On track…

Creating radio's digital future

Annual Report 2005/06

…to create long-term value by fully realising our

opportunities

How we will create long-term value:

- **Deliver audience growth**
- **Attract listeners from the BBC**
- **Drive new revenue opportunities**

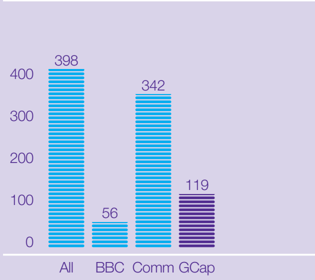
Contents

Developing an integrated portfolio of local and national brands

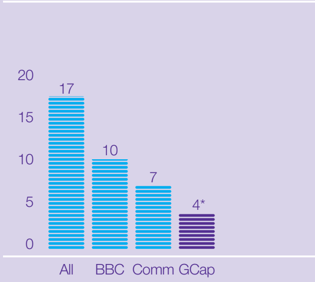
UK radio industry overview

UK radio industry

Total stations (DAB digital and analogue)

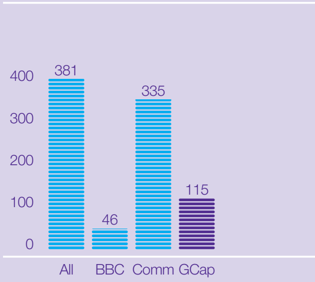


National (DAB digital and analogue)



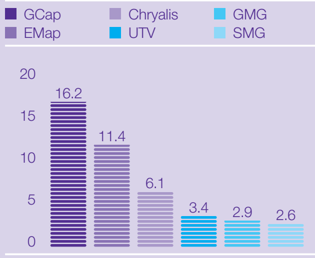
* including Planet Rock which is a joint venture with MUKBL Radio Services Limited

Local (DAB digital and analogue)

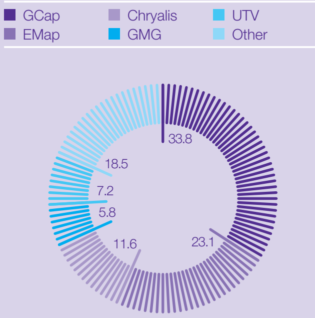


Commercial radio groups

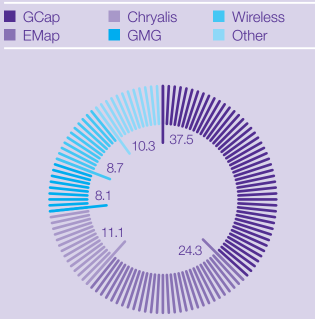
Reach (m)



Share of listening (%)

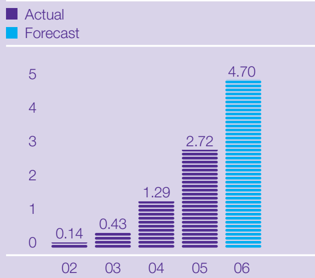


Share of revenue (%)

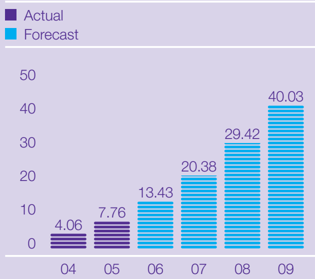


Digital listening

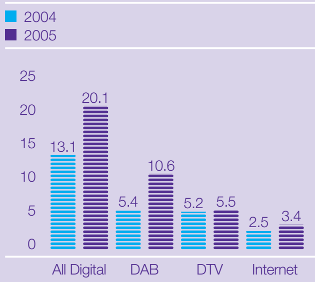
UK DAB sets sold and forecast (m)



UK household penetration (%)



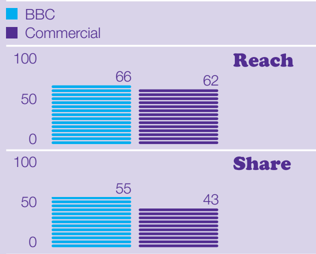
Percentage of total listening hours in digital homes (%)



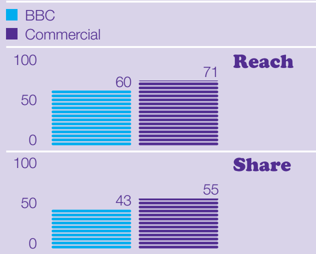
Source: RAJAR 2005 Platform Study

BBC vs Commercial Radio

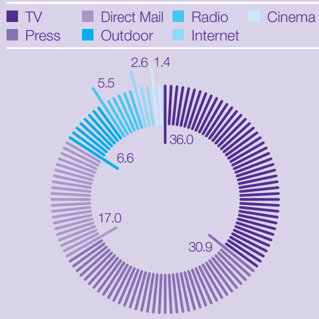
Adults 15+ (%)



15-44 (%)



Radio's share of advertising revenue v other media (%)



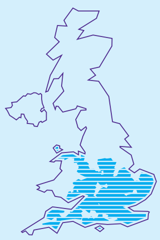
Creating strong national networks to challenge the BBC

GCap Media

Brand portfolio

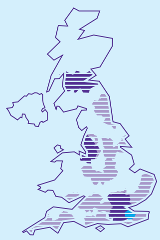
The One Network, including Capital Radio, offers national scale whilst keeping one to one local connections. A network of 39 local stations each giving listeners vibrant, engaging, quality output, featuring high profile presenters, celebrity guests, local importance and the best contemporary music.

A number of the One Network stations are also available on DAB.



Key
- FM coverage

Xfm broadcasts nationally on FM in London, Manchester and central Scotland as well as via DAB, multi-channel TV and online. Xfm focuses on the best new music from the likes of the Kaiser Chiefs, Hard-Fi and the Arctic Monkeys. Listeners mirror the station's personality; young, articulate, opinion forming and independent individuals.



Key
- FM coverage
- DAB digital coverage
- FM and DAB digital

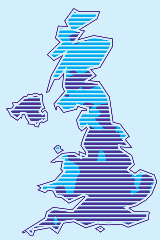
Choice FM is London's urban music station, having successfully established itself as the 'No.1 for Hip-Hop and RnB' in the city. Broadcasting in London on FM and across the UK on DAB, digital TV and online, its unique music policy offers an inspiring mix of urban music; from southern hip-hop outfit Outkast to the dancehall vibes of Sean Paul.

Key
- DAB digital coverage
- FM and DAB digital

Core is GCap Media's youth music service, broadcasting nationally on DAB and digital TV. The station is driven by text requests and plays the freshest new music from artists like McFly, Nelly and Natasha Bedingfield.

Key
- DAB digital coverage

Classic FM is the UK's only 100% classical musical radio station. It's the biggest commercial radio station in the country and is broadcast nationally on FM, DAB, digital TV and online.

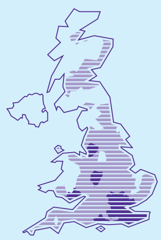


Key
- FM coverage
- FM and DAB digital

The Capital Gold Network broadcasts on AM, DAB and online playing hits from the 60s to the 90s. Capital Life is a DAB digital station playing classic hits.

Capital Life is a stylish, upbeat, music-led station playing the biggest classic hits together with the best of today.

GCap Media is now developing a combined classic hits/speech mix format aimed at part of BBC Radio 2's audience.



Key
- Capital Life – DAB digital coverage
- Capital Gold – AM and DAB digital

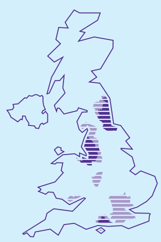
Planet Rock is the UK's rock specialist broadcasting nationally on DAB and digital TV platforms. The station plays great music from artists like Led Zeppelin, Thin Lizzy and the Doors and is targeted at men in their 30s, 40s and 50s. Planet Rock is a joint venture with MUKBL Radio Services Limited.

Key
- DAB digital coverage

Chill is a new station broadcasting on GCap Media's local DAB Digital Radio multiplexes. The station plays relaxing and chill out tunes from artists such as Royksopp, Zero 7 and Moby.

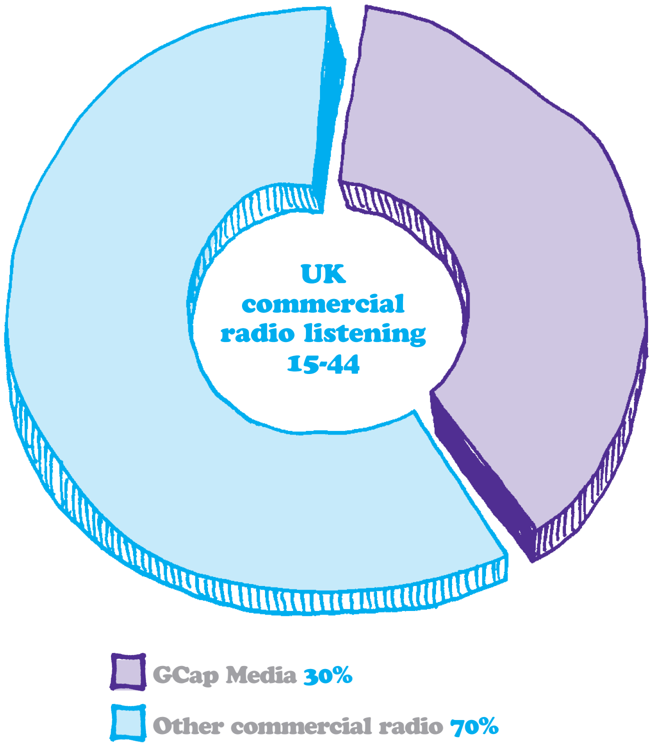
Key
- DAB digital coverage

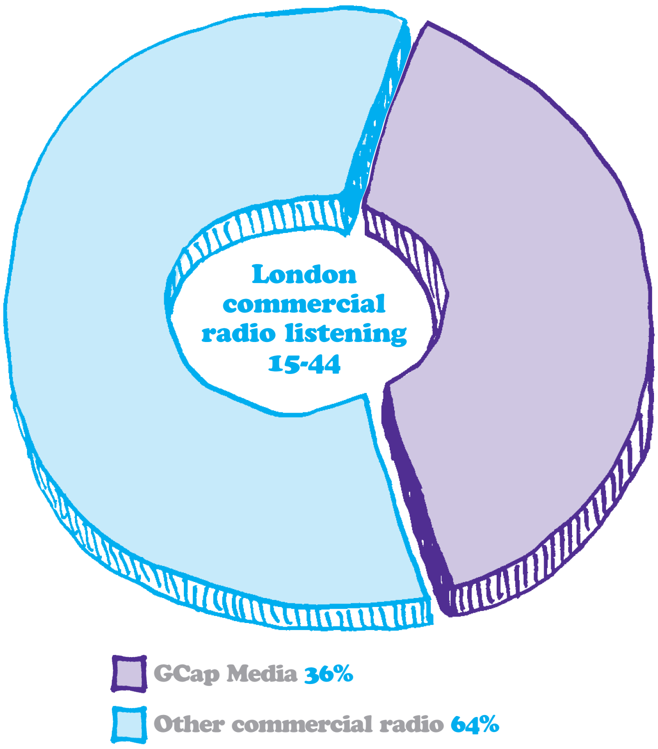
Broadcasting on FM and DAB the Century FM Network plays a feel good music from the 80s, 90s and now. It's radio that you just have to sing along to! Desirable competitions, big personalities and engaging phone-ins make it the perfect station for 25-44 year old listeners who are down to earth in both attitude and humour.



Key
- FM coverage
- FM and DAB digital

In addition, all of these stations are available online and, except for Capital Life, are broadcast across the UK on digital television. GCap Media also broadcasts children's stations Capital Disney and Fun Radio on DAB, digital TV and online.





GCap Media is the UK's leading commercial radio group with over 16 million listeners

The leading Group for commercially attractive 15-44 year olds with national commercial radio listening share of 29.7%

London leader with commercial radio listening share of 36.4% among 15-44s

In the past year we have created the UK's leading commercial radio operator, carrying the cost of significant change against the background of a difficult advertising environment and audience declines at many of our stations

£22.2m

Profit before tax of £22.2m

£27m

Annual savings increased to £27m

38%

Capital Radio ad effectiveness rose to 38%

Underlying pro-forma Group results

> Revenue down 12.7% at £220.2m (2005: £252.3m)
> Profit before tax of £22.2m (2005: £37.3m)
> Basic earnings per share of 7.8p (2005: 14.1p)
> Net debt of £76m (2005: £79m) with EBITDA interest cover of 8x

Positioning the business for growth

> Merger savings: annual savings increased to £27m
> Capital Radio: ad effectiveness up 38% and relaunch on track
> Xfm: national network launched
> Classic FM: highest revenues since 2002
> Planet Rock: record digital audience results

"In the past year we have created the UK's leading commercial radio operator, carrying the cost of significant change against the background of a difficult advertising environment and audience declines at many of our stations. We have identified significantly higher cost savings than initially envisaged and realised them earlier than originally forecast.

We have outlined our strategy to increase audiences in the most commercially important demographics. Capital Radio is the leading London station in the key 15-44 age group and the changes we are making to programming and advertising inventory will position us for future growth. Xfm and Choice audiences continue to grow, our digital station Planet Rock has achieved record reach and share and Classic FM remains at the forefront of our strategy to challenge the BBC."
GCap Media Chief Executive, Ralph Bernard

Statutory Group results

> Revenue of £210.7m (six months ended 31 March 2005: £58.5m)
> Loss before tax of £47.9m (six months ended 31 March 2005: profit £6.5m) after intangible amortisation of £42.8m and a charge for separately disclosed items of £27.8m (six months ended 31 March 2005: £3.3m)
> Basic loss per share of 23.3p (six months ended 31 March 2005: basic earnings per share 4.9p)
> Full year dividend of 9.25p per share (six months ended 31 March 2005: 6p per share)

Media markets are changing fast and we are creating the strategy to deliver improved profitability by developing strong national networks and increasing audiences in the most commercially important demographics

Peter Cawdron
Chairman

Overview

It has been a difficult year since GCap Media launched in May 2005. As we highlighted in our March trading update, the Group's financial performance was affected by several factors including weak advertising conditions, audience declines at our core heritage stations, post-merger integration disruption and the short-term effects of our inventory reduction policy at Capital Radio.

As a result, underlying pro-forma Group revenues were down 12.7% year on year at £220.2 million and underlying pro-forma Group profit before tax was down 40% at £22.2 million. On a statutory basis, revenues, which only include GWR Group from the date of merger, 9 May 2005, were £210.7 million. The statutory loss before tax of £47.9 million includes intangible amortisation of £42.8 million and a charge for separately disclosed items of £27.8 million, which include merger reorganisation costs, goodwill impairment and the profit on the sale of Century 106.

Delivering on our strategy

Against these tough market conditions, the management team has been focused on delivering on our strategic aims and putting the Group in the best position for future growth. We have identified significantly higher cost synergies than initially anticipated and brought forward additional savings into 2005/06. At the time of the merger, we estimated annual cost synergies of £7.5 million to be achievable in the year to March 2008. We have now identified annual cost synergies of £27 million achievable in full in the year to March 2007.

Media markets are changing fast and we are creating the strategy to deliver improved profitability by developing strong national networks and increasing audiences in the most commercially important demographics. We have focused on getting the business in the best shape to deliver our strategy and, as previously announced, we have restructured the Group around eight commercially attractive regions and created a new operational structure to reflect this.

In November, we presented our strategy to the City, our staff, customers and shareholders outlining a clear direction for the Company in three key areas:

- Investing in our core stations; with a focus on Capital Radio
- Repositioning our portfolio of stations within commercially attractive markets and developing strong national networks to challenge the BBC
- Developing non-traditional revenue opportunities

We are already starting to deliver on that strategy. The first stage of this was the phased relaunch of Capital Radio. In December, we introduced a new inventory policy and independent research has demonstrated that advertising on Capital Radio is now almost 40% more effective. We are also repositioning Capital Radio to appeal to a target audience of 15-44 year old females and, although the station recently lost the overall commercial leader position in London, Capital Radio is now more appealing to this target market with a greater share of listening than any of its commercial competitors. Listener feedback since the relaunch has been extremely positive and we have announced the appointment of a new Programme Director who will join us this summer from leading Australian station, Nova.

With 90% of the population listening to radio almost 24 hours a week, radio is as strong as ever. Developing strong, complementary networks on analogue and digital is central

90%

With 90% of the population listening to radio almost 24 hours a week, radio is as strong as ever

38%

Advertising on Capital Radio is now 38% more effective

to our strategy of attracting listeners, particularly from key BBC radio stations. Classic FM remains the UK's largest commercial radio station, with a record number of commercially attractive ABC1 listeners.

This year, the station also saw its highest revenue since 2002 and was the biggest revenue contributor for the Group. On DAB digital radio, Sony Gold Award winning Planet Rock achieved record reach and share with almost half a million listeners.

In March we completed the creation of the new national Xfm network with the launch of Xfm Manchester. We now own a network of analogue and digital stations across the UK broadcasting to commercially attractive, but difficult to reach, 15-34 year old males and have already seen positive feedback from advertisers. Elsewhere, as audiences fall at Radio 1 and Radio 2, we are starting to deliver audience growth at key stations including Choice FM and the Century FM Network.

The digital opportunity

There have now been three million DAB digital radio sets sold. It took five years to sell the first million sets, 11 months to sell the next million and just five months to sell the third million. By 2009, more than 40% of homes in the UK are expected to own a digital radio. GCap Media is well placed to take advantage of this growth, having the necessary content and distribution network to attract listeners and grow revenues.

The national commercial multiplex that GCap Media controls through Digital One, together with our network of digital stations including Xfm, Choice FM and Planet Rock, put us in a strong position to compete against the BBC. We have also stated our intention to participate in the application for the second national digital multiplex as part of an industry consortium.

Opportunities for growth

DAB Digital Radio provides new business opportunities for radio companies in operating multiplexes and developing new radio brands. For listeners, it offers a much broader choice of services, with more than 420 available around the country and more than 50 on-air in London. For advertisers, the benefits are clear: the opportunity to target more niche audiences who are loyal to their strong radio brands. Opportunities for the take-up of digital radio comprise mobile phones and PDAs, and the addition of DAB digital radio to products such as cars, where the removal of the need to re-tune whilst travelling can be seen clearly as a significant benefit. Vauxhall is a prime example of a mass market manufacturer that has already begun to develop in this area. The number of in-car radios is expected to rise from 15,000 units in 2005 to 702,000 units in 2009 according to the DRDB.

Streamlining our Board

We have seen changes to the structure and composition of the Board this year starting with the announcement in September that David Mansfield would step down as Chief Executive. Having two senior executives made a lot of sense in the months following the merger. However, in September, with the early integration nearing completion and the Group's strategy review well under way, both David and Ralph Bernard felt that the time was right to review this structure and together agreed this way forward.

In our November interim statement, we signalled our intention to streamline the composition of the board by reducing its non-executive membership. In March 2006 the Group announced that Stella Pirie, Tim Mason and Peter Mitchell would be standing down from the Board of Directors with effect from 31 March 2006. I would like to thank all of them for their significant contributions over the years, particularly David for the role that he played as Chief Executive of GCap Media and formerly his eight years as Chief Executive of Capital Radio plc. I believe that the Board is now the appropriate size and composition comprising three Executive Directors and seven Non-executive Directors.

Setting the dividend level

In November, the Board reviewed the Company's future dividend policy in the light of the very significant changes that had occurred in the radio advertising market, the audience declines in the GCap Media portfolio, the trading outlook at that time and the anticipated short-term effect on earnings of our strategy to enhance the long-term value of the business. It proposed a new level of dividend which would form the basis for a progressive dividend policy once the benefits of the strategic repositioning of the Group flow through. The interim dividend was set at 3.1 pence per share and paid in January 2006. The Board is now proposing a final dividend of 6.15 pence per share making a total of 9.25 pence for the year.

A business fit for the future

As we start the 2007 financial year, we have targeted Capital Radio and are giving it the management focus and investment it needs to build audiences and grow revenue. Across the rest of the business, we are in great shape operationally, have seen some encouraging growth on our national networks and are well placed to benefit directly from any longer-term up-turn in the market.

Finally, I would like to thank our dedicated and talented staff, who have all continued to deliver exceptional levels of hard work and creativity during a year of significant change. I am confident that we now have an excellent team of talented people in place across the Group to help us deliver long-term growth.

Peter Cawdron
Chairman, GCap Media plc
24 May 2006

Ralph Bernard answers some of the tough questions the Group has faced over the last year

Ralph Bernard
Chief Executive

Looking back over the last year, do you believe the merger was the right move for both companies?

Unquestionably, the merger was the right move. Consolidation was something that had been anticipated and championed by both companies and was right for the industry. The merger has delivered the scale to offer a better proposition for advertisers and importantly, to challenge the BBC for audience share.

You recently spoke about the effects of post merger disruption to the business. Has this period now ended?

There is no doubt that we faced a number of difficulties following the merger but I believe that this period of disruption has ended and that the business is now in good shape operationally and culturally. In commercial sales, we have built a new and effective team with a common aim. We have combined the national ad planning system making it easier for our customers and we expect to complete our traffic and local sales systems later this year.

It's worth noting that we recently won a Sony Gold award for our coverage of last July's terrorist attacks in London. On such a terrible day, I was immensely proud of the way the teams at all of our London stations worked together to produce programming that Londoners were depending on. This day showed that we can achieve great things as a Group when we work together.

Are you confident that you can deliver on the strategy you outlined in November?

I am absolutely confident in our ability to achieve long-term growth. In November we highlighted the importance of three key areas for the Group; investing in our core analogue stations, delivering a complementary portfolio of stations in key commercially attractive markets and developing non-traditional revenues. In each of these areas we have made significant progress as detailed further in this report. We are also grasping the opportunities that digital radio offers us with the potential of our national stations and the BT Movio service which will deliver TV and radio content to mobile phones and handsets using DAB digital spectrum. We are operating much more efficiently and effectively and have identified a total of £27 million of cost synergies achievable in the coming year.

The market conditions are very difficult for all media and it might be easier to take the less tough options on decisions in the short-term. However, we are committed to long-term growth and that requires a steady hand and a clear strategic plan which we have started implementing.

The turnaround of Capital Radio in London is an important part of your strategy. Is this on track?

We've made it very clear that we see Capital Radio as our priority and our plans are absolutely on track. In fact, cost reductions at Capital Radio have been greater than the loss of revenue attributable to the ad reduction policy. Since the implementation of the first phase of our four stage plan, we've already achieved a lot. The new advertising policy has been welcomed by advertisers, we have held pricing levels and independent research has shown the 'two in a row' policy improves advertising recall by 38%. Early listener feedback from our own research is extremely encouraging. However, there is still much to do in order to attract new listeners. With the appointment of Scott Muller as Programme

55%

Commercial radio dominates listening among the most commercially important 15-44 age group. In this demographic, it is commercial which takes the 55% share against the BBC's 43%

Director, we are gaining a world class programmer with the specific skills and experience to help us take the station to the next level. The next stage will be to match a great product with a targeted and effective marketing campaign.

What timescales are you looking at for audience growth at Capital Radio?

The long-term decline experienced by Capital Radio requires a long-term fix. We will make further refinements to the output before committing to marketing and as such we don't expect to see any immediate audience increases. However, what we do know is that marketing Capital Radio's relaunch is a job made easier by the bold nature of the product improvements, especially the 'two in a row' policy and the station's heritage.

So, whilst I can't give an audience forecast into the future, I am confident that we will be on track to see clear improvement in 2007/08.

Why is this part of the strategy so important?

Our heritage stations are at the centre of our portfolio strategy and have significant potential to achieve audience and revenue growth. The most recent RAJAR results show that, in key heritage stations such as Birmingham's BRMB and Cardiff's Red Dragon, we are already seeing a growth trend as a result of increased focus on improving the on-air product. Capital Radio has the greatest potential of these stations as it is in our most commercially attractive market and at the centre of our London portfolio strategy.

What about the rest of the business?

It's important to remember that Capital Radio only accounts for around 12% of Group revenues and that the rest of the business is seeing some good results. In fact, the second strand of our strategy announcement in November focused on the growth of our portfolio of stations across the UK to challenge the BBC and we are already seeing some early positive results. In the last RAJAR figures we saw some really encouraging results for brands including the Xfm Network which topped the 1 million listener mark for the first time. Both Choice FM and the digital only station Planet Rock enjoyed record audiences, the Century FM Network continued its recent growth trend while Classic FM continues to be the UK's leading commercial radio station, seeing its highest revenues since 2002. We're on track to deliver on the strategy we outlined in November and we are in the best place to take advantage of the growth of DAB digital radio with four of the national commercial stations on the premier national commercial multiplex.

Can you really challenge the BBC?

We've made competing with the BBC central to our strategy and as the industry leaders we believe we are best placed to do this.

Already, commercial radio dominates listening among the most commercially important 15-44 age group. In this demographic, it is commercial radio which takes the 55% share against the BBC's 43% and in terms of reach, commercial radio reach is 71% against BBC Radio's 60%.

With more national and quasi-national commercial stations than national BBC stations, the digital world will present a more level playing field to compete with the BBC and this is key to our strategy. In the digital world we will present a formidable challenge to the BBC. Early evidence of this can be seen in the performance of Planet Rock, which, with no money yet spent on advertising or promotion, has a weekly audience of almost half a million listeners. Imagine what we will be able to achieve when we start to advertise the brand and really get behind it with investment as we do with our analogue stations!

As part of your interim statement, you also said that you would be disposing of nine of your local stations. Why did this not happen and does this affect the overall strategy?

