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The Future Network plc media with passion

→going global
internationalising our key brands
→growing fast
revenues and profits hit new highs
→technology is key
media for the new economy

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→passionate
about the future
new technologies bring new opportunities



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The Group has undergone many structural changes and to help the understanding of our performance the following definitions have been used throughout this report:

Pro forma results: Results as if the business as constituted at Listing, with its associated new funding arrangements, had existed from the beginning of the year. Except where stated the Chief Executive's Review and Finance Director's Report refer to pro forma figures.

Adjusted operating profit: Operating profit adjusted for amortisation of intangible assets and employer taxes on options and share related benefits.

Adjusted profit before tax: Profit before tax adjusted for amortisation of intangible assets, before profit on disposal of fixed asset investments, and before employer taxes on options and share related benefits.

Adjusted profit after tax: Profit after tax adjusted for amortisation of intangible assets, before profit on disposal of fixed asset investments, and before employer taxes on options and share related benefits.

Underlying Profit: Operating profit excluding losses from titles launched in the last two years and losses on Internet activity (both referred to as Investments).

Adjusted earnings per share: Earnings per share based on adjusted pro forma profit after tax.

→ Pro forma profits up 69% to 22.0m*
→ Pro forma sales up 24% to £199m
→ Major acquisitions in US, Germany and Italy
→ Direct operations now in six countries worldwide
→ Successful flotation in June 1999

*Prior to employer taxes on options and other share related benefits and amortisation of intangible assets

The Future Network is one of the world's leading technology media companies. We publish 122 magazines, eight Internet networks and over 30 individual websites from offices in Bath, London, San Francisco, Paris, Milan, Munich and Rotterdam. We have grown from a start-up in 1985 to employ over 1,400 people in six countries and to have a pro forma turnover of almost £200m.

Our success is based on our ability to identify groups of people who share a passion and then to launch high-quality specialist magazines and websites targeting their interest. Our primary focus is on technology-related areas such as computing, the Internet, video games and consumer electronics, as the fast pace of technological change opens up opportunities for growth at every turn.

Since 1985 our strategy has been to grow aggressively, initially in the UK, where we are now the fourth largest magazine publisher, and latterly by acquisitions in France, Italy, Germany and the US. We are also growing by entering new markets, most notably with *Business 2.0*, the New Economy magazine and website.

5.5m

Magazines sold per month at year end

4.6m

Internet unique visitors per month at year end

122

Magazine titles published

199m

Pro forma sales (£)

22m

Adjusted pro forma operating profit (£)

'By far the biggest opportunities today are being driven by the Internet and as a company we are focused on the potential this offers our business. The vast majority of our readers are already online and the type of content we have been supplying for years is perfectly suited to the net. Our real excitement lies in the many new ways we can meet the needs of consumers and advertisers where we have already established a relationship.'

Throughout the Group there is pride and delight in what has been accomplished. Our business has never been in better shape. The past year has seen The Future Network make the leap from a collection of private companies to a single international enterprise.

One of the most exhilarating things about the past year is that despite the changes currently impacting the video games sector, Future has managed to continue its remarkable growth story. It is worth pondering why this has been possible. The answer should give our employees, partners and shareholders enormous confidence in our prospects.

Future's success is based on exposure to numerous, separate, technology-driven markets.

This diversity certainly gives Future protection in the event of volatility (and yes, many tech markets can be volatile). But the more important point is that it gives us early exposure to the most exciting media opportunities on the planet. When we see a new technology creating passion, excitement and growth then we get in there. Fast.

Of course, by far the biggest opportunities today are being driven by the Internet and as a Group we are focused on the potential this offers our business. It helps that the vast majority of our readers are already online and that the type of content we have been supplying for years is perfectly suited to the inherently specialist nature of the net.

But our real excitement lies in the many new ways we can meet the needs of consumers and advertisers where we have already established a relationship. Through our innovative Internet business model, we have been able during the year to extend dramatically our reach and our commercial opportunities online.

Even more spectacular has been the success of our magazine *Business 2.0*, devoted to the new rules of business in the Internet age. Its circulation and advertising growth are amongst the highest achieved by any US publication in the last decade. Result: a market where Future had almost no exposure a year ago has become a large and rapidly growing part of the business.

All of this gives us tremendous confidence that Future will continue to deliver the kind of growth that has made our story so compelling to date.

It remains for me to thank our shareholders for believing in us; our readers and advertisers for sharing our passion; and, most of all, Future's people worldwide for making it happen.

Here's to 2000.

Chris Anderson
Executive Chairman

Magazines

	Computing	Computer Games	New Economy	Other Specialist	Total
Total	37 <small>Internet magazines in particular have seen strong growth</small>	42 <small>PlayStation and PC magazines are strongly profitable</small>	01 <small>Business 2.0 a huge success, now being launched in Europe</small>	42 <small>Wide variety of titles, now expanding to the US and mainland Europe</small>	122
UK	18	18	* <small>Launch 2000</small>	39	75
USA	05	06	01 <small>Launch 2000</small>	* <small>Launch 2000</small>	12
France	08	06	* <small>Launch 2000</small>	01	15
Italy	06	06	—	* <small>Launch 2000</small>	12
Germany	—	04	* <small>Launch 2000</small>	01	05
Netherlands	—	02	—	01	03
Key Titles					
	<i>.net; PC Format, PC Plus, Maximum PC, Computer Arts, Computer Music, Internet Advisor, Internet Investor, Internet Works, Home PC, Il Mio Computer, MacAddict, MacFormat, Mobile Computer User, Net Pro, PC Achat</i>	<i>Official PlayStation, Edge, PC Gamer, PC Accelerator, Official Dreamcast US, PC Player, Power Play, Video Games, Consoles Max, DC-UK, Game On, Games Business, Gamesmaster, Next Generation, Power, Total Play, X64 Magazine, PC Jeux, Giochi per il Mio Computer</i>	<i>Business 2.0</i>	<i>T3, Total Film, Manchester Utd, MBUK, Total Guitar, SFX, What DVD?, Hi-Fi Choice, Home Entertainment, Metal Hammer, Cross Stitcher, Guitarist, Chelsea, Good Woodworking, Needlecraft, Future Music, Diesel Car, Glory Glory Man Utd, Redline, Sailing Today, Total Football</i>	

Internet networks

8

Internet networks in the US and UK

Now active in the games, PC, music and football sectors, our networks aggregate third party content with our own to provide high volume specialised sites at relatively low cost. Launching in mainland Europe in 2000.

4.6m

Unique visitors per month

Visitors have increased by 358% in the second half of the year over the first half and will overtake our print readership during 2000.

58.5m

Page impressions per month

Creating a huge advertising inventory for our dedicated sales teams in London and San Francisco.

£1.7m

Annual pro forma revenues from Internet networks

Significant income from advertising sales, sponsorship and e-commerce revenue sharing.

£3.2m

Run-rate from Q4 revenues

Growth is exponential and Q4 revenues demonstrate the potential for 2000 and beyond.

When The Future Network floated in June 1999 we set out our vision for the Group. It would become a truly global media enterprise. We would reinforce our position as a leading technology media company with strong growth of our existing products. We would grow our core business of specialist magazines by entering new markets and new territories. And we would leverage our highly efficient Internet model to create significant Internet properties at a very low cost.

I am delighted to say that we have taken great steps towards delivering those aims this year. Here are some key highlights:

- Adjusted pro forma operating profits of £22.0m – up 69%.
- Adjusted earnings per share up to 8.99p from 3.17p – up 184%.
- Sales increase from £160m to £199m – up 24%.
- Now operating wholly-owned businesses in six countries.
- Magazine copy sales reach 5.5 million a month by the end of the year.
- Magazine adjusted pro forma operating profit £26.3m – up 99%.
- Internet properties attracting 4.6 million monthly unique visitors and £1.7m in revenues.
- Four major Internet Networks launched in 1999.
- *Business 2.0*, the US 'New Economy' magazine and website, exceeding all expectations.

This substantial progress has been achieved through rigorously and creatively applying the successful strategy that we have built up over many years. Our strategy is simple. We identify specialist audience groups – sometimes small, always active – who share a common passion and a thirst for information about their interest. Whether audiences are interested in video games, business, technology, football, or other subjects, we meet their needs by creating highly targeted, high-quality media that share and reflect the passion of the readers. Through this approach, we have built market-leading positions in our chosen markets with good profitability.

Greg Ingham
Chief Executive

These are dynamic, exciting times for media companies. There are few givens any more and few restrictions on the potential to drive the business forward. The world is opening up rapidly – and we're determined to be a major global player.

Trading in 2000 has continued the trends seen towards the end of 1999.

Our Internet activities are developing at an exponential rate and we anticipate considerable progress in this area in the coming year. On the magazine side, our US business continues to perform strongly, driven primarily by *Business 2.0*, but also by the PC-based computing magazines. Planned launches in 2000 will further expand our reach in this important market. In the UK and Europe we continue to make good progress, and the roll out of *Business 2.0* will enhance revenues from the non-computing sector. The transition in the PlayStation market (see page 20) will initially lead to a lower level of growth in the games sector in the coming year; however the launch of PlayStation 2 in the second half of the year presents significant opportunities that will, we believe, result in the development of a larger overall market for PlayStation. Our non-computing titles will continue to grow, and their international roll out will accelerate, especially with the US launches of *T3* and *Total Movie*.

Exceptional growth opportunities exist across the business in 2000, whether born of technology or of geography or of dynamic new specialisms. The network structure of Future means that a proven success in magazines or on the Internet can be rolled out swiftly in other territories, and with technology providing so many compelling opportunities in our market, that network effect is dramatically magnified. We will be increasing our Investment from £10.9m in 1999 to approximately £25m in 2000 for Internet development, US magazine launches and the international roll out of *Business 2.0*. We anticipate substantial revenue growth for the Group in the coming year, although the increased Investment means that there will be a decline in headline adjusted operating profit. As always the goal is to create continued growth in Underlying Profit and long-term value.

We are confident and excited about the opportunities for 2000 and beyond.

Growing...

...by focusing on technology

The world is being revolutionised by new technologies. New markets open up with extraordinary speed, and consumers need advice and information on these new and fascinating subjects. The developments in technology are therefore constantly creating compelling opportunities for magazine and website publishing. Throughout Future's history, we have successfully taken advantage of the rapid growth of emerging technology to create new publishing markets.

In these fast moving sectors, we create brands that can be rapidly expanded into new niches as they arise. For example, *Computer Arts* is a magazine for computer graphics artists; as new areas of computer graphics have developed with the progress in PC technology, special editions have been created to cater for them. These have focused on technologies such as desktop video editing and three-dimensional graphics. *The Computer Arts* brand has also been applied to websites and exhibitions, as well as being published in France and Italy. Its brand values have also been transferred from computer graphics to the related area of computer music-making with the launch of *Computer Music*.

...by responding quickly to opportunity

A key element in the success of Future in technology-related markets is the ability to spot new opportunities as soon as they appear – and then turn those opportunities into magazines and websites extremely rapidly. By moving quickly, Future captures great market positions in rapidly expanding areas.

Nowhere is this better seen than in the video games market. For example, Sega launched its next generation Dreamcast console and Internet terminal in October 1999. Future had three magazines and their supporting websites on sale as soon as the console hit the streets; in the US and Germany, we worked directly with Sega to produce an official title. In the UK, *DC-UK* is an unofficial magazine. Either way, Future ensured it was at the forefront of the new developments, and well positioned to take advantage of the growth of the emerging market. With so many new opportunities opening up with the digital era, Future, with its history of successful technology publishing, is uniquely well positioned to make the most of them.

...by extending into adjacent markets

All our magazines' and websites' readers have a real passion for their subject. The keys to successful publishing in these specialist areas are the same: understand the passion; deliver information, entertainment and a community for the readers with a quality product; and provide access to this valuable audience to commercial partners. This is true of all specialist markets, online and in print. We therefore constantly look to use the experience we have acquired in our existing markets to expand our business into new areas.

For example, consumer electronics is an area closely allied to computing, both in its subject matter and audience. So we launched *T3*, the first magazine to address the widespread enthusiasm for electronic hardware and gadgetry. It has been a huge success with UK advertising revenues growing 126% year-on-year driving the title's operating profit growth of £0.4m. A German edition launched in March 2000, and a US version is planned for later this year.

...by rolling out internationally

Once a title has been proved successful in one of our territories, we take that success and duplicate it in the other countries. Much of the current magazine product development comes from the UK because its magazine market is uniquely conducive to testing new launches, with its highly-developed distribution infrastructure and relatively low costs. Similarly our US business, based in Silicon Valley, is the key developer of our Internet networks, many of which then move across the Atlantic. We encourage the movement of ideas and people between territories, ensuring that a good idea in one is quickly shared by all.

This leads to the creation of global brands such as *PC Gamer*, which is published by Future in the UK, Germany, the Netherlands and the US and as *PC Jeux* in France and *Giochi per Il Mio Computer* in Italy. The widespread recognition of the brand makes further international roll-outs easier.

...by embracing the Internet

Our Internet strategy is simple: Specialise, Aggregate, Monetise. We create narrow-but-deep sites that appeal to tightly defined audiences, just as we do in print. Using our Affiliate Network model, we aggregate content from a variety of third-party websites around our 'hub' site, creating critical mass very cost efficiently. Then we use the high volume, highly-targeted audience we have created to offer promotional opportunities to advertisers and sales opportunities to our e-commerce partners.

For example *maximumpc.com* was launched in October 1999 as a network for home PC enthusiasts. The hub site provides news and reviews of the latest products, and help and advice on software and hardware. We have signed up 14 affiliates to join the network, along with our PC magazines; they provide content in return for a revenue split of advertising. The hub site already has a readership of over 200,000 unique users per month after just three months, and the network as a whole generated 29.8 million advertising impressions in January. And the entire site is promoted through our print magazines, creating even more traffic. A UK version has now been launched at *maximumpc.co.uk* and it will be launched in mainland Europe in 2000.

Group	1999			1998		% change
	Magazines	Internet	Central adjustments ¹	Total	Total	
£m						
Revenues	196.8	1.7	-	198.5	159.9	24
Adjusted pro forma operating profit/ (loss)	26.3	(3.6)	(0.7)	22.0	13.0	69
Underlying adjusted pro forma operating profit	33.6	-	(0.7)	32.9	25.7	28

¹ Central adjustments comprise central costs (£2.1m) and the elimination of employer taxes on options and share related benefits of £1.4m.
(All figures included in this Review are pro forma figures).

We started the year with operations in the UK and France and ended it a truly global media business. In March we acquired a former licensee in Italy and set up new offices in Germany. In June we acquired California-based Imagine Media, Inc. which became our US operation, and have since added a business in Netherlands in December. Because of the acquisitions through the year, all figures given are pro forma for the Group at 31 December 1999 unless otherwise stated.

We expanded our magazine portfolio during the year through new title launches and by acquisitions and it now stands at 122 regular magazines across the Group. By the year end Future was recording some 5.5 million copy sales per month, and annual revenues from magazines were up 24% to £197m. One key contributor to this growth was *Business 2.0*, the magazine of the New Economy, which dramatically exceeded both copy sales and advertising revenue forecasts, and is set for substantial further growth in 2000.

Our Internet activities made significant progress with the continued roll out of our highly cost-efficient Affiliate Network business model. Future now owns and operates eight web networks in the US and UK, covering the games, PC, football and music sectors. As we enter the year, we are already attracting 4.6 million unique users each month to our various specialist web networks, representing some 78 million ad impressions. Further network launches are planned in existing and new territories for this year. We anticipate substantially expanding the number of e-commerce partnerships in place during 2000, details of which will be announced in the coming months.

We believe that Future is particularly well positioned to benefit from the myriad of opportunities offered by the Internet – the ultimate narrow-but-deep medium. With many of our readers already online, we have found an eager and enthusiastic audience for our specialist media content and have started to develop some of the commercial opportunities that the medium offers. Far from affecting magazine sales, the Internet is increasingly aiding Future's portfolio – both in terms of subject matter and as a promotional vehicle for copy sales and subscriptions.

It is a consequence of Future's rapid growth that the underlying profitability of the majority of our business is obscured by the investments we have made to develop both our magazine and Internet publishing activities. To assist the review of the progress of our strategy in 1999, we have separated out our investment on new and recently launched titles to give visibility to the underlying profit of the Group. The details of this are given in the Finance Director's Report on pages 32 and 33.

← **Official UK PlayStation Magazine** Future UK's biggest selling title, *Official Sony PlayStation Magazine* has been the leader in the UK computer games market for several years. Future and Sony recently announced that our highly successful working relationship would continue until at least December 2001.

Future's markets Specialist magazines continue to grow as a proportion of all magazine sales as consumers increasingly demand greater relevance. Future was confirmed as the UK's largest publisher of specialist monthly magazines in 1999 (as measured by the ABC), and we believe that we are one of the fastest-growing major publishers in the world.

The excitement and demand for consumer information generated by the fast pace of technological change is opening up opportunities for new magazines across a range of special interest areas, including consumer electronics, home computing and the Internet itself. It has also led to the most significant publishing development for the Group this year – the success in the US of *Business 2.0*, the magazine of the New Economy. The pace of its growth has been extraordinary, reflecting the need for informed analysis of how the Internet is affecting business and creating new business models. *Business 2.0* will become the Group's single biggest revenue earner in 2000 and, as well as doubling its frequency in the US, it will be launched in the UK in the spring, and Germany and France this autumn.

Because of its size and the nature of the UK magazine market – which is highly conducive to new launches – Future UK is the test bed for many of Future's products, which, if successful, are then introduced into other territories. 1999 saw the launch of a number of new titles in the UK including *Internet Advisor*, *Internet Investor*, *Computer Music*, *What DVD*, *Mobile Computer User*, *DC-UK* and *Planet PC*.

One of Future's key market sectors is the video games market, in particular the Sony PlayStation, and we were delighted to announce in February 2000 that our relationship in the UK with Sony Computer Entertainment had been extended for a further two years to the end of 2001.

The PlayStation market is evolving rapidly as PlayStation 2 launches in Japan ahead of a European and US launch in the autumn. Annual sales of the PlayStation console stabilised in 1999 at 7.5 million units in Europe after a number of years of strong growth. PlayStation 2 is due to be launched in Europe in the autumn and games industry commentators are expecting consumer interest to be massive. Initial sales in Japan have been remarkable, with over a million units sold in the first week: 10 times the first week sale of PlayStation 1. We believe it will provide significant opportunities for us, most particularly from 2001 onwards.

→ **Total Film** *Total Film* demonstrates Future's ability to publish successfully outside of technology markets but in demographically related areas. *Total Film* has grown strongly since its launch three years ago and is now the No. 2 film magazine in the UK. A US version featuring a DVD covermount will be launched in 2000.

United Kingdom Future's UK business, the largest part of the Group, has continued its historically strong progress. Total magazine circulation reached 2.4 million per month and, through a combination of new title launches and acquisitions, the total UK portfolio increased from 56 to 75 regular titles.

Operating profit before amortisation of intangible assets grew strongly by 42% to £18.2m. Computing titles grew 20% to £15.8m and significantly non-computing titles moved from a 1998 loss of £0.4m to a profit of £3.4m, reflecting the development of the portfolio. Considerable investment in new titles continued, Underlying Profits being £2.8m higher than the operating result. The investment amount was however reduced from 1998 reflecting the nature of the launches, which were largely in the Computing sector rather than the concentration on other specialist areas in 1998.

Future has followed a strategy of establishing strong market-leading magazines, combining premium-priced products with high value for money, and then expanding to dominate markets by launching and acquiring more focused magazines to form a market portfolio. Our magazine copy sales market shares have risen in the PlayStation sector (now at 62%), PC games (now at 46%) and monthly home computing (now at 60%). The most remarkable growth has come in the Internet magazine portfolio, where copy sales rose 89% year-on-year.

As explained above, the relationship with Sony has prospered during the year, and Future was pleased to be able to announce an extension of the *Official PlayStation Magazine* contract into a seventh year. *Official PlayStation Magazine* was named Specialist Magazine of the Year in 1999 by the PPA, the magazine industry's trade body.

Future holds market-leading positions in a number of other lucrative specialist areas, such as mountain biking, music making, football and crafts. Future's consumer specialist group overall progressed strongly in 1999, with Underlying Profits growth second only to the growth achieved by our US business. These non-computing titles are also augmenting our international expansion and several UK consumer specialist titles were published by other parts of the Group. For example *Computer Music* was launched in France in May 1999, *T3* was launched in Germany in February 2000 and will be launched in the US later in 2000 and *Total Film* is also to be launched as *Total Movie* in the US.

During the year we acquired the rights to publish the official Manchester United and Chelsea Football Club magazines from Zone Publishing and in January 2000 strengthened our position in the home entertainment and music sectors with the purchase of *Hi-Fi Choice*, *Home Entertainment*, *Metal Hammer* and *Classic Rock* magazines and websites from Dennis Publishing.

← **Glory Glory Man United** Future acquired the licence to produce official magazines for the Treble-winning club worldwide in September. *Glory Glory Man Utd* is aimed at kids, while *Manchester United Magazine* has an adult audience. The titles, along with an official Chelsea magazine, *Total Football* and the Internet network *ufn.co.uk* have made Future the leading publisher of football magazines in the UK.

United Kingdom					
£m	1999			1998	
	Magazines	Internet	Total	Total	% change
Revenues	99.8	0.4	100.2	88.6	13
Pro forma operating profit/ (loss) before amortisation of intangible assets	19.2	(1.0)	18.2	12.8	42
Underlying profit before amortisation of intangible assets	21.0	-	21.0	16.4	28

All results included in the review exclude amortisation of intangible assets but include the costs of employer taxes on options and share related benefits.

