subsidiary simultaneously changed its name to NTL Communications Corp.

Directors and officers

NTL Incorporated and Subsidiaries

Directors

George S. Blumenthal

J. Barclay Knapp

Robert T. Goad
Chief Executive Officer, Columbia Management Inc.

Sidney R. Knafel
Managing Partner, SRK Management Company

Ted H. McCourtney
General Partner, Venrock Associates

Del Mintz
Senior Partner, TeleTrak
President, Cleveland Mobile TeleTrak, Inc.

Alan J. Patricof
Co-Chairman, Patricof & Co. Ventures, Inc.

Warren Potash
Private Investor

Michael S. Willner
President, Insight Communications Company, L.P.

Officers

George S. Blumenthal
Chairman of the Board and Treasurer

J. Barclay Knapp
President, Chief Executive Officer and Chief Financial Officer

Richard J. Lubasch
Senior Vice President, General Counsel and Secretary

Leigh C. Wood
Senior Vice President, Chief Operating Officer of UK Operations

Gregg N. Gorelick
Vice President, Controller

John F. Gregg
Vice President, Corporate Development

Steven L. Wagner
Vice President, Marketing

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