We received several offers for these stations but not at the level some of the bidders originally indicated. The Board did not feel that it would be in the best interests of shareholders to sell at the level of offers received having taken into account the likely post tax proceeds and the dilution to earnings per share of the disposal. Accordingly, the sale process was terminated and the stations were retained as an integral part of the Group. This does not affect our ability to deliver the overall strategy as these remain attractive assets which are now being managed as part of the existing structure.

Will you continue your investment in DAB digital radio and when do you expect to break even?

With three million DAB sets now in the market place and forecasts of 40% household penetration by 2009, we see the development of digital radio as integral to our success and are already seeing the early benefits of investing in talent at Planet Rock. The break even point for our digital investment depends significantly on the penetration of digital radio and also the success of the BT Movio project;

40%

There are three million DAB sets now in the market place and forecasts of 40% household penetration by 2009

GCap Media

GCap Media will continue its leading role at the forefront of the development of digital radio in the UK

however we are currently forecasting breakeven in around 2010. Digital investment peaked in 2004/05. Last year was the first time since we began investing in digital radio, that net costs of digital have reduced.

Is digital radio enough to see off challenges from other media and platforms including internet, podcasting and downloading?

In the UK, an impressive 90% of the population listens to radio. Compared to figures from just 10 years ago, this represents an increase of 10%, with an additional 3.7 million listeners tuning in each week. People are listening an additional 2.2 hours too with an average of 24 hours listening per week. Recent platform studies show that digital listeners tune in even longer with averages closer to 25 hours per week. So, an encouraging picture of radio's health.

In terms of other media, there is tremendous potential for radio from new media and at GCap Media we are already involved in the area of music downloads, podcasting and a range of hugely interactive websites connected to our radio stations. The beauty of radio too, is that you can listen to your favourite stations while engaging in other activities including surfing the net. The proliferation of downloading and MP3 players has only encouraged more listening to music and there is no evidence to suggest that this has negatively impacted on radio since most people listen to downloaded music during activities where they would not previously have listened to radio; such exercising or travelling on public transport. Digital radio presents more choice for listeners, greater interactivity and is shown to encourage longer periods of listening.

You recently decided not to pursue legal action against Ofcom's decision to award a second national multiplex. Why?

We considered the option of legal action because under the previous regulator, the Radio Authority, the existing national multiplex had been awarded to Digital One (63% owned by GCap Media) under terms which had been announced by the Authority as the *first and only* national licence.

Following discussions with Ofcom, the GCap Media Board decided against pursuing legal action because we felt assured that the regulator's intention is to broaden lasting consumer choice and to create an environment for complementary and not competitive services to those currently broadcasting on Digital One. GCap Media will continue its leading role at the forefront of the development of digital radio in the UK by actively participating in applying for the second licence as part of an industry consortium.

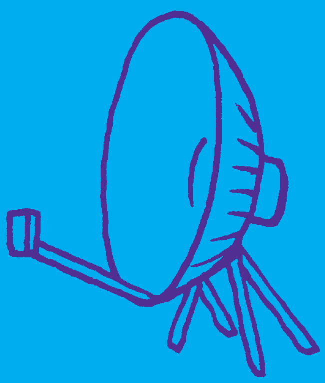
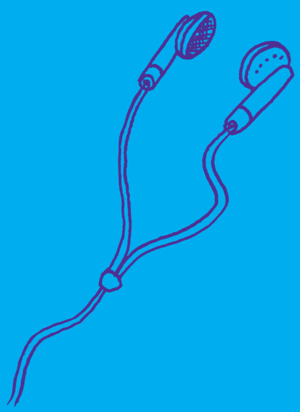
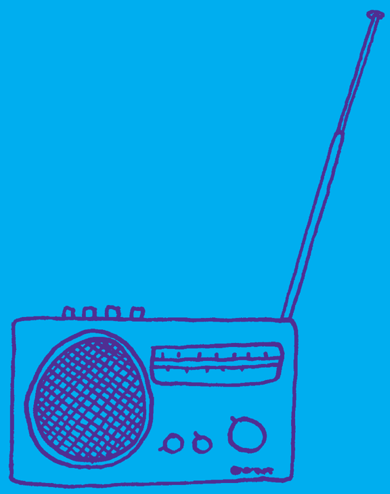
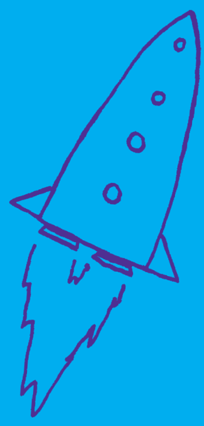
What about other growth areas? Where are you on developing non-traditional revenues?

This is a relatively small part of the business today but one which is increasingly important. Our priority is to focus investment on areas which will make a significant difference to the business. Classic FM is a good example of the opportunities that we can develop (see case study on page 25). However, one area where we are seeing a good deal of activity is in podcasting; Capital Radio has launched the best of Breakfast and Drivetime as well as its popular 'Flirty' strand from the mid-morning show, the One Network stations now provide a weekly 'best of' from their Breakfast Shows and Xfm launched sessions and 'X Rated' podcasts, featuring snippets of tracks and interviews with artists including some new bands in partnership with record companies. Classic FM launched a 'Guest List' podcast providing extra interview content from the Sunday evening show. Sponsorship of podcasts will provide a growing revenue stream for GCap Media and already a series including topics such as fishing, movies, soap gossip, comedy and media news is being sponsored by mobile phone operator Orange. In addition. Capital Radio podcasts are being sponsored by online bank smile.co.uk. New podcasts featuring on-air and new content are planned for all GCap Media brands across 2006.

In the coming year, how will you measure success?

The coming year is about delivering positive results. We have already started to deliver on the strategy we outlined in November including the protection of the Capital Radio price premium, the creation of a national Xfm Network and the early delivery of cost synergies. The advertising environment is very tough at present for all commercial media but we have a clear agenda for growth when the market climate improves. We continue to focus on maintaining a robust control on costs, on rolling out the improvements at Capital Radio, on developing our national radio offerings and our success will be measured by audience growth and improved financial performance.

What drives our business:

Platforms

Radio is broadcast across a number of platforms in the UK. From traditional analogue services to the burgeoning digital platforms including online, local and national DAB digital radio and digital television. GCap Media's radio stations broadcast across all of these platforms.

Listeners

The number of listeners we have and the frequency and duration of their listening drives the majority of our revenues which are derived from on-air advertising and sponsorship. The relationship with our audience of over 16 million listeners is at the heart of our strategy to develop non-traditional revenues including branded CDs, downloads, magazines and events.

Advertisers

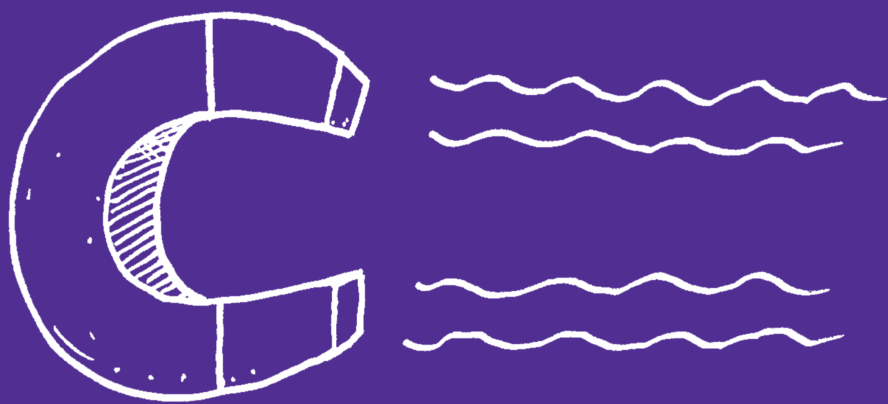
Our relationship with our clients is of huge importance to the business. They place higher value on more effective advertising environments and seek to target the commercially attractive 15-44 year olds that commercial radio delivers so well. Our challenge is to work closely with our advertisers to develop new and innovative ways for them to use radio to promote their products.

The future

Radio is at the centre of media convergence in the UK with potential across a number of digital platforms. Digital take up is growing and the level of interactivity with our listeners presents new revenue opportunities for the Group. It will also create a more competitive environment where GCap Media's complementary portfolio, in the most demanded regions, will place it in a strong position to compete for listeners' time and loyalty.

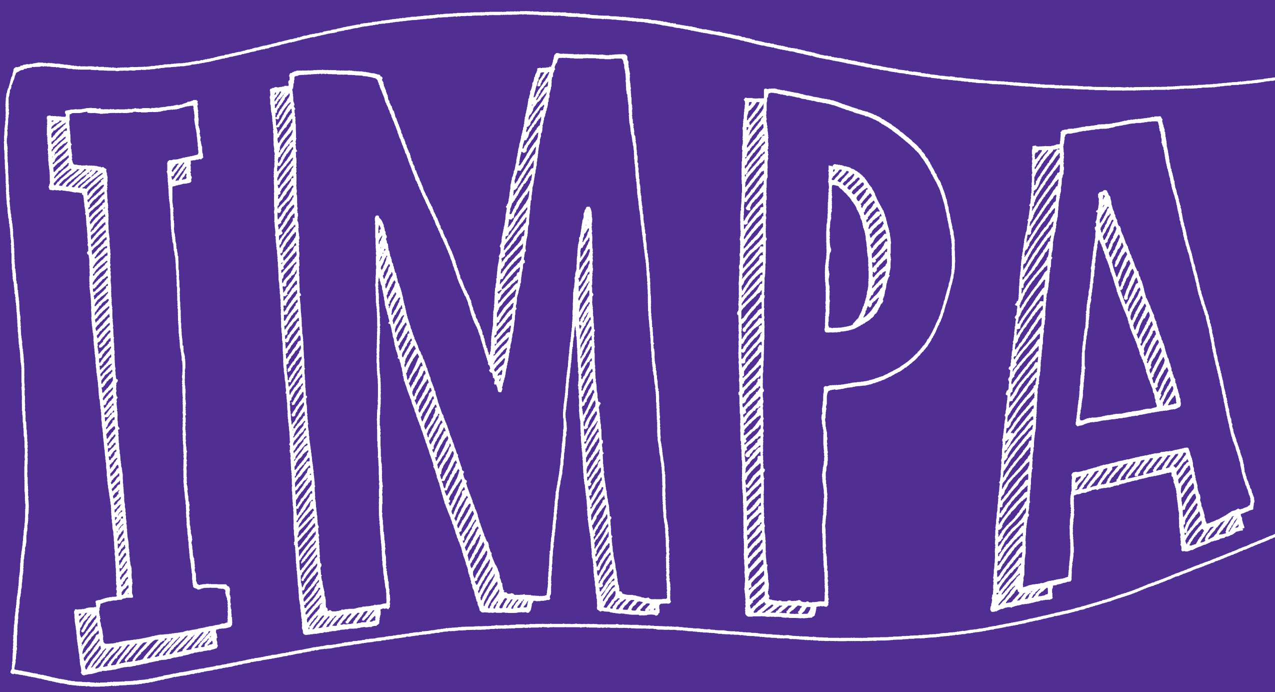
In November 2005, we presented our strategy to the City, our staff, customers and shareholders outlining a clear direction for the company in three key areas:

- **Investing in our core stations; with a focus on Capital Radio**
- **Repositioning our portfolio of stations and focusing on commercially attractive markets where we can challenge the BBC**
- **Developing non-traditional revenue opportunities**

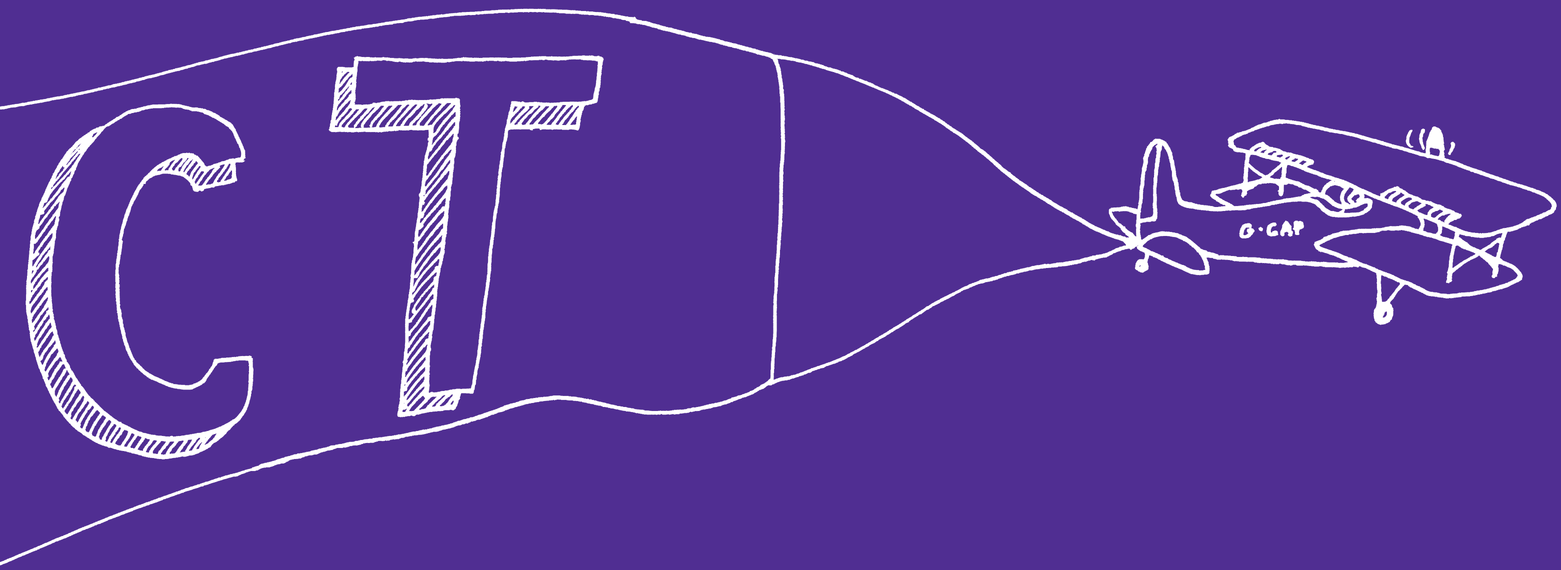


Realising opportunities...

More music and more...



Capital Radio began its phased relaunch in January 2006 with a new on-air position and new inventory policy. We have delivered over a third more impact for advertisers with our 'no more than two ads in a row' policy and protected our pricing position. We are now focused on continuing to develop the on-air product to attract new listeners.



Less clutter through lower minuteage

Our new inventory policy has delivered not only more standout for advertisers but a less cluttered station for our listeners with more emphasis on the music and relevant DJ chat. Alongside this reduction in advertising minuteage, we have made major changes to the on-air content of Capital Radio to meet our listeners' preferences.

Never more than two ads in a row

Our strategy has delivered more programme content and fewer adverts with less intrusion from commercial messages, making listeners less likely to 'tune out' during commercial breaks. It has also benefited advertisers by reducing clutter and increasing impact. Advertisers recognise that advertising on Capital Radio has significantly more value than on our competitor stations.

Improved effectiveness

We consulted with the largest media agency groups to develop research to investigate whether a commercial played out in a two ad break is more likely to be recalled by listeners than the same commercial played out in a five ad break.

The results of this independent research showed that a commercial is 38% more likely to be recalled in Capital Radio's two ad break than a five ad break, demonstrating tangible benefits and more impact for our advertisers. Given that some competitors are running up to nine commercials in certain breaks, this research showed that Capital Radio has considerably improved the effectiveness of the advertising environment on the station against its key commercial competitors.

Opportunities
for GCap Media

Targeting the most commercially attractive listeners

The challenge for commercial radio is to ensure that it presents a compelling alternative to the BBC to attract new listeners and grow share of revenue for radio. The second strand of our strategy is about targeting the BBC with a complementary portfolio of stations in the most demanded areas and with great national brands.

Commercial Radio is an attractive medium to advertisers because it can consistently deliver the 15-44 year olds demanded by our customers, and in this demographic, commercial radio outperforms the BBC.

Commercial radio reach is an impressive 71% compared to the BBC's 60%. By share of listening, commercial radio reach delivers 55% share against only 43% from BBC radio stations.

GCap Media is the leading commercial radio group among these target listeners with 36% reach. In the important London market, the difference is even greater. Here GCap Media delivers 46% reach among 15-44s with the nearest commercial competitor reaching 35% of these listeners.

...targeted advertising

Opportunities for GCap Media

Well positioned to benefit from the growth in digital listening through the growth of our national networks and national stations

Opportunities for advertisers

Increased reach and opportunities to target new listeners and hard to reach audiences

Opportunities for listeners

Greater choice of services and increased interactivity

The digital opportunity

There have now been three million DAB digital radio sets sold. It took five years to sell the first million sets, 11 months to sell the next million and just five months to sell the third million. By 2009, more than 40% of homes in the UK are expected to own a digital radio.

DAB Digital Radio provides new business opportunities for radio companies in operating multiplexes and developing new radio brands. For listeners, it offers a much broader choice of services, with more than 420 available around the country and more than 50 on-air in London. For advertisers, the benefits are clear: the opportunity to target much wider niche audiences who are loyal to their strong radio brands.

13.4%

2006

Household penetration*

40%

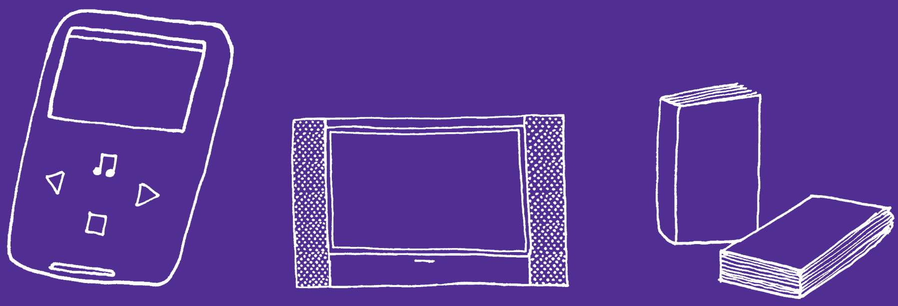
2009

Household penetration*

*DRDB figures

Creating radio's digital future

Our strategy is to build new revenue streams by harnessing the power of our brands and building stronger relationships with our audiences



Making our brands work harder

A key area of our strategy is to develop non-traditional revenues, which currently account for 14% of our total revenues, thereby lessening our reliance on radio advertising. Classic FM, where the sale of CDs and box office incomes comprise 17% of total revenues, is an excellent example of how such a strategy can monetise a brand. We believe that similar opportunities are available elsewhere within the Group's brands in areas including podcasting, branded CDs and by exploiting our extensive archive.

We have been commercial radio pioneers in podcasting. Xfm podcasts are consistently in the top 20 in the iTunes chart where the Adam & Joe podcast reached number 9. Xfm was the first station to offer music podcasts following a deal with the V2 record label offering listeners exclusive session tracks and band interviews recorded at Xfm.

Sponsorship of podcasts will provide a growing revenue stream for GCap Media, with advertisers and agencies wanting to use them to reach new communities of listeners. Currently, Orange are the sponsors of a range of special interest podcasts created by GCap Media including topics ranging from a fishing 'rodcast' to movies, comedy and news.

In addition, we also have a rich archive to plough and recently repackaged and sold classic Kenny Everett shows to the BBC for transmission on BBC 7.

The Directors have pleasure in submitting their Annual Report together with the audited accounts for the year ended 31 March 2006

Contents

Board of Directors
as at 24 May 2006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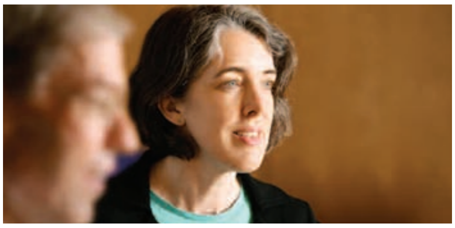
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Key
* A member of the Remuneration Committee of the Board
† A member of the Audit Committee of the Board
# A member of the Nominations Committee of the Board
o Independent director
^ Senior independent director

1 **Peter Cawdron, 62**
Non-executive Chairman (#)
He joined the Board in December 2000, was appointed Deputy Chairman in October 2001 and was Chairman from January 2002 until May 2005, when he became Deputy Chairman. He resumed the role of Chairman in September 2005. Until 1997, he was Group Strategy Director of Grand Metropolitan plc. He is now a Non-executive Director of a number of companies including Compass Group plc, ARM Holdings plc, Capita Group plc, Punch Taverns plc and Johnston Press plc.

2 **Ralph Bernard CBE, 53**
Chief Executive
He joined the Board in May 2005 as Executive Chairman and became Chief Executive in September 2005. He started his career in commercial radio as a journalist in 1975 and launched Wiltshire Radio in 1982 as Programme Director, becoming Managing Director in 1983. He was Managing Director and then Chief Executive of GWR Group plc from 1987 to 2001 when he was appointed Executive Chairman. He is Chairman of Digital One Limited and the Digital Radio Development Bureau, the body responsible for developing digital radio on behalf of the commercial radio industry and the BBC. He is a non-executive director of Independent Radio News Ltd. Appointed a Fellow of the Royal Academy in 1998, he won the Sony Gold Award in 2000 for his contribution to the industry, and in 2002 he was made a CBE for services to radio broadcasting.

3 **Steve Orchard, 48**
Operations Director
He joined the Board in November 2005, having previously been appointed to the GWR Group plc Board in 1996. He joined Wiltshire Radio in 1983 as a reporter and presenter. He then served as radio station Managing Director, Group Programme Director and Programme Controller Classic FM, before becoming Operations Director, Local Radio of GWR Group plc in 1998. He is a member of the Sony Radio Awards committee and a Director of Hit 40 UK Ltd and Independent Radio News Ltd.

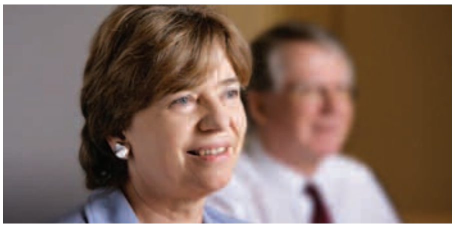
4 **Wendy Pallot, 41**
Group Finance Director
She joined the Board in May 2005. She qualified as a Chartered Accountant with Coopers and Lybrand in 1989 and joined GWR Group in 1994 as Group Financial Accountant. At GWR Group plc she was Company Secretary from December 1997 until November 2001 and became Group Finance Director in September 2001.

5 **Alastair Ross Goobey CBE, 60**
Non-executive Director (^)(*)(#)
He joined the Board in May 2005, having previously served as a Director of GWR Group plc since November 2003. He is Chairman of Hermes Focus Asset Management Ltd and John Wainwright & Co Ltd. He is also a Senior Advisor to Morgan Stanley, and a Governor of The Wellcome Trust. Among other appointments he is also a Trustee of Cancerbackup and a Governor of the Royal Academy of Music.

6 **Dame Patricia Hodgson DBE, 59**
Non-executive Director (o)(†)(#)
She joined the Board in May 2005, having previously served as a Director of GWR Group plc since January 2004. She began her career as a producer and journalist. She was Director of Policy and Planning at the BBC from 1993-2000 and Chief Executive of the Independent Television Commission from 2000-2004. She is Chair of the Higher Education Regulation Review Group, a Governor of the Wellcome Trust, and a Non-executive Director of the Competition Commission. She is Principal-Elect of Newnham College, Cambridge and is a Member of the Committee for Standards in Public Life.

7 **Tony Illsley, 49**
Non-executive Director (o)(†)(*)
He joined the Board in December 2000. He was formerly Chief Executive Officer of Telewest plc prior to the merger with Flextech plc. Prior to this, he was with PepsiCo as President of Walkers Snack Foods and before this he was President of Pepsi-Cola Asia Pacific. Until September 2005 he was a Non-executive Director of easyJet plc and he is Non-executive Chairman of Power Paper Ltd, and Plastic Logic Ltd.

8 **Sir Peter Michael CBE, 67**
Non-executive Director (o)(*)
He joined the Board in May 2005, having previously served as a Director of GWR Group plc since 1997. He is Chairman of a number of leisure companies involved in wine, food and specialist hotels and is Chairman of Greenham Common Community Trust. He has been Chairman of a number of large IT companies including UEI plc and Cray Electronics and was a member of the National Coal Board and a number of government bodies for the encouragement of research and development in the UK. He is also Chairman of the Pelican Cancer Foundation.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9 **Peter W Williams, 52**
Non-executive Director (o)(†)
He joined the Board in December 2003 and is Chairman of the Audit Committee. He has recently been appointed Chief Executive of Alpha Airports Group Plc. He was formerly Chief Executive of Selfridges and qualified as a chartered accountant with Arthur Andersen. He is a Non-executive Director of ASOS plc, Cineworld Group plc and a Member of the Design Council.

10 **Peter Williams, 52**
Non-executive Director (†)
He joined the Board in May 2005, having previously served as a Director of GWR Group plc since 2000. He is Finance Director of Daily Mail and General Trust plc (DMGT). He is a Chartered Accountant who joined the DMGT Group in 1982. He is also a Non-executive director of Euromoney Institutional Investor plc and of Ibis Media VCT plc.

11 **Richard Manning, 41**
Company Secretary
He was appointed Company Secretary in May 2005. He joined GWR Group plc in 2000 as Group Solicitor and became Company Secretary in 2001. He also holds the position of Group Legal Director at the Company. He is a director of Digital One Ltd and Wildstar Records Ltd.

Lord Attenborough CBE, 82
President
He was appointed President of Capital Radio in 1992 in recognition of his outstanding contribution to its development. He was Chairman of the Company from its formation in 1972 until his retirement from the Board in 1992.