United States With revenues up 56% and Underlying Profits up 263%, Future's US operations had an exceptional year. Growth has come across the games and home computing portfolio, with magazine circulation increasing 26% over 1998 to 1.8 million per month by the year end.

The most significant success in the US has been *Business 2.0*, which has exceeded both copy sales and advertising targets. Total ad page count in 1999 was 1,280 pages and the December issue was up 191% year on year. The circulation base rose from 137,500 to 210,000 during the year and the magazine has won seven awards, including the *Folio Excellence Award*. *Business 2.0* is gaining a reputation as one of America's most successful magazine launches of recent years.

Significant further growth will come from *Business 2.0* in 2000, and this will be only in part due to the doubling of its frequency from May. Its international reach is also set to grow, and plans are in place for launching local editions in the UK, France and Germany during 2000.

Future currently publishes 12 magazine titles in the US and has market leadership of the lucrative PC games market thanks to its 350,000-circulation title *PC Gamer*. Further growth came from a strong debut for *Official Dreamcast* which recorded sales of 138,000 in December 1999, just four months after the introduction of the Dreamcast system. *Maximum PC* has progressed well and its website, *maximumpc.com*, has become an independent fast-growing Internet network for PC users with significant international potential – it has already been launched in the UK.

In 2000, Future will continue its diversification for music in the Internet age with new launches such as a music magazine entitled *Revolution*, US versions of Future UK's film and technology titles (*Total Film* and *T3*) and a new digital photography title called *DigitalFoto*. Linking all these launches is an innovative publishing approach applied to technology-energised sectors. For example, *Total Movie* will come with a cover-mounted DVD containing film clips and *Revolution* will feature a unique CD featuring audio tracks and MP3 music files. Both magazines will be supported by Internet activities and will continue the successful Future technique of integrating media in a differentiated way.

A combination of *Business 2.0's* frequency change, portfolio growth and major new launches will see significant revenue growth in the US, though Underlying Profits will be offset by the significant investments in expanding the portfolio.

→ **Business 2.0** Future's overwhelming success story of 1999, *Business 2.0* is the magazine of the New Economy. With surging advertising revenues and copy sales, the magazine goes fortnightly in the US and rolls out in the UK, Germany and France later this year.

United States					
£m	1999			1998	
	Magazines	Internet	Total	Total	% change
Revenues	54.2	1.3	55.5	35.5	56
Pro forma operating profit/ (loss) before amortisation of intangible assets	3.5	(2.6)	0.9	(5.1)	-
Underlying profit before amortisation of intangible assets	6.9	-	6.9	1.9	263

France			
£m	1999 Total	1998 Total	% change
Revenues	22.1	21.1	5
Pro forma operating profit/(loss) before amortisation of intangible assets	1.9	3.0	(37)
Underlying profit before amortisation of intangible assets	3.1	3.9	(21)
Italy			
£m	1999 Total	1998 Total	% change
Revenues	16.6	14.7	13
Pro forma operating profit/(loss) before amortisation of intangible assets	3.8	2.5	52
Underlying profit before amortisation of intangible assets	4.0	3.6	12
Germany			
£m	1999 Total	1998 Total	% change
Revenues	4.2	-	-
Pro forma operating profit/(loss) before amortisation of intangible assets	(2.1)	-	-
Underlying profit before amortisation of intangible assets	(1.4)	-	-

← **Computer Music** A key factor in Future's growth is the developing of synergies between markets and between territories. *Computer Music* bridges the gap between our computing and music portfolios with stunning success. Now it is published in France and licensed in Greece and Spain, demonstrating its international potential.

France It's been a good, but not remarkable, year for Future's French business that was acquired in 1998. Underlying Profits are ahead of where they were expected to be for the year, but are down year-on-year due largely to the PlayStation effect, together with additional competitive activity that was referred to in the Interim Report. Total revenues were up 5% to £22m in 1999, and significantly higher growth is anticipated during 2000. Future currently publishes 15 monthly magazine titles and 21 regular specials in France with a total circulation of 477,500 per month.

Looking forward, the publishing infrastructure is now in place to accelerate growth in 2000. New launches are planned for the year, in particular the autumn launch of *Business 2.0*. Others will include *Future Music*, as our French business continues its diversification from computing and games along the same lines that Future has already achieved in both the UK and US.

Italy During 1999, Future has built on the acquisition in March of Il Mio Castello, a former licensee of several Future magazines. Revenues have grown well, by 13% to £16.6m, and operating profits are up 52% to £3.8m. Future publishes 12 monthly magazines in Italy and a series of one-shots with a total monthly circulation of 481,400. Due to the importance of the computer games sector within Future's Italian portfolio, the effect of the transition from PlayStation 1 to PlayStation 2 is likely to be more significant for this business than other parts of the Group and some softness was experienced in the last quarter of 1999.

The integration of the business into The Future Network is progressing well and a new Chief Executive Officer was appointed at the end of 1999 following the planned departure of the business's founder. The first half of 2000 is set to be a transitional period for Future in Italy ahead of the planned new launches in the autumn.

Germany Future Verlag was a start-up business that commenced operations in April 1999. The business was augmented in July by the acquisition of the WEKA Group's games magazine portfolio. The business is at an early stage of development and will require continued investment over the next few years. Revenues of £4.2m were achieved for the last six months of 1999.

During the year Future Verlag secured the rights to publish the official Sega Dreamcast magazine, which was launched in October 1999. *Offizielle Dreamcast Magazin* has done well with an extremely high market penetration, but lower than predicted hardware sales have meant that financially it has not met expectations.

Growth in 2000 for Future Verlag will come from a number of further launches as well as the effect of publishing the existing titles for a whole year. Launches include *T3*, which debuted in February, and, most significantly, plans are in place for the launch of *Business 2.0* in the autumn.

Other territories Future continued its growth into other countries during 1999. In December Future started operations in the Netherlands, where we launched *PC Gamer* and *N64*, and took over the publishing of our Dutch-licensed title *Future Music*. Other territories are also being actively investigated.

In addition to wholly-owned operations, Future also licenses its titles to other overseas publishers. Third-party licensing business in 1999 increased from 105 licences to 130 licences in a total of 30 countries.

Results for these activities are included within those for the UK.

Internet Future's Internet activities are managed on a country by country basis, however in order to give visibility to this important aspect of our business, Internet activities have been separately analysed out for transparency.

Future is able to create Internet properties of substantial size at very low cost. This is due to a combination of factors. Our existing magazines and Internet publications give us access to many active Internet users for promotional purposes at an extremely low marginal cost. Our Affiliate Network model allows us to aggregate content from third parties extremely efficiently. Further, we have existing relationships with both advertisers and commercial partners in our core markets. The combined effect is to give Future a low cost per eyeball-hour, and this in turn gives us a healthy revenue to expenditure ratio.

The main focus during 1999 was developing our Affiliate Network model – Future creates hub sites in its core markets, adds its own magazine-related websites, and then partners with third parties to create much larger, much more diverse, content-rich sites. Future then sells the combined advertising inventory, pays commission to the affiliates and creates additional revenue opportunities by attracting e-commerce partners. The key advantage to the model is that Future can aggregate many millions of eyeballs at relatively low cost. It can also be replicated in different subject areas and in different countries.

Future today operates some 35 revenue generating websites. Additionally it has eight specialist web networks focusing on the video games, PC, football and music sectors. The average number of unique visitors to Future's online publishing activities grew 358% in the second half of 1999 and now stands at some 4.6 million unique visitors per month, generating some 58.5 million page impressions per month.

Total Internet revenues across the Group grew to £1.7m, with fourth quarter revenue of £0.8m giving a run-rate of £3.2m. Significant growth in Internet revenues is expected for 2000 as we develop the e-commerce potential of our web networks.

In October Future's US gaming network, *dailyradar.com*, signed a significant long-term e-commerce and promotional deal with US video games retailer Babbages. This e-commerce partnership is already generating revenues and the *dailyradar.com* model is being rolled out in the UK and mainland Europe in 2000. The number of e-commerce partnerships in place will be substantially expanded during 2000, details of which will be announced in the coming months.

These results for Internet trading exclude online revenues for magazine products. We have had increasing success in building subscription revenues online in the UK and US.

Internet					
£m	1999			1998	
	USA	Europe	Total	Total	% change
Revenues	1.3	0.4	1.7	0.7	143
Pro forma operating profit/(loss) before amortisation of intangible assets	(2.6)	(1.0)	(3.6)	(0.2)	-

→ **dailyradar.com** Future's dominance of the video games market in print is extended onto the Internet by the comprehensive games news and reviews site *dailyradar.com*, which was first launched in the US and now is also produced in Europe. Our e-commerce partnership with Babbages in the US gives us a share of the revenues from games sold through the site.

1 Chris Anderson (age 42) Executive Chairman†

Chris Anderson trained as a journalist working variously for several newspapers, radio programmes and magazines, and formed Future Publishing Limited in 1985. Following the sale of Future Publishing Limited to Pearson in 1994, Chris Anderson purchased GP Publications, which had been purchased by Future in 1993 and was subsequently renamed Imagine Media, Inc. Chris Anderson joined the Board of Future Publishing Holdings Limited as non-executive Chairman following the management buy-out from Pearson in April 1998. He was appointed as a Director of the Company on 11 May 1999. He is also a Director of, and significant shareholder in, Snowball.com, Inc., with which the Company has a commercial relationship.

2 Greg Ingham (age 39) Chief Executive

Greg Ingham began his publishing career as a journalist at Reed International plc in 1983. He joined Future Publishing Limited in September 1988 as Publisher. He was appointed Managing Director in January 1996 and, following the management buy-out from Pearson in April 1998, was appointed Chief Executive of Future Publishing Holdings Limited. He was appointed as a Director of the Company on 11 May 1999. He is married to Jane Ingham, Managing Director of Future Publishing Limited and a Director of Future Publishing Holdings Limited.

3 Ian Linkins (age 46) Finance Director and Company Secretary

Ian Linkins worked at Reed International plc for 17 years, leading the operational and financial functions of several Reed companies. He joined Future Publishing Limited in June 1991 as Finance Director and was appointed Finance Director and Secretary of Future Publishing Holdings Limited in April 1998 following the management buy-out from Pearson. He was appointed Director and Secretary of the Company on 11 May 1999.

4 Barbara Manfrey (age 44) non-executive+†

Barbara Manfrey joined Apax Ventures as a Director in 1992. She has over 20 years' experience in the venture capital industry, during which time she has specialised in media investing. Prior to joining Apax Ventures, Barbara Manfrey was a Managing Director of E.M. Warburg, Pincus and Co., Inc., where she co-founded and co-managed the firm's London operations. She was appointed a non-executive Director of Future Publishing Holdings Limited in April 1998 following the management buy-out from Pearson and a non-executive Director of the Company on 11 May 1999.

5 Paul Fitzsimons (age 38) non-executive*

Paul Fitzsimons is a Director of Apax Ventures, where he specialises in the media sector. He joined Apax Ventures in 1992 having previously worked at Arthur Andersen as a Chartered Accountant. Paul Fitzsimons was appointed non-executive Director of Future Publishing Holdings Limited in April 1998 following the management buy-out from Pearson and a non-executive Director of the Company on 11 May 1999.

6 Brendan Clouston (age 46) non-executive*+†

Brendan Clouston has recently settled in London where he manages private investments and is involved in charitable activities and educational trusts. He retired from Tele-Communications Inc (TCI) in February 1998, where he served as Executive Vice President and Chief Operating Officer responsible for domestic analogue and digital video services, satellite and telephone investments and the Internet services division. TCI was recently acquired by AT&T. He serves on the board of trustees of the Ivy Business School in London, Ontario where he obtained his MBA in 1979. He was appointed Director of the Company on 4 June 1999.

7 Roger Parry (age 46) non-executive*+†

Roger Parry is Chief Executive of Clear Channel International, the non-US operations of Clear Channel Communications Inc, a global media company listed on the New York Stock Exchange with 625 radio stations, 21 television stations and approximately 300,000 outdoor advertising displays in 26 countries worldwide. Roger Parry was formerly Chief Executive of More Group plc, the leading European outdoor advertising company, which was acquired by Clear Channel in June 1998. Previously he was one of the management team which restructured Aegis plc. He spent time with McKinsey, the international consulting firm, and before that was a journalist with BBC TV and radio. He is also a non-executive Director of Gold Rose Communications plc and Johnston Press plc, and a trustee of the International Shakespeare Globe Theatre. He was appointed Director of the Company on 4 June 1999.

*Member of the Audit Committee

+Member of the Remuneration Committee

†Member of the Nomination Committee

What has become The Future Network plc began in 1999 as Future Publishing Holdings Limited – the combined UK and French business financed by venture capital – and was significantly debt leveraged. During the year Future has been transformed in both size and scope by the acquisition of businesses in Italy, the US and Germany, and in capital structure with the issue of new shares in connection with the US acquisition and the London Stock Exchange Listing.

Our traditional core business of computer and video games magazines has always been weighted towards the second half of the year because of the holiday season. This second half weighting in Adjusted operating profit terms has been significantly larger this year because the business, especially in the US, has been growing so strongly overall.

Revenue has grown £38.6m (24%) but the strongest trend has been the growth in the US and this is expected to continue in 2000. US magazines now account for 28% of total revenue, up from 22% in 1998.

Revenues in the second half were 56% of the full year (1998: 56%) and were 25% up on 1998. The effect on profits is even more marked; Adjusted operating profit for the second half was 80% of the full year (1998: 56%) up 144% on 1998. The US business has progressed from investment into strong profit during the year, outweighing the additional amounts invested in the Internet and in building our business in Germany.

Our business has a high proportion of revenues derived from copy sales, with advertising being primarily from endemic rather than brand advertising. In 1999 33% of our revenue is from advertising, up from 28% in 1998, as the US part of our business, which is more advertising based, has become a larger proportion of the whole.

Adjusted pro forma operating profit before amortisation of intangible assets has grown £9.0m (69%). The Group's leadership of its core markets in computing and videogames has historically driven its growth and continues to do so – in 1999 on an international scale. Adjusted pro forma operating profit before amortisation of intangible assets in this sector has grown 23% on revenues up 16%.

In addition there is very clear progress in the other special interest markets we serve. In the UK these markets are now strongly profitable, and it is these magazines that are now being launched elsewhere in the Group, primarily in 2000 in the US. *Business 2.0* is now profitable in the US and will launch in Europe in 2000.

Underlying profitability For two principal reasons we manage Future on the key metric of Underlying Profit – and we encourage investors to judge us on this basis.

The first relates to our structure. Future's business is in reality a portfolio of over 130 businesses – magazines and Internet networks that operate financially on their own separate revenues and profit streams. Our objective is to grow the core of profitable titles – the Underlying Profit.

The second relates to growth. Future's fast growth is driven by our ability to successfully invest in new projects. These investments – often small, sometimes substantial – are targeted at areas where we see the potential for future profitability. We operate in high growth markets and invest now for future Underlying Profit.

The Group's headline operating profit is net of the Investment in launches, and in the short term obscures the view of the progress made, being as much a factor of the scale of opportunity as the core performance of the Group. The *real* measure of our Group is, we believe, a combination of the growing core profit stream delivered by the profitable businesses together with a judgement on our ability to invest wisely in new projects.

We have adopted a definition that we believe achieves a clear and fair measure for Underlying Profit – we exclude any titles less than two years from their launch in which we are still Investing. Magazines therefore have a maximum of two years as Investments, before their costs impact our Underlying Profit, a short period in magazine terms, particularly for US titles. It is a measure that we will continue to apply in reporting our results. As a result:

	Underlying 1999 £'000	Underlying 1998 £'000	Growth	Investment 1999 £'000	Investment 1998 £'000	Total 1999 £'000	Total 1998 £'000
Magazines							
UK	20,975	16,383	28%	(1,751)	(3,574)	19,224	12,809
US	6,855	1,868	267%	(3,304)	(7,056)	3,551	(5,188)
France	3,136	3,900	(20%)	(1,272)	(871)	1,864	3,029
Italy	4,026	3,590	12%	(223)	(1,045)	3,803	2,545
Germany	(1,368)	-	-	(755)	-	(2,123)	-
Magazine operating profit	33,624	25,741	31%	(7,305)	(12,546)	26,319	13,195
Internet	-	-	-	(3,563)	(173)	(3,563)	(173)
Central operating costs	(718)	-	-	-	-	(718)	-
Total	32,906	25,741	28%	(10,868)	(12,719)	22,038	13,022

This approach gives greater clarity to the development of the UK and US businesses and the pressures in mainland Europe. It also shows that our recent launch activity, though similar in volume to last year (25 titles as against 24 in 1998), tended to be in areas requiring lower Investment. The 1998 Investment in the US was driven by the launch of *Business 2.0* and in the UK by launches outside computing markets. By 1999 these were feeding the growth in Underlying Profit.

The pro forma loss before tax of £12.8m in 1998 has been turned into a pro forma profit before tax of £3.9m for 1999, due both to operating and one-off factors described in more detail below. We have therefore shown an Adjusted pro forma profit after tax to eliminate the one off items which shows almost a threefold improvement from £4.3m Adjusted profit after tax in 1998 to £12.4m Adjusted profit after tax in 1999. Adjusted basic and diluted earnings per share have improved from 3.17 pence to 8.99 pence.

Factors affecting the results The following items, including one-off or non-operating costs, have been eliminated in arriving at the Adjusted pro forma profit shown in the Group Activity Analysis below.

- As the Group has been brought together by acquisition, the balance sheet contains significant goodwill requiring a significant amortisation charge in the profit and loss account amounting to £24.8m on a pro forma basis for 1999 (1998: £23.2m). This charge has no impact on cash flow and management focus, and most of our analysis is of the pre-amortisation figures. An element of subjectivity is involved in setting asset lives of acquired businesses, and these have been decided on a case-by-case basis. Established magazine businesses such as those owned in Europe have been estimated to have a life of 20 years. Those which were not profitable at the time of acquisition, such as *Imagine*, or required investment to have a long term future, such as those acquired in Germany, have an estimated life of 10 years.
- We have made a charge of £1.4m in the pro forma profit and loss account in 1999 (1998: £nil) for the employer taxes on option and share related benefits generated by the rise in market value of shares compared with the exercise price in line with the new accounting standard FRS12: Provisions, contingent liabilities and contingent assets. The provision is driven in the short term by market events rather than trading, and is based on the year end share price. The actual cost incurred will depend on the share price at the time options are exercised, the number of options which vest on the basis of performance criteria and the number which lapse due to option holders leaving our employment.
- At the time of acquisition by the Group, *Imagine* held shares in *America Online Inc*, that company having previously acquired a company in which *Imagine* had held an investment. The Group sold 90% of its holding in September 1999 generating a pro forma gain of £10.9m.

Dynamics of the business The most significant risks for the business, should the strategy not be successful, are assessed by management to be:

- The Group operates primarily in high growth and competitive market sectors, and has historically generated its growth as a result of launching new titles, both to reflect development of existing markets but also to enter new markets, launches carrying a higher risk of failure than established titles. An expanded opportunity now exists to launch titles which are successful in one territory elsewhere within the Group and this will require increased investment in the short term. Prime examples of this strategy are seen in the launch of *Business 2.0* in the UK, France, and Germany, following its success in the US and the launch of the UK title *T3* in Germany and the US.
- The Group has specialised in the fast developing computer entertainment market which has been subject to cycles associated with new hardware launches, and will be affected by the development of Internet-based products. These gaming markets are now in a transitional period and the Group is seeking to build on its current success in the new hardware environment. Past trends indicate that each successive phase of development has been bigger than the previous one.

Investments Principally through its Imagine subsidiary in the US, the Group has made trade investments, or (prior to acquisition) spun-out activities into separate companies, with a view to maximising their value. At the balance sheet date fixed asset investments were held at a cost of £2.4m (1998: £nil). In addition a gain of £10.9m has been made on the sale of a shareholding in America Online Inc as described above. The remaining investment is held as a current asset and amounted to £1.0m at 31 December 1999 (1998: £nil).

Financing In order to protect the Group from unexpected interest rate fluctuations, £27m of the floating Sterling term debt is the subject of swap contracts effectively fixing the interest rate at 7.15%. The Group does not trade in such instruments independently of the operational requirements of the business. The Group has considered its hedging requirements and concluded that currently it does not need to be hedged against exchange rate fluctuations as trading inflows, trading and interest costs are broadly aligned within the UK, US, and Euro currency areas. Further details are given in note 22 to the accounts.

Acquisitions The Company has made substantial acquisitions in connection with the establishment of its activities in Italy and the US; these are detailed in note 28 to the accounts.

Established businesses have been augmented by supplementary acquisitions in the second half of the year:

- The start-up business established in Germany in March 1999 was augmented by the purchase of computer games titles from WEKA Firmengruppe on 1 July 1999. These titles have required further investment since acquisition to improve their market position.
- Late in 1999, Future acquired three football magazines from Zone Publishing, including the licence to publish *Official Manchester United Magazine*. Due to the timing and additional promotional spend on the magazines, they did not contribute significantly to 1999's profits. Future also acquired four technology and music magazines and websites from Dennis Publishing in January 2000, and is actively seeking other opportunities.

Cash The Group has undergone significant change to its balance sheet in 1999, with the proceeds from the Listing (£135m net of expenses) being used to reduce the level of corporate debt, which had originally been established at the time of the leveraged buyout of the UK and French companies.

On Listing the Group obtained a £100m secured debt facility of which £42.5m is drawn down, the balance being available for a mixture of acquisition and working capital needs, subject to a range of covenants. Further details, including the undrawn available committed facilities, are provided in note 22 to the accounts. In addition the Group has cash of £18.9m available primarily as a result of trading cash flow and the sale of America Online Inc stock in September 1999. The business has a relatively low working capital and capital expenditure requirement and as a result is cash generative even in a period of significant growth.