Principal activities and business review

The Group's principal activity is that of a commercial radio broadcaster and licence holder in the United Kingdom. Other activities include the provision of services to the radio industry, the operation of entertainment-based internet sites and record production and distribution. The principal activities of the Company's subsidiaries are set out on page 78.

A review of the Group's activities for the year and its future prospects is set out on pages 20 to 39, and in the Chairman's statement and Chief Executive's Q&As.

Executive focus: The right people making the right decisions

In the first year since the merger which created GCap Media plc in May 2005, we have focused on getting the right management team in place and the right operational structure to deliver our strategy for growth.

The GCap Media Executive Directors are Chief Executive Ralph Bernard, Group Finance Director Wendy Pallot and Operations Director Steve Orchard.

GCap Media Executive Directors

Ralph Bernard	Wendy Pallot	Steve Orchard
Chief Executive	Group Finance Director	Operations Director

Our priorities have been to integrate the two companies, to achieve the best possible cost synergies, to deliver an effective operational structure, to communicate and start to deliver our strategy for growth and to continue the management of our four national and 115 local radio stations

Review of the business

In the Group's first year after the merger, our priorities have been to integrate the two companies, to achieve the best possible cost synergies, to deliver an effective operational structure, to communicate and start to deliver our strategy for growth and to continue the management of our four national and 115 local radio stations with a focus on building a solid base for longer-term listener and revenue growth.

Post merger integration

Undoubtedly, one of the greatest challenges in the past year has been business integration following the merger. Over the past year, we have focused on integrating the management and staff, technology, commercial sales, finance and property of the two companies. By September, all key decisions in these areas had been taken. Over the summer of 2005, we merged our two contemporary hit radio FM networks to create the One Network. We are currently finalising the implementation of Group-wide technology systems. In March we moved Classic FM to our studios in London's Leicester Square alongside our other London and national digital stations and our commercial sales teams. We are on schedule to relocate Digital One and Planet Rock to Leicester Square later this year.

The integration of the commercial sales team has been a priority. In July 2005, we moved the newly created national sales team into one location at our Leicester Square offices. In subsequent months we have concentrated on creating a new team culture and integrating the technology, systems and sales process which we believe will enhance customer service levels.

Realising increased cost synergies

In September 2004, we announced that we expected synergies from the merger to be at least £7.5 million per annum, achievable in full in 2007/08. Following the management reorganisation in September 2005, we announced that these synergy savings would be £25 million per annum, achievable in the first full year after the merger, 2006/07, with £9 million being delivered in 2005/06. In fact we have managed to achieve £13 million of savings in 2005/06. As well as accelerating the realisation of synergies, we have also increased the total cost savings to £27 million per annum achievable in the first full year of the merger.

In November we announced that the costs of delivering the synergies identified at that date would be £19.7 million. We are now in the process of moving all staff in London into one building, which will save an additional £0.7 million per annum. The one-off cost relating to this annual saving is approximately £5 million, because, in accordance with accounting regulations, we have provided for the full cost of lease payments for the empty building to the end of its lease term. Some of this cost would be reversed in future should the property be sub-let. In addition there have been other savings of £1.3 million per annum from further redundancies and operating contract renegotiations involving further one-off cash costs of £4 million. Total one-off cash costs, including the accrual for future lease payments, of £29 million, represent 107% of annual synergy savings, compared to the 147% ratio implicit in the announcement of the merger in September 2004. In addition, there are non-cash costs of approximately £2 million relating to asset write downs and the share element of merger related incentives.

Improving our operational structure

As previously announced, many of the merger savings are derived from the structural changes we have made to the business. This improved structure is focused on the management of the geographic regions outlined in our strategy presentation. We have introduced a simplified management structure that is clearer, speeds up decision-making, and eliminates duplication. The personnel changes announced in September 2005 have all been completed.

Delivering our business strategy

Our strategy focuses on three clear priority areas for the business:

> Investing in our core stations: focus on Capital Radio
> Repositioning our portfolio of stations within commercially attractive markets and developing strong national networks to challenge the BBC
> Developing non-traditional revenue opportunities

This section of the report will focus on our progress against the strategy and goals we outlined to the City in November 2005.

Business performance

While we are focused on delivering against our strategic goals, we measure business performance in three key areas. They are our Group financial performance, audience and listening trends and our commercial activities. These are outlined in the business performance section of this report.

Delivering our business strategy: Focusing on our core stations – Capital Radio

Background

Turning around the decline in audience numbers at our analogue stations has been our immediate priority and in November 2005, we announced that we would start with London's Capital FM (which in January, we relaunched as Capital Radio).

Capital Radio broadcasts in a highly competitive and commercially attractive market. In the last four years it has seen its reach decline by 38% and share by 50%.

Our aims for the station were twofold. We had to create a better commercial environment for our customers in order to maintain current pricing levels and deliver greater advertising effectiveness and we had to create a better listener environment in order to grow reach and share of listening.

Creating London's most effective commercial environment

In December 2005, we launched a new advertising inventory policy for the station which reduced advertising minuteage by up to half during the working day and delivered a promise of 'never more than two ads in a row'. This strategy has delivered more programme content and fewer adverts with less intrusion from commercial messages, making listeners less likely to 'tune out' during commercial breaks. It has also benefited advertisers by reducing clutter and increasing impact. Early feedback from our customers has been extremely encouraging and we have achieved our initial objective of maintaining our pricing premium relative to our radio competitors. Advertisers recognise that advertising on Capital Radio has significantly more value than on our competitor stations.

After implementing the new inventory policy, GCap Media consulted with the largest media agency groups to develop research to investigate whether a commercial played out in a two ad break is more likely to be recalled by listeners than the same commercial played out in a five ad break.

The results of this independent research (carried out by Ipsos ASI) showed that a commercial is 38% more likely to be recalled in Capital Radio's two ad break than in a five ad break, demonstrating tangible benefits for advertisers from our new inventory policy.

Given that some competitors are running up to nine commercials in certain breaks, this research demonstrates that Capital Radio has considerably improved the effectiveness of the advertising environment on the station against its key commercial competitors.

Our new inventory policy has delivered not only more standout for advertisers but a less cluttered station for our listeners with more emphasis on the music and other creative content. Research conducted before the policy was implemented had shown that listeners wanted fewer ads. Alongside this reduction in advertising minuteage, we are making major changes to the on-air content of Capital Radio to meet our listeners' preferences.

> **"By consulting with both clients and agencies prior to conducting the research GCap Media put together a well thought out piece of research, that countered most of the criticism voiced. The research provides a clear insight into the benefit for Capital Radio in London of moving from a 5 ad break strategy to a 2 ad break. In time the strategy will hopefully help the station regain audience in the crowded London market."**
>
> **Cathy Lowe, PHD**

Our aim is to convert our audience to regular listeners by making the station more appealing

100,000

We undertook the Group's biggest ever music positioning research project and a research campaign to 100,000 Capital Radio listeners

Getting it right for listeners

Audience analysis conducted in late 2005 revealed that we have a large number of listeners who tune in occasionally, but not frequently enough to register on the RAJAR weekly figures that drive advertising rates. Our aim in the first instance is to convert this proportion of our audience to regular listeners by making the station more appealing to them. In addition, those listeners who no longer tune in to Capital Radio, or who have yet to do so, should also be tempted to listen to the station if we can successfully restore the appeal of the station in the longer-term. We believe that we have a very strong position from which to rebuild Capital Radio's audiences and its revenues – but only by making significant changes to the station.

A key area of our initial listener feedback centred around the number and frequency of commercial messages. Our listeners told us that they simply want to hear fewer ads. Our new inventory policy has delivered not only more standout for advertisers but a less cluttered station for our listeners with more emphasis on the music and relevant DJ chat. Alongside this reduction in advertising minuteage, we have made major changes to the on-air content of Capital Radio to meet our listeners' preferences. To help us reconfigure the music policy for the station, we initially undertook the Group's biggest ever music positioning research project as well as an email research campaign to 100,000 of our listeners.

In January 2006, we began the phased relaunch of the station with a new music position, branding, news output, features and schedule. We have also started the process of giving the station a more local, London focus which will run through every aspect from on-air discussion topics to events. Since launch, we have continued to conduct extensive listener research through focus groups and early feedback has been extremely encouraging. There is much work to be done during the next two phases of the relaunch strategy – further programme improvements and strong marketing. We are pleased that despite the heavy marketing of rival stations in London, Capital Radio continues to hold the number two position by audience reach with no advertising support. Johnny Vaughan's breakfast show remains London's number one commercial breakfast show. The strength of the Group has enabled us to take a considered view of Capital Radio over an extended period going forward in order to position the station at its strongest before we launch a marketing campaign to attract new and lapsed listeners. We do not anticipate audience growth until the planned marketing push has had time to impact.

We have also strengthened the operational management of Capital Radio by appointing Scott Muller as the station's new Programme Director. Scott will join the station from Nova 969 in Sydney, where as Programme Director he has been responsible for the successful launch of the station, which secured the leading position in a competitive metropolitan market with a similar format and advertising inventory policy to Capital Radio. Scott will join the Group later this year and will apply the specific skills and experience he gained at Nova to attract new listeners. Reversing the long-term decline in audience and revenues at Capital Radio is a long-term project but we are confident that the measures we have put in place will deliver audience and profit growth over time.

Revenue impact

In the short-term Capital Radio advertising revenue has fallen due to the reduction in available inventory. Revenues were down by £2.4 million in the last quarter of 2005/06 due to the new policy. We estimate that revenues in 2006/07 will fall by around £7 million year on year, in line with the guidance we gave in November, as a result of both the new inventory policy and last year's audience reductions. As expected, this revenue is benefiting our London commercial competitors. However, as the benefits of our strategic repositioning flow through, we anticipate that our portfolio of leading stations in London will regain revenue share over time.

A complementary portfolio to target the BBC

Station brand	Audience target	Rationale
Xfm	20-30 males	Strongly branded, quasi national guitar music/lifestyle brand targeting hard to reach young males
Core	15-24	GCap Media's Radio 1 competitor
Classic FM	35-65 ABC1	GCap Media's flagship brand, in conjunction with Capital Radio
Planet Rock	35-55 ABC1 male	Highly branded and targeted classic rock service aimed at part of the Radio 2 audience and the older brother of Xfm
Life/Capital Gold	30-50 ABC1	Classic hits/speech mix aimed at part of Radio 2's audience

Key:
Targeting ■ Radio 1 ■ Radio 2

Delivering our business strategy: Repositioning our portfolio and challenging the BBC

Developing an integrated portfolio of local and national brands

GCap Media has an unrivalled portfolio of local, regional and national stations on analogue and digital. One of the attractions of merging the two companies was that there was little direct overlap, and that the merger presented considerable opportunities for rationalisation and improved operational efficiency. In November, we outlined our plans to restructure our portfolio of radio stations to maximise the potential of the merged Group.

Our portfolio strategy has two primary and complementary objectives. First, we said that we would concentrate our resources in the eight geographic regions which are most highly demanded by advertisers and in which we already have a significant presence. Additionally, in light of our decision not to sell stations previously marked for disposal, we now also operate a South West region. Following the restructuring, we now have regional Managing Directors outside London who have responsibility for all the brands in their region. These regional MDs work closely with local sales teams, programmers and the national sales team to maximise all commercial opportunities in their area and to ensure that stations are complementary and cross-promote where appropriate.

Creating strong national networks to challenge the BBC

The second objective of our portfolio strategy is to develop national brands to attract new audiences, primarily from the BBC as shown in the table above.

The radio 'footprint' created in each of our markets will allow us to particularly target BBC Radios 1 and 2 which have enjoyed considerable success against commercial radio in the past five years. Xfm and Core will target Radio 1 listeners and Planet Rock, Classic FM and a combined Capital Gold/Life will target Radio 2. This strategy will provide a distinctive listener proposition for each station and deliver effective national campaigns for advertisers.

In addition to these priority brands we will be able to reinforce the local position in specific markets with additional relevant stations such as Choice FM.

Classic FM

Classic FM is the UK's largest commercial radio station. With a presence on the national digital multiplex, Digital One and an existing listener base of 5.7 million listeners, it is the cornerstone of our strategy to develop our national portfolio. This year, the station also saw its highest revenues since 2002 and was the biggest revenue contributor for the Group.

Planet Rock

On DAB digital radio, Sony Gold Award winning Planet Rock achieved record reach and share with almost half a million listeners with little marketing to date but a strong focus on content and knowledgeable presenters.

Xfm: Creating a national network

This station has a strong lifestyle focus, based around new and guitar based music. Because it targets young males – difficult to reach for advertisers – it has strong commercial potential and good opportunities to derive revenues direct from listeners.

Previously, Xfm broadcast in analogue in London, on DAB digital radio in the South East, North, South Wales, West Midlands and Scotland and across the country on Sky. In November, we announced our intention to create a new national Xfm network of digital and analogue stations in order to exploit its appeal to this key audience and to give a stronger national proposition for advertisers.

We said that in the first quarter of 2006, we would complete plans for the national network by achieving the following:

> Xfm would replace The Storm in DAB areas where it does not broadcast, increasing Xfm's DAB coverage to over 35 million people.
> Beat 106, our analogue station in Central Scotland (Glasgow and Edinburgh), would be relaunched as Xfm
> Xfm would be launched in Manchester, following the successful bid for this analogue licence earlier in 2005.

We completed this project with the successful launch of Xfm Manchester following the January launch of Xfm Scotland. Advertiser reaction to the new network has been extremely positive and in the last RAJAR results (Q1:06), the Xfm network reached over a million listeners. This number does not yet include Xfm Manchester which launched in March. (See page 26 for more details on Xfm audience performance in the past year)

We will continue to develop new revenue activities relevant to individual station brands, such as CD compilations and book deals

380,000

Classic FM has built a database of 380,000 listeners which generates on average £1.20 per listener

Life/Capital Gold

As previously announced, we are now developing a combined classic hits/speech mix format aimed at part of Radio 2's audience.

Disposals

As part of our focus on repositioning the portfolio, we identified nine analogue stations for disposal because they fell outside our key geographic regions. We received several offers for these stations. The Board did not feel that it would be in the best interests of shareholders to sell at the level of offers received having taken into account the likely post tax proceeds and the dilution to earnings per share of the disposal. Accordingly, the sale process was terminated and the stations were retained as an integral part of the Group. This does not affect our ability to deliver the overall strategy as these remain attractive assets which are now being managed as part of the existing structure.

Delivering our strategy for growth: Developing non-traditional revenues

Our ambitions

The third element of our strategy is to build new revenue streams by making the most of the power of our brands and the strong relationships we build with our audiences.

We will continue to develop new revenue activities relevant to individual station brands, such as CD compilations and book deals, through rights management, partnerships and licensing. Our past success in CD compilation at Classic FM, Century and Capital Gold gives us a firm base on which to build and we believe that there is significant room for growth in this area, especially from Xfm, Choice and Classic FM.

We also plan to build revenues from direct interaction with listeners including mobile and email activity by directly targeting sales of products and services such as ringtones, downloads, CDs and tickets. Classic FM has already built a database of 320,000 listeners, which generates on average £1.20 directly from each listener (See Classic FM Case Study on page 25).

We aim to have a database of 2 million listeners as well as 8% of our listeners regularly visiting our websites in the next three years.

Our achievements

In the past year we have restructured our business to focus on developing new revenue streams in the key area of Customer Relationship Management (CRM) with the appointment of a Group CRM Director and the creation of a New Media team. This team has been created to support our stations with their new media strategy across web sites, streaming content, mobile and premium line telephone activity.

In addition, GCap Media now has its own production division called Creation, which supplies content and services, including in-store radio, podcasts, audio channels for airlines and programmes for the BBC. In the area of in-store radio, Creation manages the content advertising messages and technology solutions for high street clients including Woolworths. The Creation team have also been developing opportunities for the repackaging and licensing of the Group's archive material and has recently been commissioned to supply a second series of 'Kenny's Radio Days' to BBC 7 (the BBC's comedy and archive digital radio station). The first series – edited archive material from former Capital Radio presenter Kenny Everett – was broadcast on BBC 7 over Christmas and January 2006. Creation also supplies radio to those travelling and living outside the UK. It produces radio programmes for a variety of airlines including Monarch and First Choice and provides the content for overseas ex-pat and vacation station Holiday FM which broadcasts in 15 resorts across Europe.

Over the last year, Classic FM's customer relationship management (CRM) programme has reached new heights, with 380,000 listeners asking to receive the station's monthly email newsletter 'Behind The Music'. This programme driven initiative allows listeners to interact with the station by making requests and sharing their views. Subscribers are also surveyed about their tastes, which helps to inform decisions about both the playlist and programming

Classic FM Connecting with our listeners

As well as the radio station, Classic FM boasts a magazine, a website, a TV station, a sell-out series of concerts at the Royal Albert Hall, a chart-topping series of CDs, a mail-order catalogue and a range of books and audio books.

Latest sales figures for the Classic FM Magazine show that it continues to sell more news-stand copies in the UK each month than either of its two competitors (BBC Music and Gramophone). It currently has a readership of 227,000 (NRS Oct 03-Sept 04), an ABC circulation of 43,077 and a 57% market share of UK news-stand sales.

During the past 12 months, classicfm.com's unique users increased to a peak of 320,000 people per month. Classic FM TV meanwhile, is continuing to build new young audiences for classical music, with 2.4 million people tuning into the channel every month.

Classic FM's CD sales for the past 12 months topped the 100,000 mark, while the audiobook, 'The Story of Classical Music', won The Radio Times Readers' Choice Award at The Spoken Word Awards and top honours in the categories for Original Work and Achievement in Production at The Audies in America. It was also nominated for a Grammy Award. The follow-up, 'Famous Composers', was released at the end of 2005.

All of these platforms enable the listeners to interact further with the radio station and enhance the Classic FM brand. Classic FM is more than a radio station and is a shining example of how we can make our brands work harder.

5.7m

Classic FM is the UK's largest commercial radio station with 5.7 million listeners

461,000

Almost half a million listeners to Planet Rock, Sony Digital Station of the Year

Business performance

We are reporting business performance in the year in two key areas:

- Operational Review: Audience trends and commercial activities
- Financial Review: Key financial performance indicators

Operational review: Audience trends

The latest set of RAJAR audience figures (Q1:06) showed that over the last 12 months, while overall listener numbers (reach) for the Group were down around 5.3% from 17.1 million (Q1:05) to 16.2 million (Q1:06), GCap Media remains the UK's leading commercial radio group with almost five million listeners more than our nearest commercial competitor. The Group's total listening hours decreased by 6.6% year on year (RAJAR Q1:06 compared to Q1:05).

Classic FM

Classic FM is the UK's largest commercial radio station with 5.7 million listeners and the leading commercial breakfast show with 2.9 million listeners. Reach has remained broadly flat across the year at 12%. Importantly, Classic FM has maintained a high proportion of commercially attractive ABC1 listeners which in Q1:06 accounted for a record 68.7% of the station's listeners.

Classic FM accounts for just under 30% of Group listening hours and is an important element of the Group's strategy to challenge the BBC, particularly on the digital platform. Latest figures from RAJAR on listening by platform suggest that almost 10% of all listening to Classic FM is non-analogue with DAB digital radio accounting for more than half of that figure.

The One Network

The One Network, which is the UK's biggest commercial network opportunity for advertisers, saw reach decline by 8.5% year on year from 8.1 million listeners (Q1:05) to 7.4 million listeners (Q1:06) on a like for like basis excluding Beat 106 in Scotland. The commercially attractive 15-44 demographic makes up 70% of the One Network audience with a reach of 5.2 million listeners.

Capital Radio

Within this network, Capital Radio, which was relaunched in January 2006, was down by 18% year on year with 1.7 million listeners accounting for 16% reach. Share of listening declined from 6.1% (Q1:05) to 5.5%, representing a decrease in total hours of 13% year on year.

Again, turning to the important 15-44 market, Capital Radio is the number one station in London for this age-group, beating both the BBC and commercial rivals. 15-44s account for 72% of the total Capital Radio audience with reach of 21% while share is 8.3%. In terms of share of listening, Capital Radio remains the number one station for females aged 15-44 with share of listening of 10.8%.

	RAJAR Q1:06 Reach % Adults 15-44
Capital Radio	21%
Heart	20%
Kiss	19%
Magic	18%
Radio 1	18%

At breakfast, Johnny Vaughan remains London's leading commercial breakfast show presenter and in line with the objectives of the station relaunch, he is increasing his appeal to women who account for 58% of all listening to his show.

Xfm Network

The creation of a national Xfm Network to challenge Radio 1 is at the heart of the portfolio strategy we announced in November 2005. Xfm now broadcasts on analogue in London, central Scotland and Manchester and on digital in areas across the UK. The most recent RAJAR figures include the London, Scotland and digital stations and Manchester listening will be included later this year.

For the first time, Xfm now reaches over 1 million listeners with total hours of 6.6 million making it an extremely attractive proposition for advertisers. In London, Lauren Laverne took over the breakfast show from Christian O'Connell in 2005 and in her first full RAJAR period, increased the show's reach by 19% to 340,000 listeners. At the 2006 Sony Radio Awards, Xfm's 'Rock School' won a gold award for the best competition.

Xfm has an important role in our future growth strategy and we expect net investment in this station to be £1 million in the 2006/07 year.

Choice FM

Choice FM broadcasts on analogue in London and across the UK on DAB digital radio, Sky digital television and online. Recent RAJAR figures saw Choice achieve its highest ever national reach with 657,000 listeners and highest ever total listening hours of 6 million. The station now attracts 533,000 listeners in London with a further 124,000 outside the analogue transmission area. Choice FM has continued to strengthen its line-up with key presenters including Richard Blackwood and Angie Le Mar increasing their reach at weekends.

The creation of a new Xfm Network is a great opportunity for our sales team. It is a station that is popular with media buyers as it targets young male listeners that are otherwise difficult to reach

Century FM Network
The Century FM Network comprises three stations in the North East, North West and South coast and complements the One Network's offering to advertisers. Following the sale of the East Midlands station in May 2005, the network continues to see a steady performance with reach (post sale) maintained at 18%.

Capital Gold Network
Capital Gold remains part of the Group's strategy to target the BBC and will benefit from the move to digital in conjunction with Capital Life. The network, which broadcasts on analogue on Medium Wave, continued to see slight audience declines over the year with reach down from 1.3 million (Q1:05) to 1.2 million listeners.

GCap Media digital stations
Recent RAJAR results painted an encouraging picture for the growth of our digital stations, particularly Sony Digital Station of the Year, Planet Rock which reached a record 461,000 listeners in Q1:06. This represents more listeners than either BBC 1Xtra or 6 Music which have both had extensive marketing support. The focus in the past year has been firmly on programming and knowledgeable presenters such as Rick Wakeman and Nicky Horne are proving popular with listeners.

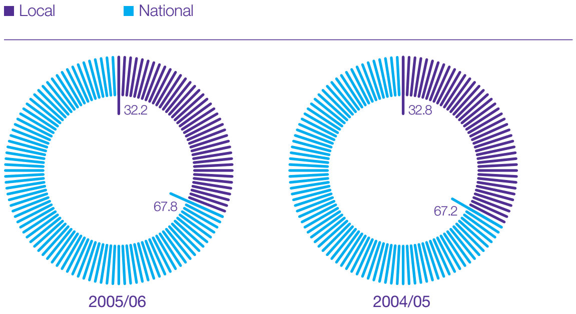
Operational review: Commercial activities

Creating a new team
The integration of the commercial sales team has been a priority in the past year. In July 2005, we moved the newly created national sales team into one location at our Leicester Square offices. In subsequent months we have concentrated on creating a new team culture, reducing staff churn and integrating the technology systems. Much of the systems integration is now complete and we are confident that we have the right team in place in national commercial sales.

Selling a complementary portfolio
One of the key benefits of our portfolio strategy is that it allows advertisers the option of either highly targeted campaigns on stations such as Xfm, Choice, Classic FM and Capital Gold or the opportunity to plan a broader campaign across a complementary portfolio of stations with very little waste or overlap.

Station performance
In London, as forecast, we have seen Capital Radio advertising revenues reduce by £7 million due to a combination of falling audiences and the introduction of the new inventory policy. However, we have protected our price position with key agencies and worked closely with our customers to develop an advertising effectiveness study for the station. The results of this study showed ads on Capital to be 38% more effective and we are confident that this is a positive message for our customers. Looking at our other brands, Xfm, Choice and Classic have all enjoyed growth and each outperformed the market in the past year. The creation of a new Xfm Network is a great opportunity for our sales team. It is a station that is popular with media buyers as it targets young male listeners who are otherwise difficult to reach. Choice FM continues to benefit from a national sales focus and the record ABC1s at Classic make it even more attractive to advertisers.

Local v National advertising and sponsorship revenue (%)



Category performance

Customers in Entertainment, Motors, Finance and Business all increased their advertising spend with GCap Media in the past year. Government and Political spend increased by the highest percentage in the year with the COI seeing its highest ever monthly spend in March. Retail, which had been the number one category in 2004/05, saw spend reduce by around 20% in the year reflecting weak trading on the high street. Telecoms and Travel were also down in the year. We have seen the following revenue performance from our top 10 advertising categories:

Category	Year on year revenue movement	% of total GCap Media revenue
Entertainment & Media	+2.8%	14.2%
Government & Political	+23.6%	12.8%
Motors	+2.8%	12.7%
Retail	-20.1%	11.1%
Finance	+25.4%	10.3%
Telecoms	-16.1%	8.2%
Business & Industrial	+47.8%	5.6%
Travel & Transport	-19.6%	4.7%
Household	-14.2%	4.3%
Food	-3.6%	4.0%
Other	Flat	12.0%

Source: NMR

Developing new revenue opportunities

In the area of sponsorship and promotion, some new long-term partnerships were formed.

Sky extended its partnership with Capital Gold breakfast and stepped up their promotional activity to cover all GCap Media London stations. Egg became the first client to run a cross-network promotion with a two-week campaign across 60 stations in the autumn that yielded revenue not previously earmarked for radio. This was followed by an extensive campaign with the Department of Health.

British Airways and O2, two of our most valued and long-term partners, continued their presence across our portfolio of stations.

Non-traditional revenues

A key area of our strategy is to develop non-traditional revenues. Non advertising revenues currently account for 14% of our total revenues and we aim to increase this proportion in the future, lessening our reliance on radio advertising.

Our biggest source of non-advertising revenues is from the administration of digital multiplexes, where the margins are higher than in our core business. There is some potential for higher incomes here if we win new local multiplexes in our heritage analogue areas. Ofcom proposes to start advertising these from Autumn 2006. However the most significant potential is in the national multiplex, which receives audience and revenue related fees from service providers. This potential should be forthcoming as Digital DAB penetration increases over the next few years (see page 14). Significant providers of other non-traditional revenues in the business are commercial production, box office and events income, internet income, news provision and CDs.

Classic FM, where non-traditional revenues account for 17% of total revenues, is an excellent example of where such a strategy can significantly enhance a brand (see the case study on page 25). Other brands which have similar opportunities include Xfm, Choice and Gold.

In our new media activities, Microsoft XP sponsored all the audio and visual players on our websites across 2005 in the biggest interactive deal the Group has achieved. New technologies have formed an important part of new initiatives with some innovative campaigns including SMS and podcasting. Of particular note is the award winning UIP Hustle & Flow film promotion.

Group revenues during this year were affected by four key factors; the Capital Radio inventory reduction policy, a weak advertising market, audience declines and a period of internal disruption following the merger

£220m

Group pro-forma revenues were £220.2m

Financial review

Group revenue performance

In a year of significant change for the Group, pro-forma revenues were £220.2 million, down £32.1 million, 12.7%, year on year.

Statutory revenues for the Group for the year to 31 March 2006 were £210.7 million (six months ended 31 March 2005: £58.5 million).

Group revenues during this year were affected by four key factors; the Capital Radio inventory reduction policy, a weak advertising market, audience declines and a period of internal disruption following the merger.

Capital Radio inventory reduction policy

Capital Radio's total revenues in 2005/06 were £26.6 million, making it the second biggest revenue generating brand for the Group behind Classic FM. The new inventory reduction policy at Capital Radio reduced revenues by £2.4 million in the last quarter of the financial year. The short-term revenue reduction created by this policy will continue into the new financial year and together with the effect of the audience reductions last year will, we estimate, lead to Capital Radio's revenues in 2006/07 being down by around £7 million year on year. This calculation assumes that we see some improved listening numbers reported in the next calendar year.

Weak advertising market

Weak advertising conditions during 2005/06 have been well documented, with industry radio revenues down 6.8% during the year to March 2006 (source: RAB/Ofcom). 86% of GCap Media's revenues are advertising.

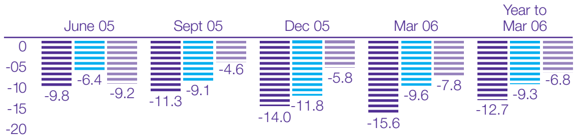
Although the quarter to 31 March 2005 was relatively strong, with March in particular showing good year on year growth, April signalled the start of more troubled trading and the hoped for post election uplift didn't materialise. Poor high street retail figures reflecting lower consumer confidence linked to uncertainty over property prices were at the root of the issue. Not all media suffered however; the internet continued to show good growth levels, outdoor also was in growth. What was apparent was the generally poor performance of the more longstanding traditional media – ITV, national press and radio. Although radio is a relative newcomer when compared to analogue TV and press, it had shown good revenue and share growth across the 1990s and has consolidated its position this decade with the medium now an accepted part of many advertisers staple media choice. Radio is now going through a period of transition as it has lost some audience against a revitalised and well-funded BBC and whilst its prospects for audience growth are good with digital, this is probably still two or three years out. Audience stability and then growth is what the medium needs for positive trading.

There was some optimism at the beginning of 2006 that the new year would be a better one for the advertising industry. A poor January to March has tempered that optimism. UK GDP growth is expected to be about 2% in 2006, with household spending remaining unchanged. The most recent Advertising Association short-term forecasts (made in March 2006) estimate total display revenue will grow by 1.5% year on year in the calendar year 2006, within that radio revenues are forecast to grow by 0.4%. In April 2006, Deutsche Bank estimated growth of 2.2% for the UK advertising market for 2006, with radio within that growing by 1.4% year on year.

Quarterly revenue movements

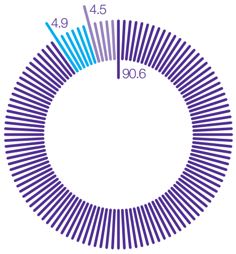
% growth

■ Group ■ Market (per OFCOM)
■ Group (excluding Capital Radio)



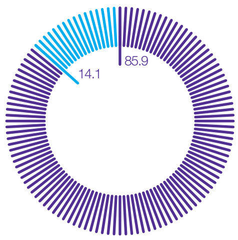
Revenue split (%)

■ Broadcast Brands ■ Multiplex Management
■ Other Revenues



Revenue split (%)

■ Advertising and Sponsorship
■ Other



GCap Media Revenues in April and May 2006 are down 4% year on year, but down 1% on a like for like basis, excluding Capital Radio which was down by 26% year on year. There is still an underlying weakness in the market and early indications for June show no improvement.

Audience declines

During the period that affected revenues for 2005/06, total listening hours for GCap Media stations fell on average by 7.4% year on year. Listening hours are a key indicator for revenues. However other audience statistics, such as share and demographic mix are also very relevant. The extent to which revenue changes as a result of audience movements varies with different brands. For example, our experience has shown that changes in total listening hours at Classic FM are unlikely to materially affect revenues because advertisers tend to choose the station both because of its unique listening environment and because it delivers an audience that more traditionally tunes to BBC rather than commercial radio. 26% of our total revenues in 2005/06 were locally generated. Total listening hour changes are not as important to local revenues as the overall share that the local station has in its market. Total listening does however affect national revenues for the local station, but proportionately more the larger that local station is. A more detailed review of audience statistics is included on pages 26 to 27 of the Directors' report.

Merger disruption

Inevitably there has been significant disruption in the business resulting from the merger during 2005/06. The businesses became one company on 9 May 2005. Reorganisation of key departments took place quickly, with the two national sales teams being merged and all in the same building by July 2005. This process inevitably entailed interviews for staff, some periods of uncertainty for them, and resulted in a total of 99 redundancies, 32 in the sales team.

Subsequently, following the management reorganisation at the end of September, estimated synergies rose from £7.5 million per annum to £25 million per annum. Inevitably this involved more changes to structures and a further 102 redundancies, of which 27 were in the sales team. Last year sales staff turnover excluding these redundancies both locally and nationally was running at rates significantly above a typical year, but churn levels have dropped in recent months as there is far greater stability in structures and systems. We have been active in implementing our plans to improve service levels in the national sales area, in particular in the launch of a unified planning system. Although some elements of the post merger technology integration plan are still ongoing, all material parts of post merger integration are complete, so we do not anticipate merger disruption will have a significant effect on the 2006/07 year.

Quarterly revenue movement

In the quarter to June 2005, the Group performed in line with the market. If Capital Radio, which was suffering from the effect of falling audiences, was excluded, the remainder of the Group beat the market in that quarter. During the reorganisations following the merger, the inevitable disruption led to an underperformance against the market for the quarters to September and December 2005. In the quarter to March 2006, the effect of the new inventory policy at Capital Radio can be clearly seen. Also in this quarter, it can be seen that now stability has returned to the business, the gap between the underlying Group and the market is narrowing. (See table above)

Although the direct effects of the merger are not going to be felt significantly in 2006/07, re-building audiences to improve revenues does not happen overnight. When improved listening statistics are recorded for a quarter, those numbers do not form the basis of revenues until a further three months after the end of the quarter.

Profitability

Our successful merger related cost saving programme together with around £5 million of revenue related cost reductions, meant that despite high operational gearing in the business underlying operating profits were down by £17 million compared to the £32 million fall in revenues year on year. The turnover and operating profit generated by each segment of our business was as shown in the table at the top of page 31.

Costs

The main cost emphasis during the year has been on maximising the synergies and bringing their achievement forward as far as possible. We continue to look at opportunities for making efficiencies in the business.

Synergies

In September 2004, we announced expected synergies from the merger of £7.5 million achievable in full in the year to March 2008. We subsequently announced in September 2005 that the synergies would be £25 million, achievable in full in the year to March 2007 with £9 million being achieved in the year to March 2006. As already explained on page 20, we have managed to achieve £13 million in the year to March 2006 and now expect total synergies to be £27 million, achievable in full in the year to March 2007. The total one-off cash costs of achieving these synergies is £29 million, 107% of the annual synergy savings. For more detail, see page 20. The savings are generated from the following areas of the business:

£13m

Savings achieved in 2005/6

Pro-forma turnover and operating profit split

	Broadcast Brands £'m	Multiplex Management £'m	Other £'m	Total £'m
2005/06				
Turnover	199.4	10.9	9.9	220.2
Operating Profit	18.6	5.8	1.4	25.8
2004/05				
Turnover	232.5	8.7	11.1	252.3
Operating Profit	37.1	4.6	0.8	42.5

The statutory turnover and operating profit split is given in note 2 to the accounts.

	People Costs £'m	Other Costs £'m	Total £'m
Head Office	2.5	0.7	3.2
Radio Stations	7.0	4.8	11.8
National Sales	5.1	0.1	5.2
Central Services	2.7	3.7	6.4
Multiplex Management	0.0	0.4	0.4
	17.3	9.7	27.0
Achieved: 2005/06			13.0
To be achieved: 2006/07			14.0

Investment

Underlying cost control and synergy achievement have been excellent, enabling us to invest where the business needs it most. In November 2005 we announced our intention to invest some of the merger synergies back into the business. These investments, which will be made during 2006/07, are £2.5 million in marketing and staff and £1.2 million in internet and CRM initiatives.

During 2005/06 GCap Media was awarded a new licence for Manchester, which launched in March 2006 as Xfm Manchester. Costs of £0.4 million were incurred in 2005/06 for this station and we expect it to incur costs of £2.4 million in 2006/07, with a net loss of £1.1 million.

Digital investment

Investment in our digital assets in the year was as follows:

	2005/06 Revenues £'m	2005/06 Profit/(loss) £'m	2004/05 Revenues £'m	2004/05 Profit/(loss) £'m
Multiplexes	10.9	5.8	8.7	4.6
Digital broadcast	1.7	(14.3)	0.9	(13.2)
Datacasting	0.2	(1.4)	0.2	(2.3)
Total	12.8	(9.9)	9.8	(10.9)

Annual net digital investment peaked for the Group in 2004/05. We are currently forecasting breakeven in around 2010, although this is very dependent on the penetration of digital radio including the success of the BT Movio project.

We currently own or have interests in 27 of the 46 local and regional multiplexes in the UK as well as controlling Digital One, the only national commercial multiplex in the UK. Ofcom has announced plans to advertise a further 30 local multiplexes from Autumn 2006, 12 of these are areas in which GCap Media operates the heritage analogue service and we will apply for those licences. We are also reviewing opportunities to participate in the second national multiplex, as well as further regional multiplexes that Ofcom may advertise. We expect the multiplex businesses to be increasingly profitable as more local multiplexes are awarded and digital penetration increases. The increase in revenues year on year is mainly within Digital One, resulting from the BT Movio venture (see above).

We have three digital only national brands; Planet Rock, Core and Life which operate on DAB digital radio and digital television. Costs for these brands largely comprise digital transmission expenses. As digital penetration increases we will be investing more in on-air production and marketing to enhance these brands. However these brands have significant potential for profit enhancement in the GCap Media group in the long-term given that much of the running costs are already in our income statement but none of the revenue potential of a national station is. Even without marketing investment Planet Rock now has almost half a million listeners.

In addition GCap Media simulcasts analogue brands on digital platforms, for example, Classic FM, the Xfm Network, Choice FM and the Capital Gold Network. Broadcasting analogue brands on a digital platform out of their area is the reason for the increase in digital broadcast revenues year on year.

Datacasting

This principally comprises GCap Media's interests in the BT Movio venture. The venture, which has been successfully trialled in London and the M25 area, will enable mobile operators to offer consumers a simple to use and reliable digital TV and radio service. The pilot was the largest of its kind in Europe and revealed that two thirds of customers would be prepared to pay up to £8 per month for the innovative service on their current mobile network.

We currently own or have interests in 27 of the 46 local and regional digital radio multiplexes in the UK as well as controlling the only national commercial multiplex in the UK

BT Movio broadcasts using GCap Media's national DAB digital spectrum and is navigated through the world's first implementation of a DAB-delivered electronic programme guide on a mobile TV phone. Unlike other mobile TV services, BT Movio's use of a broadcast platform allows multiple users to access services at the same time without a reduction in quality, thereby serving to widen the range of services to consumers and greatly increase the speed of take-up of DAB digital radio. The first BT Movio enabled device will launch through Virgin Mobile this summer. As well as receiving payment for the use of the national spectrum, GCap Media will participate in the gross revenues received by BT from this venture. The level of these will be very dependent on the extent of take up by consumers and service providers.

Classic FM licence extension

We submitted our application to extend the current licence term of Classic FM for a further four years. Classic FM's current licence expires in September 2007. The four year extension will take this to September 2011. As part of this exercise Ofcom will set new financial terms and we will know these terms later this summer.

Accounting for the merger

GWR Group and Capital Radio merged to form GCap Media plc on 9 May 2005.

As well as financial information required for statutory purposes these accounts also include unaudited pro-forma financial information and underlying basic earnings per share, which have been provided in order to demonstrate the underlying historic trends in the combined business. The adjustments made to the financials to compile the pro-forma and underlying information are specified on page 59.

International Financial Reporting Standards (IFRS)

In September 2005 we announced our restatement from UK GAAP to IFRS for the period to 31 March 2005, which reduced underlying pro-forma profits for that year by 5.3%.

In relation to the merger itself, IFRS 3 (Business Combinations) prohibits merger accounting. The merger has been accounted for as an acquisition by Capital Radio of GWR Group. In accordance with IAS 38 (Intangible Assets) the acquisition price of £280.6 million has been allocated across the assets acquired. The key assets identified were:

> £321.4 million of intangible assets – licences, brands and customer relationships – which are being amortised over the period that they deliver economic benefit, with a related deferred tax liability of £96.4 million. This has resulted in amortisation of £42.8 million in the year.

> Goodwill arising on the acquisition of £81.3 million, which will not be amortised but is subject to an annual impairment test comparing the carrying value of goodwill to its fair value. This treatment has also been applied to goodwill in the brought forward balance sheet of Capital Radio, resulting in an impairment charge across a number of brands of £12.8 million.

In relation to the Group's financials, the key amendments to GAAP were as follows:

> Share based payment charge under IFRS 2
The fair value of share based awards is now being expensed over the period of service to which they relate. The charge for the year, before separately disclosed items, is £0.8 million (2004/05: £1.6 million). It has reduced year on year mainly because three executive directors have left the company.

> Holiday pay provision
IAS 19 requires a liability and an expense to be recognised for paid annual holiday. The Group therefore recognised an additional accrual for holiday pay of £0.7 million in the pro-forma results at 31 March 2005 which has been reduced by £0.1 million at 31 March 2006.

> Goodwill
As stated above, under IFRS we no longer amortise goodwill. This resulted in £16.7 million being written back in the pro-forma results for the year ended 31 March 2005.

> Pension schemes
The Group has two defined benefit pension schemes which are both in a deficit position as calculated under IFRS 19. The total deficit of £8.5 million (31 March 2005: £5.4 million) on a statutory basis is now included on the balance sheet.

> Dividends
Under IAS 10 dividends are now only recognised when they are formally declared, that is for an interim dividend when paid and, for a final dividend, when authorised by a general meeting. Dividends of £5.1 million at 31 March 2005 were reversed out of statutory results and included in 2005/06.

The conversion of operating profits to cash during 2005/06 was at a rate of 139%. Working capital has improved significantly during the year

Separately disclosed items

The consolidated income statement includes a column headed Separately Disclosed Items, which is mainly made up of:

(a) The total merger related business restructuring costs of £27 million, being this year's tranche of the £31 million outlined above.

(b) £12.8 million impairment of goodwill.

(c) £10.6 million profit on the sale of Century 106, a regional licence in the East Midlands, which was sold in May 2005, to satisfy a condition of the Office of Fair Trading's approval of the merger. The consideration, after a working capital adjustment, was cash of £29.3 million.

(d) £0.9 million profit on the sale of our Bulgarian interests in November 2005, for which the consideration was cash of £1.5 million.

Cash flow

The conversion of operating profits to cash during 2005/06 was at a rate of 139%. Working capital has improved significantly during the year. Although this is partly due to a lower run-rate for turnover, there has also been a steady improvement in debtor days during the year from 41 at the date of merger down to 36 at 31 March 2006. This is the result of ensuring that GCap Media combines best practice in credit control from both Capital Radio and GWR Group, from training to collection policies and customer communication. We are running a programme of system enhancements that over the next 24 months should see further improvements in debtor days.

Capital expenditure for the 2005/06 year was at just under 3% of sales, a level not inconsistent with the GWR Group historically, reflecting the geographic spread of that group and now the GCap Media group.

Interest and debt

The Group had debt of £75.9 million at 31 March 2006 (Proforma 31 March 2005: £79.0 million). During the year the cash effect of the separately disclosed items was a net outflow of £0.3 million.

The pro-forma net financing costs for the year were £4.3 million (2005: £5.3 million) as the Group ran at lower debt levels during this year. At 31 March 2006, 45% of the Group's debt was borrowed at an average variable borrowing rate of 0.425% above 3 month LIBOR, the remainder was borrowed at a fixed rate of 5.1%, by means of interest rate swaps. The Group had undrawn committed facilities of £83.2 million at 31 March 2006.

Our rolling annual debt/EBITDA and interest cover ratios are shown below together with the relevant bank covenant level.

	Net debt/ EBITDA	EBITDA/ Interest
GCap Media ratios	2.3	7.8
Bank covenants	3.0 max	4.0 min

Taxation

The effective tax rates, based on the pro-forma results, before amortisation of intangibles and business restructuring costs, are 32.6% including share based payments and 31.5% without that charge.

The main reason that our rate is higher than the statutory rate of 30% is expenditure on items disallowable for tax including entertaining, share based payments where no deferred tax asset can be recognised and depreciation on non capital allowance items.

Dividend

At the time of the merger we stated that we expected to maintain the total annual dividend of 18.5 pence per share with cover being grown over time. The Board reviewed this policy in November and in the light of the very significant changes that occurred in the radio advertising market during 2005, the audience declines in the GCap Media portfolio, the current trading outlook at that time and the anticipated near term effect on earnings of the strategic steps that we intended to take to enhance the long-term value of the business.

It proposed a new level of dividend which would form the basis for a progressive dividend policy once the financial benefits of the strategic repositioning of the Group flow through.

The interim dividend was set at 3.1 pence per share and paid in January 2006. Going forward interim dividends will continue to represent approximately one-third of the anticipated full year dividend. The Board is proposing a final dividend of 6.15 pence per share making a total of 9.25 pence for the year. Dividend cover based on underlying earnings per share is 0.8.

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1.
Black Thunder Crew, 2-TEN FM with a 2-TEN FM Kids banner (2-TEN Kids is an appeal fund which raises funds for local children).

2.
Lauren Laverne, Xfm London Breakfast Show presenter.

Corporate social responsibility

Our people

GCap Media has 1,502 employees and approximately 470 freelancers and contractors. The welfare and interests of our people are a high priority for the Group and health and safety principles are in place to ensure a safe working environment. We recognise the importance of a balance between work and family life and have established comprehensive family policies, which include adoptive, maternity and paternity leave, as well as flexible working hours.

We are an equal opportunities employer and do not discriminate on the grounds of sex, colour, race, religion, ethnic or national background, sexual orientation, marital status, age, disability or political or religious beliefs.

We continually monitor changes in employment law and the introduction of the Age Discrimination legislation in October could have a substantial impact upon some of our policies. To help managers understand what these changes are and to give them a better understanding of Equal Opportunities law in general, we will be running a series of presentations and workshops throughout the year to help them continue to manage their teams successfully.

Performance development

GCap Media embraces a culture where employees can grow and develop as individuals and fulfil both their personal and business potential. This commitment is a key part of our strategy to win the 'war for talent' allowing us to attract, retain and develop the most creative and talented people in the industry.

As a business, we are continually developing the leadership and coaching skills of our managers so that employees are given guidance and training to do their jobs more effectively and achieve their full potential. In addition, through initiatives such as the GCap Academy and the development of internal training teams, we are encouraging the spread of learning and helping to capture and retain knowledge, expertise and best practice within the organisation.

During the first year of GCap Media, a large proportion of our training and development programme was focused on business critical areas, such as training on the new national sales system. The performance of both our sales and programming teams is crucial to the business and two talent development programmes were introduced – the Sales Leadership School and the Programme Controller School. In addition, we ran a two-day intensive session for all breakfast crews and Programme Controllers across the Group. We have also introduced a one-day general staff induction event that runs on a quarterly basis alongside a regional commercial induction day. In total, from 9 May 2005 to 31 December 2005, we delivered over 2,182 training days to 971 employees.

The next stage for us is to create an externally recognised professional development programme which will help attract new talent and to continue the ongoing coaching of our presenters and programme controllers so that we can win back audience share. We will also continue developing a coaching culture amongst our managers and we are rolling out the new performance development review process so that all employees have individual development plans.

The GCap Academy

The GCap Academy was set up when the company launched in May 2005. It offers a range of specific, tailor-made training and development opportunities for employees with the long-term aim of creating an externally recognised professional development programme that will help attract and retain the right talent for the business.

The Academy comprises a group of qualified trainers and employees who are able to deliver courses in their specific areas of expertise or disciplines. These range from general induction through to sales, news and programming. Regular updates on Academy training are published on the intranet, along with reviews and employee scores for previous courses. Staff can also be nominated and booked onto courses through the same site.

In 2006, the Academy will continue offering an extensive range of development opportunities delivered by both internal and external trainers and supported by a Groupwide network of mentors and coaches.

Leadership

We are actively engaged in developing leadership qualities in our management team and in the past year have focused on creating a strong leadership culture as part of the integration process. In December 2005, we held a two day workshop for our most senior managers to develop the leadership qualities for the business and followed this up with an interactive and highly participative conference for all levels of Group management in April 2006. We have identified the following leadership characteristics for our managers: Inspiring, Honest, Courageous and Forward Looking and we are committed to encouraging better decision making processes closer to the listener and customer.

Our aim is to harness the unique role that radio plays in listeners' lives to improve and take action on issues that matter to them and their families


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1.
Capital Radio DJ Margherita Taylor with winners of the 2005 London Adventure Playground Awards (Evergreen Adventure Playground in Hackney, East London).

2.
Southern FM School of Rock (streetboy Jack the Lad spent a week with a school band as their manager. On the final day of the week they played to 250 of their fellow pupils and live on air across Sussex).

Controlling our effect on the environment

The Group recognises the importance of environmental responsibility and, where practicable, has an environmental policy in place for the relevant business areas. The nature of its activities means it has a minimal direct effect on the environment but, where it does, the Group acts responsibly and is aware of its obligations at all times.

We are focused on minimising those activities with the most significant impacts. Our main concerns are waste disposal (computer equipment, toners and paper) and management of our energy consumption, notably electricity. All of our waste is disposed of in accordance with the Environmental Protection Act 1990 and recycling is actively encouraged throughout the Group. Examples of energy savings include encouraging staff to turn off computers, radios and photocopiers at the end of each day. Throughout the Group, where possible, air conditioning and refrigeration systems run on CFC-free gases.

Engaging with our shareholders

We are committed to communicating Group strategy and activities clearly to our shareholders and have in place an ongoing investor relations programme. We endeavour to maintain a high standard of transparency of financial reporting and we encourage the free flow of information to the investment community. We have regular contact with analysts and fund managers to ensure that they are updated on any Company and industry developments. Our private investors are also a valuable part of our shareholder base and we communicate with them through the corporate website (www.gcapmedia.com), the Annual Report and the AGM.

We also recognise the importance of high standards of corporate governance and follow the principles as set out in the combined code. The Board is accountable for the Group's operations and has ongoing procedures for identifying, evaluating and managing risks. Further details can be found on page 39.

Our communities

Many companies find themselves in a position to help the communities they serve, but few more so than in radio. Our aim as a media business is to harness the unique role that radio plays in listeners' lives to improve and take action on issues that matter to them and their families.

As part of our commitment to our communities we employ a dedicated Community Relations Director who is responsible for instigating and brokering projects at a Group level, such as the BT Schools Awards and Crimestoppers Week, and working with stations at a local level to ensure their successful implementation.

GCap Media regularly acts as a catalyst on a wide variety of initiatives. In the past year, we were invited by The Russell Commission to become a partner in a new charity created to revolutionise youth volunteering to inspire and engage 1 million new volunteers between the ages of 16-25 years. GCap Media has committed to support the cause for the next three years through giving in kind including the use of airtime for campaigns.

All of our stations also play an active role in Corporate Social Responsibility (CSR), working with local partners to identify projects and activities that are relevant to their particular community. Just one of these was the Choice FM campaign called 'Let's Talk'. This initiative involved a roadshow to 22 schools across London with Choice FM DJs talking to young people about the issues and dangers of street violence.