The reduced debt level following the Listing has significantly reduced interest costs but this can only be partially seen in the actual interest charge reduction because the significant indebtedness was first established in April 1998, and the new corporate debt was only established at Listing in June 1999.

Dividend As was indicated at flotation, in view of the scope for profitable development of the business and the need to fund development spend from cash flows no dividend payment is proposed.

Earnings per share Pro forma basic and diluted loss per share has improved from [13.83 pence] in 1998 to [2.11 pence] in 1999 due to a number of factors as discussed in the section on factors affecting results. Adjusted basic earnings per share have improved from 3.17 pence to 8.99 pence, and from 2.88 pence to 8.22 pence on a diluted basis in 1998 to 1999 respectively.

Taxation The pro forma profit before tax, after eliminating goodwill arising on consolidation, was £25.5m (1998: £8.7m) providing an effective tax rate of 26.8% (1998: 69.7%).

The pro forma tax charge after eliminating goodwill arising on consolidation was lower than the standard UK corporation tax rate of 30.25% due primarily to the deductibility of costs in respect of share options, and the availability of tax losses in Imagine to offset its pre-acquisition profits, including the substantial gain on fixed asset investments amounting to £10.9m in pro forma profits. This was partially offset by non-utilisation of tax losses in Germany and by higher rates of tax payable in jurisdictions other than the United Kingdom.

The Directors of The Future Network plc ('the Company') present their Report together with the audited financial statements for the period 22 April 1999 to 31 December 1999. The Company was incorporated in England on 22 April 1999 under the Companies Act 1985 as a private company limited by shares with the name Arenabeam Limited. On 21 May 1999 the name of the Company was changed to The Future Network Limited, and on 14 June 1999 the Company was reregistered as a public limited company.

Flotation On 11 June 1999 the Company acquired Future Publishing Holdings Limited ('Future Publishing Holdings') and its subsidiaries in exchange for shares in the Company. Details are set out in note 23 to the accounts. On 18 June 1999, the Company issued Listing Particulars which contained details of an offer of shares in the Company. On 25 June 1999 136,663,881 shares were unconditionally admitted to the Official List of the London Stock Exchange of which 38,000,000 were newly issued fully paid and a further 33,863,147 in total were issued or made available for issue in connection with the simultaneous acquisition of Imagine, the Company's US subsidiary.

Business review, activities and future developments The Group is a leading publisher of video game, home computing and other specialist consumer magazines and Internet websites in the UK, Continental Europe and the US. The Group's principal subsidiaries are Future Publishing Limited ('Future Publishing') in the UK, Edicorp Publications SA ('Edicorp') in France, Imagine Media, Inc. ('Imagine') in the US, Il Mio Castello Editore SpA ('Il Mio') in Italy and Future Verlag GmbH ('Future Verlag') in Germany. Further details of these operations and the Directors' plans for development and growth are included in the Chief Executive's Review on pages 19 to 29 and the Finance Director's Report on pages 32 to 35.

Financial results Group loss before tax for the year was £3,135,000 (1998: loss £3,721,000). After deducting taxation of £3,530,000 (1998: £1,000,000), the retained loss for the financial year amounted to £6,665,000 (1998: £4,721,000) which has been transferred to reserves.

Details of results on a pro forma basis are included in the Pro Forma Group Profit and Loss Account on page 45 and are discussed in the Chief Executive's Review and Finance Director's Report on pages 19 to 35.

No dividends are recommended for payment.

Policy on payment to suppliers The Company is a holding company and as at 31 December 1999 had no trade creditors. It is the Company's policy that payment is made in accordance with suppliers agreed terms provided that suppliers perform in accordance with those agreed terms and in accordance with its contractual and other legal obligations. It typically pays suppliers between 30 and 45 days.

Acquisitions During the year the Group made a number of acquisitions and investments for a total consideration of £179,411,000. Details of these transactions are set out in note 28 to the accounts. An acquisition made subsequent to the year end is described in note 32.

Directors The Directors of the Company for the period from 22 April 1999 to 11 May 1999 were Instant Companies Limited and Swift Incorporations Limited. The Board of Directors at the date of this Report comprises seven Directors: three Executive Directors and four non-executive Directors. The names of the Directors together with their dates of appointment and brief biographical details are set out on pages 30 and 31.

All of the Directors, having been appointed during 1999 and their appointment not having been approved by the shareholders of the Company in General Meeting, will retire at the Annual General Meeting in accordance with the Articles of Association and, being eligible, offer themselves for reappointment.

The Board's report on Directors' remuneration is set out on pages 37 to 40 and includes details of Directors' share options on page 39, and pension arrangements and their interests in shares of the Company and Group companies are set out on page 40. The Company's Register of Directors' Interests, which is open to inspection at the Company's registered office, contains full details of Directors' shareholdings and options to subscribe for shares. Certain details of Directors' interests are also included in note 31 to the accounts.

Corporate governance The Board's report on Corporate Governance, including the Directors' statement on responsibilities for the preparation of financial statements is set out on pages 41 and 42.

Employee involvement During the year the Group has maintained and developed arrangements aimed at systematically providing employees with information on matters of concern to them as employees, consulting them or their representatives on a regular basis, so that their views may be taken into account in making decisions which are likely to affect their interests. We encourage employee involvement in the Group, and believe that achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of their employing Company plays a major role in maintaining the success of the Group. This has been achieved by methods such as the issue and distribution of regular Company magazines and newsletters, and by regular meetings between managers and employee representatives. In addition, the Board believes that the inclusion of all employees in the Group's share option schemes are an important part of ensuring that all employees feel included as integral parts of the Group and remain fully committed to its continuing success.

Equal opportunities The Group is an equal opportunities employer and recruits on the basis of merit, not of race or gender. In addition, the Group's policy is to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. It is the Group's objective to make appropriate arrangements for the continuing employment and training, career development and promotion of disabled persons employed by the Group. If an employee becomes disabled, the Group's objective is the continued provision of suitable employment, either in the same or an alternative position, with appropriate training being given if necessary.

Year 2000 and introduction of the Euro The Group undertook a range of measures to avoid disruption of the business due to the 'Year 2000' issue. In the main, these constituted a study to ensure compliance in internal systems and some acceleration in IT investment in areas of non-compliance. As this investment was primarily directed at additional functionality rather than 'Year 2000' compliance, it is not possible to isolate an amount spent solely on obtaining 'Year 2000' compliance. The Group has to date not experienced any disruption to its operations as a result of the date change.

The Group has operations in countries involved in the transition to trading in Euros. Currently the Group continues to denominate transactions in their local national currencies. However we are preparing to account in Euros, and do not anticipate that the change will involve significant costs or have any significant operational impact.

Charitable and political contributions During the year the Group has made charitable contributions amounting to £11,000 (1998: £5,000). No political contributions were made.

Employee share schemes The Company has a policy of wide participation in employee share schemes.

Prior to Listing, the Group operated The Future Publishing Holdings Limited Unapproved Share Option Plan established on 24 July 1998. No further grants have been made under this scheme since Listing and no further options will be granted under this plan.

Since Listing the Group has established a range of share option plans which are detailed in note 24 to the accounts. The principal schemes are The Future Network plc 1999 Senior Management Share Option Scheme details of which are included on pages 39 and 40 in the Remuneration Report, and The Future Network plc 1999 International Share Option Scheme.

Share and other interests The interests of the Directors during the period according to the register maintained under Section 325 of the Companies Act 1985 (as amended) are set out on page 40.

The Company has received notification of interests in the issued ordinary share capital of the Company in accordance with Section 198 of the Companies Act 1985 (as amended). At 10 March 2000 the interests notified amounting to 3% or more of the ordinary share capital of the Company is set out in the following table:

<i>Member</i>	Number of shares	Percentage of issued share capital
C Anderson	37,895,658	26.8
Apax Partners and Co Ventures Holdings Limited	17,212,762	12.3
Apax Scotland VI L.P.	5,028,319	3.6
G Ingham	4,956,933	3.5

Post balance sheet events Details of post balance sheet events are set out in note 32 to the accounts.

Annual General Meeting The Company's first Annual General Meeting will be held on Wednesday 21 June 2000.

Auditors PricewaterhouseCoopers were appointed by the Directors as auditors of the Company on 11 May 1999. PricewaterhouseCoopers have expressed their willingness to continue in office as auditors and their reappointment will be proposed at the Annual General Meeting.

Approved by order of the Board



Ian Linkins Company Secretary
 20 March 2000

Remuneration Committee The Remuneration Committee was established on 4 June 1999 and on that date the three non-executive Directors, Roger Parry (Chairman of the Committee), Brendan Clouston and Barbara Manfrey were appointed as members of the Committee. They have remained in office throughout the remainder of the year. The Executive Chairman of the Company attends meetings by invitation of the Committee.

Whilst Barbara Manfrey is not considered to be an independent non-executive Director, the Board regards her as independent for the purposes for which the Remuneration Committee is established and as someone who can provide continuity from the pre-Listing period of the Group's life.

The Committee is responsible for determining the annual salaries, incentive arrangements, service contracts and all other terms and conditions of employment of the Executive Directors, and the performance and development of its senior management. The Committee also provides advice to the Executives on significant policies affecting the remuneration of senior management below the Board level. The Committee has access to advice from external consultants as it considers necessary. As the Company is in its first year of trading as a Listed company, it has sought the advice of Towers Perrin, remuneration consultants, in assisting the Committee in determining the practices and levels of remuneration of such companies of similar size for the forthcoming year. The Committee is also responsible for approving the terms of share incentive arrangements for all senior management and employees across the Group.

Compliance with the Combined Code The Board has applied the 'Principles of Good Governance' contained in the Combined Code ('the Code') issued by the 'Committee on Corporate Governance' as they relate to Directors' remuneration, in the manner described below. In relation to the Company's performance related remuneration policy, the Remuneration Committee has followed Schedule A of the Combined Code, and, in relation to disclosures of Directors' remuneration, the Committee has complied with Schedule B of the Combined Code, issued in June 1998, appended to the Listing Rules of the London Stock Exchange. Any non-compliance with specific provisions is explained in this Report.

In preparing this report, the Board has followed the provisions in Schedule B of the Code.

Policy on remuneration of Executive Directors

(i) Company's policy

In determining the Company's policy on Executive Directors' remuneration, the Committee has regard to the following objectives:

(a) Remuneration packages offered to Executive Directors are designed to be competitive, being comparable with packages available within other groups operating in similar markets and on a similar scale, including competitors.

(b) Remuneration packages, including long term incentive plans, are fixed for individual Directors so as to attract, retain and motivate Executives of the highest calibre, and at the same time optimise interests of shareholders.

(c) The policy also has regard to the Group's history as a privately owned group in which the Executive Directors' hold significant shareholdings in the now Listed Company, and of packages within the Group, and taking account of recent acquisitions in markets which are different outside the United Kingdom.

(d) Annual rewards and long term incentives include a significant element of performance-related remuneration, which align with the Group's achievement of its results, and individual Directors' contributions.

(ii) Basic salary

In assessing the level of basic salary for each Executive Director, account is taken of the pay practices of such other companies as the Committee and its external compensation consultants consider appropriate, the responsibilities of each Director, and pay awards elsewhere in the Group. Salaries are reviewed annually by the Remuneration Committee.

(iii) Annual performance related bonus and underlying performance of the business

A four year annual bonus plan has been set for each Executive Director individually, but on common performance targets based on both revenue and profit growth. The revenue related part of the bonuses only becomes payable where the profit element has been achieved. Adjustment is made to reflect the impact on a year's results caused by acquisitions or disposals and for variation in the level of Investment spending. The plans extend for one four year period commencing on the date of flotation of the Company on 25 June 1999. The Remuneration Committee intends that the targets against which the payment of performance bonuses will be assessed should be demanding, and reflect the Company's stated strategy to increase the profitability of its underlying business, while investing significantly for growth. As performance bonuses are based on revenue and profit growth there are no maximum levels for bonuses. 50% of the calculated annual bonus will be payable each year, and the remainder will be paid at the end of the four year period. The deferred element is forfeited if the Executive Director leaves the Company within the four year period.

(iv) Long term incentive plans and interests of shareholders

At flotation, under the Senior Management Share Option Scheme, share options, approved by the Remuneration Committee, were awarded at the market price at the date of grant to each Executive Director equal in value to four times basic salary. The options vest based on performance criteria set by the Remuneration Committee. The criteria is set with reference to the increase in shareholder return relative to a comparator group of companies in the media industry chosen by the Remuneration Committee.

The deferred element of the annual performance related bonus referred to above is considered to be a long term incentive plan.

(v) Pensions

Post-retirement benefits, which comprise only pensions, are based on contributions paid under a Group Personal Pension Plan. The only element of remuneration which is pensionable is basic salary, excluding all bonuses and benefits in kind.

Details of the key elements of current salary levels, annual performance related bonuses and pensions are given on page 38. Details of the Company's share option schemes for each Executive Director are given on page 39. Directors' share interests are given on page 40.

Policy on non-executive Directors' remuneration

(i) Remuneration of non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole. The non-executive Directors do not take part in discussions on their remuneration. Non-executive Directors do not have share options, nor participate in any share or incentive scheme nor any pension arrangements with the Company.

(ii) Interests in shares

At flotation non-executive Directors were permitted to buy shares in the Company at the admission price. Details of non-executive Directors' interests in shares in the Company are given on page 40.

Policy on service contracts

(i) Service contracts of Executive Directors

Greg Ingham and Ian Linkins have service contracts with the Company, which are terminable on one year's notice. Compensation for early termination is limited to one year's basic salary and benefits. Chris Anderson has a letter of appointment with the Company and a service agreement with Imagine Media, Inc. The notice period to be given by either party to terminate the letter of appointment is one year. The Company and Imagine Media Inc (in relation to Chris Anderson) are entitled at their respective discretion to terminate the employment of the Executive Directors with immediate effect by paying salary in lieu.

(ii) Service contracts of non-executive Directors

Non-executive Directors do not have service contracts with the Company. It is the policy of the Company not to appoint non-executive Directors for specified terms, so that they can be removed by shareholders at any time without a claim for compensation. This diverges from the Combined Code that provides that non-executive Directors should be appointed for specified terms. Non-executive Directors will stand for election every three years, and their initial terms will be staggered to avoid retirement simultaneously.

All Directors are offered for re-election at the forthcoming Annual General Meeting.

Policy on external appointments The Company recognises that exposure of its Executive Directors to other Boards can broaden their experience and knowledge. Executive Directors are therefore allowed to accept non-executive appointments, with the Board's approval. Chris Anderson, Executive Chairman of the Company, is an Executive Director of certain other companies. Details of his Directorships and his related party transactions are shown in note 31 to the accounts.

Emoluments of the Directors The emoluments of the Directors of the Company (including any entitlements to fees or emoluments from subsidiary companies) were as follows:

(i) Aggregate emoluments

	1999 £'000	1998 £'000
Salaries and fees	439	251
Benefits	19	19
Annual performance-related bonuses	125	196
Non recurring Listing bonuses	229	-
Pension contributions	18	17
Total	830	483

(ii) Individual emoluments of Directors

	1999					1998	
	Salary and fees £'000	Benefits £'000	Performance- related bonuses £'000	Non recurring Listing bonus £'000	Pension contributions £'000	Total £'000	Total £'000
Executive Directors							
C Anderson	85	-	51	-	-	136	9
G Ingham	180	10	39	158	9	396	308
I Linkins	110	9	35	71	9	234	166
Non-executive Directors							
B Clouston	16	-	-	-	-	16	NA
P Fitzsimons	16	-	-	-	-	16	-
B Manfrey	16	-	-	-	-	16	-
R Parry	16	-	-	-	-	16	NA

(a) Information included above is in respect of the period 1 January to 31 December 1999 and includes amounts paid by the Company, Future Publishing Holdings, Future Publishing and Imagine from the date of acquisition by the Company (1998: Future Publishing Holdings Group only).

(b) C Anderson received £21,784 in respect of his services as Chairman of the Company and £63,058 in respect of his services as Director of Imagine. In the period prior to flotation, he was a non-executive Director of Future Publishing Holdings and received £9,000 in respect of fees for those services.

(c) G Ingham received salary of £100,000 in respect of his services as Executive Director of the Company for the period post flotation, and £80,000 in respect of his services as a Director of the Future Publishing Holdings Group in the period 1 January to 24 June 1999.

(d) I Linkins received salary of £62,500 in respect of his services as Executive Director of the Company for the period post flotation, and £47,500 in respect of his services as a Director of the Future Publishing Holdings Group in the period 1 January to 24 June 1999.

(e) G Ingham was the highest paid Director in the year.

(f) The three Executive Directors have retirement benefits accruing under money purchase pension schemes.

(g) P Fitzsimons and B Manfrey were appointed to the Board of Future Publishing Holdings on 24 April 1998 as representatives of Apax Partners & Co Ventures Limited and were entitled to be paid their reasonable costs and out of pocket expenses.

(h) The performance-related bonuses in the table above include the deferred elements accruing under a long term incentive scheme as described on page 40.

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Remuneration Report

Share schemes The Executive Directors of the Company were granted options at flotation under the Senior Management Share Option Scheme (the 'Senior Management Scheme') over The Future Network plc shares. Other senior Executives also participate in the Senior Management Scheme and details are provided in note 24 to the accounts.

Options have been awarded in one block as a mechanism to incentivise the Executive Directors following the flotation, and taking into account each Executive Directors' substantial shareholding which existed pre-Listing.

The options under the Senior Management Scheme are subject to performance criteria which requires that options vest if the growth in the Company's shareholder return over a three year period relative to a comparator group of companies reaches the following targets:

- (i) If the Company ranks above the 80th percentile of the comparator group the options will become exercisable in full.
- (ii) If the Company ranks above the 50th percentile of the comparator group one-quarter of the options will become exercisable.
- (iii) Between the 50th and 80th percentile of the comparator group the options will become exercisable on a pro rata basis between one-quarter and in full.
- (iv) If the Company ranks below the 50th percentile of the comparator group the options do not vest.

The current comparator group of companies comprise:

Carlton Communications plc	Pearson Plc
Daily Mail & General Trust Plc	Reed Elsevier Plc
EMAP Plc	United News and Media Plc
Mirror Group Plc	

The Remuneration Committee are reviewing this comparator group and intend to revise the group to provide a more appropriate group which reflects similar business interests on the same international scale as The Future Network Group.

The growth in the total shareholder return is the growth in the market value of a notional shareholding in the three year period ended at the end of the month 36 months from the date of the grant. The notional shareholding takes account over the three year period of distributions, capitalisation issues, subdivision, consolidation or reductions in capital.

Directors are encouraged to hold their shares for a further period after vesting, subject to the need to finance any costs of acquisition and associated tax liabilities.

Option grants have also been made at flotation and subsequently over the Company's shares under the International Share Option Scheme to senior management and employees who have not received options under the Senior Management Scheme. These options are subject to performance criteria which are linked to growth in earnings per share, and differ from the performance criteria for the Senior Management Scheme. Details are provided in note 24 to the accounts. The Remuneration Committee has considered the appropriateness of the performance criteria for the International Share Option Scheme for 2000 in the light of the Group's current strategy, and it has agreed to waive such criteria for the year ended 31 December 2000 as it does not align with the interests of the Group.

In 1998 Future Publishing Holdings granted options to all employees other than the Directors of that company under The Future Publishing Holdings Limited Unapproved Share Option Plan, details of which are also provided in note 24 to the accounts. Options granted under this plan were not subject to performance criteria.

All options under these schemes have been granted at the market price at the time of grant. Numbers of share options granted and to be granted will be limited to those recommended by the current ABI guidelines.

Details of options held under the Senior Management Scheme by Directors in the Ordinary shares of The Future Network plc as at 31 December 1999, and movements during the year are shown as follows:

Interests in share options

	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	Granted in year	Number at 31 December 1999
C Anderson ¹	25 June 1999	25 June 2002	25 June 2009	385	138,528	138,528
G Ingham ²	25 June 1999	25 June 2002	25 June 2009	385	337,662	337,662
I Linkins	25 June 1999	25 June 2002	25 June 2009	385	129,870	129,870

¹ In addition to the information provided in the table above, under to the rules of the Imagine Stock Appreciation Rights Scheme, as converted into the 1999 Plan (The Future Network option plan for Imagine employees) 81.2% of any rights to acquire shares in the capital of the Company, which lapse from an Imagine employee ceasing to be employed automatically revert to Chris Anderson. Consequently, as at 31 December 1999 C Anderson also was entitled, under the operation of the 1999 Plan, to subscribe 1,007,481 Ordinary shares of the Company at a subscription price of 1 pence per share. In addition, participants in the Imagine Media Stock Appreciation Rights Scheme (as subsumed into the 1999 Plan) have the right to receive a cash sum instead of the shares under option to which they are entitled. C Anderson agreed with the Company that he would meet the cost of any such payments, on the basis that he would then become entitled to subscribe for the number of shares which any such employee held under option at the relevant option exercise price. As at 31 December 1999, by reason of certain employees electing for this option to take cash instead of the option shares to which they were entitled, C Anderson was entitled to subscribe an additional 1,341 Ordinary shares for an aggregate consideration of £4,308. Further details of these arrangements, all of which relate to the acquisition of Imagine by the Company, are set out in note 31 to the accounts.

² Included within the number of share options for G Ingham are 129,870 share options which have been granted to J Ingham, G Ingham's wife.

No options were exercisable during the year. The middle market price of The Future Network plc Ordinary shares during the year was in the range 385 pence to 904 pence. The average price for the year was 608 pence and the year end price was 852.5 pence.