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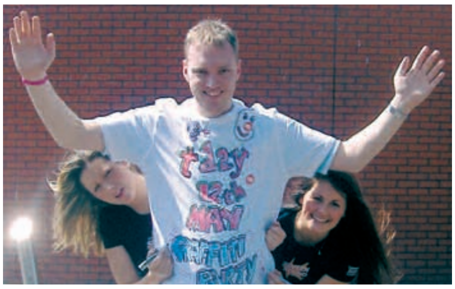
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1.
Help a London Child – Capital Radio's official charity.

2.
Severn Sound Graffiti Party (part of T-day, Gloucestershire's dress down day, raising money for Money Mountain, The Star College and the Spring Centre).

3.
Capital Radio DJ Chris Brookes visiting the Barking & Dagenham Crossroads project in East London. (The Barking & Dagenham Crossroads project is a Saturday club for children with disabilities and special needs).

Community action case study: One Million Pounds of Work

Stations often champion particular projects or causes in their area by responding to the concerns of their listeners. In April 2005, when Rover announced the closure of its car-making factory at Longbridge with the loss of 6,000 jobs, Beacon Radio launched a One Million Pounds of Work hotline for local employers to call if they had suitable jobs for ex-Rover employees. Working with Advantage West Midlands, the Rover Task Force and Job Centre Plus the aim was to find one million pounds' worth of work and to provide advice and support to those workers affected by the closure. The station was flooded with responses and within days the campaign achieved its target. By the time it closed four weeks later, it had found five million pounds of work for the area. This initiative was nominated for a Sony Radio Academy award.

Donations and charities

Charity work is an important element of our relationship with our local communities. The Group provides fundraising assistance and grants to a broad range of organisations, as well as its own charities. The Group's own charities include:

Help a London Child	Capital Radio
Help a Local Child	Fox FM, Power/Ocean, 2CR, Southern, Invicta, BRMB
Music Makers	Classic FM
21st Century Kids	Century FM
Help a South Wales Child	Red Dragon
Plymouth Sound Trust	Plymouth Sound
Gemini Community Trust	Gemini FM
Orchard FM Charitable Trust	Orchard FM
Bristol Kids	GWR Bristol
GWR Community Trust	GWR Swindon
Money Mountain	Severn Sound
2-Ten Kids	2-Ten FM
Mercury FM Trust	Mercury FM
Operation Santa Claus	SGR
Broadland Kids	Radio Broadland
Q103 Appeal	Q103 FM
Snowball	Mercia FM
Horizon Appeal	Horizon FM

In addition, the Group made donations to external charities in the year. This year, these included Race for Life, Breakthrough Breast Cancer and Shelter among others.

Corporate responsibility

GCap Media is the only radio company to have achieved GoodCorporation accreditation. The GoodCorporation Standard helps organisations to develop, manage and monitor their corporate responsibilities. Based on a set of core principles devised by the Institute of Business Ethics, the Standard sets out a framework of policies and good practices against which an organisation can measure how effectively it is meeting its objectives. It covers practices towards employees, suppliers, customers, and providers of finance, as well as community and environmental impacts.

The Group has been included in the FTSE4Good Index and also scored highly in Business in the Community's Percent Standard. The Percent Standard, recognises and celebrates corporate giving and is a symbol of a company's commitment to its local community. It is the UK's best known benchmark for measuring a company's contributions to its local community through cash donations, staff time, gifts in kind and management time, shown as a percentage of pre-tax profits. GCap Media's CSR activity was also recognised in November 2005 when the Group became finalists in The National Business Awards.

Classic FM

Classic FM has a unique public service role in the UK radio landscape as the only commercial station broadcasting Classical music. Accessibility has been a key driver of Classic FM's activities – a belief that classical music can be enjoyed by everybody, no matter what their age, class or geographical location is one of the cornerstones upon which Classic FM was founded. Classic's campaign with Youth Music to encourage children to begin learning less fashionable musical instruments was so successful that a shortage of tubas ensued. Along with Channel Five, the station took a choir of 40 people who had never previously performed in public on a journey which culminated in them singing live in front of 5,000 people at the Royal Albert Hall. The results were startling when we worked with the London Symphony Orchestra to create a series of live concerts specifically targeted at people who had never previously heard an orchestra play. Guiding the direction of Classic FM, particularly its public service broadcasting is the Classic FM consumer panel, whose annual report is included on the following page.

Classic FM's Consumer Panel has been in place now for three years, and continues to perform a unique role in commercial radio


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1.
Schools Prom: Classic FM has fostered partnerships with a number of like-minded organisations within the arts world, including one with Music For Youth, whose Youth Prom takes place annually at the Royal Albert Hall.

2.
The mail-order catalogue Classic FM Collection is the latest brand extension for the radio station, which has successfully launched a TV station, Magazine, website, record and publishing division.

Classic FM Consumer Panel report

We consider carefully the views of listeners; we question and discuss the station's progress with its managers; and we set broad objectives for the station in the year ahead.

The past year has been one of great administrative change at what is now GCap Media, but throughout this period Classic FM has broadly maintained a steady audience share, and it is highly regarded and held in considerable affection by its listeners. The Consumer Panel itself has changed too, with three of our original members, having come to the end of their term of office, stepping down during the year: Margaret Ainsworth, Dick Fong, and Sam Jackson. To all of these we say a big "thank you" for their hard work on behalf of Classic FM Consumers. The current members of the Panel are:

- Rt Hon Lord Smith of Finsbury, Chairman, former Culture Secretary;
- Sally Anderson, a GP from Yorkshire;
- Martin Johnston, an Environmental Scientist from Northern Ireland;
- Kirsty Young, Director of an Opera Company from Harrow;
- Peter Bailey, a retired systems analyst from Lincolnshire;
- Carol Goodson, a junior school teacher from Bromley;
- Brian McDowell, a cathedral school headmaster from Devon;
- Andrew McNeish, a company director from Glasgow;
- Ajay Nanda, another Environmental Scientist, from Scotland.

Our purpose

The Consumer Panel's purpose is to encourage and influence the development of Classic FM, to meet the needs of its consumers; to probe, guide, and monitor the actions of the station's management, and to set ongoing aims and objectives to which the station should aspire; to foster a sense of ownership of the station – and the Panel – by consumers; and to publish a Report of our work each year in GCap Media's Annual Report and on the Classic FM Website.

Our role

In fulfilling our purpose, we seek to review various aspects of the station's performance, from the point of view of its audience:

- Interaction with consumers: the audience's access to the station and how this is dealt with; enquiries and comments by phone, letter, e-mail and text, and how the station responds; access to competitions, nominations, requests, and presenters; the Consumer Panel's minutes to be published regularly on the Classic FM website.
- Delivery: the platforms used for dissemination of Classic FM; availability on FM, television, DAB, internet, mobile phones, and downloads; future developments in technology and how they impact on the audience.
- Content: issues relating to the range, quality, presentation, and nature of the music played; the nature of programmes, news, adverts, self-promotion, CDs, publications, internet newsletters, and e-mails; the purpose and findings of audience research.
- Policy: the general direction and purpose of the station; decisions made in the light of audience response and research.

1.
Classic FM Magazine: Relaunched with a fresh new look in January and continues to sell considerably more copies from the UK newstand each month than its two competitors.

2.
Mozart for babies: Classic FM's first CD release of the year was launched to coincide with the 250th anniversary of Mozart's birth.

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Objectives for Classic FM

For the past two years, we have set in place five broad objectives for Classic FM, and whilst we have been pleased to record substantial progress against these, we believe they should remain firmly in place for the year ahead. We have decided also to add a sixth objective. The six therefore are:

1. To ensure the interests of all ages of audience are represented in the spectrum of music broadcast, and within that aim to encourage a younger audience – especially at early ages, including pre-school – to sample classical music via Classic FM.
2. To expand Classic FM's involvement with music written during the past 100 years, in addition to the repertoire of the previous 1,400.
3. To work with a range of people and organisations to develop new audiences for classical music, on air, in the concert hall, and in education, by fostering partnerships with the wider arts community.
4. To encourage as far as possible a balanced geographical spread of the audience for Classic FM, and to seek a broad spectrum of listeners for the station, reflecting the range and diversity of the UK's population as a whole.
5. To aim to give the audience an appropriate level of information about and insight into the music that is broadcast, providing background and context to what is being played, and to classical music in general.
6. To work with advertisers, purchasers of advertising and creatives to improve over time the quality of experience listeners have of adverts broadcast on Classic FM.

Progress on the objectives

We have been pleased to note substantial progress on these objectives. This has included the tremendous success of the 'Music for Babies' CD; the Composer-in-residence initiative; the continued sponsorship of Masterprize; the range of partnerships established around the country, with orchestras, a choral group and an opera company; the promotion of live concerts; the continuing success of the 'Teacher of the Year' initiative; the separation of announcements of events and concerts into regional areas; the decision on programmes such as 'Smooth Classics at Seven' to forward-announce or to back-announce all pieces of music played; and the decision to institute an 'Advert of the Quarter' competition to stimulate better and more tailor-made quality in advertisements.

We look forward to further progress in all these areas. In particular, a Member of the Consumer Panel will act independently as one of the judges of each 'Advert of the Quarter' competition. We will also monitor the Classic FM Website, to ensure that it is kept up to date, and we have pressed for the inclusion of a 'frequently asked questions' section within it. We believe that all pieces of music should be identified by name, composer and artist at least once for each piece of music played on Classic FM Television, and at least once for every two pieces played on Classic FM itself. The Consumer Panel will at each meeting select an issue from within its remit, to consider, review, and make proposals. In this way we will seek to ensure that all the Objectives we have set are thoroughly considered and monitored, and that progress is maintained.

We have outlined the three core strands of our strategy, identified the key performance indicators for the business and reported on our performance in the past 12 months

We also regularly analyse the potential risks to the Company and have put in place a number of procedures and processes to mitigate against these risks

Principal risks and uncertainties

Operational

The risk that we fail to manage adequately our stations as a portfolio to maximise our audience and revenues.

There is communication between brands to ensure that they do not programme or market themselves to the detriment of the other brands in that location. We are increasingly focused on our offering across the whole marketplace and have structured our management team accordingly. Our use of cross promotion between stations is being reviewed. We have also focused on our experience within the Group of portfolio management and on applying these lessons in future plans, developed with assistance from our research department.

The risk of the merger process failing to take account of the risks arising.

There is regular communication of processes in place, maintained internally. We are continuing to review progress on key elements including technology, commercial and finance.

Commercial

The risk that continued advertising slowdown may put pressure on traditional revenues.

We aim to improve programming standards to increase audience. We are also proactively improving our relationship with advertisers and agencies with an emphasis on customer service to increase the perceived value of our brands. The development of non traditional revenues is a core strand of our strategy and new revenue streams have been introduced.

The pressure on premium stations and the consequent impact on price and volume and erosion of heritage protection.

We have concentrated marketing at key locations and at Capital Radio, have protected our price premium against our commercial competitors. We are also seeking to maximise programming quality both in terms of sound of the stations and presenter talent, as well as developing better offerings for customers and developing new revenue streams direct with customers. There is increased focus on the GCap Media portfolio of stations.

Strategic

The risk that the Group's structure fails to be flexible enough to cope with any potential future acquisitions.

The acquisition methodology was followed through in the months following the merger. Review processes continue assessing progress for key areas. The impact of cultural changes is now better understood.

The impact of the second national digital multiplex on Group strategy.

We have had discussions with Ofcom as to the composition of the second multiplex to safeguard our assets. We have taken steps to ensure our eligibility to participate in the second multiplex as part of a consortium.

The risk that Digital Radio either fails to take-off or is overtaken by alternatives.

We are seeking to make best use of all digital radio offers, as outlined earlier in this report. In addition we are evaluating and reviewing alternatives so as to place GCap Media at the forefront of rather than responding to changes.

Directors' report – additional information

Financial results

Details of the Group's profit and taxation are set out in the Group Income Statement on page 62 and in the Notes to the Accounts.

Dividend

The Directors have decided to recommend a final dividend of 6.15p (2005: second interim dividend of 6.0p) per share payable on 28 July 2006 to shareholders on the register of members at the close of business on 7 July 2006 (ex-dividend date: 5 July 2006).

Donations

During the course of the year, the Group raised over £4 million for its own charities and third-party charities such as The Prince's Trust and many other local charities. In addition, the Group's own donations to external charities in the year amounted to £20,000 (year to 31 March 2005: £46,000). No contributions were made to political organisations.

Staff policies

The quality, commitment and effectiveness of the Group's staff are crucial to its continued success. Staff policies and programmes are designed to encourage employees to become interested in the Group's activities and to reward all staff according to their contribution and capability. Employee communications are a high priority and regular staff briefings are used to ensure that all staff are kept properly informed. Employee share ownership is encouraged through savings-related and other employee share schemes.

Employment policies do not discriminate between employees or potential employees on the grounds of colour, race, ethnic or natural origin, sex, marital status, religious beliefs or disability. If an employee were to become disabled whilst in employment and, as a result, was unable to perform his/her duties, every effort would be made to offer suitable alternative employment and assistance with re-training.

Directors

The names and details of the Directors holding office at the date of this report are given on pages 18 and 19. During the year to 31 March 2006, the following Directors held office, prior to their retirement or resignation from the Board:

- David Mansfield stood down from the Board in September 2005 and ceased to be employed by the Company in January 2006;
- Paul Davies, Linda Smith and Peter Harris stood down from the Board in May 2005. Peter Harris ceased to be employed by the Company in May 2005 and Paul Davies and Linda Smith ceased to be employed by the Company in December 2005;
- Peter Mitchell, Stella Pirie and Tim Mason stood down from the Board in March 2006; and
- Barbara Thomas stood down from the Board in May 2005.

At the Annual General Meeting held in October 2005, the following directors were re-elected to the Board: Peter Cawdron, Tony Illsley and Peter Mitchell. Also at the Annual General Meeting in October 2005, the following directors were elected to the Board following their appointment to the Board in May 2005: Ralph Bernard, Wendy Pallot, Alastair Ross Goobey, Patricia Hodgson, Peter Michael, Stella Pirie and Peter Williams. Steve Orchard was appointed to the Board in November 2005.

Under Article 112 of the Articles of Association of the Company Wendy Pallot, Patricia Hodgson and Peter W Williams retire by rotation at the forthcoming Annual General Meeting, notice of which is set out on pages 109 to 112. Wendy Pallot, Patricia Hodgson and Peter W Williams, being eligible, offer themselves for re-election. In relation to the re-elections of Wendy Pallot, Patricia Hodgson and Peter W Williams, the Board is satisfied that each of these Directors continues to be effective and to demonstrate commitment to the Company. Details of all Directors offering themselves for re-election at the forthcoming Annual General Meeting can be found on pages 18 and 19. In addition, in accordance with Article 121 of the Articles of Association of the Company, Directors appointed since the last Annual General Meeting are required to submit themselves for election at the forthcoming Annual General Meeting. Therefore, Steve Orchard will be offering himself for election at the Annual General Meeting.

Information on Directors' remuneration is given in the Directors' Remuneration Report on pages 48 to 58.

Significant shareholdings
At 24 May 2006 the Company had been notified of the following interests of 3% or more in its Ordinary Shares:

	Number of Ordinary Shares	%
Fidelity International Limited	23,599,397	14.32
DMG Media Investments Limited	23,561,236	14.29
Morgan Stanley Investment Management Limited	11,552,307	7.01
Standard Life Investments Limited	8,534,551	5.18
SG Asset Management	8,022,841	4.87
Capital Group Companies Inc	6,703,964	4.06
Wellington Management Company	6,092,284	3.70
Legal & General Investment Management Limited	5,685,974	3.45

Share allotment and pre-emption rights
In accordance with the Company's normal practice, a resolution will be proposed at the Annual General Meeting to renew the Board's authority to allot unissued Ordinary Shares up to a maximum amount of £878,774 (being the lesser of the unissued share capital of the Company and 33% of the issued share capital of the Company as at the date of this report). This authority will expire on the fifth anniversary of the date of the resolution. A resolution will also be proposed at the Annual General Meeting to renew the Board's authority to issue shares for cash without first being required to offer such shares to existing shareholders on a pro-rata basis. The authority will expire on the earlier of 24 October 2007 and the conclusion of the next Annual General Meeting and is limited to Ordinary Shares having an aggregate nominal value of up to £206,061 (which is equivalent to approximately 5% of the issued share capital of the Company as at the date of this report).

The Directors do not currently intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three-year period without prior consultation with the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

Save in connection with the allotment of Ordinary Shares pursuant to the exercise of options and shares conditionally awarded under the Company's employee share schemes, the Directors have no present intention of issuing any Ordinary Shares.

The Company does not hold any Treasury Shares.

Authority to buy-in shares
Under Article 9 of its Articles of Association, the Company is empowered to purchase its own shares. The Directors consider that it is prudent to maintain the power to make purchases in the market of the Company's own shares and the necessary special resolution will be proposed at the Annual General Meeting. The maximum number of shares which may be acquired pursuant to the authority is 16,484,900 (which is equivalent to 10% of the issued share capital of the Company) and the maximum price (exclusive of expenses) payable for each Ordinary Share is 105% of the average closing middle-market quotations for an Ordinary Share (as derived from the Daily Official List) for the five business days immediately preceding the purchase. The authority will expire on the earlier of 24 October 2007 and the conclusion of the next Annual General Meeting. The Board has no immediate intention to exercise the authority and purchases will only be made if the Board believes that to do so would increase the earnings per share of the Company and be in the best interests of the Company and its shareholders generally. The authority granted at last year's Annual General Meeting has not been used in the past year.

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, companies are allowed to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. If any purchases of ordinary shares are made pursuant to this authority, it is intended that such ordinary shares will either be cancelled or held in treasury in accordance with the provisions of the Companies Act 1985. No dividends will be paid on, and no voting rights will be exercised in respect of, shares held in treasury. Any purchases of Ordinary Shares would be by means of market purchases on the London Stock Exchange.

As of 24 May 2006 there were options outstanding over 4,302,954 Ordinary Shares, representing 2.61% of the Company's issued share capital. If the authority given by this resolution to buy-in shares was to be fully used, these options would represent 2.9% of the Company's issued ordinary share capital as at 24 May 2006. There are no warrants to subscribe for Ordinary Shares outstanding.

Supplier payment policy
Community involvement is a cornerstone of the Group's radio operations and the Group considers that this extends equally to its position in the business community. The Group does not follow a code but operates a payment policy to agreed terms in settling outstanding debts. For certain types of regular contracted services, the Group encourages direct debit or standing order arrangements. Most other supplies are on an ad hoc basis and the terms of payment are agreed when the order is placed. The majority of payments are made by electronic transfer direct to suppliers' bank accounts. The amount of trade creditors shown in the consolidated balance sheet at 31 March 2006 represents 31 days (31 March 2005: 68 days) of average purchases during the period for the Group. The Company had no trade creditors at the year end (2005: creditor days – 42)

Directors' shareholdings, share options and conditional share awards

The beneficial interests of the Directors at 1 April 2005 (or date of appointment if later) and 31 March 2006 (or date of resignation from the Board if earlier) were:

	At 31 March 2006 (or date of resignation from Board)			At 1 April 2005 (or date of appointment to the Board)		
	Shares	Options	Conditional Share Awards	Shares	Options	Conditional Share Awards
R Bernard (Appointed 9 May 2005)	275,746	295,741	–	–	–	–
S Orchard (Appointed 24 Nov 2005)	16,349	172,217	–	–	–	–
W Pallot (Appointed 9 May 2005)	6,861	160,220	–	–	–	–
P Cawdron	3,200	–	–	3,200	–	–
Patricia Hodgson (Appointed 9 May 2005)	3,367	–	–	–	–	–
A Illsley	4,200	–	–	4,200	–	–
T Mason (Retired 31 March 2006)	–	–	–	–	–	–
P Michael (Appointed 9 May 2005)	3,799,306	–	–	–	–	–
P Mitchell (Retired 31 March 2006)	1,000	–	–	1,000	–	–
S Pirie (Appointed 9 May 2005 and resigned 31 March 2006)	19,108	–	–	–	–	–
A Ross Goobey (Appointed 9 May 2005)	13,000	–	–	–	–	–
P W Williams	4,300	–	–	2,500	–	–
P Williams (Appointed 9 May 2005)	391	–	–	–	–	–
D Mansfield (Resigned 19 September 2005)	146,374	290,917	307,170	144,923	290,917	307,170
P Davies (Resigned 9 May 2005)	45,321	186,646	185,320	45,321	186,646	185,320
P Harris (Resigned 9 May 2005)	36,640	153,675	162,590	36,640	153,675	162,590
L Smith (Resigned 9 May 2005)	14,492	145,776	160,280	14,492	145,776	160,280
B Thomas (Resigned 9 May 2005)	2,414	–	–	2,414	–	–

Note

Ralph Bernard, Steve Orchard, Wendy Pallot, Patricia Hodgson, Peter Michael, Stella Pirie, Alastair Ross Goobey and Peter Williams held no shares in Capital Radio plc prior to the Merger. Upon the Merger, pursuant to the Scheme of Arrangement implementing the Merger, their shareholdings in GWR Group plc were cancelled and they received shares in GCap Media plc at the agreed conversion rate. These holdings are reflected in the Shares column at 31 March 2006 above.

The Conditional Share Awards are awards made under the Capital Radio Long-Term Incentive Plan.

The options include those held under the 1986 Capital Radio Senior Executive Share Option Scheme, 1998 Capital Radio Share Option Scheme, the Capital Radio plc Save As You Earn Scheme, the GWR Group plc Save As You Earn Scheme and nil cost options granted pursuant to the 2005 Long-Term Incentive Plan and the Interim Merger Scheme.

In addition to the individual shareholdings set out above, the Directors are for Companies Act purposes deemed to be interested in 581,066 Ordinary Shares held in the Capital Radio Employee Trust, 263,011 Ordinary Shares held in the GCap Media SAYE Trust and 272,633 Ordinary Shares held in the GWR SAYE Trust. The market value of these shares as at 31 March 2006 was £2,557,266.

There were no changes in the Directors' registered interests in the shares of the Company during the period from 31 March 2006 to 24 May 2006. None of the Directors had any interest in the shares of any subsidiary company. Further details of options and conditional share awards held by the Directors at 31 March 2005 are set out in the Directors' Remuneration Report.

Directors' and officers' insurance

The Company maintains insurance cover for all directors and officers of Group companies against liabilities which may be incurred by them whilst acting as directors or officers.

The Directors are granted an indemnity, in accordance with Article 171 of the Articles of the Company, in respect of liabilities incurred as a result of their office.

Treasury

The Group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The principal risk arising from the Group's financial instruments is interest rate risk. The Board has reviewed and agreed a policy for managing this risk and this is summarised below. This policy has remained unchanged since the beginning of the year.

Interest rate risk
The Group finances its operations through a mixture of shareholder funds and bank borrowings. The Group borrows at both fixed and floating rates of interest. The Group's operating activities are principally financed by floating rate borrowings, whereas significant investment and acquisition activities are generally financed through fixed interest borrowings.

The Group uses derivatives to protect against fluctuating interest rates. As noted above, it is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. Interest rates swaps, in sterling, have been entered into to achieve a suitable mix of fixed and floating rate exposure.

Liquidity risk
Short-term flexibility is achieved by overdraft facilities. The Group's operations are typically cash-generative, so exposure to liquidity risk is considered insignificant.

Foreign currency risk
The Group has no exposure to foreign currency risk as it has no significant investments or financial instruments denominated in foreign currencies.

Auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

During the period under review, the Company went through a tender process to appoint auditors. Following the audit tender process, which was conducted by the Audit Committee on behalf of the Board, the Board re-appointed KPMG Audit Plc.

Resolutions are to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as Auditors of the Company and to authorise the Board to fix their remuneration. The remuneration and expenses of the Auditors are fully disclosed in note 7 to the Accounts.

By order of the Board

Richard Manning
Company Secretary

30 Leicester Square
London WC2H 7LA

24 May 2006

Registered Number 923454

Corporate governance statement

The Company recognises the importance of, and is committed to, high standards of corporate governance. This statement, together with the Directors' Remuneration Report set out on pages 48 to 58, describes how the Company has applied the principles of good governance as set out in the Combined Code.

The Company complied with the requirements of the Code provisions set out in Section 1 of the Combined Code throughout the year under review, save for the following areas:

Code Provision A.2.2: Upon his appointment as Chairman of the Company on 9 May 2005, Ralph Bernard did not meet the independence criteria set out in Code Provision A.3.1. In September 2005, Ralph Bernard relinquished the role of Chairman and became Chief Executive. Peter Cawdron, who replaced Ralph Bernard as Chairman, did meet the independence criteria upon his appointment.

Code Provision C.3.1: From 8 May 2005, Peter Williams, who does not meet the independence criteria set out in Code Provision A.3.1, has been a member of the Audit Committee and therefore the Committee did not consist solely of independent Non-executive Directors. The Company, and the Audit Committee, consider that notwithstanding his position as Finance Director of Daily Mail and General Trust plc, a substantial shareholder in the Company, Peter Williams has always displayed an independence of mind and action in his dealings with the Audit Committee and the Company. Indeed, his experience as Finance Director of a FTSE 100 company benefits the Audit Committee and the Company to a significant extent.

Directors

The Board of GCap Media plc is responsible and accountable for the Group's operations. Its principal focus is the overall direction and control of the Group. As at the date of this report, the Board comprises the Non-executive Chairman, the Chief Executive, two other Executive Directors and six other Non-executive Directors. Their biographies (set out on pages 18 and 19) illustrate the Directors' breadth of experience which should ensure an effective Board to lead and control the Group. The Board believes that it has an appropriate balance of Executive and Non-executive presence. All of the Non-executive Directors identified as being independent are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Peter Williams, who is identified as being not independent, is considered to bring significant financial and other experience to the Board and his continuing presence on the Board is, in the Directors' opinion, beneficial to the Company and the Group. The Non-executive Directors bring individual judgement to Board decisions and extensive expertise at a senior level of business operation and practice. Non-executive Directors are appointed for an initial term of three years and each Director receives appropriate training on appointment and subsequently if necessary. All Directors have access to the Company Secretary and, in the furtherance of their duties, may take independent professional advice if necessary at the Company's expense.

The Board regularly re-evaluates the mix of skills and experience of its members. During the course of the year to 31 March 2006, the Board completed a formal internal evaluation of the Board, its Committees and individual Directors, using a questionnaire-based approach. The Board intends to undertake an external review within the next two years.

All new Directors receive a full induction into the Company as soon as possible after appointment. The induction process involves meetings with representatives of all areas of the Company's business and visits to key locations. The role of the Board and its Committees, as well as a director's responsibilities, are also explained to the Directors.

Directors have opportunities to receive training and these opportunities are to be developed further to include areas that affect each Director's role within the Company, including corporate governance and risk management. All Directors are kept regularly updated on the Company's business throughout their period of office.

The Board met 11 times throughout the period and the annual programme of business is approved by the Board. Currently, the programme includes reviews of strategy together with the operations and results of the main business units, as well as the approval of annual budgets. Actual results for the Group and individual business units are reported to all Directors each month.

These procedures, together with other regular and ad hoc reports, are intended to ensure that the Board is supplied in a timely manner with information that is appropriate to the discharge of its duties.

The Board reserves to itself certain key matters to approve or monitor, such as the Group's strategic plans, annual operating plan and budget, the Group's operating and financial performance, projects affecting the capital structure of the Group and unbudgeted capital expenditure.

The principal committees of the Board are the Audit, Remuneration and Nominations Committees. The Board delegates specific responsibilities to Committees as described below:

> **The Audit Committee** at the beginning of the financial year comprised Peter W Williams as Chairman, Tony Illsley and Barbara Thomas. Following the merger with GWR Group plc, the Committee comprised Peter W Williams as Chairman, Tony Illsley, Patricia Hodgson and Peter Williams (Barbara Thomas having resigned from the Committee on 9 May 2005). Peter W Williams has recent and relevant experience for his role as Chairman of the Audit Committee, having been Chief Executive of Selfridges and he is a qualified chartered accountant. The Committee met five times during the financial period to review the 2006 results and the Annual Report and Accounts. The Committee has also reviewed the appropriateness and effectiveness of the Group's internal controls, policies and procedures and is responsible for the appointment of external auditors. The Group has an internal risk and audit function that conducts a rolling programme of reviews and introduces improvements to the Group's financial controls. The Committee believes that this function will continue to prove beneficial in identifying and correcting any control deficiencies. Meetings of the Committee are attended by the Finance Director and by other Directors and the Group's external and internal auditors as appropriate.

> **The Remuneration Committee** at the beginning of the financial year comprised Peter Mitchell as Chairman, Tim Mason, Tony Illsley and Peter W Williams. Following the merger with GWR Group plc the Committee comprised Alastair Ross Goobey as Chairman, Tim Mason, Peter Cawdron and Peter Michael (Tony Illsley, Peter W Williams and Peter Mitchell having resigned from the Committee on 9 May 2005). Tony Illsley was subsequently re-appointed to the Committee during the year concurrent with the standing down of Tim Mason from the Board and the Remuneration Committee. Peter Cawdron resigned from the Committee upon his appointment as Chairman of the Company in September 2005. The Committee met seven times during the year to review the Company's general policy on executive remuneration and the application of this policy to the remuneration and benefits of the Executive Directors and other senior executives of the Company. The Committee approves the remuneration and benefits of the Executive Directors. The Directors' Remuneration Report (set out on pages 48 to 58) contains a more detailed description of the Company's policy and procedures for executive remuneration. Meetings of the Committee are attended by the Chairman and Chief Executive as appropriate.

> **The Nominations Committee** at the beginning of the financial year comprised Peter Cawdron as Chairman, Barbara Thomas, Peter Mitchell and Tony Illsley. Following the merger with GWR Group plc the Committee comprised Ralph Bernard as Chairman, Alastair Ross Goobey, Peter Cawdron and Peter Mitchell (Barbara Thomas and Tony Illsley having resigned from the Committee on 9 May 2005). Upon his appointment to the position of Chief Executive in September 2005, Ralph Bernard resigned from the Committee and Peter Cawdron became its Chairman. Patricia Hodgson was appointed to the Committee during the year concurrent with the resignation of Peter Mitchell from the Committee. The Committee meets as required to select and propose to the Board suitable candidates of appropriate calibre for appointment as Directors. The Committee met once during the year.

Pursuant to the Company's Articles of Association, currently the nearest number to, but not exceeding, one-third of the Board shall retire each year by rotation (Directors may submit themselves for re-election). In practice, all Directors offer themselves for re-election at least every three years. The Articles were amended at the AGM held in October 2005 to reflect this practice. Details of appointments during the year and Directors retiring (and submitting themselves for re-election) can be found in the Directors' Report on page 40. The Company considers that the performance of and contribution given by each Director who is retiring by rotation and is submitting themselves for re-election at the AGM continues to be effective.

The following table sets out the number of meetings of the Board (one of which was a two-day strategy meeting) and of the Audit, Remuneration and Nominations Committees during the year to 31 March 2006, together with details of attendance.

Board meeting and Board committee dates were set and agreed following the Merger on 9 May 2005 to reflect the ability of the majority of Directors to attend. Inevitably some Directors (particularly Stella Pirie and Tim Mason) had unbreakable commitments on some dates preventing attendance, which is demonstrated by the details in the table below:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meeting	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
R Bernard	10	10	–	–	–	–	1	1
S Orchard	3	3	–	–	–	–	–	–
W Pallot	10	10	–	–	–	–	–	–
P Cawdron	10	11	–	–	3	3	1	1
P Hodgson	10	10	4	4	–	–	–	–
A Illsley	11	11	5	5	2	2	–	–
T Mason	7	11	–	–	4	7	–	–
P Michael	10	10	–	–	5	5	–	–
P Mitchell	10	11	–	–	2	2	1	1
S Pirie	6	10	–	–	–	–	–	–
A Ross Goobey	10	10	–	–	5	5	1	1
P W Williams	10	11	5	5	2	2	–	–
P Williams	9	10	4	4	–	–	–	–
D Mansfield	4	5	–	–	–	–	–	–
P Davies	1	1	–	–	–	–	–	–
P Harris	1	1	–	–	–	–	–	–
L Smith	1	1	–	–	–	–	–	–
B Thomas	1	1	0	1	–	–	–	–

Directors' remuneration

The Directors' Remuneration Report appears on pages 48 to 58 and contains a statement of remuneration policy and details of the remuneration of each Director who served during the year to 31 March 2006. Shareholders will be invited to consider separately the Directors' Remuneration Report at the Annual General Meeting to be held on 24 July 2006.

Relations with shareholders

There is a regular dialogue with institutional shareholders, including meetings with the Chief Executive, the Finance Director and the Company's Communications Director. In addition there are presentations of the annual and interim results and other topics. This activity is a keystone of the Company's corporate communications programme.

The programme includes formal presentations in London of the Company's full-year and interim results and meetings between institutional investors, analysts and senior management on a regular basis. Regular communication with shareholders also takes place through the Company's Annual and Interim Reports and via the Company website (www.gcapmedia.com) which contains up-to-date information on Group activities.

The Annual General Meeting is used as an important opportunity for communication with both institutional and private shareholders, and also involves a short statement on the Company's latest trading position. Shareholders may ask questions of the Board, including the Chairmen of the Audit, Remuneration and Nominations Committees. The results of the proxy votes submitted by shareholders in respect of each resolution are declared at the Annual General Meeting.

Alastair Ross Goobey, the Senior Independent Director and Chairman of the Remuneration Committee, has also met shareholder representatives during the year in connection with the new remuneration structure proposed at the 2005 Annual General Meeting and subsequent changes to it, and to report the payments made to the departing Executive Directors.

Auditors' independence and objectivity

The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditors, and has developed a formal policy to ensure these do not affect their independence or objectivity. The policy is reviewed regularly by the Committee.

Internal control

In September 1999, 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Guidance) was published to assist directors in complying with the internal control elements of the Combined Code. The Financial Services Authority requires all listed companies to follow this guidance when determining the extent of their compliance with the Combined Code. Associated undertakings have not been dealt with as part of the Group for the purposes of applying these guidelines. The Directors acknowledge their overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to manage rather than eliminate the risk of failure to meet business objectives and can only provide the Directors with reasonable assurance that material errors and irregularities are either prevented or detected on a timely basis and dealt with appropriately.

The Board confirms that there are ongoing procedures for identifying, evaluating and managing significant risks faced by the Group and these accord with the Turnbull Guidance, which the Board has fully adopted. These procedures have been in place for the financial period covered in this Annual Report and Accounts and up to the date of its approval, and their effectiveness is regularly reviewed by the Audit Committee and the Board. The Board has reviewed the effectiveness of the system of internal control during the financial period. In particular, the Board has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. There are supporting Group policies and procedures for the reporting and resolution of suspected fraudulent activities.

The Board has an established internal risk management function and has appointed a Head of Risk Management to identify, with relevant management, the major business risks facing the Group and put in place appropriate policies and procedures to manage those risks. Internal and external risks are assessed on a continual basis, and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements. These involve a process of control, self-assessment and hierarchical reporting that has been established to provide a documented trail of accountability. These procedures are relevant across Group operations and provide successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

Management regularly reports on its review of the risks and how they are managed to both the Board and the Audit Committee, whose role is to review the key risks inherent in the business and the systems of control necessary to manage those risks. The Audit Committee presents its findings to the Board as appropriate. Management also reports to the Board on significant changes in the business and the external environment which affect significant risks. The Board is provided with monthly financial information, which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by management and the Audit Committee.

The Board reviews the risk management and control process of the Group and considers, gives guidance, and to the extent necessary, makes decisions on the following:

- authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the Group;
- response to the significant risks which have been identified by management and others;
- monitoring of reports from Group management;
- maintenance of a control environment directed towards the proper management of risk; and
- annual reporting procedures.

Going concern

The Group continues to generate a positive operating cashflow. As a result the Directors are confident in making the following formal statement on going concern:

After making appropriate enquiries, including a review of budgets and other plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Richard Manning
On behalf of the Board
Company Secretary

24 May 2006

The Directors have pleasure in submitting their Remuneration Report for the year to 31 March 2006. This Report, which complies with the Directors' Remuneration Report Regulations 2002, sets out how the principles of the Combined Code relating to Directors' remuneration are applied. The Remuneration Committee believes that the Group was compliant with the provisions of the Combined Code relating to Directors' remuneration throughout the period.

The information that has been audited in this Report comprises the Directors' remuneration table on page 53, the share options table on page 55, the two Long-Term Incentive Plan tables on page 56, the Deferred Annual Bonus Scheme, the Interim Merger Scheme table on page 57 and the pensions disclosure on page 58.

A resolution will be put to shareholders at the forthcoming Annual General Meeting on 24 July 2006 inviting them to consider and approve this Report.

Remuneration Committee

The Board has overall responsibility for determining the framework of executive remuneration and is required to take account of any recommendations made by the Remuneration Committee. The Board has delegated to the Remuneration Committee, through formal terms of reference, approval of the specific remuneration packages for the Executive Directors and consideration of executive remuneration issues generally, including the use of share incentive plans.

The Remuneration Committee at the beginning of the financial year comprised Peter Mitchell as Chairman, Tim Mason, Tony Illsley and Peter W Williams. Following the merger with GWR Group plc the Committee comprised Alastair Ross Goobey as Chairman, Tim Mason, Peter Cawdron and Peter Michael, Tony Illsley, Peter W Williams and Peter Mitchell having resigned from the Committee on 9 May 2005. Tony Illsley was subsequently re-appointed to the Committee during the year concurrent with the standing down of Tim Mason from the Board and the Remuneration Committee. Peter Cawdron resigned from the Committee upon his appointment as Chairman of the Company in September 2005. The Committee met seven times during the year to review the Company's general policy on executive remuneration and the application of this policy to the remuneration and benefits of the Executive Directors and other senior executives of the Company.

The Remuneration Committee at all times during the year consisted exclusively of independent Non-executive Directors.

The Chairman and the Chief Executive normally attend meetings of the Remuneration Committee, but are not present at any discussions concerning their own remuneration. The terms of reference permit the Remuneration Committee to obtain its own external advice on any matter at the Company's expense. For the financial year under review, the Committee was assisted internally by the Company's Director of Human Resources and by external consultants PricewaterhouseCoopers, The Monks Partnership and New Bridge Street Consultants.

Remuneration policy for Executive Directors

The Committee aims to provide a competitive remuneration package to attract, retain and motivate Executive Directors and senior executives of the highest calibre and with the experience needed to shape and execute the Group's strategy and deliver shareholder value. The Committee takes account of external market data supplied by independent professional advisers and is sensitive to the wider scene, including pay and employment conditions elsewhere in the Group, especially when determining annual salary increases. The Committee also takes account of the remuneration paid by the Company's comparator group in the market.

The Committee's policy is for a significant proportion of executive reward to be variable and dependent upon the Group's performance, and for targeted performance-related incentives for Executive Directors to equate to well over half of the total potential remuneration. Variable reward components provide an opportunity for higher levels of remuneration where this is supported by exceptional performance whether at an individual level or in relation to the Group's short-term and longer-term business priorities.

Variable rewards will continue to be provided through a balanced mix of performance-related elements. The annual bonus scheme supports operational objectives over the financial year, whilst the Company's Long-Term Incentive Plan will reward superior performance over a longer period. The Interim Merger Scheme continues, in the shorter-term, to motivate the Executive Directors to achieve targets set in relation to the achievement of synergies in connection with the Merger.

The remuneration of the Executive Directors consists of:

> **Basic salary –** which is based on comparable positions in leading businesses of similar size and complexity.

> **Annual bonus scheme –** which is based on achievement of Group profit targets, as well as other financial and non-financial measures and personal targets. The maximum bonus payout is 100% of base salary. The bonus is paid partly in cash and partly in shares with a matching share element if the individual remains in service for three years, the original shares are retained and performance targets are met. Details of performance criteria are set out on page 50. In exceptional circumstances, the Committee has power to award bonuses outside this scheme.

> **2005 Long-Term Incentive Plan –** under which the Executive Directors may receive awards of up to 150% of salary, with the vesting of awards based on Total Shareholder Return, relative to the media sub-sector of the FTSE All-Share Index (50%) and the FTSE 250 Share Index (50%) over three years.

> **Interim Merger Scheme –** under which the Executive Directors may receive, over two years, up to 100% of base salary as at 1 April 2005, on the achievement of annualised costs savings of at least £25 million by 31 March 2007. Awards are satisfied half in cash and half in shares. Details of performance criteria are set out on page 51.

> **Pension –** which is to provide appropriate pension arrangements, having regard to individual circumstances. These are either final salary or money purchase arrangements. There are no elements of remuneration, other than basic salary, which are pensionable.

Awards under the following two schemes have not been made to the Executive Directors during the financial period under review. Details of the schemes are included in the Executive Director remuneration section of this Report. They relate now only to Executive Directors who stood down during the year.

> **The Capital Radio 1998 Share Option Scheme –** in previous financial years, annual grants of up to 110% of basic salary were made. No grants were made during this financial year.

> **Capital Radio plc Long-Term Incentive Plan ('LTIP') –** in previous financial years, annual conditional share awards of up to 110% of basic salary were made. No grants were made during this financial year.

Further details of each element of the Executive Directors' remuneration package, together with details of interests in shares and share options, are set out below in this Report.

The following graphs show GCap Media's Total Shareholder Return ('TSR') for the five years to 31 March 2006. This is compared against the Company's specific peers in the FTSE Media and Entertainment Index, as well as for general purposes monitored against the FTSE 250 Index in which the Company is also listed and is therefore of interest to our shareholders. Both of these indices are used as performance criteria for determining the exercisability of nil-cost options granted to Directors under the 2005 Long-Term Incentive Plan.

Five-year GCap Media vs FTSE All Share Media Total Shareholder Return

— GCap Media – Total Return Index
— FTSE All Share Media – Total Return Index

Source: Thomson Datastream

Five-year GCap Media vs FTSE 250 Total Shareholder Return

— GCap Media – Total Return Index
— FTSE MID 250 – Total Return Index

Source: Thomson Datastream

Executive Director remuneration

a. Basic salary and benefits

In formulating and reviewing pay packages for the Executive Directors, the Committee will normally receive comparator group information and assistance from independent remuneration consultants. The Committee's policy has been to maintain a salary structure based upon the mid-market of its comparator group of companies.

The Company structures remuneration packages which are appropriate to the particular function and level of responsibility of each individual Executive Director and which are designed to attract, retain and motivate the individuals. It takes into account the remuneration structures and levels at other companies, in particular in the media sector. The Remuneration Committee is made aware of pay conditions in the Group when it is considering annual salary increases.

All Executive Directors receive company car and private healthcare benefits. Death-in-service and permanent health insurance is also provided for each Executive Director.

b. Annual Bonus Scheme and Deferred Annual Bonus Scheme

The Company operates an annual bonus scheme which is reviewed each year by the Remuneration Committee and under which each Executive Director is able to earn a bonus of up to a maximum of 100% of basic salary, dependent upon performance conditions being met. During the year under review, the annual bonus scheme was assessed by reference to overall Group financial performance (70%), other financial and non-financial measures (15%) and personal objectives (15%). The Remuneration Committee determined that a bonus should be payable for achieving personal objectives (15%) but on no other measure.

The bonus is payable 65% in cash while 35% is applied to the purchase of shares for the individual. The cash and share elements are payable immediately after the announcement of the results for the financial year.

In conjunction with the annual bonus scheme, the company operates a Deferred Annual Bonus Scheme ('DABS'), pursuant to which Executive Directors and other members of the Group may receive a DABS award, inviting them to lodge the shares received under the share element of the annual bonus (Lodged Shares) for the purposes of the DABS scheme enabling them to acquire additional matching shares at the end of a three-year performance period, subject to the satisfaction of performance conditions, continued employment and based on the number of Lodged Shares that were acquired which must be retained for the three-year performance period. The award is normally in the form of a nil-cost option and it is the intention of the Company that, wherever possible, the grants of matching shares will be met from shares held in trust for that purpose.

The performance conditions applicable to the DABS awards made during the year under review were as follows:

Percentage growth in the Company's earnings per share over the three-year period from 31 March 2006 to 31 March 2009	Percentage of DABS Award vesting
Less than 6% per annum compounded	None of the DABS Award vests
11% per annum compounded	50% of DABS Award vests
Between 6% and 11% per annum compounded	DABS Award vests proportionately between nil and 50%
Between 11% and 16% per annum compounded	DABS Award vests proportionately between 50% and 100%
16% per annum compounded (or greater)	100% of DABS Award vests

If 100% of the DABS award vests, this is equivalent to the maximum two-for-one matching.

No re-testing of the performance criteria is permitted.

In exceptional circumstances, the Committee has power to award bonuses outside the above schemes. Immediately prior to completion of the Merger, the Committee considered whether special bonuses should be payable for additional services in respect of the period up to completion of the Merger. The bonuses approved by the Committee are disclosed in the table on page 53.

c. Share Incentive Plan

It is the Remuneration Committee's policy that Executive Directors should participate in the Company's 2005 Long-Term Incentive Plan ('LTIP') as this scheme aligns the Directors' interests with those of the Company's shareholders by linking the reward available to participants to TSR. Executive Directors may also participate in the Capital Radio Savings Related Share Option Scheme ('SAYE'). This is open to all full-time members of the Group who have been employed for more than 12 months at the date of grant of the options.

Details of all share incentive awards outstanding for each Executive Director are set out on page 55. As referred to above, the Executive Directors who stood down during the year previously received awards under the 1986 and 1998 Capital Radio Share Option Schemes and the Capital Radio Long-Term Incentive Plan. No awards under either of these schemes have been made to any Executive Directors during the year.

2005 Long-Term Incentive Plan

Under the LTIP, Executive Directors may receive awards entitling them to acquire or receive shares in the Company to a maximum annual value of 150% of basic salary.

For the period under review, each Executive Director received awards of 150% of basic salary by way of nil-cost options with the value of the Company's shares as at 1 September 2005 being used for the purpose of calculation. The Company's share price on that date was £3.0775. For subsequent awards, the market value of the shares on the award dates will be used.

All awards under the LTIP are subject to stretching performance conditions measured over a three-year period. The performance conditions applicable to the awards granted during the period under review are as follows:

50% of the award will be subject to TSR performance compared to the constituent companies of the FTSE Media Sector (the First Comparator Group) and 50% of the award will be subject to TSR performance compared to the constituent companies of the FTSE 250 Index (the Second Comparator Group). 12.5% of the award will vest if the TSR of the Company over the three year period commencing 9 May 2005 (the 'Performance Period') is equal to the median TSR of the First Comparator Group over that Period. Additionally, if the TSR of the Company over the Performance Period is equal to the median TSR of the Second Comparator Group over that period, 12.5% of the award will vest. If the Company's TSR over the Performance Period would place it in the upper quartile of the TSR of the First Comparator Group and/or the Second Comparator Group, 50% of the award will vest respectively (i.e. if both targets are met 100% of the award will vest). If the Company's TSR is between the median and upper quartile of the First Comparator Group and/or the second Comparator Group, the award will vest proportionately between 12.5% and 50% respectively.

TSR is the annual compound return received on a share calculated by measuring the increase in the price of a share over the Performance Period and the gross value of dividends and other benefits received on the share and reinvested on the day that share was declared ex-dividend.

No re-testing of the performance criteria will occur.

The Remuneration Committee's overall policy is to make awards under the 2005 LTIP using performance conditions and target levels which are believed to be stretching and provide value to the participants commensurate with the performance achieved. The policy when deciding on performance measures is to use measures the participants can, by their actions, influence, in order to provide effective motivation. The policy is to make awards annually and, as has been mentioned above, to ensure that the targets are set at the time of award with regard to prevailing conditions and that all the equity incentive arrangements in which an employee participates are considered as one whole.

d. Interim Merger Scheme

This scheme, on its introduction in 2005, provided for the making of a one-off nil-cost share option and a contingent cash award to Executive Directors.

The Scheme was introduced to incentivise Executive Directors and certain senior managers to achieve the annualised merger synergies identified by the Company in connection with the merger between GWR Group plc and the Company, and satisfaction of stretching performance targets relating to such achievement would be required before any vesting of awards.

The Scheme was also designed to recognise that Executive Directors either had no extant long-term incentives or little or no prospect of any payment under any such incentive schemes until at least three years after the Merger.

The performance conditions originally applicable to the Scheme were revised following the Company's announcement in September 2005 of a target of significantly higher annualised merger synergies than had initially been anticipated. The targets are therefore now as follows:

Annualised Merger Synergies achieved in the financial year to 31 March 2006	Proportion of award vesting	Proportion of option exercisable	Proportion of contingent cash award payable
Below £4,000,000	Nil	Nil	Nil
£4,000,000	7.5%	3.75%	3.75%
Between £4,000,000 and £6,000,000	7.5% to 50% pro rata	3.75% to 25% pro rata	3.75% to 25% pro rata
£6,000,000	50%	25%	25%

Aggregate Annualised Merger Synergies achieved in the financial years to 31 March 2006 and 31 March 2007	Proportion of award vesting (including any part of the award which has already vested)	Proportion of option exercisable (including any part of the option which has already become exercisable)	Proportion of contingent cash award payable
Below £18,000,000	Nil	Nil	Nil
£18,000,000	15%	7.5%	7.5%
Between £18,000,000 and £25,000,000	15% to 100% pro rata	7.5% to 50% pro rata	7.5% to 50% pro rata
£25,000,000	100%	50%	50%

In summary, therefore, Executive Directors have the ability to earn a bonus under this Scheme of up to 100% of basic salary as at 1 April 2005 if the Aggregate Annualised Merger Synergies reach £25 million in the year to 31 March 2007. Vesting will be proportional if lower levels of synergies are achieved. The Committee has reserved to itself a discretion to vary the level of vesting if the cost of achieving the synergies exceeds £18 million and will seek external verification of the synergies and the cost of achieving them.

No re-testing of the performance criteria will occur.

As noted above, to the extent an award vests in each of the years to 31 March 2006 and 2007, 50% of the award will be satisfied by the vesting of nil-cost options and 50% of the award will be paid in cash.

e. Service contracts

The Remuneration Committee regularly reviews all aspects of executive service contracts in the light of current practice and the specific circumstances of the Group. The Committee has determined that all service contracts should be updated and revised during the forthcoming financial year and will be conducting an exercise to this effect.

As at the date of this Report, all of the Executive Directors have service contracts with unexpired rolling terms of one year and a notice period by either party of one year. The date of contract is show below:

> Ralph Bernard – 21 March 1997;
> Steve Orchard – 7 June 2004; and
> Wendy Pallot – 31 March 2003.

Contracts for Ralph Bernard, Steve Orchard and Wendy Pallot provide that on a change of control as a result of which within six months an executive is dismissed or treats himself or herself as being dismissed as a result of any repudiation by the Company of his contract, compensation is payable for the unexpired portion of his or her notice period.