Interests in shares The interests of the Directors in the shares of the Company and other Group members were:

Directors' interests in the share capital of Future Publishing Holdings Limited As at 1 January 1999, The Future Network plc had not been incorporated. The Directors' interests in the share capital of Future Publishing Holdings Limited are set out below:

Name	Position at start of year 'A' shares	Position at start of year 'B' shares	Il Mio Financing 'A' shares	Share premium capitalisation issue 'A' shares	Share premium capitalisation issue 'B' shares	Position prior to share exchange 'A' shares	Position prior to share exchange 'B' shares
Executive Directors							
C Anderson	178,819	28,650	33,223	6,810,494	920,198	7,022,536	948,848
G Ingham ¹	-	148,025	-	-	4,754,357	-	4,902,382
I Linkins	-	42,975	-	-	1,380,297	-	1,423,272
Non-executive Directors							
B Manfrey ²	859,326	-	159,653	32,728,187	-	33,747,166	-
P Fitzsimons ²	859,326	-	159,653	32,728,187	-	33,747,166	-
R Parry	-	-	-	-	-	-	-
B Clouston	-	-	-	-	-	-	-

¹ G Ingham's beneficial holding amounted to 3,162,827 'B' shares; in addition G Ingham was deemed to be interested in 1,739,555 'B' shares held by his wife, Jane Ingham.

² B Manfrey and P Fitzsimons are, by reason of their being Directors of Apax Partners & Co Ventures Limited, regarded as being interested in the 'A' shares of the Company held by the Apax UK VI Funds and the Future Publishing APIA LP investors. They do not hold any Ordinary shares of the Company directly.

The table above represents the following movements of shares:

On 22 March 1999, Future Publishing Holdings raised additional equity finance in connection with it acquiring the specialist computing publishing businesses of the Il Mio group of companies, by allotting in aggregate an additional 260,823 'A' shares. The Apax UK VI Funds subscribed an additional 159,653 'A' shares in such fundraising; accordingly the interests of B Manfrey and P Fitzsimons were notified as including those additional shares. C Anderson subscribed an additional 33,223 'A' shares.

On 11 June 1999 Future Publishing Holdings increased its share capital from £30,000 to £900,000 by the creation of an additional 68,000,000 'A' shares and 19,000,000 'B' shares and capitalised £657,549 of its share premium account in paying up in full at par 56,017,902 'A' shares and 9,737,012 'B' shares, which shares were issued to the existing shareholders of Future Publishing Holdings *pro rata* to their existing holdings in the company.

On the same date, under the terms of a Deed of Transfer, Novation and Termination, all of the shareholders disposed of their holdings of shares in Future Publishing Holdings to The Future Network Limited in exchange for the issue to them of an equal number of 'A' and 'B' shares of The Future Network Limited.

Directors' interests in the share capital of The Future Network plc On 14 June 1999 the shareholders of The Future Network Limited passed resolutions, conditionally upon Listing of the share capital of The Future Network Limited to which, *inter alia* to redesignate the 'A' and 'B' shares of The Future Network Limited as Ordinary shares of 1 pence each.

On 14 June 1999 The Future Network Limited re-registered as a public company under the name of The Future Network plc.

The table below shows the Directors' interests in issued Ordinary shares (excluding share options which are set out above) in The Future Network plc from the point of the share exchange which occurred on 11 June 1999 to 31 December 1999:

Name	Position following share exchange 'A' shares	Position following share exchange 'B' shares	Consolidation into single class of ordinary shares	Imagine consideration shares issued	Interest in The Future Network Trust ³	Interest in Purchase Option Deed shares ⁴	Acquisition/ [disposals] of shares on Listing	Disposal of shares on secondary offering	Balance holding as at 31 December 1999
Executive Directors									
C Anderson	7,022,536	948,848	7,971,384	27,503,454	140,903	3,564,796	(2,500,000)	-	36,680,537
G Ingham ¹	-	4,902,382	4,902,382	-	-	317,826	(600,937)	-	4,619,271
I Linkins	-	1,423,272	1,423,272	-	-	143,022	(284,654)	-	1,281,640
Non-executive Directors									
B Manfrey ²	33,747,166	-	33,747,166	-	639,488	-	(4,605,571)	(12,568,321)	17,212,762
P Fitzsimons ²	33,747,166	-	33,747,166	-	639,488	-	(4,605,571)	(12,568,321)	17,212,762
R Parry	-	-	-	-	-	-	40,000	-	40,000
B Clouston	-	-	-	-	-	-	120,000	-	120,000

¹ G Ingham's beneficial holding amounted to 3,227,627 Ordinary shares; in addition G Ingham was deemed to be interested in the 1,391,644 Ordinary shares held by his wife, Jane Ingham.

² B Manfrey and P Fitzsimons are, by reason of their being Directors of Apax Partners & Co Ventures Limited, regarded as being interested in the shares of the Company held by the Apax UK VI Funds and the Future Publishing APIA LP investors. They do not hold any Ordinary shares of the Company directly.

³ The Future Network Trust was a discretionary trust established prior to the share exchange agreement, the class of beneficiaries of which comprised all of the shareholders and former shareholders of Future Publishing Holdings and persons entitled to subscribe, or formerly entitled to subscribe, shares in Future Publishing Holdings Limited. On the Listing of The Future Network plc the trustees of The Future Network Trust appointed the shares held by them to certain members of that class of beneficiary, including the Directors named above.

⁴ In accordance with the provisions of the Companies Act 1985 (as amended), the shares subject to the Purchase Option Deed have been counted where they would increase the Director's holding, but have not been deducted where they would decrease the holdings of B Manfrey and P Fitzsimons. Accordingly the Directors' interests table above double counts the amount of the shares subject to the Purchase Option Deed to the extent that both Apax UK VI Funds, the Future Publishing APIA L.P. investors and the Executive Directors of the Company are deemed to be interested in the same holdings of shares. Further details of the Purchase Option Deed are set out in note 31 to the accounts.

Long term incentive scheme The annual bonus scheme provides that 50% of the bonus entitlement for each Director be deferred and paid at the end of the four year period to which the bonus plan relates. If a Director leaves the Company before the expiry of the four year period the deferred element of the bonus lapses. The amounts accruing, but not payable in the year, to each Director in respect of these deferred elements are as follows:

	Deferred element of annual performance-related bonus £'000
C Anderson	26
G Ingham	20
I Linkins	18

No amounts have crystallised during the year under the bonus plan.

Roger Parry Chairman of the Remuneration Committee

20 March 2000

The Directors of The Future Network plc subscribe, where appropriate having regard to the interests of the Company, to the Principles of Good Governance and Code of Best Practice encompassed in the Combined Code ('the Code') issued by the Committee on Corporate Governance in June 1998. The ways in which the Company applies and complies with the principles of the Code are described below, and in respect of remuneration, on pages 37 to 40. Since flotation, the Company has complied with the specific best practice provisions of Section 1 of the Code, with the exceptions of the following matters:

- (i) The Code provision A.3.2 regarding a majority of non-executives being independent;
- (ii) The Code provision A.6.1 regarding the appointment of non-executive Directors for specified terms; and
- (iii) The Code provision B.2.2 which prescribes that the Remuneration Committee comprise only those Directors who are regarded by the Board as 'independent'.

Explanations of these areas of non-compliance are addressed below. Shareholders are welcome to convey any governance concerns to any of the Directors at any time.

The Board The Future Network plc was incorporated on 22 April 1999 and, following the Company's merger with Future Publishing Holdings Limited on 11 June 1999 under a share exchange agreement dated the same date, the Company became the ultimate holding company of the Group. Chris Anderson, Greg Ingham, Ian Linkins, Barbara Manfrey and Paul Fitzsimons were all appointed to the Board of the Company on 11 May 1999, and served throughout the remainder of the year. Roger Parry and Brendan Clouston were appointed to the Board on 4 June 1999 and served throughout the remainder of the year. The Board comprises three Executive Directors: Chris Anderson (Chairman), Greg Ingham (Chief Executive) and Ian Linkins (Finance Director); and four non-executive Directors: Brendan Clouston (senior independent Director), Paul Fitzsimons, Barbara Manfrey and Roger Parry.

Non-executive Directors

Paul Fitzsimons and Barbara Manfrey are Directors of Apax Partners & Co Ventures Limited, which entity is interested or deemed to be interested in the entire Company's shareholding of the Apax UK VI Funds and of the Future Publishing APIA L.P. investors. The Apax UK VI and the Future Publishing APIA investors represent substantial shareholders of the Company's shares and, by the definition employed in the Code, Paul Fitzsimons and Barbara Manfrey are therefore not regarded as 'independent'. The Code recommends that the majority of non-executives should be independent, and in this respect the Company does not therefore comply with provision A.3.2 of the Code.

The Company intends that a suitable independent third non-executive Director will be appointed as soon as practicable. It is the Board's opinion that the other non-executive Directors meet the definition.

The Board did not consider it appropriate to fix the terms of appointment of the non-executive Directors as it did not want the Company to incur potential liabilities to the non-executive Directors in the event that shareholders considered it appropriate to remove any one or more of the non-executive Directors prior to the end of any such term.

Executive Directors

As noted in the Remuneration Report on page 38, the notice period for all Executive Directors is one year. As each of the Directors of the Company were appointed during the year by the other members of the Board of the Company, and as such appointments have not been considered by shareholders since their appointment, each of the Directors has agreed to retire at the Company's Annual General Meeting and, being eligible, to stand for re-election. Going forward the Company shall comply with the Code by ensuring that no Director serves for longer than a three year term before retiring.

Board meetings

The Board meets formally at least four times during the year with other meetings being held when specific proposals are required to be considered. There is a formal schedule of matters specifically reserved for the Board's decision which includes approval of significant strategic and financial decisions, the annual budget, material acquisitions disposals and contracts, and connected party transactions. The Board is also responsible for reviewing the annual and interim results.

Other matters

All Board members have access to the advice and services of the Company Secretary and a procedure has been agreed by the Board for all Directors to take independent professional advice if necessary, and at the Company's expense, in the furtherance of their duties as Directors.

Committees Remuneration, Audit and Nomination Committees of the Board have been established with formally delegated duties and responsibilities. The Board sets the terms of reference for all Committees.

The Remuneration Committee, which comprises Barbara Manfrey, Roger Parry (Chairman of the Committee) and Brendan Clouston, determines independently the remuneration packages of the Executive Directors, including their performance-related awards under the Company's incentive schemes. Barbara Manfrey who, as a non-executive Director, although not independent, is regarded as being independent for the purposes for which the Committee is established and someone who is able to provide continuity in respect of the Group both prior to and since its Listing on the London Stock Exchange.

The Audit Committee comprises Paul Fitzsimons (Chairman of the Committee), Brendan Clouston and Roger Parry. The majority of the members of the Audit Committee are regarded as independent. The Audit Committee is scheduled to meet three times during the year. The Committee's terms of reference cover the points recommended by the Code. The Committee is responsible for reviewing the operation of proper internal controls, the proper measurement and reporting of the financial performance of the Group, reviewing financial statements before publication and making recommendations to the Board on the appointment of the external auditors, reviewing the scope and results of their work, their independence and objectivity, and the audit fee. The Finance Director and other financial management attend by invitation. The Group's auditors attend each meeting and the Audit Committee considers reports issued by them. The Group's auditors have direct access to the Committee without the presence of any Executive Director.

The Nomination Committee comprises Chris Anderson, Brendan Clouston (Chairman of the Committee), Barbara Manfrey and Roger Parry. The Committee has responsibility for making recommendations to the Board in relation to Board appointments and on succession issues.

Directors' responsibilities for the preparation of financial statements The Directors are required by law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period and of the profit or loss of the Group for that period.

In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they have complied with the above requirements in preparing the accounts.

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

Auditors' responsibilities Auditors' responsibilities in relation to the financial statements are included in the Auditors' Report to the Members of The Future Network plc on page 43.

Going concern basis The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control The Turnbull Committee issued guidance in September 1999 on how companies should comply with the Code provision D.2.1 that requires Directors to undertake a review of their company's internal control system as a whole, including financial, operational and compliance controls and risk management. Full compliance with the requirements of paragraphs 12.43A (a) and (b) of the Listing Rules in relation to internal control disclosures is required for accounting periods ending on or after 23 December 2000. Transitional arrangements stated by the London Stock Exchange allow Directors to continue to report on their review of internal financial controls, provided that they comply with the existing 'Rutteman' guidance. The Directors have taken advantage of these arrangements, and confirm that in respect of the Group's internal financial controls they have complied with the existing guidance 'Internal Control and Financial Reporting – Guidance for directors of listed companies registered in the UK'. Therefore the report set out below is limited to reporting on the review of the internal financial controls of the Group. However, in respect of the application of the Code principle D.2, during 1999 the Group undertook a comprehensive review of all control mechanisms in place and formally examined the business risks faced by the Group in each of the markets and the territories in which it has operations. Following this review, the Group established the procedures necessary to implement the full Turnbull guidance ('Internal Control: Guidance for Directors on the Combined Code') for the forthcoming financial reporting year.

Report under Rutteman guidance

The Directors have overall responsibility for establishing financial reporting procedures to provide them with a reasonable basis to make proper judgments as to the financial position and prospects of the Group and have a responsibility for establishing the Group's system of internal financial control, and for monitoring its effectiveness. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly, and that material errors or irregularities are either prevented or would be detected within a timely period.

The Board has reviewed the effectiveness of the system of internal financial controls. The key features of the Group's financial reporting and internal financial control framework which have operated since flotation include:

- Approval of the annual budget and strategy for the Group and each subsidiary by the Board.
- Regular reports of actual results compared to budget, forecasts and prior period at the individual title or operational level which are submitted to the Board.
- Review and explanation of variances at subsidiary and Group levels, supplemented by quarterly forecasting for each subsidiary, which is incorporated into Group reforecasts.
- Monthly reviews of the operational results and planned actions by the Executive Directors with the Managing Directors, Finance Directors and other senior management of all subsidiary companies.
- Formal procedures for Board approval and authorisation of material acquisitions with clear guidelines on investment appraisal, disposals and contracts, and connected party transactions.
- A formalised approach determined at Board level to risk identification and assessment, and on which the internal controls of each subsidiary are based.
- Clear responsibilities for financial and other management for the maintenance of good financial controls.
- Periodic review of the measurement and assessment of the principle financial controls across all subsidiaries, based on self evaluation, and supplemented by independent review by Group members with specialist knowledge of those areas of risk identified.
- Group companies being required to maintain systems of internal control which are appropriate to the nature and scale of their activities and address all significant financial and operational risks that they face.
- Periodic review by the Audit Committee of the Group's systems and procedures, receipt of reports from internal controls review processes, and of reports from the external auditors.

Auditors' fees The Audit Committee has reviewed the remuneration received by PricewaterhouseCoopers for non-audit work. The fees for non-audit work largely comprise due diligence work on the acquisitions of Imagine and the business of the Il Mio Group, and fees in connection with the flotation of the Company in June 1999. The Audit Committee has concluded that no conflict of interest exists between PricewaterhouseCoopers audit and non-audit work and that their involvement was based on the most effective way of conducting the Group's business.

Approved by the Board of Directors on 20 March 2000

Ian Linkins Company Secretary

The Future Network plc Annual Report 1999
Auditors' Report to the Members of The Future Network plc

Financial statements We have audited the profit and loss account, cash flow statement and balance sheet, together with the supporting notes thereto for the year ended 31 December 1999 which are referred to as 'Actual' on pages 44 to 72 ('the financial statements').

Respective responsibilities of Directors and auditors The Directors are responsible for preparing the Annual Report. As described on page 42, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

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

We review whether the statement on pages 41 and 42 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group for the period then ended 31 December 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Pro forma financial information We have reviewed, without performing an audit, the calculations and the basis of presentation of the pro forma profit and loss accounts and supporting notes thereto for the two years ended 31 December 1999 which are referred to as 'Pro forma' on pages 44 to 72 ('the pro forma financial information'). The pro forma financial information is the responsibility of, and has been approved by the Directors of The Future Network plc. The pro forma financial information has been prepared for illustrative purposes only, and is based on the source information referred to in the basis of preparation of the accounts on page 49.

Basis of opinion Our review, which was substantially less in scope than an audit, consisted primarily of comparing the pro forma financial information with the source information, of considering the evidence supporting the adjustments and of discussing the pro forma financial information with the management of The Future Network plc.

Review opinion On the basis of our review, in our opinion the pro forma financial information has been properly compiled on the basis stated on page 49.



Chartered Accountants and Registered Auditors
Bristol

20 March 2000

	Note	Continuing operations		1999	1998
		£'000	Acquisitions £'000	Total £'000	Total £'000
Turnover	1(i)	121,644	52,316	173,960	80,290
Cost of sales		(77,784)	(37,023)	(114,807)	(54,948)
Gross profit		43,860	15,293	59,153	25,342
Distribution expenses		(4,200)	(4,066)	(8,266)	(2,748)
Administrative expenses		(28,785)	(16,387)	(45,172)	(15,955)
Operating profit excluding amortisation of intangible assets ¹		17,751	4,759	22,510	11,381
Amortisation of intangible assets	7	(6,876)	(9,919)	(16,795)	(4,742)
Operating profit/(loss)		10,875	(5,160)	5,715	6,639
Profit on disposal of fixed asset investments	2			1,962	-
Net interest payable and similar charges	4			(10,812)	(10,360)
Loss on ordinary activities before taxation	1(i), 2			(3,135)	(3,721)
Tax on loss on ordinary activities	5			(3,530)	(1,000)
Loss on ordinary activities after taxation				(6,665)	(4,721)
Loss for the financial year	26			(6,665)	(4,721)

¹ Included within the operating result is an amount of £934,000 (1998: £nil) in respect of employer taxes on options and share related benefits provided to employees (see note 16 to the accounts).

	Note	1999 £'000	1998 £'000
Adjustments to actual results after taxation			
Loss on ordinary activities after taxation		(6,665)	(4,721)
Add: amortisation of intangible assets	2	16,795	4,742
Add: employer taxes on options and share related benefits	2	934	-
Less: profit on sale of fixed asset investments	2	(1,962)	-
Adjusted profit on ordinary activities after taxation		9,102	21

	Note	1999 Pence	1998 Pence
Actual earnings per 1 pence ordinary share			
Basic loss per share	6	(6.54)	(12.15)
Adjusted basic earnings per share	6	8.93	0.05
Diluted loss per share	6	(6.54)	(12.15)
Adjusted diluted earnings per share	6	8.09	0.05

The Future Network plc Annual Report 1999
Pro Forma Group Profit and Loss Account
for the year ended 31 December 1999

	Note	Continuing operations		1999	1998
		£'000	Acquisitions £'000	Total £'000	Total £'000
Turnover	1(ii)	193,735	4,776	198,511	159,881
Cost of sales		(129,756)	(5,575)	(135,331)	(114,747)
Gross profit/(loss)		63,979	(799)	63,180	45,134
Distribution expenses		(10,443)	(483)	(10,926)	(8,392)
Administrative expenses		(55,164)	(1,271)	(56,435)	(46,959)
Operating profit excluding amortisation of intangible assets ¹		22,799	(2,166)	20,633	13,022
Amortisation of intangible assets		(24,427)	(387)	(24,814)	(23,239)
Operating loss		(1,628)	(2,553)	(4,181)	(10,217)
Profit on disposal of fixed asset investments	2			10,895	-
Net interest payable and similar charges	4			(2,798)	(2,624)
Profit/(loss) on ordinary activities before taxation	1(ii), 2			3,916	(12,841)
Tax on profit/(loss) on ordinary activities	5			(6,829)	(6,060)
Loss on ordinary activities after taxation				(2,913)	(18,901)
Loss for the financial year				(2,913)	(18,901)

¹ Included within the operating loss is an amount of £1,405,000 (1998: £nil) in respect of employer taxes on share options and share related benefits provided to employees (explained in note 16 to the accounts).

	Note	1999 £'000	1998 £'000
Adjustments to pro forma results after taxation			
Loss on ordinary activities after taxation		(2,913)	(18,901)
Add: amortisation of intangible assets	2	24,814	23,239
Add: employer taxes on options and share related benefits	2	1,405	-
Less: profit on sale of fixed asset investments	2	(10,895)	-
Adjusted profit on ordinary activities after taxation		12,411	4,338

	Note	1999 Pence	1998 Pence
Pro forma earnings per 1 pence ordinary share			
Basic loss per share	6	(2.11)	(13.83)
Adjusted basic earnings per share	6	8.99	3.17
Diluted loss per share	6	(2.11)	(13.83)
Adjusted diluted earnings per share	6	8.22	2.88

Group Activity Analysis

for the year ended 31 December 1999

	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
Turnover by business unit				
Magazine				
United Kingdom	99,819	88,386	99,819	63,764
France	21,979	21,246	21,979	16,472
Italy	16,594	14,706	12,465	-
Germany	4,208	-	4,208	-
United States	54,189	34,889	34,090	-
	196,789	159,227	172,561	80,236
Internet	1,722	654	1,399	54
Total	198,511	159,881	173,960	80,290

	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
Results by business unit				
Magazine				
United Kingdom	19,224	12,809	19,224	9,512
France	1,864	3,029	1,864	2,112
Italy	3,803	2,545	2,667	-
Germany	(2,123)	-	(2,123)	-
United States	3,551	(5,188)	6,036	-
	26,319	13,195	27,668	11,624
Internet	(3,563)	(173)	(3,035)	(243)
Central operating costs	(2,123)	-	(2,123)	-
Operating profit excluding amortisation of intangible assets	20,633	13,022	22,510	11,381
Employer taxes on options and share related benefits ¹	1,405	-	934	-
Adjusted operating profit	22,038	13,022	23,444	11,381

¹The above table highlights the impact of additional employment taxes provided for on the basis of the rise in market value of shares to 31 December 1999 compared with the exercise price in line with FRS12. The provision will fluctuate in the short term, driven by market events rather than trading. The actual cost incurred will depend on the share price at the time that options are exercised, the number of options which vest on the basis of performance criteria, and the number which lapse due to option holders leaving our employment.

	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
Turnover by category				
Circulation	123,806	108,957	111,039	57,810
Advertising	66,032	44,826	54,987	19,167
Internet	1,722	654	1,399	54
Other	6,951	5,444	6,535	3,259
Total	198,511	159,881	173,960	80,290

Other turnover derives primarily from licensing of the Group's titles and income from exhibitions.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 1999

	Note	1999 Actual £'000	1998 Actual £'000
Loss on ordinary activities after taxation		(6,665)	(4,721)
Exchange adjustments offset in reserves	26	(2,011)	324
Reversion of rights pertaining to investments from departing employees	27	376	-
Total recognised losses for the year		(8,300)	(4,397)

Reconciliation of Movements in Shareholders' Funds/(Deficit)

for the year ended 31 December 1999

	Note	1999 Group Actual £'000	1999 Company Actual £'000	1998 Group Actual £'000
Loss attributable to shareholders		(6,665)	(2,599)	(4,721)
Proceeds from issue of shares		735	1,413	678
Premium on issue of shares (net of expenses)	25	135,582	135,582	-
Merger reserve arising in the year	27	108,211	-	804
Exchange adjustments offset in reserves		(2,011)	-	324
Other reserve movements arising from acquisition of Imagine	27	39,810	39,810	-
Reversion of rights pertaining to investments from departing employees	27	376	-	-
Net change in shareholders' funds/(deficit)		276,038	174,206	(2,915)
Opening shareholders' deficit as previously reported by Future Publishing Holdings Limited		(2,915)	-	-
Shareholders' funds/(deficit) as at 31 December		273,123	174,206	(2,915)

Balance Sheets

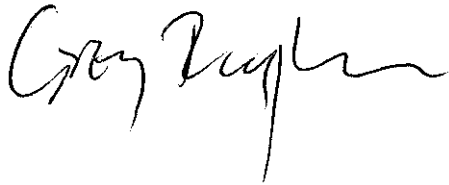
as at 31 December 1999

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000
Fixed assets				
Intangible assets	7	292,563	-	133,165
Tangible assets	8	6,075	-	4,193
Investments	9	2,445	43,315	-
		301,083	43,315	137,358
Current assets				
Stocks	11	5,872	-	2,211
Debtors	12	48,722	175,085	26,731
Investments	10	1,040	-	-
Cash at bank and in hand		18,940	766	7,131
		74,574	175,851	36,073
Creditors: amounts falling due within one year	13	(60,420)	(8,679)	(45,799)
Net current assets/(liabilities)		14,154	167,172	(9,726)
Total assets less current liabilities		315,237	210,487	127,632
Creditors: amounts falling due after more than one year	14	(39,910)	(36,171)	(130,191)
Provisions for liabilities and charges	16	(2,204)	(110)	(356)
Net assets/(liabilities)		273,123	174,206	(2,915)
Capital and reserves				
Called-up share capital	23	1,413	1,413	678
Share premium account	25	135,582	135,582	-
Merger reserve	27	109,015	-	804
Other reserves	27	40,186	39,810	-
Profit and loss account	26	(13,073)	(2,599)	(4,397)
Total equity shareholders' funds/(deficit)		273,123	174,206	(2,915)

Approved by the Board on 20 March 2000 and signed on its behalf by:

G Ingham Chief Executive

I Linkins Finance Director



	Note	1999 Actual £'000	1998 Actual £'000
Net cash inflow from operating activities	17	16,428	9,735
Returns on investments and servicing of finance			
Interest received		516	-
Interest paid		(9,720)	(3,176)
Issue costs of bank loans		(1,602)	(1,715)
Net cash outflow from returns on investments and servicing of finance		(10,806)	(4,891)
Taxation paid		(3,040)	(3,638)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,682)	(939)
Purchase of fixed asset investments		(1,185)	-
Sale of tangible fixed assets		62	76
Sale of fixed asset investments		11,328	-
Net cash inflow/(outflow) for capital expenditure and financial investment		7,523	(863)
Acquisitions			
Purchase of subsidiary undertakings	28	(1,691)	(118,074)
Net cash acquired with subsidiary undertakings	28	319	6,181
Payment of deferred consideration		(15,388)	-
Purchase of businesses	28	(29,210)	-
Net cash outflow for acquisitions		(45,970)	(111,893)
Net cash outflow before use of liquid resources and financing		(35,865)	(111,550)
Management of liquid resources			
Decrease/(increase) in short term deposits	18	1,000	(1,000)
Financing			
Proceeds from issue of ordinary share capital		150,131	1,444
Expenses of share issue	25	(11,492)	-
Proceeds from issue of loan notes	18	9,716	52,634
Repayment of loan notes	18	(68,411)	-
Draw down of bank loans	18	65,611	72,923
Repayment of bank loans	18	(98,736)	(8,400)
Net cash inflow from financing		46,819	118,601
Increase in cash in the period		11,954	6,051

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Basis of Preparation of Accounts

Actual financial information

On 11 June 1999, as part of a Group reorganisation, The Future Network plc, which had been incorporated on 22 April 1999, acquired Future Publishing Holdings Limited in exchange for the issue of shares. This has been accounted for under merger accounting principles. Future Publishing Holdings Limited was incorporated on 8 September 1997 and did not trade in the period prior to 24 April 1998. It acquired Future Publishing Limited ('Future Publishing') and Edicorp Publications SA ('Edicorp') on 24 April 1998. On 22 March 1999, Future Publishing Holdings Limited acquired the assets of the Il Mio Group through a subsidiary undertaking. On 25 June 1999 The Future Network plc acquired Imagine Media, Inc. ('Imagine') in exchange for shares in the Company. On 1 July 1999 Future Publishing Holdings Limited acquired, through a subsidiary company, the shares of WEKA Consumer Medien GmbH ('WEKA') and the assets relating to its WEKA Consumer Media business division. During September and December 1999 further titles were acquired by Future Publishing. The actual consolidated financial statements include the Future Publishing Holdings Group under merger accounting principles, and the Imagine acquisition under acquisition accounting.

The actual financial information for the Group shows the trading up to 31 December 1999 of Future Publishing Holdings Limited's subsidiaries in the United Kingdom and France for the period from 1 January 1999, the trading of the Il Mio Group, which business was acquired by Future Publishing Holdings Limited, for the period since acquisition on 22 March 1999, for Imagine from 25 June 1999, and the WEKA titles from 1 July 1999.

Within these financial statements, reference to 1998 means the twelve month period from 1 January 1998 to 31 December 1998, during which time the Group traded for the period 24 April 1998 to 31 December 1998, and reference to 1999 means the twelve month period 1 January 1999 to 31 December 1999. The Future Network plc's first period of trading is for the period ended 31 December 1999 and therefore there is no Company comparative financial information.

Pro forma financial information

In order to assist readers pro forma results are shown on page 45 for the twelve months ended 31 December 1999 and 31 December 1998. They are based on a full twelve months' trading for all companies which became part of the Group before and at flotation, and assume that the capital and financing structure of the Group at flotation applied throughout the period. Acquisitions since Listing, comprising the WEKA titles and titles acquired in September and December 1999 by Future Publishing, are not adjusted to a full year basis but are shown separately.

The 1998 comparatives are based on the pro forma figures, included in the Listing Particulars dated 18 June 1999, restated to reflect the actual annual charges (incorporating fair value provisions) for amortisation of goodwill. The pro forma results have been prepared using consistent accounting policies to the actual results. More detailed information can be found in the Company's Listing Particulars.

Accounting Policies

The accounts have been prepared under the historical cost convention, and in accordance with accounting standards applicable in the United Kingdom. The principal accounting policies which have been consistently applied are set out below.

Basis of consolidation The consolidated accounts comprise the Company and all of its subsidiary undertakings for the year ended 31 December 1999.

The principal operating subsidiary undertakings are set in note 33 to the accounts. The results of subsidiary undertakings are consolidated from the effective date of acquisition and businesses sold are included up to the date of disposal.

Intangible assets On acquisition of a subsidiary or business, the purchase consideration is allocated between the underlying net assets on a fair value basis, with any excess purchase consideration representing goodwill. The purchase consideration is stated at fair value. Intangible assets also includes goodwill arising on the acquisition of titles and the related subscription lists of certain acquired titles. Purchased goodwill is capitalised and amortised on a straight line basis over the estimated useful life of each acquisition.

Internally developed goodwill and other intangible assets are not capitalised.

Tangible fixed assets Tangible fixed assets are stated at cost less accumulated depreciation. No depreciation is provided on freehold land.

For other tangible fixed assets depreciation is calculated to write down the cost of the tangible fixed assets to their estimated residual values by equal annual instalments over the period of their estimated useful lives, which are considered to be:

Freehold buildings	- Fifty years
Leasehold properties and improvements	- Fifty years or period of the lease if shorter
Plant and machinery	- Between two and five years
Equipment, fixtures and fittings	- Between two and ten years

Impairment of fixed assets and goodwill Fixed assets and goodwill are regularly reviewed to determine whether their value appears to have been impaired. Where a fixed asset has been impaired, the impairment is charged to the profit and loss account, and the asset is carried at its recoverable amount.

Investments Investments in subsidiary undertakings are stated at the fair value of consideration payable including related acquisition costs. Other fixed asset and short term investments are stated at the lower of cost and net realisable value.

Foreign currencies Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction, or where forward exchange contracts have been arranged, at the contracted rate. Monetary assets and liabilities denominated in foreign currencies, where a contract rate does not apply, are translated at the exchange rates ruling at the balance sheet date, and any exchange differences are taken to the profit and loss account.

Profits and losses of overseas subsidiaries that have currencies of operation other than Sterling are translated into Sterling at average rates of exchange ruling during the period, except for material items that are translated at the rate ruling at the date of transaction. Differences between the profit and loss accounts translated at average rates and at balance sheet rates are shown as a movement on reserves and in the statement of total recognised gains and losses.

Where practicable, the Group's overseas equity investments are financed by borrowings in the currencies in which those assets are denominated. Exchange differences arising from the retranslation of overseas net investments, including goodwill and the related loans together with the related tax effect, are dealt with through reserves and the statement of total recognised gains and losses. Other exchange differences are taken to the profit and loss account.

Financial instruments Derivative financial instruments are used by the Group to reduce exposure to foreign exchange and interest rate risks. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Group.

Payments and receipts under the interest rate swaps are accrued with net interest payable. The swaps are not revalued to fair value or shown in the Group balance sheet at the year end.

Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination receipts and payments are taken to the profit and loss account.

Interest differentials on derivative instruments used to manage borrowing costs are recognised by adjusting net interest payable. Premiums paid on derivative instruments are amortised over the shorter of the life of the instrument or the underlying exposure.

Where forward foreign currency contracts are used to hedge foreign currency transactions the Sterling equivalent is recorded at the contracted amount.

Stocks and work in progress Stocks and work in progress are stated at the lower of cost and net realisable value. For raw materials, cost is taken to be the purchase price. For work in progress and finished products cost is calculated as the direct cost of production.

Turnover Turnover is the amount derived from the provision of goods and services falling within the Group's ordinary activities after deduction of trade discounts, returns and value added taxes. The circulation and advertising turnover relating to a magazine issue is recognised with effect from the date that the issue goes on sale. Income arising from exhibitions and shows relating to future periods is deferred until those events have taken place, but only to the extent that the costs are expected to be recoverable.

Deferred income Subscription payments received are held in the balance sheet and recognised in the profit and loss account on publication of each issue.

Leases Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term. When a leasehold property ceases to be used in the business, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

Capitalisation of finance costs and interest All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the terms of the borrowings and represent a constant proportion of the capital repayments outstanding. Accrued finance costs attributable to borrowings where the maturity at the date of issue is less than twelve months are included in the accrued charges within current liabilities. For all other borrowings, accrued finance charges and issue costs are added to the carrying value of those borrowings.

Development and subscription costs Launch, development and subscription costs are written off in full as incurred.

Pensions The Group operates defined contribution schemes in the United Kingdom and in the United States. Contributions payable in respect of these defined contribution schemes are charged to the profit and loss account as they are incurred.

Deferred taxation Deferred taxation is provided using the liability method in respect of timing differences where the liability or asset is expected to crystallise in the foreseeable future.

Share schemes When an employee is granted options to subscribe for shares, any difference between the fair value of those shares at the date the grant is made and the option price payable by the employee is charged to the profit and loss account over the period from the date of grant to the date at which the employee becomes unconditionally entitled to the shares. Employer taxes on options provided to employees of each employing company are accrued at the date of grant of the option in accordance with FRS12: Provisions, contingent liabilities and contingent assets.

The Future Network plc Annual Report 1999
Notes to the Accounts

1. Segmental reporting The Group is involved in one class of business, the publication of magazines and Internet websites.

(i) Actual results

The geographical analyses of turnover, profit/(loss) before tax, and net assets by origin, and turnover by destination were as follows:

(a) Turnover by origin

	Continuing operations		1999	1998
	£'000	Acquisitions £'000	Total Turnover £'000	Total Turnover £'000
United Kingdom	100,273	549	100,822	63,902
France	21,979	-	21,979	16,472
Italy	-	12,465	12,465	-
Germany	-	4,226	4,226	-
United States	-	35,076	35,076	-
Turnover between segments	(608)	-	(608)	(84)
Total	121,644	52,316	173,960	80,290

(b) Profit/(loss) before tax by origin

	Continuing operations		1999	1998
	£'000	Acquisitions £'000	Total Profit/(loss) before tax £'000	Total Profit/(loss) before tax £'000
United Kingdom	13,450	(42)	13,408	6,397
France	183	-	183	837
Italy	-	1,070	1,070	-
Germany	-	(2,704)	(2,704)	-
United States	-	(2,995)	(2,995)	-
Central costs	(12,097)	-	(12,097)	(10,955)
Total	1,536	(4,671)	(3,135)	(3,721)

(c) Net assets by origin

	Continuing operations		1999	1998
	£'000	Acquisitions £'000	Total Net assets £'000	Total Net assets £'000
United Kingdom	116,543	-	116,543	98,294
France	31,928	-	31,928	31,097
Italy	-	18,783	18,783	-
Germany	-	7,185	7,185	-
United States	-	143,261	143,261	-
Interest bearing liabilities	(44,577)	-	(44,577)	(132,306)
Total	103,894	169,229	273,123	(2,915)

(d) Turnover by destination

	1999	1998
	£'000	£'000
United Kingdom	90,114	56,179
France	20,329	14,658
Italy	13,177	-
Germany	4,381	-
United States	34,564	-
Rest of world	12,003	9,537
Turnover between segments	(608)	(84)
Total	173,960	80,290

1. Segmental reporting continued

(iii) Pro forma

The geographical analyses of turnover, and profit/(loss) before tax, by origin and turnover by destination were as follows:

(a) Turnover by origin

	Continuing operations		1999	1998
	£'000	Acquisitions £'000	Total Turnover £'000	Total Turnover £'000
United Kingdom	100,394	550	100,944	89,095
France	21,979	-	21,979	21,109
Italy	16,594	-	16,594	14,706
Germany	-	4,226	4,226	-
United States	55,498	-	55,498	35,469
Turnover between segments	(730)	-	(730)	(498)
Total	193,735	4,776	198,511	159,881

(b) Profit/(loss) before tax by origin

	Continuing operations		1999	1998
	£'000	Acquisitions £'000	Profit/(loss) before tax £'000	Profit/(loss) before tax £'000
United Kingdom	13,450	(42)	13,408	5,484
France	183	-	183	1,181
Italy	1,895	-	1,895	1,144
Germany	-	(2,704)	(2,704)	-
United States	(5,093)	-	(5,093)	(20,650)
Central costs	(3,773)	-	(3,773)	-
Total	6,662	(2,746)	3,916	(12,841)

(c) Turnover by destination

	1999	1998
	£'000	£'000
United Kingdom	90,236	79,049
France	20,329	18,742
Italy	17,306	14,706
Germany	4,381	-
United States	53,001	18,927
Rest of world	13,988	28,955
Turnover between segments	(730)	(498)
Total	198,511	159,881

2. Profit/(loss) on ordinary activities before taxation

	1999	1998	1999	1998
	Pro forma £'000	Pro forma £'000	Actual £'000	Actual £'000
Profit before taxation is stated after charging/(crediting):				
Staff costs	39,584	27,829	34,449	16,151
Depreciation of owned assets	2,109	2,297	1,777	871
Amortisation of intangible assets	24,814	23,239	16,795	4,742
Hire of machinery and equipment	700	394	640	198
Other operating lease rentals	2,032	1,610	1,994	618
Employer taxes on options and share related benefits	1,405	-	934	-
Net exchange differences on foreign currency borrowings less deposits	752	-	752	-
Profit on disposal of fixed asset investments	(10,895)	-	(1,962)	-
Fees paid to auditors				
Statutory audit	227	66	168	46
Fees in respect of the flotation of the Company	2,059	-	2,059	-
Acquisition support	801	-	801	-
Taxation and other services	230	130	200	130

The audit fee for the Company included within the Group fee was £31,000.

3. Employees and Directors

	Note	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
Staff costs					
Wages and salaries		33,667	24,011	29,281	13,762
Social security costs		5,270	3,444	4,522	2,015
Other pension costs	29	647	374	646	374
		39,584	27,829	34,449	16,151

Average monthly number of people (including Executive Directors)

	1999 Pro forma	1998 Pro forma	1999 Actual	1998 Actual
Production	994	991	984	766
Administration	344	152	342	93
Total	1,338	1,143	1,326	859

Details of the Directors' remuneration and interests are provided within the Remuneration Report on pages 37 to 40. The highest paid Director during the year was G Ingham and details of his remuneration are shown on page 38.

4. Net interest payable and similar charges

	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
Interest payable on bank loans and overdrafts	2,017	1,878	3,620	5,243
Amortisation of issue costs of bank loan	94	-	2,696	188
Interest payable on other loans	1,060	-	4,462	4,502
Amortisation of discount arising on fair valuing of deferred consideration	150	1,254	550	760
Total interest payable and similar charges	3,321	3,132	11,328	10,693
Interest receivable	[523]	[508]	[516]	[333]
Net interest payable and similar items	2,798	2,624	10,812	10,360

5. Tax on profit/(loss) on ordinary activities

	Note	1999 Pro forma £'000	1998 Pro forma £'000	1999 Actual £'000	1998 Actual £'000
UK					
Corporation tax at 30.25% (1998: 31%)		4,690	3,364	2,411	-
Overseas					
Current tax		1,331	2,934	687	1,000
Deferred tax	16	808	[238]	432	-
		6,829	6,060	3,530	1,000

The Group made a loss before taxation of £3,135,000 (1998: £3,721,000) and a taxation charge of £3,530,000 (1998: charge £1,000,000) for the year. Eliminating goodwill arising on consolidation which has no impact on taxation, the profit before taxation was £11,225,000 (1998: £1,021,000) providing an effective tax rate of 31.4% (1998: 98%). The principal components of the difference between the actual effective rate and the standard rate of 30.25% in 1999 are higher overseas rates of tax, overseas tax losses not being available for relief, and timing differences, being primarily offset by the utilisation of tax losses carried forward from prior years, and the deductibility of costs in respect of share options.

The high effective rate of tax in 1998 is primarily due to the timing differences arising between the significant accrual of interest and its deductibility for tax purposes, together with a higher proportion of profits being earned in France, where the tax rates were higher than in the UK.

The pro forma profit before tax, after eliminating goodwill arising on consolidation was £25,544,000 (1998: £8,697,000) providing an effective tax rate of 26.7% (1998: 69.7%).

The pro forma tax charge was lower than the standard UK corporation tax rate of 30.25% due primarily to the availability of tax losses in Imagine to offset its pre acquisition profits, including the substantial gain on fixed asset investments amounting to £10,895,000 in the pro forma profit and loss account. This was partially offset by non-utilisation of tax losses in Germany and by higher rates of tax payable in jurisdictions other than the United Kingdom.

6. Earnings per share Basic earnings per share are calculated using the weighted average number of Ordinary shares outstanding during the period. Diluted earnings per share have been calculated by taking into account the dilutive effect of shares that would be issued on conversion into Ordinary shares of warrants and options held under employee share schemes and in respect of the deferred consideration arising on the Imagine acquisition (see note 28).

	1999 Pro forma	1998 Pro forma	1999 Actual	1998 Actual
Weighted average number of shares outstanding during the period:				
- basic	138,105,284	136,663,881	101,965,968	38,871,050
- dilutive effect of share options	12,972,364	14,151,076	10,514,893	2,081,761
- diluted	151,077,648	150,814,957	112,480,861	40,952,811
Basic loss per share (pence)	(2.11)	(13.83)	(6.54)	(12.15)
Adjusted basic earnings per share (pence)	8.99	3.17	8.93	0.05
Diluted loss per share (pence) ¹	(2.11)	(13.83)	(6.54)	(12.15)
Adjusted diluted earnings per share (pence)	8.22	2.88	8.09	0.05

¹ The share options do not have a dilutive effect where there is a loss.