Contracts for Steve Orchard and Wendy Pallot also provide that in the event of a change of control that is not recommended by the Board, the executive can, within six months of that change of control, choose to terminate his or her employment by giving not less than 30 days’ notice and receive compensation for the unexpired portion of his or her notice period. Ralph Bernard’s contract also has this clause, but with a notice period of six months.

The service contracts for the Executive Directors who stood down from the Board during the period under review provided for termination by the executive or the Company on 12 months’ notice. Each agreement also contained a provision entitling the Company to terminate without notice and to make a payment in lieu of notice to the relevant executives equal to 95% of the sum of 12 months’ salary and the value of other benefits including annual bonus.

In each case, compensation for loss of office was paid to the departing executives as shown in the table on page 53. The comments of the Chairman of the Remuneration Committee on page 54 should be noted.

f. External appointments

GCap Media recognises that its Executive Directors may be invited to become non-executive directors of other companies or to become involved in charitable or public service organisations. As the Board believes that this can broaden the knowledge and experience of the Company’s directors to the benefit of the Company, it is the Company’s policy to approve such appointments provided there is no conflict of interest and the commitment required is not excessive. The Executive Director concerned can retain the fees relating to any such appointment.

None of the Executive Directors holds any significant business directorships which are not directly related to the business of the Group. Fees payable in relation to the services of Directors representing the Group on the boards of other companies are received and retained by the Group.

Non-executive Directors

a. Remuneration policy for Non-executive Directors

The remuneration of the Non-executive Directors is a matter reserved to the Board, on advice from the Remuneration Committee. Non-executive Directors receive an annual fee and are reimbursed expenses incurred in performing duties. Chairmen of Board Committees receive an additional annual fee. Non-executive Directors do not receive any performance-related bonuses, pensions provision, share options or other forms of benefit.

Under Article 101 of the Company’s Articles of Association, a limit of £800,000 (increased from £500,000 by special resolution of the Company passed at an Extraordinary General Meeting of the Company held on 15 April 2005) is placed on the aggregate amount of fees that can be paid to Non-executive Directors. This limit does not apply to Executive Directors, who have salaried employment with the Group. In addition, under Article 103, the Board may grant extra remuneration to any Director who performs special services at the request of the Company.

The Chairman’s remuneration is determined by the Remuneration Committee. In reaching future decisions on appropriate levels of pay, the Remuneration Committee will continue to have regard to the packages awarded to chairmen of other UK listed companies of a similar size and complexity.

The President is paid an annual fee of £13,000, which has not increased since his appointment in 1992.

b. Appointment of Non-executive Directors

Non-executive Directors are appointed for an initial period of three years. Their appointment can be terminated by the Company giving notice in writing. Re-appointment may be made after further three-year term(s). Any re-appointment beyond three terms of three years would be subject to annual review. Non-executive Directors serve the Company under letters of appointment and do not have service contracts. The Remuneration Committee plans to review these letters of appointment during the forthcoming financial period to ensure they meet best practice standards.

Directors' remuneration

a. Remuneration

The remuneration (excluding pension contributions which are set out on page 58) of each of the Directors and the President for the year ended 31 March 2006 was as follows:

	Notes	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Compensation for loss of office £'000	2006 Total £'000	Six months ended 31 March 2005 Total £'000
Executive Directors:							
R Bernard (appointed 9 May 2005)	7,8	403	292	23	–	**718**	–
S Orchard (appointed 24 November 2005)	7,8	93	172	4	–	**269**	–
W Pallot (appointed 9 May 2005)	7,8	215	156	45	–	**416**	–
D Mansfield (resigned 19 September 2005)	2,6,8	212	285	13	1,131	**1,641**	268
P Davies (resigned 9 May 2005)	1,2,6,8	28	151	1	511	**691**	163
P Harris (resigned 9 May 2005)	2,8	24	103	9	358	**494**	143
L Smith (resigned 9 May 2005)	1,2,3,6,8	28	140	10	596	**774**	141
Total: Executive Directors		**1,003**	**1,299**	**105**	**2,596**	**5,003**	**715**
Non-executive Directors:							
P Cawdron (Chairman)		82	–	–	–	**82**	48
A Ross Goobey (appointed 9 May 2005)		42	–	–	–	**42**	–
P Hodgson (appointed 9 May 2005)		29	–	–	–	**29**	–
A Illsley		32	–	–	–	**32**	16
T Mason (resigned 31 March 2006)		32	–	–	–	**32**	16
P Michael (appointed 9 May 2005)	5	29	–	–	–	**29**	–
P Mitchell (resigned 31 March 2006)		33	–	–	–	**33**	19
S Pirie (resigned 31 March 2006)	4	29	–	–	–	**29**	–
P W Williams		37	–	–	–	**37**	19
P Williams (appointed 9 May 2005)	5	29	–	–	–	**29**	–
B Thomas (resigned 9 May 2005)		3	–	–	–	**3**	16
Total: Non-executive Directors		**377**	**–**	**–**	**–**	**377**	**134**
Total Directors' remuneration		**1,380**	**1,299**	**105**	**2,596**	**5,380**	**849**
President:							
Lord Attenborough		13	–	–	–	**13**	7

Notes

1. Paul Davies and Linda Smith also received payments of £26,000 and £22,080 respectively in connection with their agreement to resign from the Board on 9 May 2005.

2. David Mansfield, Paul Davies, Peter Harris and Linda Smith also received payments of £10,450, £1,500, £750, and £1,500 respectively towards legal costs following the termination of their contracts. These payments were made directly to their legal advisers.

3. The benefits in kind provided to Ms Smith include a payment of £8,664 in respect of untaken holiday pay.

4. Stella Pirie entered into a consultancy agreement with the Company on 26 April 2006 to provide consultancy services to the Company for the period 1 April 2006 to 31 March 2007. Her fees, amounting to £32,000, will be paid in equal quarterly payments. The agreement will terminate on 31 March 2007.

5. Peter Williams and Peter Michael had all their fees paid directly to third-party companies.

6. David Mansfield, Paul Davies and Linda Smith resigned from the Board on the dates indicated above, but remained employed by the Company until, in the case of Paul Davies and Linda Smith, 31 December 2005 and in the case of David Mansfield, 31 January 2006. The salary in the above table reflects the payments made to them up to their date of resignation from the Board. The additional salary payments made from the date of resignation from the Board to the date of termination of employment were as follows: David Mansfield: £156,592; Paul Davies: £198,701; Linda Smith: £182,458.

7. The remuneration details disclosed for Ralph Bernard, Steve Orchard and Wendy Pallot are from the date of their appointments to the Board. Their annual salaries with effect from 1 April 2005 have been respectively £450,000, £265,000 and £240,000 pa.

8. The bonus figures for Ralph Bernard, Steve Orchard and Wendy Pallot comprise entitlements under the Company's annual bonus scheme for 2005/06. For Ralph Bernard this amounted to £67,500; for Steve Orchard £39,750; and for Wendy Pallot £36,000. 65% of the annual bonus is payable in cash and 35% is payable in shares, pursuant to the DABS described on page 50. The bonus figures also comprise entitlements under the Interim Merger Scheme for 2005/06 (50% of which is payable in cash and 50% of which is payable in shares). The cash and cash equivalent (as at the date of grant of the nil-cost options) values are also indicated in the bonus figures in the table above. For Ralph Bernard

this amounted to £224,000; for Steve Orchard £132,500 and for Wendy Pallot £120,000. These sums represent the maximum vesting of the awards under the Interim Merger Scheme for 2005/06. See page 51 for more details. The bonus amounts for David Mansfield, Paul Davies, Peter Harris and Linda Smith comprise the special bonuses awarded by the Committee prior to completion of the Merger referred to on page 50 (David Mansfield: £172,640; Paul Davies: £91,000; Peter Harris: £80,080; and Linda Smith: £80,080) plus entitlements under the Company's annual bonus scheme from 1 April 2005 to the date of termination of employment which were paid entirely in cash (David Mansfield: £112,500; Paul Davies: £59,625; Peter Harris: £22,880; and Linda Smith: £59,625).

The benefits in kind shown in the above table relate principally to a fully expensed company car or the receipt of a company car allowance and medical health cover for the Executive Directors and their immediate family. Wendy Pallot received relocation payments amounting to £28,817.

b. Explanatory statement from the Chairman of the Remuneration Committee relating to payments made to departing Executive Directors

Shareholders deserve a full explanation of the payments made to the Executive Directors who resigned during the year. The payments are substantial and amount to more than 2.5 times the base salary. One might expect that an executive serving on a contract with a notice period of 12 months would be entitled to less than this. However, the payments are a consequence of the contracts under which the Executive Directors served, dated January and February 2001. Shareholders will recall the environment for media companies at that time, where securing the services of management was more difficult in the sector.

The Board of GCap Media made the decision that the Executive Directors concerned were 'good leavers', in that they were not dismissed for cause. The contracts were quite explicit in the terms of the severance payments on termination. Shareholders will have noted the outline of these Executive Directors' contracts in the accounts of GCap Media for the pre-merger period to 31 March 2005 (page 24 of those accounts). The Executive Directors concerned were entitled to '95% of the sum of 12 months' salary and the value of other benefits including annual bonus'. This is a forward-looking sum, running from the date that the contract is terminated. No short-term bonus is being paid to any Executive Director in respect of the profit-related element of the bonus scheme put in place by the Remuneration Committee for 2005/06. However, other bonuses, including in respect of general management achievements and the Interim Merger Scheme, are being paid to the remaining Executive Directors. Legal advice was received that similar payments to the departing Directors were contractual, as were bonuses payable for the period between 1 April 2005 and the termination date of the relevant contract.

The only non-contractual payments made were in respect of a compromise agreement that prevents any claim for constructive or unfair dismissal, plus a small contribution to the executives' legal costs, made directly to the lawyers concerned. These were modest.

If the Company had paid the executives on a monthly basis during the period of notice, there was a possibility that the overall payments might have been even larger, since they could have claimed a share in higher bonuses than the termination payments estimated, and they could have claimed a participation in the 2005 LTIP.

Shareholders may be assured that no current Executive Director of the company has such a contract, and the Remuneration Committee would not recommend the Board to award such contracts in the future.

c. Share incentive plans

The total interests of Directors in the issued share capital of the Company are shown on page 42.

Details of individual options held by the Directors at 1 April 2005 (or the date of appointment to the Board if later) and at 31 March 2006 (or the date of resignation from the Board if earlier) in the Senior Executive 1986 Share Option Scheme, the Capital Radio 1998 Share Option Scheme, the GCap Media plc Save As You Earn Scheme and the GWR Group plc Save As You Earn Scheme are set out below:

	Scheme	1 April 2005	Options granted during year	Options exercised during year	Options lapsed during year	31 March 2006 (or date of resignation from Board if earlier)	Exercise price (pence)	Date from which exercisable	Expiry date
Ralph Bernard	SAYE (GWR)	–	–	–	–	3,296	280.6	01/09/06	01/03/07
Steve Orchard	SAYE (GWR)	–	–	–	2,498	–	380.2	–	–
Wendy Pallot	SAYE	–	4,250	–	–	4,250	220	01/02/09	31/07/09
	SAYE (GWR)	–	–	–	2,782	–	338.7	–	–
D Mansfield	1998	24,305	–	–	–	24,305	1,080	01/02/04	31/07/06
(Resigned September 2005)	1998	38,165	–	–	–	38,165	705	23/01/05	31/07/06
	1998	26,873	–	–	–	26,873	667.5	10/07/05	31/07/06
	1998	98,550	–	–	–	98,550	427.5	21/05/06	20/11/06
	1998	100,329	–	–	–	100,329	455	26/05/07	25/11/07
	SAYE	2,695	–	–	–	2,695	614	01/02/07	31/07/06
P Davies	1986	7,400	–	–	–	7,400	540	09/12/99	09/12/06
(Resigned May 2005)	1998	14,652	–	–	–	14,652	1,080	01/02/04	30/06/06
	1998	23,011	–	–	–	23,011	705	23/01/05	30/06/06
	1998	16,202	–	–	–	16,202	667.5	10/07/05	30/06/06
	1998	59,696	–	–	–	59,696	427.5	21/05/06	20/11/06
	1998	60,439	–	–	–	60,439	455	26/05/07	25/11/07
	SAYE	5,246	–	–	–	5,246	315	01/02/10	30/06/06
P Harris	1998	12,152	–	–	–	12,152	1,080	01/02/04	09/11/05
(Resigned May 2005)	1998	19,085	–	–	–	19,085	705	23/01/05	22/07/05
	1998	13,438	–	–	–	13,438	667.5	10/07/05	09/01/06
	1998	51,977	–	–	–	51,977	427.5	21/05/06	20/11/06
	1998	53,186	–	–	–	53,186	455	26/05/07	25/11/07
	SAYE	3,837	–	–	–	3,837	428	01/02/08	09/11/05
L Smith	1998	10,208	–	–	–	10,208	1,080	01/02/04	30/06/06
(Resigned May 2005)	1998	16,032	–	–	–	16,032	705	23/01/05	30/06/06
	1998	13,109	–	–	–	13,109	667.5	10/07/05	30/06/06
	1998	49,404	–	–	–	49,404	427.5	21/05/06	20/11/06
	1998	53,186	–	–	–	53,186	455	26/05/07	25/11/07
	SAYE	3,837	–	–	–	3,837	428	01/02/08	30/06/06

David Mansfield, Paul Davies, Peter Harris and Linda Smith will be permitted to exercise their options held under the 1998 Share Option Scheme until the dates in the final column.

Share options held by the Executive Directors who resigned during the year were granted under either the Capital Radio 1986 Senior Executive Share Option Scheme or the 1998 Share Option Scheme in accordance with criteria prevailing at the date of grant to reflect individual contribution to the business. Options were granted at the market price ruling at the date of grant and are exercisable during the period between three and ten years from the date of grant.

The exercise of share options under the Capital Radio 1986 Senior Executive Share Option Scheme is not subject to satisfaction of a performance condition as it was not market practice to impose such a condition at the time the scheme was implemented. The last grants were made in December 1996 and no further grants can be made under this scheme.

The exercise of share options under the GCap Media Savings Related Share Option Scheme (SAYE) and the GWR Group Savings Related Share Scheme (SAYE) are not subject to satisfaction of a performance condition as the scheme is Inland Revenue approved and open to all eligible employees.

The options over GWR Group plc shares held by Ralph Bernard, Steve Orchard and Wendy Pallot under the GWR SAYE Scheme became options over the Company's shares upon completion of the Merger. The figures shown represent the number of options held over the Company's shares at the rebased price.

As at 31 March 2006, the market price of the Company's Ordinary Shares of 2.5p was £2.29. During the period 1 April 2005 and 31 March 2006, the share price moved within the range of £2.26 and £4.025.

d. Capital Radio plc Long-Term Incentive Plan

Details of the shares conditionally awarded to the Directors under the Capital Radio Long-Term Incentive Scheme ('LTIP') are given in the table below. Subject to satisfaction of performance conditions a proportion of the shares will vest with the individuals on the vesting dates.

	1 April 2005	Shares allocated during year	Shares vested during year	Shares lapsed during year	31 March 2006	Vesting date
D Mansfield	57,160	–	–	57,160	**–**	–
	31,170	–	–	31,170	**–**	–
	99,560	–	–	–	**99,560**	19/11/06
	119,280	–	–	–	**119,280**	01/12/07
P Davies	34,620	–	–	34,620	**–**	–
	18,880	–	–	18,880	**–**	–
	59,970	–	–	–	**59,970**	19/11/06
	71,850	–	–	–	**71,850**	01/12/07
P Harris	30,140	–	–	30,140	**–**	–
	16,440	–	–	16,440	**–**	–
	52,780	–	–	–	**52,780**	19/11/06
	63,230	–	–	–	**63,230**	01/12/07
L Smith	28,650	–	–	28,650	**–**	–
	15,620	–	–	15,620	**–**	–
	52,780	–	–	–	**52,780**	19/11/06
	63,230	–	–	–	**63,230**	01/12/07

David Mansfield, Paul Davies, Peter Harris and Linda Smith were permitted to retain the conditional awards granted under the LTIP referred to above. These will remain in force subject to satisfaction of the performance conditions at the normal date. The vesting level will then be scaled down to reflect their actual period of service during the three-year performance period.

The awards made in November 2003 and November 2004 vest in November 2006 and December 2007 respectively. At the date of this Report the performance percentage, reflecting performance to date, was 0% for the awards vesting in November 2006 and December 2007.

e. GCap Media plc 2005 Long-Term Incentive Plan

Details of the nil-cost options awarded to the Directors under the GCap Media 2005 Long-Term Incentive Plan ('2005 LTIP') are given in the table below. Subject to the conditions described earlier in this Report (pages 50 and 51), a proportion of the nil-cost options will vest and become exercisable on the vesting dates shown below.

	1 April 2005	Nil-cost options granted during year	Nil-cost options exercised during year	Nil-cost options lapsed during year	31 March 2006	Vesting date
R Bernard	–	219,333	–	–	**219,333**	15/12/08
S Orchard	–	129,163	–	–	**129,163**	15/12/08
W Pallot	–	116,978	–	–	**116,978**	15/12/08

For awards made during the year ending 31 March 2006, the market price of an Ordinary Share as at 1 September 2005, being £3.0775, was used.

f. GCap Media plc Interim Merger Scheme

Details of the nil-cost options awarded to the Executive Directors under the Interim Merger Scheme are given in the table below. Subject to the conditions described earlier in this Report (page 51), up to 50% of the options will vest with the individuals on each of the vesting dates.

	1 April 2005	Nil-cost options granted during year	Nil-cost options exercised during year	Nil-cost options lapsed during year	31 March 2006	Date from which exercisable
R Bernard	–	73,112	–	–	**73,112**	*
S Orchard	–	43,054	–	–	**43,054**	*
W Pallot	–	38,992	–	–	**38,992**	*

* The nil-cost options will vest and become exercisable upon determination by the Remuneration Committee that the performance targets have been partially or wholly met. The Remuneration Committee decided prior to the date of this Report that the performance conditions applicable to this Scheme in respect of the year to 31 March 2006 had been fully met and therefore the cash bonus and shares together totalling 50% of each Executive Director's salary would become payable, the shares vesting upon completion of certain formalities. These sums are reflected in the Remuneration Table on page 53. The Remuneration Committee will determine at the applicable time the extent to which the remaining awards (representing a maximum of a further 50% of each Executive Director's salary as at 1 April 2005) will vest. See page 51 for more details.

For all awards made the market price of an Ordinary Share as at 1 September 2005, being £3.0775, was used.

g. Capital Radio plc Annual Bonus Scheme (Deferred Share Element)

Details of the shares to which the Executive Directors who left the Company during the period under review are conditionally entitled in connection with the deferred share element of the Annual Bonus Scheme are set out below:

	1 April 2005	Shares awarded during year	Shares vested during year	Shares lapsed during year	31 March 2006
D Mansfield	2,817	–	2,817	–	**–**
	8,999	–	8,999	–	**–**
	–	2,460	2,460	–	
P Davies	1,617	–	1,617	–	**–**
	4,979	–	4,979	–	**–**
	–	1,482	1,482	–	**–**
P Harris	1,513	–	1,513	–	**–**
	4,673	–	4,673	–	**–**
L Smith	1,439	–	1,439	–	**–**
	4,576	–	4,576	–	**–**
	–	1,304	1,304	–	**–**

The shares awarded to David Mansfield, Paul Davies, Peter Harris and Linda Smith were released in full following their departure from the Company.

h. Pension schemes

David Mansfield and Paul Davies are members of the Capital Radio Final Salary Pension and Assurance Scheme (the 'Defined Benefit Scheme'). The first table below shows pension entitlements and corresponding transfer values under the Defined Benefit Scheme.

Peter Harris and Linda Smith are members of the Capital Radio Group Personal Pension Plan (the 'Group Personal Pension Plan'), to which the Company contributed up to the date of their departure from the Company. In addition, the Company contributed to Personal Money Purchase Pension Schemes and Funded Unapproved Retirement Benefits Schemes ('FURBS') on behalf of David Mansfield, Paul Davies, Peter Harris and Linda Smith. The second table shows the amounts paid as money purchase contributions to these former Executive Directors.

Additionally, as part of the severance arrangements relating to the former Executive Directors, David Mansfield and Paul Davies were credited with an additional 12 months' service in the Capital Radio Final Salary Pension and Assurance Scheme. Further, additional payments were made to the departing Executive Directors' personal pension schemes and these are shown in the second table below.

The Company contributed 25% of basic salary to the private personal pensions of Ralph Bernard, Steve Orchard and Wendy Pallot.

Defined Benefit Scheme

	Accrued pension at 31 March 2006 £	Increase in accrued pension (excluding inflation) £	Increase in accrued pension (including inflation) £	Transfer value of increase £	Transfer value of accrued rights at 31 March 2006 (or the date of leaving the Company, if earlier) £	Transfer value of accrued rights at 31 March 2005 £	Increase in transfer value net of Member's contribution £
D Mansfield	**17,380**	1,917	2,324	28,982	262,727	201,690	57,968
P Davies	**78,813**	4,195	6,157	56,926	1,069,611	870,405	191,556

Money Purchase Schemes

In the period from 1 April 2005 to 31 March 2006, the Company contributed the following amounts to Personal Pension Plans on behalf of the Directors:

	Notes	FURBS £	Money purchase £	Personal Pension Plan £	Total 2006 £	Total 2005 £
D Mansfield	1	47,979	–	40,860	**88,839**	49,634
P Davies	2	–	23,400	235,111	**258,511**	15,600
P Harris		6,776	–	3,460	**10,236**	30,888
L Smith	3	6,776	–	69,912	**76,688**	30,888
R Bernard		–	–	112,500	**112,500**	103,000
S Orchard		–	–	66,250	**66,250**	64,000
W Pallot		–	12,000	24,000	**36,000**	28,000

Included within these amounts are payments enabling the Directors to discharge their income tax liability on the contributions made by the Company into the FURBS pension scheme.

Notes

1. D Mansfield was credited with an additional 12 months' service within the Capital Radio Final Salary Pension and Assurance Scheme at a cost to the Company of £25,645 relating to the termination of his contract.

2. P Davies received a payment of £136,000 into his Personal Pension Plan (Scottish Widows CIMP Scheme) and was credited with an additional 12 months' service within the Capital Radio Final Salary and Assurance Scheme at a cost to the Company of £64,355 relating to the termination of his contract.

3. L Smith received a payment of £66,452 into her Personal Pension Plan (Scottish Widows CIMP Scheme) relating to the termination of her contract.

This Report was approved by the Board on 24 May 2006 and signed on its behalf by:

A. Ross Goobey

Alastair Ross Goobey
Chairman – Remuneration Committee

24 May 2006

Unaudited GCap Media plc pro-forma financial information

On 9 May 2005, the merger ('Merger') was completed between Capital Radio plc ('Capital Radio'), renamed GCap Media plc ('GCap Media'), and GWR Group plc ('GWR Group'). The consolidated income statement for GCap Media is set out on page 62, and only includes the results of GWR Group from the date of acquisition. The comparative information in this consolidated income statement reflects the results of Capital Radio only for the six-month period to 31 March 2005. In order to demonstrate the underlying historic trends in the combined business, additional unaudited pro-forma financial information is provided below along with notes setting out the basis of preparation:

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Revenue	**220,214**	252,259
Underlying operating profit before financing costs	**25,819**	42,508
Finance income	**1,749**	1,703
Finance expenses	**(6,042)**	(6,962)
Net financing costs	**(4,293)**	(5,259)
Share of profit of associates	**681**	24
Underlying profit before taxation	**22,207**	37,273
Taxation	**(7,241)**	(11,904)
Underlying profit for the period	**14,966**	25,369
Attributable to:		
Equity holders of the parent	**13,038**	23,062
Minority interest	**1,928**	2,307
Underlying profit for the period	**14,966**	25,369
Underlying basic earnings per share	**7.8p**	14.1p

Notes

1. Basis of preparation

The above unaudited pro-forma financial information is prepared on the same basis as the consolidated income statement except for the following adjustments:

> The pro-forma financial information includes the results of GWR Group and Independent Radio News Limited ('IRN') as if the Merger had taken place on 1 April 2004 rather than 9 May 2005. IRN was previously accounted for as an associate but became a subsidiary as a result of the Merger;

> Amortisation of intangible assets and associated deferred tax has been excluded from the pro-forma financial information for all periods to provide more comparable information. In accordance with IFRS the Directors identified £321.4 million of separable intangible assets acquired as a result of the Merger. These include licences, brands and customer relationships and are being amortised over their estimated useful lives of between one and 20 years; and

> The pro-forma financial information relates solely to ongoing operations and therefore excludes separately disclosed items, which are detailed in note 4 to the statutory results. These include the costs of merging Capital Radio and GWR Group, some impairment of goodwill, the profit on sale of Balkan Broadcasting OOD, the profit on sale of Century 106 Limited and their trading results for both periods.

The pro-forma financial information for the year ended 31 March 2005 has been prepared on the basis of previously published accounts which cover that period for GWR Group and Capital Radio, after IFRS adjustments to ensure consistency with the accounting policies applied for periods starting after 1 October 2004, the IFRS transition date.

2. Unaudited underlying basic earnings per share

Underlying basic earnings per share have been calculated using the pro-forma underlying profit for the period and weighted average number of ordinary shares calculated as if the Merger had taken place on 1 April 2004.