The adjustments to profit noted on pages 44 and 45 have the following effect on EPS:

	1999	1998	1999	1998
Basic loss per share (pence)	(2.11)	(13.83)	(6.54)	(12.15)
Amortisation of intangible assets	17.97	17.00	16.47	12.20
Employer taxes on options and share related benefits	1.02	-	0.92	-
Profit on sale of fixed asset investments	(7.89)	-	(1.92)	-
Adjusted basic earnings per share (pence)	8.99	3.17	8.93	0.05
Diluted loss per share (pence)	(2.11)	(13.83)	(6.54)	(12.15)
Adjustment for dilutive effect of share options (see ¹ above)	0.19	1.30	0.61	0.62
Amortisation of intangible assets	16.42	15.41	14.93	11.58
Employer taxes on options and share related benefits	0.93	-	0.83	-
Profit on sale of fixed asset investments	(7.21)	-	(1.74)	-
Adjusted diluted earnings per share (pence)	8.22	2.88	8.09	0.05

7. Intangible fixed assets

Group	Note	Goodwill £'000
Cost		
At 1 January 1999		137,907
Exchange adjustments		(4,527)
Goodwill arising on acquisitions		181,131
Adjustments to previously assessed fair value	28	(461)
At 31 December 1999		314,050
Amortisation		
At 1 January 1999		(4,742)
Exchange differences		50
Charge for the year		(16,795)
At 31 December 1999		(21,487)
Net book amount at 31 December 1999		292,563
Net book amount at 31 December 1998		133,165

The goodwill arising on acquisitions is being amortised on a straight line basis over their estimated expected lives, being in the range two to twenty years. These periods are the periods over which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the values of the underlying assets.

8. Tangible fixed assets

<i>Group</i>	Land and buildings £'000	Plant and machinery £'000	Equipment, fixtures and fittings £'000	Total £'000
Cost				
At 1 January 1999	1,600	2,319	956	4,875
Reclassification	-	41	(41)	-
Exchange adjustments	(4)	(127)	(11)	(142)
Acquisitions	224	623	298	1,145
Additions	63	2,102	513	2,678
Disposals	(9)	(60)	(11)	(80)
At 31 December 1999	1,874	4,898	1,704	8,476
Depreciation				
At 1 January 1999	(12)	(540)	(130)	(682)
Reclassification	-	(8)	8	-
Exchange adjustments	-	37	3	40
Charge for the year	(93)	(1,398)	(286)	(1,777)
Disposals	-	7	11	18
At 31 December 1999	(105)	(1,902)	(394)	(2,401)
Net book value at 31 December 1999	1,769	2,996	1,310	6,075
Net book value at 31 December 1998	1,588	1,779	826	4,193

<i>Analysis of net book value of land and buildings</i>	1999 Group £'000	1998 Group £'000
Freehold	390	396
Leasehold:		
Over 50 years unexpired	1,168	1,192
Short term lease	211	-
Total	1,769	1,588

9. Fixed asset investments

<i>Shares in Group undertakings</i>	1999 Company £'000
Additions and at 31 December	43,315
<i>Other</i>	1999 Group £'000
At 1 January	-
At acquisition	11,383
Additions	1,651
Exchange differences	(183)
Disposals	(9,366)
Transfer to current assets	(1,040)
At 31 December	2,445

At acquisition Imagine carried an investment in Iconocast, Inc., a company incorporated in the United States, in which Imagine holds 24.9% of the common stock. During the year Iconocast, Inc. was accounted for as a fixed asset investment. The Group's interest has not been treated as an associated undertaking as the Company is controlled by its majority shareholders and, in the opinion of the Directors, the Group does not, at present, exercise significant influence over its operations.

10. Current asset investments

<i>Listed investments</i>	1999 Group £'000
At 1 January	-
Transfer from fixed assets at cost	1,040
At 31 December	1,040

The listed investment consists of shares in America Online, Inc. the market value of which was £1,902,000 at 31 December 1999.

11. Stocks

	1999 Group £'000	1998 Group £'000
Raw materials	3,225	1,290
Work in progress	1,470	681
Finished products	1,177	240
	5,872	2,211

12. Debtors

	1999 Group £'000	1999 Company £'000	1998 Group £'000
Amounts falling due within one year			
Trade debtors	43,029	-	24,356
Amounts owed by Group undertakings	-	173,711	-
Other debtors	1,646	1,361	1,219
Prepayments and accrued income	3,829	13	1,156
	48,504	175,085	26,731
Amounts falling due after one year			
Other debtors	218	-	-
	48,722	175,085	26,731

13. Creditors: amounts falling due within one year

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000
Bank and other borrowings		5,846	5,846	2,115
Shareholder loan	31	907	-	-
Trade creditors		23,084	-	13,650
Amounts owed to Group undertakings		-	2,089	-
Corporation tax		2,259	-	1,953
Other creditors including taxation and social security		4,816	154	2,606
Accruals and deferred income		23,503	590	11,051
Deferred consideration for acquisitions		5	-	14,424
		60,420	8,679	45,799

14. Creditors: amounts falling due after more than one year

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000
Bank and other borrowings		36,171	36,171	71,496
Shareholder loan	31	1,653	-	-
Other loans		-	-	58,695
Deferred consideration for acquisitions		2,086	-	-
		39,910	36,171	130,191

15. Bank and other borrowings*(i) Due within one year*

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000
Bank loans				
Secured		5,846	5,846	2,110
Unsecured		-	-	5
Shareholder loan: Unsecured	31	907	-	-
		6,753	5,846	2,115

(ii) Due after more than one year

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000
Bank loans: Secured		36,171	36,171	71,496
Loan Notes: Unsecured		-	-	58,695
Shareholder loan: Unsecured	31	1,653	-	-
		37,824	36,171	130,191

At flotation on 25 June 1999 the Group's existing loan notes and principal bank borrowings were repaid, and new borrowing facilities entered into. All bank borrowings outstanding at 31 December 1999 were under these new facilities.

The bank loans drawn on flotation of the Company are secured by a fixed charge over The Future Network plc, Future Publishing Holdings Limited, and Future Publishing's land and buildings, intellectual property and goodwill and a floating charge over the remainder of their assets. (1998: All the bank loans were secured by fixed charges over the Future Publishing Holdings Group's land and buildings, intellectual property and goodwill, and by floating charges over the remainder of the Group's assets.)

The Company incurred total issue costs of £1,216,000 (1998: £1,715,000) in respect of the post flotation bank loans of which the costs relating to the unrequired facility of £687,000 were written off immediately to the profit and loss account. The remainder of the costs are being charged to the profit and loss over the term of the facilities at a constant rate on the carrying amount. The amounts in the above table are stated net of unamortised issue costs of £433,000.

16. Provisions for liabilities and charges*(i) Group*

Group	Deferred tax £'000	Vacant properties £'000	Employer taxes on options and share related benefits £'000	Other £'000	Total £'000
At 1 January 1999	-	(356)	-	-	(356)
On acquisitions	-	-	(474)	-	(474)
Exchange adjustments	15	-	-	-	15
Transfer (to)/from profit and loss account in the period	(432)	72	(934)	(309)	(1,603)
Utilised in year	-	34	180	-	214
At 31 December 1999	(417)	(250)	(1,228)	(309)	(2,204)
Company					
Transfer to profit and loss account and other movements	-	-	(110)	-	(110)
At 31 December 1999	-	-	(110)	-	(110)

16. Provisions for liabilities and charges continued

(iii) Deferred tax

	1999 Group £'000	1998 Group £'000
<i>Provision for deferred tax comprises:</i>		
Other and at the 31 December	(417)	-

The provided amounts of deferred taxation relate to short-term timing differences at 31 December which will reverse in the forthcoming year.

The unprovided amounts of deferred taxation assets are as follows:

	1999 Group £'000	1999 Company £'000	1998 Group £'000
Accelerated capital allowances	221	-	195
Other	4,533	33	137
	4,754	33	332

Other deferred tax assets not provided include £2,009,000 in respect of US tax losses carried forward and the balance is in respect of other short-term timing differences which are unlikely to be utilised in the foreseeable future. As a result no adjustment would be required to be made to the deferred tax provision if assets which have been recognised at book value are restated at realisable value at the balance sheet date.

No account has been taken in the table above for deferred taxation in respect of earnings, which are retained overseas as management has no current intention to repatriate them, nor of any capital gains which might arise on the disposal of properties at their balance sheet amounts, since there is no current intention to dispose of the properties.

(iii) Vacant property

The provision brought forward was the balance of an amount provided in respect of two property leases acquired in prior years. The amount represents the best estimate of the discounted future net cash outflow being the net shortfall on each of the leases taking into account the expected income from subletting. The leases expire on June 2012 and December 2015.

(iv) Employer taxes on options and share related benefits for Imagine employees

This provision comprises two elements:

(i) An amount of £1,044,000 which has been made for employer taxes on the grant of options to Executive Directors and employees who are resident in jurisdictions where the exercise of such options are deemed to attract remuneration taxation. Share options granted to employees resident in the United Kingdom that were granted prior to 6 April 1999 do not attract employer's taxes. The provision represents the relevant taxes accruing at the year end date on the difference between the market value of the ordinary shares over which employees have options at the balance sheet date and the aggregate exercise price for each employee.

(ii) Under an employee 'Imagine Media Supplemental Bonus Plan' certain Imagine employees were provided with an equity interest in an investment. The provision amounting to £184,000 represents the relevant taxes accruing at the date of the grant of these interests to employees on the value of the underlying investment at the balance sheet date, there being no costs charged to the employees. Further details of this transaction are included in note 31.

(v) Other

Other provisions comprise an amount of £309,000 in respect of the cost of a warrant to purchase stock in Ofoto, Inc., a privately owned company registered in Delaware. The consideration for the warrant is to be satisfied by the provision of advertisements in certain publications and on websites published by Imagine after the balance sheet date, for which Imagine will incur printing and other costs.

17. Cash flow from operating activities The reconciliation of operating profit to net cash inflow from operating activities is as follows:

	1999 Group £'000	1998 Group £'000
<i>Continuing operations</i>		
Operating profit	5,715	6,639
Depreciation charge	1,777	871
Goodwill amortisation	16,795	4,742
Decrease/(increase) in stocks	343	(435)
Increase in debtors	(11,573)	(9,710)
Increase in creditors	3,371	7,628
Net cash inflow from operating activities	16,428	9,735

18. Analysis of net debt

	At 1 January 1999 £'000	Cash inflow/ [outflow] £'000	Acquisitions [excluding cash and overdrafts] £'000	Other non cash changes £'000	Exchange movements £'000	At 31 December 1999 £'000
Cash at bank and in hand	6,131	11,954	-	-	855	18,940
Debt due after one year	(71,496)	33,398	(1,709)	(404)	2,387	(37,824)
Loan notes due after more than one year	(58,695)	58,695	-	-	-	-
Debt due within one year	(2,115)	(161)	(4,547)	-	70	(6,753)
Liquid resources	1,000	(1,000)	-	-	-	-
	(125,175)	102,886	(6,256)	(404)	3,312	(25,637)

As at 31 December 1998, £1,000,000 was being held on deposit as a retention against any liability of Future Publishing Holdings Limited under indemnities given in connection with the acquisition of Future Publishing and Edicorp in April 1998. These funds were released to Future Publishing Holdings Limited on 11 June 1999.

Non cash changes are detailed in note 21.

19. Reconciliation of movement in net debt

	1999 £'000	1998 £'000
Net debt at 1 January	(125,175)	-
Increase in cash	11,954	6,051
Borrowings net of short term deposits acquired with subsidiaries	(6,256)	(8,400)
Movement in borrowings	91,932	(117,157)
Movement in liquid resources	(1,000)	1,000
Loan notes issued other than for cash	-	(1,570)
Interest accrued in 1998 and subsequently waived during the year	690	(5,181)
Unamortised debt issue costs	(1,094)	1,527
Exchange movements	3,312	(1,445)
Net debt at 31 December	(25,637)	(125,175)

20. Cash flow effect of acquisitions

	£'000
Net cash inflow from operating activities	2,518
Net cash outflow from returns on investment and servicing of finance	(724)
Taxation paid	(55)
Net cash inflow from financial investment	8,267
Net cash acquired from acquisitions	319
Net cash inflow from acquisitions	10,325

21. Major non cash transactions

(a) On 11 June 1999, the Company acquired the entire issued share capital of Future Publishing Holdings Limited pursuant to a Deed of Transfer, Novation and Variation under which, *inter alia*, each of the shareholders exchanged their shares in Future Publishing Holdings Limited for a like number of shares in the Company, and the obligations of Future Publishing Holdings Limited to issue shares to warrant and option holders were novated to the Company. This group reconstruction has been accounted for using the merger method of accounting.

(b) On 25 June 1999 the consideration for the acquisition of Imagine included the issue of 27,503,454 Ordinary shares in the Company, fully paid, to the shareholders in Imagine together with the assumption of rights under stock options and stock appreciation rights in Imagine.

Full details of the acquisition of Imagine are given in note 28.

(c) During the year, 96,076 units in an 'Imagine Media Supplemental Bonus Plan', with a value at 31 December 1999 of £376,000, reverted to the Group on the departure of eligible employees. Further details are given in note 31.

(d) In 1999 non cash changes in net debt transactions included:

- (i) The waiver of £690,000 of interest liability previously capitalised;
- (ii) Amortisation amounting to £1,527,000 of debt issue costs relating to the Group's pre-flotation banking facilities; and
- (iii) Deferral under FRS4: Capital Instruments of £433,000 of issue costs relating to the new banking facilities entered into at flotation.

22. Financial instruments

(a) Treasury overview

The Group uses financial instruments to raise funding for its operations and to manage the financial risks arising from those operations. The agreements governing the principal instruments entered into were approved by the Board.

At the year end, the Group's principal financial liabilities comprised £42,017,000 borrowed under committed bank term loans and revolving multi-currency facilities, £2,560,000 in respect of a loan made by Chris Anderson to Imagine prior to the Company acquiring Imagine, £2,091,000 deferred consideration payable for acquisitions and £250,000 for the net shortfall on property leases. (Further details of the loan made by Chris Anderson are set out in note 31.) At the year end the Group had a further £44,411,000 of undrawn committed facilities subject to certain covenants to provide flexibility for projected working capital requirements, and future acquisition opportunities.

The Directors have considered the principal risks arising from the Group's financial instruments and have mitigated them as follows:

Credit risk The Group's cash balances are held with its principal bankers. The Group's aim to minimise credit risk is achieved by considering the credit standing of potential bankers before selecting them.

Liquidity risk The aim of the Group's liquidity policy is to provide flexibility and avoid concentration of refinancing risk in any short period. To achieve this the Group's borrowings are substantially in the form of term debt repayable in instalments over the next five years. It also has shorter term facilities available. Its undrawn committed facilities at the balance sheet date include facilities expiring in five years as well as shorter term facilities.

Market price risk The Group holds its investments for the long term rather than for short-term speculation. Details of fixed asset investments are set out in note 9. The current asset investments were part of the Imagine acquisition and are required to be held until May 2000.

Interest rate risk The Group is exposed to fluctuations in interest rates on its borrowings and surplus cash and operates a policy designed to reduce this risk by maintaining a balance of fixed and floating rate debt. As the Group's borrowings are principally denominated in Sterling arrangements during the year have been designed to fix approximately 75% of gross Sterling term debt at any point in time taking into account repayment schedules, by means of interest rate swaps. At the year end 75% of gross Sterling term debt is fixed until December 2002, taking into account the repayment schedule.

The interest rate swaps prior to Listing when the Group was more highly geared have now been terminated, but remained in place for a period after Listing while the Directors were assessing the Group's future hedging requirements, which meant for part of the year more than 75% of the Sterling debt was fixed.

Currency risk A significant and growing proportion of the Group's activities are carried out in countries outside the United Kingdom where transactions are carried out in that country's own functional currency. Movements in exchange rates can therefore have a significant impact on the Group's total cash flows, whilst the translation of the results, assets and liabilities of foreign subsidiaries into Sterling can have a significant effect on the Group's reported profits and balance sheet. The main exposures are to movements in the US\$ and Euro against Sterling. The Group's policy is to hedge against foreign currency cash flows by arranging its indebtedness in a mixture of currencies and, where considered appropriate, by taking out forward foreign exchange contracts. There are no such contracts outstanding at the year end.

Pre-flotation, when the Group was more heavily geared and there were significant acquisitions made of businesses reporting in currencies other than Sterling, the Group's policy was to finance those acquisitions through borrowings in those other currencies, these borrowings were repaid at flotation. Exchange differences arising from the retranslation of the overseas net assets and the related loans together with the tax effect are shown as movements in reserves and are in the statement of total recognised gains or losses. Other exchange differences are taken to the profit and loss account.

(b) Short-term debtors and creditors

Trading short-term debtors and creditors have been excluded from all the following disclosures, other than the currency profile of monetary assets and liabilities (table (g)).

(c) Interest rate risk profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31 December 1999, after taking into account the effect of interest rate swaps, was:

Currency	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000
Sterling			
- financial liabilities	37,859	10,859	27,000
US Dollars	2,560	-	2,560
Euro	6,499	6,499	-
At 31 December 1999	46,918	17,358	29,560

The floating rate financial liabilities comprise bank borrowings, and deferred consideration, of which the bank borrowings bear interest at rates fixed in advance for periods of six months by reference to LIBOR plus a margin of 0.85% (in the case of Sterling borrowings) and EURIBOR (in the case of liabilities denominated in currencies linked to the Euro).

The deferred consideration in respect of the Italian and German acquisitions have been discounted at a rate linked to EURIBOR. The Company may, at its option, satisfy the deferred consideration for *Business 2.0* amounting to £18,000,000 by the issue of shares or payment of cash at 30 June 2000. This amount has not therefore, been included as a financial liability.

Floating rate financial liabilities also include provisions for onerous leases (see note 16) which are discounted at rates in line with Group's cost of capital.

The shareholder loan bears interest at 7% per annum.

Tax and other statutory obligations have been excluded from the tables because they do not meet the definition of a financial liability under FRS13: Derivatives and other financial instruments - disclosures.

22. Financial instruments continued

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

Currency	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities		
- Sterling	7.15	3
- US Dollars	7.0	3

The US Dollar liability represents the shareholder loan from Chris Anderson which is repayable when employee share options vest, details of which are set out in note 31. The weighted average period until maturity and the maturity of debt are based on the earliest period on which the options are capable of vesting, being the best estimate of this information.

(d) Interest rate risk profile of financial assets

The Group's financial assets, as defined by FRS13: Derivatives and other financial instruments - disclosures, comprise cash and current asset investments held by Group companies. Their interest rate profile at 31 December 1999 was:

Currency	1999			Total £'000
	Cash at bank and in hand £'000	Current asset investments £'000	Fixed asset investments £'000	
Sterling	13,099	-	42	13,141
US Dollars	1,050	1,040	2,403	4,493
Euro	4,791	-	-	4,791
At 31 December	18,940	1,040	2,445	22,425
Non interest bearing	1,550	1,040	2,445	5,035
Floating rate	17,390	-	-	17,390
At 31 December	18,940	1,040	2,445	22,425

No weighted average information has been disclosed for the non interest bearing assets above as they have no maturity dates. The floating rate assets bear interest at rates by reference to LIBID or local equivalent.

Details of the fixed asset and current asset investments are set out in notes 9 and 10 respectively.

(e) Maturity analysis of financial liabilities

The maturity profile of the carrying value of the Group's financial liabilities at 31 December 1999 was as follows:

	Debt £'000	Deferred consideration £'000	Other financial liabilities £'000	1999
				Total £'000
Within one year, or on demand	6,753	5	24	6,782
Between one and two years	8,176	940	35	9,151
Between two and five years	29,648	1,146	68	30,862
Over five years	-	-	123	123
	44,577	2,091	250	46,918

The Group's bank loan of £42,450,000 (gross of unamortised issue costs of £433,000) is repayable in tranches over the next five years.

The maturity profile of the Company's bank borrowings is as follows:

	Debt £'000
Within one year, or on demand	-
Between one and two years	6,000
Between two and five years	8,000
Over five years	28,450
	42,450

(f) Maturity analysis of undrawn committed borrowing facilities

The maturity profile of those elements of the Group's committed borrowing facilities, all of which are at floating rates, and were undrawn at 31 December 1999 is:

	1999 Total £'000
Expiring within one year	19,062
Expiring between one and two years	-
Expiring in more than two years	25,349
	44,411

The amounts shown above are those that would be available after taking into account covenants given in respect of the Group's financial condition. Availability of these funds is subject to covenants to be met at the time of drawdown and maintained until repayment.

22. Financial instruments continued

(g) Currency risk disclosure

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

Net foreign currency monetary assets/(liabilities)

	Sterling £'000	US Dollars £'000	Euro £'000	Other currencies £'000	1999 Total £'000
Functional currency of Group operation:					
Sterling	-	(7,725)	2,783	131	(4,811)
Euro	(3,147)	-	-	-	(3,147)
Total	(3,147)	(7,725)	2,783	131	(7,958)

(h) Fair values of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 1999. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values.

	1999 Book value £'000	1999 Fair value £'000
<i>Primary financial instruments held or issued to finance the Group's operations</i>		
Assets:		
Fixed asset investments	2,445	3,037
Current asset investments	1,040	1,902
Cash at bank and in hand	18,940	18,940
Liabilities:		
Debt	45,010	45,010
Deferred consideration	2,091	2,091
Other financial liabilities	250	250
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	15

Long term borrowings at book value are shown above gross of £433,000 unamortised issue costs.

The fair value of the fixed and current asset investments reflects the market value of the shares at the balance sheet date.

(i) Hedges

As explained in the notes above, the Group's policy is to hedge the exposure on the sterling term debt using interest rate swaps. The table below shows the extent to which the Group has off balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amounts of gains and losses which have been included in the profit and loss account for one year and the extent to which they will be included in next year's or later profit and loss accounts.

	Gains £'000	Losses £'000	Unrecognised total net gains/(losses) £'000
Unrecognised gains and losses on hedges at 1 January 1999	1,473	(2,944)	(1,471)
Change in value from 1 January to settlement	(1,072)	2,944	1,872
Arising in previous years included in 1999 as income as ceased to be a hedge	(401)	-	(401)
Arising before 1 January 1999 that were not recognised in the financial year	-	-	-
Unrecognised gains and losses during the financial year	15	-	15
Unrecognised gains on hedges at 31 December 1999, all of which are expected to be recognised after one year	15	-	15

As part of the Group's strategy to guard against interest rate exposures on its bank loans pre flotation, the Group entered into two interest swaps:

(i) a Sterling swap under which the Group received interest at sterling LIBOR and paid interest at a fixed rate of 6.55%; and

(ii) a French Franc swap under which the Group received interest at FFr LIBOR and paid interest at a fixed rate of 4.44%.

These hedges were terminated after Listing as a result of new banking arrangements being put in place.

23. Called up share capital

	1999 Company £'000
Authorised share capital	
200,000,000 Ordinary shares of 1 pence each	2,000
Allotted, issued and fully paid	
141,329,137 Ordinary shares of 1 pence each	1,413

The Company's authorised share capital on incorporation was £1,000 divided into 1,000 Ordinary shares of £1 each. The Company's issued share capital on incorporation comprised two Ordinary shares of £1 each.

On 11 June 1999, the Company's issued and unissued Ordinary shares of £1 each were subdivided into 100 Ordinary shares of 1 pence each. On the same date, the Company's authorised share capital was increased from £1,000 to £900,000 by the creation of 70 million new 'A' Shares, 19,900,000 new 'B' Shares and the existing 200 issued and 99,800 unissued Ordinary shares were redesignated as 'B' Shares. In addition, pursuant to a Deed Of Transfer, Novation and Variation, the issued share capital was increased to 57,761,997 'A' Shares and 10,040,170 'B' Shares which were issued to the existing shareholders of Future Publishing Holdings in exchange for their transferring to the Company the entire issued share capital of Future Publishing Holdings, which comprised 57,761,997 'A' Shares and 10,040,170 'B' Shares in Future Publishing Holdings. Pursuant to the same Deed Of Transfer, Novation and Variation, warrants issued by Future Publishing Holdings on 24 April 1998 and 18 March 1999, exercisable into 3,358,260 'A' Shares of Future Publishing Holdings, were novated to become exercisable into 3,358,260 'A' Shares in the capital of the Company.

On 14 June 1999 the Company, resolved, conditionally upon Admission that:

- (i) the 'A' Shares and 'B' Shares in the capital of the Company were re-designated as one class of Ordinary shares of 1 pence each; and
- (ii) the authorised share capital of the Company was increased from £900,000 to £2,000,000, divided into 200,000,000 Ordinary shares of 1 pence each.

On 25 June 1999 38,000,000 Ordinary shares of 1 pence each in the capital of the Company were allotted and issued fully paid at the flotation price of 385 pence per Ordinary share. On the same date 2,900,263 Ordinary shares of 1 pence each were allotted and issued fully paid at a price of 3 pence per Ordinary share and 457,997 Ordinary shares of 1 pence each were allotted and fully paid at a price of 23 pence pursuant to the exercise of those share warrants novated to the Company pursuant to the Deed Of Transfer, Novation and Variation referred to above.

In addition, on 25 June 1999 the Company issued 27,503,454 Ordinary shares, fully paid, to Chris Anderson in consideration of the acquisition by the Company of Imagine Media Inc.

Between 25 June 1999 and 31 December 1999, 4,665,256 Ordinary shares were issued by the Company pursuant to the exercise of share options granted as detailed in note 24.

24. Share options The Future Network plc operates seven share option schemes being:

- The Future Publishing Holdings Limited Unapproved Share Option Plan ('Future Publishing Holdings Plan')
- The Future Network plc 1999 Senior Management Scheme ('Senior Management Scheme')
- The Future Network plc 1999 International Share Option Scheme (the 'International Scheme')
- The Future Network Option Plan for Imagine employees ('the 1999 Plan')
- The Future Network plc 1999 Approved International Share Option Scheme
- The Future Network plc 1999 Save As You Earn Scheme
- The Future Network plc 1999 Approved Save As You Earn Scheme
- The Future Network plc Employee Benefit Trust

As at 31 December 1999, options had been granted under four of those schemes, being the Future Publishing Holdings Plan, the Senior Management Scheme, the International Scheme, and the 1999 Plan. No options had been granted under the remaining schemes.

The Future Publishing Holdings Plan

The Future Publishing Holdings Plan was provided to grant options to employees who were employed by the Future Publishing Holdings Group and grants were made in April, October, December 1998 and April 1999. Since Listing of the Company, no new options have been granted under this plan. Save in respect of options over 298,067 Ordinary shares, there are no performance criteria which apply to options granted under this plan. The options over 298,067 Ordinary shares relate to one employee and are subject to performance criteria which provide for vesting over a four year period dependent on achieving certain targets relating to advertising revenue.

The Senior Management Scheme

Details of the Senior Management Scheme, which is available only to Directors and senior managers of the Group, are set out in the Remuneration Report on page 39.

The International Share Option Scheme

The International Share Option Scheme is used for the grant of options to all employees in the Group, save for those persons entitled to participate in the Senior Management Scheme. Options granted under this scheme vest in eight equal tranches, one tranche every six months following publication of the annual and interim results of the Group, depending on the satisfaction of performance criteria that requires the normalised earnings per share of the Group to grow by at least 3% per annum above the increase in the Retail Prices Index over the relevant period. This performance test was met for the period 25 June 1999 to 31 December 1999. Accordingly one-eighth of the options granted under this scheme on the date of the Company's Listing will vest on the date of the Company's announcement of annual results.

24. Share options continued

Imagine options

Under the Imagine Acquisition Agreement (as detailed in note 28 below) stock option and stock appreciation rights holders' interests in Imagine capital were converted into new options under a new stock option plan ('the 1999 Plan'). All options and stock appreciation rights to purchase shares in the Common stock of Imagine were converted automatically [subject to certain conditions which are set out in note 28, into options to purchase Ordinary shares in The Future Network plc, and the Company has assumed all obligations subject to the 1999 Plan. Conversion was essentially on the same terms and conditions as those prescribed under the original plans, including vesting criteria. At acquisition in aggregate 4,959,730 Imagine stock options and stock appreciation rights were outstanding under the original plans. These converted to 6,338,659 share options over Ordinary shares in the Company.

Further details are provided in note 28.

The following options and conditional awards over Ordinary shares have been granted and are outstanding at 31 December 1999:

	Date of grant	Earliest date exercisable	Option exercise price	Outstanding at 31 December 1998	Granted	Exercised during the year	Lapsed or cancelled	Outstanding at 31 December 1999
Future Publishing Holdings Plan	24.07.98 to 15.12.98	25.06.99 to 01.04.03	3p	5,739,985	-	(2,661,077)	(470,892)	2,608,016
	01.04.99	25.06.99 to 01.04.03	23p	-	1,610,392	(382,083)	(48,165)	1,180,144
Totals				5,739,985	1,610,392	(3,043,160)	(519,057)	3,788,160
Senior Management Scheme	25.06.99	25.06.02 to 25.06.09	385p	-	1,126,839	-	(285,714)	841,125
Totals				-	1,126,839	-	(285,714)	841,125
International Scheme	25.06.99	20.03.00 to 20.03.03	385p	-	1,359,208	-	(89,953)	1,269,255
	30.09.99	09.00 to 03.04	US\$10.35	-	47,207	-	(5,246)	41,961
	29.10.99	09.00 to 03.04	US\$11.70	-	15,864	-	-	15,864
	30.11.99	09.00 to 03.04	US\$12.94	-	114,035	-	-	114,035
	31.12.99	09.00 to 03.04	US\$13.766	-	15,305	-	-	15,305
Totals				-	1,551,619	-	(95,199)	1,456,420
The 1999 Plan	25.06.99	25.06.99 to 25.06.04	Between 1p to US\$9	-	6,338,659	(1,622,096)	-	4,716,563
Totals				-	6,338,659	(1,622,096)	-	4,716,563

The number of options outstanding at 31 December 1999 comprise:

	No. of options
Options subject to performance criteria	2,595,612
Other options	8,206,656
At 31 December 1999	10,802,268

25. Share premium account

	1999 £'000
<i>Company</i>	
Premium on shares issued on Listing	145,920
Expenses on issue of shares on Listing	(11,492)
Premium on shares issued during the year under share option schemes	1,096
Premium on shares issued to warrant holders	58
At 31 December 1999	135,582

26. Profit and loss account

	Group £'000	Company £'000
At 1 January 1999 or incorporation - deficit	(4,397)	-
Net exchange adjustments	(2,011)	-
Loss for the period	(6,665)	(2,599)
At 31 December 1999 - deficit	(13,073)	(2,599)

The Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

27. Other reserves

	Note	Group Merger reserve £'000	Group revaluation reserve £'000	Group Other reserves £'000	Group Total £'000	Company Other reserves £'000
At 1 January 1999 or incorporation		804	-	-	804	-
Premium on issue of shares		108,211	-	-	108,211	-
Deferred consideration	28	-	-	18,000	18,000	18,000
Fair value of consideration in respect of the assumption of obligations arising from stock option and stock appreciation rights holders assumed from the Imagine acquisition	28	-	-	21,810	21,810	21,810
Reversion of rights pertaining to investments from departing employees]	31	-	376	-	376	-
At 31 December 1999		109,015	376	39,810	149,201	39,810

28. Acquisitions and disposals*Merger of Future Publishing Holdings Limited with the Company*

On 11 June 1999, as part of the Group reorganisation, the shareholders of Future Publishing Holdings exchanged their shares for a like number of shares in the Company. Details of the transaction are set out in note 23. The transaction has been accounted for using merger accounting.

Acquisition of the business of the Il Mio Castello Group

On 22 March 1999, the Group acquired the publishing business of the Il Mio Group for a total cash consideration of £21,323,000 (including associated costs of £1,394,000). Of this amount, £16,580,000 was payable on completion, £691,000 120 days after completion, £585,000 on 31 May 2001, and £691,000 on each of 31 May 2002, 31 May 2003, and 31 May 2004. The deferred consideration is stated at fair value below. The purchase is being accounted for as an acquisition.

The provisional fair values of the net assets acquired as at 22 March 1999 are shown below:

	Book value £'000	Accounting policy alignment £'000	Fair value £'000
Intangible fixed assets	19,860	(19,860)	-
Tangible fixed assets	159	-	159
Debtors	35	-	35
Creditors: amounts falling due within one year	(127)	-	(127)
Net assets acquired	19,927	(19,860)	67
Goodwill			20,711
Consideration			20,778
Consideration satisfied by:			
Cash			16,580
Deferred consideration (at fair value)			2,804
			19,384
Associated costs			1,394
			20,778

The fair value adjustment arises from the write off of the capitalised value of titles in line with the Group's accounting policies, as titles are not carried as separate assets in balance sheet.

The results of the Il Mio Group for the year ended 31 December 1998, and the period from 1 January 1999 to 22 March 1999, and the results of Il Mio Castello Editore SpA for the period from 22 March 1999 to 31 December 1999 are set out in the table below, translated in each case at the average exchange rate for the applicable period.

	1 January 1998 to 31 December 1998 £'000	1 January 1999 to 22 March 1999 £'000	22 March 1999 to 31 December 1999 £'000
Turnover	14,706	4,129	12,465
Operating profit	2,545	1,136	1,811
Profit before tax	2,335	1,083	1,070
Taxation	(1,205)	(376)	(531)
Profit after tax	1,130	707	539
Total recognised gains for the period	1,130	707	539

28. Acquisitions and disposals continued

Acquisition of Imagine

On 25 June 1999 the Company acquired, by way of merger under US law, the entire issued share capital of Imagine, a company solely owned by Chris Anderson, the Company's Executive Chairman. The purchase is being accounted for using acquisition accounting.

The aggregate purchase consideration for Imagine (including all rights in relation to outstanding stock options and stock appreciation rights) was satisfied in full by the issue of 27,503,454 Ordinary shares to Chris Anderson and 6,359,693 options to subscribe for shares in the Company, to the holders of option and stock appreciation rights in Imagine.

The Company was granted an option, exercisable at any time on or before 30 June 2000, to require Chris Anderson to purchase from Imagine the business and assets of the title *Business 2.0*. In the event that the Company does not exercise its option it is required to pay Chris Anderson further consideration of £18,000,000 within 30 days of 1 July 2000. The Company may choose to satisfy this consideration in cash or by the issue of Ordinary shares (the number of shares being determined by reference to the average mid-market price per Ordinary share on each of the ten business days immediately prior to 30 June 2000 or on the date of exercise if earlier). Consequently the deferred consideration is included in other reserves within shareholders' funds. If the Company does exercise its option, Chris Anderson will be required to reimburse the Company for the cost of its investment in *Business 2.0* including the assumption of net liabilities from the date of the Imagine Acquisition to 30 June 2000, and the transfer of any employees, plus an amount equal to 20% of that investment. At present the Company does not intend to exercise its option to sell *Business 2.0*.

The £21,810,000 cost of share options (net of exercise prices) is included in Group other reserves, and will be transferred to the share capital and the share premium account on exercise of the related options.

Further details of the related party element of the Imagine Acquisition and the assumption of the Imagine share option and stock appreciation rights obligation are set out in note 28 below.

The provisional fair values of the net assets acquired as at 25 June 1999 are shown below:

	Book value £'000	Revaluations £'000	Accounting policy alignment £'000	Other £'000	Fair value £'000
Intangible fixed assets	2,783	-	-	(2,738) ¹	-
Tangible fixed assets	983	-	-	-	983
Investments	1,356	10,026 ²	-	-	11,382
Stocks	2,961	-	418 ³	-	3,379
Debtors	9,607	-	-	536 ⁴	10,143
Cash at bank and in hand	305	-	-	-	305
Loans	(6,256)	-	-	-	(6,256)
Other creditors	(20,015)	(96) ¹	-	(1,177) ^{5,6,7}	(21,288)
Provisions	-	-	-	(474) ⁸	(474)
Net assets acquired	(8,276)	9,930	418	(3,853)	(1,826)
Goodwill					149,217
Consideration					147,391
Consideration satisfied by:					
Shares					105,890
Share options (net of exercise prices)					21,810
Deferred consideration for <i>Business 2.0</i>					18,000
					145,700
Associated costs					1,691
					147,391

The assets and liabilities shown above have been translated into Sterling at \$1.5885, being the exchange rate at the date of acquisition.

The fair value adjustments comprise:

¹ The elimination of goodwill held in the books of the acquired business.

² An amount of £10,026,000 in respect of the revaluation of a fixed asset investment at its realisable market value at acquisition, taking into account the lock up period of the investment, and the associated deferred taxation liability amounting to £96,000 resulting from that revaluation.

³ An amount of £418,000 in respect of the capitalisation of direct cost salaries in work in progress in respect of magazines published after the date of acquisition.

⁴ The recognition of £121,000 of debtors not reflected in Imagine's books at the date of acquisition, and the release of £415,000 bad debt and sales returns provisions which were in Imagine's books at acquisition but were found not to be required in the light of actual collection and returns experience, in aggregate amounting to an adjustment of £536,000 to debtors.

⁵ An accrual of £329,000 for settlement costs in respect of a legal claim which was received by Imagine prior to the acquisition and was settled in full after acquisition in 1999.

⁶ An accrual of £289,000 termination costs in respect of the former President of Imagine who retired through ill health.

⁷ An amount of £560,000 in respect of unrecorded corporation taxation liabilities prior to acquisition; and

⁸ An accrual of £350,000 in respect of employer taxes and other related taxation liabilities arising on the grant of stock options and stock appreciation rights which were in existence prior to acquisition, and an accrual of £124,000 in respect of social security and other related taxation liabilities, and for rights pertaining to investments provided to employees prior to acquisition. In aggregate these amounted to an adjustment of £474,000 to provisions for liabilities and charges. Further details of these liabilities are included in note 16.

28. Acquisitions and disposals continued

The results of Imagine for the year ended 31 December 1998, the period from 1 January 1999 to 24 June 1999, and the period from 25 June 1999 to 31 December 1999 are set out in the table below, translated in each case at the average exchange rate for the applicable period.

	Year ended 31 December 1998 £'000	1 January 1999 to 25 June 1999 £'000	25 June 1999 to 31 December 1999 £'000
Turnover	37,553	20,422	35,076
Operating (loss)/profit	(7,663)	(3,776)	2,816
(Loss)/profit before and after taxation	(7,823)	(4,923)	4,628
Total recognised losses/gains for the period	(7,823)	(4,923)	4,628

Other acquisitions

Other business combinations accounted for as acquisitions during the year comprised:

(i) On 1 July 1999 the purchase by Future Verlag GmbH, a wholly owned subsidiary of the Company, of the shares of WEKA Consumer Medien GmbH ('WCM') and the assets relating to the Consumer Media business division of WCM's parent company, WEKA Firmengruppe GmbH & Co. KG.

(ii) On 10 September 1999 the purchase by Future Publishing of the trade and assets of certain titles from Zone Limited.

(iii) The purchase of the trade and assets of *Future Music* in the Netherlands from Media Mindes CV on 8 December 1999, and

(iv) In December 1999 the acquisition in the US of a closed title and its related subscription liability.

The aggregate provisional fair values of the net assets acquired at the dates of these other acquisitions are shown below:

	Book value £'000	Accounting policy alignment £'000	Fair value £'000
Intangible fixed assets	3,490	(3,490) ¹	-
Tangible fixed assets	50	(47) ²	3
Stocks	752	21 ³	773
Debtors	2,133	-	2,133
Cash at bank and in hand	14	-	14
Other creditors	(2,885)	-	(2,885)
Net assets acquired	3,554	(3,516)	38
Goodwill			11,203
Consideration			11,241
Consideration satisfied by:			
Cash			11,016
Deferred consideration			5
			11,021
Associated costs			220
Total consideration			11,241

The deferred consideration represents the final balance of consideration calculated by reference to the completion net assets at acquisition.

The fair value adjustments comprise:

¹ The write off of the capitalised value of titles in line with the Group's accounting policies.

² The revaluation of fixed assets in line with the Group's accounting policies on depreciation; and

³ The revaluation of stock to take account of the capitalisation of direct cost salaries in work in progress in respect of magazines published after the date of acquisition.

28. Acquisitions and disposals continued

Acquisitions arising in 1998

The adjustments to the fair value of the 1998 acquisitions are set out below:

	Fair value as previously reported £'000	Other £'000	Fair value reported in 1999 £'000
Tangible fixed assets	4,163	-	4,163
Stock	1,766	-	1,766
Debtors	16,470	-	16,470
Creditors	(18,447)	-	(18,447)
Loans	(8,400)	-	(8,400)
Taxation	(4,544)	461 ¹	(4,083)
Cash	6,181	-	6,181
Net liabilities acquired	(2,811)	461	(2,350)
Goodwill as previously reported			135,324
Revised goodwill			132,974

¹As noted in the 1998 financial statements of Future Publishing Holdings the fair values previously reported were provisional. Further information regarding the level of tax provision required is now available and, as a result, the fair value adjustment of £461,000 is required.

29. Pensions The Group operates a defined contribution scheme for employees resident in the United Kingdom, and a Section 401(K) profit sharing defined contribution plan in respect of pensions which covers substantially all Imagine employees. No contributions were made by the Group to these plans in 1998 and 1999.

The following information is provided in respect of the pro forma pension cost information:

Prior to the acquisition on 24 April 1998 by Future Publishing Holdings Limited of Future Publishing and Edicorp, the ultimate controlling party of Future Publishing and Edicorp was Pearson plc. Certain employees of Future Publishing and Edicorp were members of a Pearson plc group defined benefit scheme and a Pearson plc group defined contribution scheme. No pension cost in respect of either scheme was recharged to Future Publishing or Edicorp during the period from 1 January 1996 to 24 April 1998.

30. Commitments and contingent liabilities

(i) Operating lease commitments

At 31 December 1999 the Group had annual commitments under non-cancellable operating leases as set out below:

	Property £'000	Vehicles, plant and equipment £'000	1999 Total £'000	Property £'000	Vehicles, plant and equipment £'000	1998 Total £'000
Annual commitments under non-cancellable operating leases expiring:						
Within one year	742	284	1,026	17	87	104
Within two to five years	746	512	1,258	290	311	601
After five years	896	5	901	898	-	898
	2,384	801	3,185	1,205	398	1,603

Included in the above table, certain annual operating lease commitments of subsidiary undertakings have been guaranteed by the Company, the maximum liability under which amounted to £nil at 31 December 1999.

(ii) Other commitments

Details of the rights pertaining to certain Imagine employees are set out in note 31.

(iii) Contingent liabilities

At 31 December 1999, the Company had contingent liabilities outstanding in respect of counter-indemnities of £3,111,000 and guarantees given by it to the Group's bankers in respect of amounts outstanding from its subsidiaries under the Group bank facility arrangements.

A number of trading subsidiaries are defendants in various legal actions. In the opinion of the Directors, after taking appropriate legal advice, the likelihood that such actions would give rise to a significant loss is considered remote.

31. Related party transactions Transactions between Chris Anderson (the Executive Chairman of the Company), the Group and related parties.

(a) The Imagine Acquisition

Consideration As set out in note 28 above, on 25 June 1999 the Company acquired the entire issued share capital of Imagine from Chris Anderson.

To ensure that the Company received the full benefit of the goodwill of the business of Imagine, Chris Anderson undertook to be bound by certain restrictive covenants for a period of four years from 25 June 1999.

In addition, Chris Anderson gave warranties and indemnities, including those with respect to taxation, and made certain representations to the Company, in respect of the Imagine acquisition, including the transfer of *Business 2.0*, and an undertaking not to charge, mortgage or otherwise encumber any of the Ordinary shares issued to him pursuant to the Imagine Acquisition Agreement. No claims have been made to date by the Company under the warranties or indemnities in the Imagine Acquisition Agreement. The time limit for claims is on or before the expiration of the statute of limitations under US law in respect of taxation, and on or before 30 June 2001 in respect of any other matters.

17.5% being 4,813,104 of the consideration shares held by Chris Anderson are held by an escrow agent to satisfy any warranty or indemnity claims under the Imagine Acquisition Agreement. Chris Anderson remains the legal and beneficial owner of the consideration shares held in escrow. On 25 June 2000 the number of shares held in escrow will be reduced to 2,750,345 shares, being 10% of the consideration shares, to be released on 25 June 2003.

Any liabilities of the Company under the Imagine Acquisition Agreement, if the Company so elects, are to be satisfied solely by the issuance of Ordinary shares. No liabilities have been identified under this agreement.

An amount of £236,072 was paid by the Company in respect of professional fees incurred by Chris Anderson on the sale of Imagine to the Company.

Stock option and stock appreciation rights plans Under the Imagine Acquisition Agreement, Imagine employees holding stock options and stock appreciation rights could elect to participate in a new stock option plan ('the 1999 Plan') in substitution for their existing rights. As a result of certain employees electing not to participate in the 1999 Plan, Chris Anderson acquired their rights to subscribe for 1,341 Ordinary shares in the Company at £4,308. This option had not been exercised at the year end.

The 1999 Plan also provides that, if an option expires or becomes unexercisable for any reason without having been exercised in full, such option shall become available for reallocation between the then remaining participants under the 1999 Plan treating Chris Anderson as an original participant for these purposes. Chris Anderson has been allocated options over 1,007,481 Ordinary shares with an exercise price of 1 pence per share in respect of leavers during the period since acquisition to 31 December 1999.

Purchase Option Deed

In order to provide additional consideration to Chris Anderson for the sale of Imagine, on 17 June 1999 the Executive Directors entered into a purchase option deed ('the Purchase Option Deed') with certain shareholders of the Company, being the 'Apax Funds' and the APIA investors, collectively together ('the Institutional Investors'). The Apax Funds comprise Apax UK VI, Altamir & Cie, Apax France, Apax Germany, APA Excelsior IV, L.P., APA Excelsior IV/Offshore L.P., and Patricof Private Investment Club, L.P. The APIA investors comprise GE Investment Corporation, Chase Capital Partners, Worldstar Limited, Private Equity Co-invest Limited, and Continental Casualty Corporation. The Institutional Investors and Chris Anderson agreed that Greg Ingham and Ian Linkins should participate in any benefit to which Chris Anderson becomes entitled under the terms of the Purchase Option Deed.

Under the terms of the Purchase Option Deed each of the Institutional Investors transferred for nil consideration, 4,025,644 Ordinary shares of the Company, to an escrow agent. Each of the Institutional Investors further granted an option ('the Option') to the Executive Directors conditional upon the aggregate value of the Ordinary shares calculated over the period 1 January 2000 to 31 March 2000 ('the Earnout Period') exceeding a target market capitalisation value of £611,000,000 ('the Target Market Capitalisation') and exercisable on or before 31 May 2000, to acquire all or a proportion of the shares held in escrow ('the Earnout Shares') for nil consideration.

The number of Earnout Shares required to be transferred shall be equal to one-third of the maximum number of Earnout Shares for each £36,400,000 by which the market capitalisation exceeds the target market capitalisation determined on a pro rata straight line basis on the excess amount. To the extent that any Earnout Shares are not transferred to the Executive Directors under the agreement, or if the option is not exercised on or before 31 May 2000, they shall be transferred for nil consideration to the Institutional Investors in the original proportions provided by them under the agreement.

The aggregate number of Earnout Shares to which each Executive Director shall be entitled shall be equal to the proportions in which the aggregate number of Ordinary shares were held by each of the Executive Directors immediately prior to the Admission to the Official List of the London Stock Exchange, excluding all options granted after the date of the agreement, being 30 June 1999. The numbers of Ordinary shares subject to the Purchase Option Deed in which the Directors were interested during the year are set out on page 39 of the Remuneration Committee report.

The Executive Directors have agreed to indemnify the Company and Imagine in respect of any taxation suffered or incurred by either of them as a result of this agreement.

Snowball.com, Inc. ('Snowball') (formerly named Affiliation Networks Inc) As part of the Imagine Acquisition Agreement, Chris Anderson contributed \$1,100,003 to the capital of Imagine, and procured for The Future Network plc 173,776 shares of Series B-1 preferred stock in the capital of Snowball. Snowball is an unlisted company incorporated in the United States. Snowball was 46.8% owned by Chris Anderson at the time of the acquisition. This investment has been retained by Imagine throughout the remainder of the year ending 31 December 1999. At 31 December 1999 Chris Anderson owned 43.5% of the capital stock of Snowball, and Chris Anderson is the Chairman of Snowball.

31. Related party transactions continued

On 7 January 1999, Imagine had transferred to Snowball four of its Affiliate Networks and certain assets, comprising debtors amounting to £88,000 and tangible fixed assets of £191,000. In consideration Imagine received an equity interest in Snowball, comprising, at that time, 659,340 shares of Series A Preferred and 5,000,000 shares of Series B Preferred stock. The Series B Preferred was subsequently converted into 276,461 shares of Series B-1 Preferred stock. This interest was retained to satisfy outstanding rights under an employee 'Imagine Media Supplemental Bonus Plan' ('the Bonus Plan'). Employees who were employees of Imagine on the date of transfer were eligible to participate in this plan. The Bonus Plan provides that, in the event Snowball is sold or listed on a national securities exchange in the United States, each holder who is employed by Imagine at the time of such sale or at the time after such Listing when Imagine may freely trade its shares shall be entitled to receive a cash payment equal to the value of one share of Snowball stock for each vested bonus unit. Alternatively, if the shares are listed and are freely transferable, Imagine may elect, if the employee requests, to transfer the shares in Snowball to such electing employee. Whilst Imagine is the registered owner of the preferred stock in Snowball, the Bonus Plan provides that only participating employees will benefit economically from the value of the aforementioned preferred stock in Snowball. To the extent that bonus units remain with participating employees they are excluded from the balance sheet of Imagine since there is a corresponding liability to remit a value equal to that investment to the employees. The Bonus Plan for Imagine employees also provides that, if a bonus unit does not become redeemable for any reason, such bonus unit will revert to Imagine, and be capitalised in investments. During the period since acquisition 96,076 bonus units, representing the interest in Series A Preferred stock in Snowball with an attributed value of \$6.33 per share, have reverted to Imagine.

No disposals have been made in respect of the investment in Snowball stock held either by Imagine for its own benefit or on behalf of employees during the year.

In addition to the equity interest held by Imagine on behalf of certain Imagine employees, in December 1999 Imagine purchased, as legal and beneficial owner, 100,000 Series C Preferred stock in Snowball at \$10 per share.

At 31 December 1999 Imagine held the following investments in Snowball:

- (i) 186,500 at US\$ 6.33 per share of Series B-1 Preferred, 100,000 at US\$10 per share of Series C Preferred, and 96,076 bonus units at the equivalent of US\$ 6.33 per share of Series A Preferred stock as legal and beneficial owner, which amount is included in fixed asset investments as set out in note 9; and
- (ii) 263,736 at US\$6.33 per share of Series B-1 Preferred stock, and 563,264 at US\$6.33 per share of Series A Preferred stock, as legal owner on behalf of certain Imagine employees.

Certain premises located at Imagine's offices in San Francisco were sublet to Snowball when the asset transfer was made in January 1999, and at the same time an agreement was made between Imagine and Snowball for the provision of certain services. In respect of this service agreement, during the year:

- (i) An amount of £35,326 was payable to Imagine in respect of the services and lease payments made in the period 1 January 1999 to 24 June 1999, and an amount of £122,094 was payable in respect of the same in the period 25 June 1999 to 31 December 1999.
- (ii) No amounts were outstanding at 31 December 1999.

(b) The Cross Marketing and Licensing Agreement

On 17 June 1999, the Group entered into a cross marketing and licensing agreement with Snowball. By mutual consent by all parties it was agreed that the Cross Marketing and Licensing Agreement would terminate on 29 February 2000, foregoing the six month notice period.

During the period since acquisition:

- (i) £40,549 was receivable from Snowball by Imagine in respect of banner advertising procured for the Imagine Websites, and an amount of £23,871 was payable by Snowball for reimbursement of expenses.
- (ii) At 31 December 1999, £64,314 was due to Imagine in respect of these transactions (including foreign exchange adjustments).

In addition the Group entered into a licensing agreement with Snowball in respect of electronic format on websites only, of the content of *Total Film* and *SFX* magazines. The agreement provided that banner advertisements would be given for these magazines free of charge for up to 250,000 banners per month. No amounts were payable or receivable under this licensing agreement during the year.

(c) Loan to Imagine from Chris Anderson

Under the terms of the Imagine Acquisition Agreement, the Company assumed the obligations of Imagine under the 1999 Plan and agreed to contribute to the capital of Imagine, as and when received following flotation, an amount equal in aggregate to the value of all sums actually received by the Company ('the Received Exercise Price') from holders of options held by Imagine employees under the 1999 Plan. Pursuant to a debt satisfaction agreement between Imagine and Chris Anderson, dated 17 June 1999 ('the Satisfaction Agreement') Imagine then agreed to pay Chris Anderson, when and as received from the Company the Received Exercise Price.

The Satisfaction Agreement provided that the sum of £2,513,792, being the net present value of the loan at acquisition, when aggregated with 7% interest compounded annually over five years from flotation, will equal the maximum aggregate exercise price of all options under the 1999 Plan ('the Exercise Receivable'). It was also agreed between the parties that an outstanding unsecured loan which existed prior to acquisition, owed by Imagine to Chris Anderson ('the Anderson loan') was deemed to be fully satisfied and discharged provided that the terms of the Imagine Acquisition Agreement and the Satisfaction Agreement had been met. The payments by Imagine to Chris Anderson will be applied first to the interest accrued and outstanding under the Anderson loan, and thereafter to the principal. Provided the terms of the Satisfaction Agreement are adhered to, the Anderson loan will be discharged in full, notwithstanding the fact that the Received Exercise Price may be less than the Exercise Receivable, when all the options under the 1999 Plan existing at the date of acquisition have been exercised and the Received Exercise Price has been remitted to Chris Anderson.

During the period:

- (i) The balance of the Anderson loan as at 1 January 1999 amounted to £5,326,045 (1 January 1998: £2,047,374).
- (ii) £2,537,974 was repaid to Chris Anderson in the period from 1 January 1999 to 25 June 1999 (1998: £3,309,923 contributed).
- (iii) The book value of the Anderson loan at acquisition was £2,992,003 and the fair value of the Anderson loan at acquisition was £2,513,792.
- (iv) During the period 25 June 1999 to 31 December 1999 interest accruing at 7% on the Anderson loan amounted to £89,687.
- (v) At 31 December 1999 the net present value of the balance outstanding on the Anderson loan amounted to £2,559,788 including interest and foreign exchange adjustments.
- (vi) No repayments to Chris Anderson in respect of the Anderson loan have been made in the period since the acquisition date to the year end.

31. Related party transactions continued

(vii) The total Exercise Receivable amounts to £3,573,891.

(viii) The Received Exercise Price in the period 25 June 1999 to 31 December 1999 amounted to £860,515. This amount was not paid to Imagine prior to 31 December 1999, and hence there was no contribution to Imagine's capital before the year end, nor was this amount remitted to Chris Anderson.

(d) Lease rental of Imagine's property

Chris Anderson has a personal guarantee over the lease on Imagine premises at 150, North Hill Drive, Brisbane, San Francisco. Lease rentals payable in the period from 1 January 1999 to 24 June 1999 (ie in the period prior to acquisition) amounted to £167,566 and for the period 25 June 1999 to 31 December 1999 amounted to £207,247. In 1998 the lease rentals payable amounted to £338,000. No amounts were outstanding in respect of lease rentals payable on the premises at 31 December 1999 and 31 December 1998.

(e) Warrant to purchase shares of Imagine

On 1 April 1998 Imagine granted CMP Media, Inc. a warrant to subscribe 254,124 shares of common stock in Imagine ('the CMP Warrant'). On 27 May 1999, Chris Anderson purchased the CMP Warrant from CMP Media, Inc. for £786,906 and exercised it in full on 2 June 1999.

(f) Consultancy agreement with Chris Anderson

Under a letter dated 24 April 1998, Chris Anderson was appointed as a consultant to Future Publishing Holdings Limited. He was required to provide consultancy services on not less than five business days every two calendar months but was not entitled to receive additional fees for such service. This agreement was rescinded when Chris Anderson became an Executive Director of the Company, and a letter of appointment was drawn up with The Future Network plc. Details of his appointment are set out on page 38 of the Remuneration Report.

Transactions between certain of the Directors and shareholders, and Future Publishing Holdings Limited, a subsidiary of the Company.

(g) Share subscription

On 24 April 1998, the following Directors, who are Executive Directors of The Future Network plc at 31 December 1999, were allotted 'B' shares in Future Publishing Holdings Limited, on terms under which the par value of 1 pence per share was payable within one week of 24 April 1998, and the remaining 99 pence per share fell due on the sale or flotation of Future Publishing Holdings Limited, at which time that company would pay those Directors a bonus equal to the amount outstanding. The bonus amounts are included within those amounts disclosed in the Remuneration Report on page 38. The number of shares allotted, the amounts paid up in 1998, the premium outstanding during the period 24 April 1998 to 8 June 1999, the amounts paid in respect of the shares in June 1999, and the balance outstanding at the year end are as follows:

	No. of shares allotted in 1998 and at 31 December 1998	Amounts paid up in 1998 £	Premium outstanding in period 24 April 1998 to 8 June 1999 £	Amounts paid in June 1999 £	Balance outstanding at 31 December 1999 £
G Ingham	95,500	955	94,545	(94,545)	-
I Linkins	42,975	430	42,545	(42,545)	-

Jane Ingham and Sue Hartley were Directors of Future Publishing Holdings Limited during the period 24 April 1998 to [25] June 1999. Jane Ingham is the wife of Greg Ingham. The number of shares allotted, the amounts paid up in 1998, the premium outstanding during the period 24 April 1998 to 8 June 1999, the amounts paid in respect of the shares in June 1999, and the balance outstanding at the year end are as follows:

	No. of shares allotted in 1998 and at 31 December 1998	Amounts paid up in 1998 £	Premium outstanding in period 24 April 1998 to 8 June 1999 £	Amounts paid in June 1999 £	Balance outstanding at 31 December 1999 £
J Ingham	52,525	525	52,000	(52,000)	-
S Hartley	28,650	286	28,364	(28,364)	-

(h) Provision of debt finance

(i) *By shareholders* Apax Funds Nominees Limited, a connected party of Paul Fitzsimons and Barbara Manfrey, held loan notes (on behalf of Apax VI A-E and the Future Publishing APIA LP Investors) payable by the Future Publishing Holdings Limited of £33,180,000 which had been issued on 24 April 1998. The loan notes bore interest at 12% per annum. Interest was payable in April each year at the option of Future Publishing Holdings Limited. Any interest not paid was compounded into the loan note advance. No interest was paid in the period from 24 April to 25 June 1999. The notes were repayable on the earlier of 30 April 2008, the sale or the flotation of Future Publishing Holdings Limited, and were unsecured. On 25 June 1999, the loan note held by Apax Funds Nominees Limited amounted to £52,428,896, including interest of £5,852,953 and on that date it was repaid in full, due to the flotation of The Future Network plc.

(ii) *By Directors* Chris Anderson was a Director, and non-executive Chairman of Future Publishing Holdings Limited in the period from 24 April 1998 and he also held 12.2% of the shares in that company from 24 April 1998, being the date on which that company acquired Future Publishing and Edicorp. At 31 December 1998 Chris Anderson held loan notes to a value of £6,904,000. The loan notes bore interest at 12% per annum. Interest was payable in April each year at the option of Future Publishing Holdings Limited. Any interest not paid was compounded into the loan note advance. No interest was paid in the period from 24 April to 25 June 1999. On 25 June 1999, the loan note held by Chris Anderson amounted to £8,904,000, including interest of £1,107,000, and on that date it was repaid in full due to the flotation of The Future Network plc.

31. Related party transactions continued

(i) Other transactions with Apax

Under the arrangements put in place following the acquisition of Future Publishing and Edicorp by Future Publishing Holdings Limited, Apax Partners & Co Ventures Limited ('Apax Ventures') was entitled to be paid a monitoring fee of £239,000 per annum for the provision of a variety of services and support to Future Publishing Holdings Limited. The amount payable to Apax Ventures during the year was £115,243 (1998: £171,301). No balances were outstanding in respect of these amounts at 31 December 1999 or at 31 December 1998.

(j) Share options and loan notes issued to Gaetano Manti

On the acquisition of the Il Mio Castello business, Gaetano Manti, a Director of Il Mio Castello Editore SpA, and the vendor of the Il Mio Castello business was granted options to subscribe for 53,853 Ordinary shares in Future Publishing Holdings Limited, at a total price of £407,108 and for £1,592,816 12% unsecured loan notes in Future Publishing Holdings Limited at par. Both options were exercised in full on 18 April 1999, the shares and loan notes being issued on 20 April 1999 to Eurowoods LLC as nominee for Mr Manti.

(k) Other transactions with other Directors

Didier Macia, a Director of Future Publishing Holdings Limited, received £4,929,000 (1998: £nil) on settlement of the deferred consideration for the acquisition of Edicorp by Future Publishing Holdings Limited.

Other related party transactions

(l) Directors' other directorships

Paul Fitzsimons and Barbara Manfrey who are Directors of Future Publishing Holdings Limited at 31 December 1998, are also Directors of Apax Ventures which is connected with the providers of loan finance throughout 1998, and up to the date of flotation of The Future Network plc, on which date the loan finance was repaid.

Chris Anderson who was a Director of Future Publishing Holdings Limited and is the Executive Chairman of The Future Network plc is also the Chairman of Snowball. Transactions between the Group and Snowball, Inc are set out above.

(m) Ultimate controlling party

The ultimate parent undertaking and controlling party of Future Publishing Holdings Limited for the period 24 April 1998 to 11 June 1999 was Apax Partners & Co. Apax Partners & Co. is a connected partnership with Apax Partners & Co Ventures Limited, a company in which Paul Fitzsimons and Barbara Manfrey are Directors.

(n) Inter group transactions

(i) Exempt transactions Transactions with those subsidiary undertakings where 90% or more of their voting rights are controlled within the Group, and transactions that are eliminated on consolidation, are not disclosed as provided for in FRS8: Related Party Disclosures.

(ii) Transactions with acquired companies prior to acquisition The following transactions occurred between acquired companies and the Group prior to their acquisition:

An amount of £15,905 was payable to Imagine by Future Publishing in respect of licence arrangements in the period 1 January 1999 to 25 June 1999 prior to acquisition (for the year ended 31 December 1998: £26,056). Imagine was acquired by The Future Network plc on 25 June 1999.

An amount of £107,492 was payable by Il Mio Castello SpA in respect of licence arrangements with Future Publishing in the period 1 January 1999 to 22 March 1999 (for the year ended 31 December 1998: £305,458). Il Mio Castello SpA was acquired by a group company on 22 March 1999.

32. Post balance sheet events On 6 January 2000 Future Publishing purchased certain trade and assets, including the websites and titles of *Hi-Fi Choice*, *Home Entertainment*, *Metal Hammer* and *Classic Rock* from Dennis Publications Limited.

33. Principal subsidiary undertakings The principal subsidiaries are shown below. A full list of subsidiaries is shown in the Company's annual return, and all subsidiaries are included in the consolidation. Shares of those companies marked with an * are indirectly owned by The Future Network plc.

Company name	Country of Incorporation	Nature of business	Holding %	Class of shares
Future Publishing Limited*	England and Wales	Magazine and Internet publishing	100	£1 Ordinary shares
Future Publishing Holdings Limited	England and Wales	Holding company	100	1 pence Ordinary shares
Il Mio Castello Editore SpA*	Italy	Magazine publishing	100	1,000 lire Ordinary shares
Edicorp Publications SA*	France	Magazine publishing	100	FFR100 Ordinary shares
Imagine Media, Inc.	USA (State of California)	Magazine and Internet publishing	100	Not applicable
Future Verlag GmbH*	Germany	Magazine publishing	100	IDM Ordinary shares

Shareholder information

Analysis of Ordinary shareholders as at 31 December 1999:

Range of holdings	Number of shareholders	Percentage of total shareholders	Number of shares 000	Percentage of issued share capital
1-500	347	26.09	91	0.06
501-1000	202	15.19	166	0.12
1001-10,000	463	34.81	1,415	1.00
10,001-100,000	189	14.21	6,858	4.85
100,001 and over	129	9.70	132,799	93.97
Total	1,330	100	141,329	100

Shareholders should contact the Registrars, Lloyds Registrars plc, in connection with changes of address, lost share certificates and transfer of shares.

For enquiries of a general nature regarding the Company and for Investor Relations enquiries please contact Ian Linkins at the Group registered office.

Annual timetable

Annual General Meeting	21 June 2000
Half-year results announced	11 September 2000
Half-year results mailed to shareholders	22 September 2000

Unsolicited mail The share register is by law a public document. To limit the receipt of mail from other organisations, please write to Mailing Preference Services, Freepost 22, London W1E 7EZ.

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