A reconciliation of the basic loss per share for the financial year to underlying basic earnings per share is shown below:

	£'000	12 months ended 31 March 2006 (pence)
Basic loss (note 24)	(36,662)	(23.3)
Impact of pro-forma Merger date on weighted average number of shares	–	0.9
Separately disclosed items	27,778	16.9
Intangible amortisation	42,843	26.1
Tax effect of the above	(20,476)	(12.5)
Result of GWR Group and IRN for pre-acquisition period	(445)	(0.3)
Underlying basic earnings	13,038	7.8

GCap Media plc
Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable laws and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

Report of the independent auditors to the members of GCap Media plc

We have audited the Group and parent company financial statements ('the financial statements') of GCap Media Plc for the year ended 31 March 2006, which comprise the Group income statement, the Group and parent company balance sheets, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 60.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

> the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2006 and of its loss for the year then ended;
> the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2006;
> the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
> the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

24 May 2006

Consolidated income statement

	Notes	Trading £'000	Separately disclosed items* £'000	Year ended 31 March 2006 Total £'000	Six months ended 31 March 2005 Total £'000
Revenue	2	210,749	–	210,749	58,497
Direct costs		(32,791)	–	(32,791)	(6,987)
Personnel costs	4,5	(66,553)	(15,875)	(82,428)	(16,974)*
Operating costs		(78,552)	(11,103)	(89,655)	(25,503)*
Depreciation	9	(7,107)	–	(7,107)	(1,492)
Amortisation and impairment	10	(42,843)	(12,791)	(55,634)	–
Disposal of investment		189	–	189	–
Operating (loss)/profit	2	(16,908)	(39,769)	(56,677)	7,541
Gain on sale of businesses and property, plant and equipment	4	–	11,991	11,991	–
(Loss)/profit before financing costs		(16,908)	(27,778)	(44,686)	7,541
Finance income		1,739	–	1,739	474
Finance expenses		(5,800)	–	(5,800)	(1,522)
Net financing costs	6	(4,061)	–	(4,061)	(1,048)
Share of profit/(loss) of associates		879	–	879	(42)*
(Loss)/profit before taxation		(20,090)	(27,778)	(47,868)	6,451
Taxation	8	5,495	7,622	13,117	(2,338)*
(Loss)/profit for the period		(14,595)	(20,156)	(34,751)	4,113
Attributable to:					
Equity holders of the parent		(16,506)	(20,156)	(36,662)	4,113
Minority interest		1,911	–	1,911	–
(Loss)/profit for the period		(14,595)	(20,156)	(34,751)	4,113
Dividends paid (9.1p per share (2005: 12.5p per share))	22			14,922	10,572
Dividends proposed (6.15p per share (2005: 6.0p per share))	22			10,086	5,079
Basic (loss)/earnings per share	24			(23.3p)	4.9p
Diluted (loss)/earnings per share	24			(23.3p)	4.9p

The consolidated income statement for GCap Media set out above includes the results of GWR Group and IRN only from the date of the Merger, 9 May 2005. The comparative information reflects the results of Capital Radio only.

* Separately disclosed items include the costs associated with the Merger, the gain on sale of businesses and property, plant and equipment and impairment of goodwill. Included within the 2005 profit for the period was £2.7 million of separately disclosed items. Further details are provided in note 4.

Consolidated statement of recognised income and expense

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Actuarial gains and losses on defined benefit pension schemes net of tax	**(624)**	(267)
Change in fair value of equity securities available for sale	**(499)**	–
Net income and expense recognised directly in equity	**(1,123)**	(267)
(Loss)/profit for the period	**(34,751)**	4,113
Total recognised income and expense for the period	**(35,874)**	3,846
Attributable to:		
Equity holders of the parent	**(37,785)**	3,846
Minority interest	**1,911**	–
Total recognised income and expense for the period	**(35,874)**	3,846

Consolidated balance sheet

As at 31 March

	Notes	2006 £'000	2005 £'000
Non-current assets			
Property, plant and equipment	9	**31,251**	15,399
Goodwill	10	**210,075**	159,849
Other intangible assets	10	**278,541**	–
Financial assets		**115**	–
Investments in associates		**1,174**	2,074
Other investments		**1,369**	17
Other receivables	14	**848**	716
Deferred tax assets	13	**–**	1,706
Total non-current assets		**523,373**	179,761
Current assets			
Trade and other receivables	14	**38,913**	22,792
Cash and cash equivalents	15	**6,079**	285
Taxation receivable		**1,380**	–
Total current assets		**46,372**	23,077
Total assets		**569,745**	202,838
Current liabilities			
Bank overdraft	15	**–**	13,356
Interest-bearing loans and borrowings	16	**–**	20,000
Trade and other payables	17	**39,466**	24,215
Taxation payable		**–**	3,095
Total current liabilities		**39,466**	60,666
Non-current liabilities			
Interest-bearing loans and borrowings	16	**82,000**	–
Other payables	17	**1,215**	–
Employee benefits	18	**8,485**	5,359
Provisions	19	**4,967**	563
Deferred tax liabilities	13	**81,268**	–
Total non-current liabilities		**177,935**	5,922
Total liabilities		**217,401**	66,588
Net assets		**352,344**	136,250
Equity			
Issued capital	20	**4,121**	2,138
Share premium and reserves	21	**348,876**	116,138
Retained earnings	21	**(2,384)**	17,974
Total equity attributable to shareholders		**350,613**	136,250
Minority interest	21	**1,731**	–
Total equity		**352,344**	136,250

These accounts were approved by the Board of Directors on 24 May 2006 and were signed on its behalf by:

Ralph Bernard
Chief Executive

Wendy Pallot
Group Finance Director

Consolidated statement of cash flows

	Note	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Cash flows from operating activities:			
(Loss)/profit for the financial period		**(34,751)**	4,113
Adjustments for:			
Amortisation and impairment		**55,634**	–
Depreciation		**7,107**	1,492
Investment income		**(1,739)**	(474)
Interest expense		**5,800**	1,522
Share of (profit)/loss of associates		**(879)**	42
Loss on sale of property, plant and equipment		**669**	1
Gain on sale of businesses and property		**(11,991)**	–
Equity-settled share-based payment expense		**2,435**	593
Taxation (credit)/expense		**(13,117)**	2,338
Operating profit before changes in working capital and provisions		**9,168**	9,627
Decrease/(increase) in trade and other receivables		**10,591**	(2,459)
(Decrease)/increase in trade and other payables		**(6,995)**	68
Cash generated from operations		**12,764**	7,236
Interest paid		**(3,858)**	(986)
Taxation paid		**(6,613)**	(2,910)
Taxation recovered		**841**	–
Net cash inflow from operating activities		**3,134**	3,340
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		**1,279**	–
Proceeds from sale of investments		**1,863**	–
Interest received		**560**	24
Dividends received		**300**	485
Disposal of subsidiary, net of cash disposed		**28,813**	–
Acquisition of subsidiary, net of cash acquired		**(7,532)**	–
Acquisition of property, plant and equipment		**(5,889)**	(1,270)
Net cash inflow/(outflow) from investing activities		**19,394**	(761)
Cash flows from financing activities:			
Proceeds from the issue of share capital		**–**	480
Repayment of borrowings		**(69,020)**	(107)
Receipt of new borrowings		**82,000**	–
Dividends paid		**(16,358)**	(10,572)
Net cash outflow from financing activities		**(3,378)**	(10,199)
Net increase/(decrease) in cash and cash equivalents		**19,150**	(7,620)
Cash and cash equivalents at start of period		**(13,071)**	(5,451)
Cash and cash equivalents at end of period	15	**6,079**	(13,071)

1 Accounting policies

GCap Media plc (the 'Company') is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity-account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 96 to 105.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 October 2004 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 29.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

> Business combinations – Business combinations that took place prior to 1 October 2004 have not been restated;
> Fair value or revaluation as deemed cost – At the date of transition, UK GAAP cost has been used as deemed cost for properties previously measured at fair value;
> Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 October 2004; and
> Share-based payment – GCap Media has elected only to apply IFRS 2 Share-Based Payment to equity instruments that were granted after 7 November 2002 and had not vested at 1 January 2005.

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as available-for-sale are stated at their fair value. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity-accounted basis, from the date that joint control commences until the date that joint control ceases.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released to the income statement upon disposal.

1 Accounting policies continued

Classification of financial instruments issued by the Group

The Group has adopted IAS 32 and IAS 39 from its date of transition, 1 October 2004.
Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Investments in debt and equity securities

Other investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The major categories of property, plant and equipment are depreciated as follows:

> Freehold buildings	2%-4% per annum;
> Long leasehold	2%-6% per annum;
> Short leasehold	over term of lease or where lease is renewable, 5% per annum;
> Transmitters	5% per annum;
> Fixtures and technical equipment	10%-33% per annum; and
> Motor vehicles	20%-33% per annum.

Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. In respect of business acquisitions that have occurred since 1 October 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

In respect of acquisitions prior to 1 October 2004, goodwill is included at 1 October 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP, which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, no items have been recognised as other intangibles under Adopted IFRSs and been separately accounted for with appropriate adjustments against goodwill and amortisation of goodwill has ceased as required by IFRS 1.

1 Accounting policies continued

Expenditure on research activities and on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The useful lives for each major class of intangible asset are as follows:

> Licences	6.5 years to 20 years; and
> Customer relationships	1 year.

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other payables

Trade and other payables are stated at their nominal amount.

Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was tested for impairment as at 1 October 2004, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1 Accounting policies continued

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 October 2004, the date of transition to Adopted IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 October 2004 the Group recognises them in the period they occur directly into equity through the statement of recognised income and expense as the Group has elected to early-adopt the amendment to IAS 19 from transition date instead of from its required effective date of 1 January 2006.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the net total past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Under the Group Deferred Annual Bonus Scheme, participants are required to purchase Lodged Shares using a percentage of their net post-tax eligible annual bonus. It is the Matching Shares element of the Scheme which qualifies as share-based payment for services anticipated from the participants. The fair value of the Matching Shares under IFRS 2 will be based on GCap Media's share price at date of grant, less a deduction for the dividends expected between the date of grant and vesting of the Matching Shares. The charge under IFRS 2 will be based on the assessed fair value of the Matching Shares which are conditionally awarded in May, adjusted for expected lapses due to non-performance or leaving employment. The adjusted fair value will be spread over three years.

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenue represents amounts invoiced in respect of all services and goods provided during the year, excluding value-added tax. Radio and television airtime revenue is recognised on the date of broadcast. Sponsorship, internet revenue and transmission fees for the digital multiplexes are recognised evenly over the life of the contract in accordance with specific contract terms if applicable. Revenue for the production of advertisements is recognised on the date of release to the client. Enterprise revenue relating to events is recognised upon agreed settlement with all related parties and CD revenue is recognised on date of sale.

Revenue on barter transactions is recognised only when the goods or services being exchanged are of a dissimilar nature.

1 Accounting policies continued

Expenses

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs
Net financing costs comprise interest payable, interest on pension obligations, finance charges on finance leases, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the income statement.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Adopted IFRSs not yet applied

The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

- IFRS 7 Financial instruments: Disclosures;
- Three amendments to IAS 39: Financial Instruments: Measurement;
- Amendment to IAS 1 Capital Disclosures; and
- IFRIC Interpretation 4 Determining whether an arrangement contains a lease.

The application of IFRS 7 in both years would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. None of the other standards mentioned are expected to have a significant impact.

The Company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 April 2006. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 April 2006.

2 Segmental information

Segment information is presented in respect of the Group's business segments and is based on the Group's management and internal reporting structure.

Business segments

The Group comprises the following main business segments:

> Broadcast brands – 57 analogue and 61 digital radio licences, with their associated businesses;
> Multiplexes – the operation of the national commercial multiplex, Digital One, and 18 other multiplexes; and
> Other – includes Independent Radio News ('IRN'), which provides a news service to commercial radio stations.

	Broadcast brands		Multiplexes		Other		Consolidated	
	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Revenue from external sources:								
National	**116,134**	39,430	**–**	–	**9,167**	–	**125,301**	39,430
Local	**54,973**	13,418	**–**	–	**–**	–	**54,973**	13,418
Other	**20,406**	3,254	**10,069**	2,385	**–**	10	**30,475**	5,649
Total revenue	**191,513**	56,102	**10,069**	2,385	**9,167**	10	**210,749**	58,497
Segment operating (loss)/profit before separately disclosed items	**(22,628)**	9,236	**4,265**	533	**1,455**	(10)	**(16,908)**	9,759
Merger costs	**(26,978)**	(2,218)	**–**	–	**–**	–	**(26,978)**	(2,218)
Goodwill impairment	**(12,791)**	–	**–**	–	**–**	–	**(12,791)**	–
Gain on sale of businesses and fixed assets	**11,991**	–	**–**	–	**–**	–	**11,991**	–
Segment result	**(50,406)**	7,018	**4,265**	533	**1,455**	(10)	**(44,686)**	7,541
Net financing costs							**(4,061)**	(1,048)
Share of profit/(loss) of associate							**879**	(42)
Taxation							**13,117**	(2,338)
(Loss)/profit for the period							**(34,751)**	4,113
Other information								
Segment assets	**453,667**	159,849	**34,949**	–	**–**	–	**488,616**	159,849
Unallocated assets							**79,955**	40,915
Investment in associates							**1,174**	2,074
Total assets							**569,745**	202,838
Segment liabilities	**77,443**	–	**6,120**	–	**–**	–	**83,563**	–
Unallocated liabilities							**133,838**	66,588
Total liabilities							**217,401**	66,588
Depreciation, amortisation and impairment	**61,382**	1,466	**1,205**	26	**154**	–	**62,741**	1,492
Capital expenditure							**(6,179)**	(1,270)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets represent goodwill and intangible assets; segment liabilities represent the deferred tax associated with the intangible assets. Unallocated items comprise mainly income-earning assets, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. The Group has centralised functions and other assets and liabilities are managed on a Group-wide basis; therefore it is not possible to allocate any other assets and liabilities to individual segments.

Substantially all of the Group's revenue is derived from the provision of advertising services.

3 Acquisition of subsidiary

On 9 May 2005, as a result of the Merger, the Company acquired 100% of the shares in GWR Group for £265.4 million in a High Court-sanctioned share-for-share exchange and it incurred £15.2 million of deal fees, giving a total acquisition price of £280.6 million. 79,336,921 shares were issued by the Company as a consequence of the transaction. The fair value of these shares was based upon the published price of the shares at the date of acquisition of 334.5p. The transaction was to merge the interests of two similar-sized UK radio groups but has been accounted for in accordance with IFRS 3 as an acquisition by Capital Radio of GWR Group. Capital Radio was renamed GCap Media plc on 9 May 2005.

As a result of the Merger, IRN, which was previously accounted for as an associate by the Company, became a subsidiary on 9 May 2005.

The Merger had the following effect on the Group's assets and liabilities:

GWR Group's net assets at the acquisition date

	Recognised values £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Fair value amounts £'000
Property, plant and equipment	18,040	–	–	18,040
Intangible assets recognised upon acquisition	–	–	321,384	321,384
Investments	3,592	–	(465)	3,127
Goodwill and intangible assets	92,468	(3,516)	(88,952)	–
Trade and other receivables	28,581	3,477	(2,016)	30,042
Interest-bearing loans and borrowings	(50,005)	–	–	(50,005)
Trade and other payables	(23,960)	–	–	(23,960)
Pension deficit	(2,426)	–	–	(2,426)
Minority interest	(533)	–	–	(533)
Deferred taxation	85	–	(96,416)	(96,331)
Net identifiable assets and liabilities	65,842	(39)	133,535	199,338
Goodwill on acquisition				81,270
Directly attributable costs				(15,226)
Total consideration				**265,382**

The recognised values above are the net book values of the assets of GWR Group as at the Merger date. The fair value amounts of these net assets in the books of GCap Media at the date of Merger are the recognised values amended by the accounting policy alignments and fair value adjustments, which comprise:

> the reversal of £89.0 million of goodwill in the books of GWR Group, as required by IFRS;
> the write-off of £3.5 million of intangible assets following the alignment of the accounting policies of GWR Group with GCap Media;
> the identification of £321.4 million of intangible assets acquired as a result of the Merger, with a related deferred tax liability of £96.4 million. These assets include licences, brands and customer relationships as at the Merger date. They are being amortised over their estimated useful lives with an income statement charge in the year to 31 March 2006 of £42.8 million; and
> the write-down of investments and related receivables by £2.5 million.

Goodwill on acquisition of £81.3 million represents future economic benefits arising from the assets that are not capable of being identified individually and recognised separately; these include the employees and future synergies arising from the Merger. The post-acquisition revenue for GWR Group plc is £105.6 million. It is not possible to obtain an accurate pre-tax result post acquisition for GWR Group plc due to the set-up of the newly merged business combination.

If the acquisition had taken place on 1 April 2005 the revenue of the combined entity would have been £220.2 million and the loss before taxation would have been £49.9 million (after separately disclosed items of £28.0 million and a full year's amortisation charge of £44.1 million).

4 Separately disclosed items

	Notes	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Merger costs			
Redundancies		(12,004)	(1,522)
Commissions and bonuses		(3,871)	(485)
Personnel costs	a	(15,875)	(2,007)
Integration costs		(4,425)	–
Property costs		(5,210)	–
Professional fees		(1,468)	(211)
Operating costs	a	(11,103)	(211)
Total Merger costs	a	(26,978)	(2,218)
Goodwill impairment	b	(12,791)	–
Century 106	c	10,558	–
Balkan Broadcasting OOD	d	898	–
Profit on sale of property		535	–
Gain on sale of businesses and fixed assets		11,991	–
Wildstar write-down		–	(1,080)
		(27,778)	(3,298)
Tax		7,622	614
Total		(20,156)	(2,684)

a. The costs of merging the two businesses
These are primarily redundancies as a result of the elimination of the duplication of roles, merger-related staff incentives, integration advisory services and future lease costs of vacant premises created by the relocation of merged activities.

b. Impairment of goodwill
Following the fundamental review of the business that resulted in the reorganisation announced in November 2005, the Group has reviewed the carrying value of goodwill, which has resulted in an impairment of goodwill of £12.8 million across a number of brands in the broadcast segment (see note 10).

c. Profit on sale of Century 106
The disposal of this business, which was part of the Group's broadcast brands segment, was a condition of the Office of Fair Trading's approval of the Merger. Century 106 was sold on 18 May 2005 for a cash consideration of £29.5 million less a working capital adjustment of £0.2 million. The profit on disposal was £10.6 million after deducting associated goodwill of £18.3 million and costs of £0.4 million.

Effect of the sale of Century 106 on the Group's individual assets and liabilities:

	£'000
Property, plant and equipment	45
Goodwill and intangible assets	18,258
Trade and other receivables	90
Trade and other payables	(138)
Net identifiable assets and liabilities	18,255
Consideration received, satisfied in cash	29,300
Costs associated with disposal	(487)
Net cash inflow	28,813

d. Disposal of Balkan Broadcasting OOD
On 15 November 2005 the Group sold its wholly owned subsidiary in Bulgaria, Balkan Broadcasting OOD. The company was sold for a total cash consideration of £1.5 million resulting in a gain on disposal of £0.9 million after deducting an inter-company receivable of £0.3 million and associated costs of £0.3 million.

5 Employee information

The average number of persons (including Directors) employed by the Group during the year, analysed by category, was as follows:

	Monthly average 2006 Number	Monthly average 2005 Number
Programming	**447**	165
Sales	**623**	325
Technical	**130**	47
Management and administration	**302**	146
Total	**1,502**	683

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**43,831**	12,194
Compulsory social security contributions	**4,768**	1,395
Contributions to defined contribution pension plans	**1,868**	781
Equity-settled transactions	**1,674**	593
Cash-settled transactions	**761**	–
	52,902	14,963
Staff costs relating to Merger (note 4):		
Redundancy	**12,004**	1,522
Merger-related retention schemes and bonuses	**3,871**	485
Total	**68,777**	16,970

The above analysis includes the costs relating to Directors but excludes persons engaged under freelance contracts (mainly presenters and casual short-term contracts). The total cost of these persons amounts to £14.0 million (six months to 31 March 2005: £4.9 million).

Details of individual Directors' emoluments, pension entitlements, long-term incentive schemes and share options are disclosed in the Directors' Remuneration Report on pages 48 to 58.

6 Financing income and expense

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Finance income		
Bank interest	**212**	24
Interest on defined benefit pension schemes	**1,169**	450
Other interest	**358**	–
	1,739	474
Finance expense		
Bank loans and overdrafts	**(4,393)**	(968)
Interest on loan notes	**–**	(26)
Finance leases	**(13)**	–
Interest expense on defined benefit pension schemes	**(1,394)**	(528)
	(5,800)	(1,522)
Net financing costs	**(4,061)**	(1,048)

7 Expenses and auditors' remuneration

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Included in the profit/loss are the following:		
Impairment loss on goodwill (note 10 and note 4)	**12,791**	–
Increase in provisions (note 19)	**4,403**	–
Restructuring costs expensed as incurred within operating costs (note 4)	**11,103**	–
Auditors' remuneration:		
Audit fees	**287**	100
Interim review	**25**	–
Further assurance services	**–**	11
Tax services	**55**	6
Other services	**10**	–

8 Taxation

Recognised in the income statement

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Current tax:		
Current	**73**	2,529
Over-provision in respect of prior years	**(100)**	(125)
Total current tax (credit)/charge	**(27)**	2,404
Deferred tax:		
Origination and reversal of temporary differences	**(13,097)**	(66)
Adjustments in respect of prior years	**7**	–
Total deferred tax credit	**(13,090)**	(66)
Total tax (credit)/charge in income statement	**(13,117)**	2,338

Reconciliation of effective tax rate

The tax assessed for this year and the last period is at a rate that is higher (2005: higher) than the standard rate of corporation tax in the UK of 30% (2005: 30%).

The reasons for this are outlined in the table below:

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
(Loss)/profit before tax	**(47,868)**	6,451
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	**(14,360)**	1,935
Gains on sales not chargeable to tax	**(3,597)**	–
Costs in relation to associates	**–**	324
Impairment of goodwill	**3,837**	–
Share-based payments where deferred tax asset not recognised	**389**	178
Depreciation on items ineligible for capital allowances	**254**	74
Expenses not deductible for tax purposes	**717**	231
Utilisation of tax losses	**–**	(43)
Adjustments for associates	**(264)**	(236)
Prior year over-provisions	**(93)**	(125)
Total tax (credit)/charge for the year/period	**(13,117)**	2,338

Deferred tax recognised directly in equity

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Relating to actuarial gains and losses	**267**	124
Total	**267**	124

9 Property, plant and equipment

	Land and buildings £'000	Transmitters, fixtures and technical equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 October 2004	15,500	27,540	233	43,273
Additions	87	1,185	–	1,272
Disposals	(1,900)	(2,393)	(213)	(4,506)
At 31 March 2005	13,687	26,332	20	40,039
At 1 April 2005	13,687	26,332	20	40,039
Acquisitions through business combinations	9,322	30,332	164	39,818
Additions	1,258	4,857	64	6,179
Disposals	(2,476)	(5,889)	(75)	(8,440)
At 31 March 2006	**21,791**	**55,632**	**173**	**77,596**
Depreciation				
At 1 October 2004	3,797	21,755	201	25,753
Depreciation charge for the year	303	1,177	12	1,492
Disposals	–	(2,392)	(213)	(2,605)
At 31 March 2005	4,100	20,540	–	24,640
At 1 April 2005	4,100	20,540	–	24,640
Acquisitions through business combinations	3,678	17,811	139	21,628
Depreciation charge for the year	994	6,078	35	7,107
Disposals	(1,248)	(5,710)	(72)	(7,030)
At 31 March 2006	**7,524**	**38,719**	**102**	**46,345**
Net book value				
At 1 October 2004	11,703	5,785	32	17,520
At 31 March 2005 and 1 April 2005	9,587	5,792	20	15,399
At 31 March 2006	**14,267**	**16,913**	**71**	**31,251**

Land and buildings at net book value comprise:

	2006 £'000	2005 £'000
Freehold	**4,972**	1,367
Short leasehold	**8,647**	6,050
Long leasehold	**648**	2,170
	14,267	9,587

There are no assets held under finance leases at 31 March 2005 or 31 March 2006.

10 Intangible fixed assets

	Goodwill £'000	Licences, brands and customer relationships £'000	Total £'000
Cost			
At 1 October 2004	210,151	–	210,151
Additions	31	–	31
At 31 March 2005	210,182	–	210,182
At 1 April 2005	210,182	–	210,182
Acquisitions through business combinations	81,270	321,384	402,654
Disposals	(21,578)	–	(21,578)
At 31 March 2006	**269,874**	**321,384**	**591,258**
Amortisation and impairment			
At 1 October 2004	50,333	–	50,333
At 31 March 2005	50,333	–	50,333
At 1 April 2005	50,333	–	50,333
Amortisation charge for the year	–	42,843	42,843
Disposals	(3,325)	–	(3,325)
Impairment	12,791	–	12,791
At 31 March 2006	**59,799**	**42,843**	**102,642**
Net book value			
At 1 October 2004	159,818	–	159,818
At 31 March 2005 and 1 April 2005	159,849	–	159,849
At 31 March 2006	**210,075**	**278,541**	**488,616**

Impairment tests for cash-generating units containing goodwill
The following units have significant carrying amounts of goodwill:

	2006 £'000	2005 £'000
Broadcast brands	**195,525**	159,849
Multiplexes	**14,550**	–
Total brands	**210,075**	159,849

The key assumptions and the approach to determining their value are as follows:

> The Group applies IAS 36 Impairment of Assets under Adopted IFRSs. Under this the Group conducts a formal annual review to determine whether the carrying value of the goodwill on the balance sheet can be justified. The impairment review comprises a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of fair value less costs to sell and value in use).

> The Group has calculated both fair value less costs to sell and value in use for each cash-generating unit ('CGU') within broadcast brands. Substantially all of the recoverable amount is based on fair value less costs to sell. For multiplexes, value in use only has been used. The assumptions used to calculate the values are consistent across all CGUs.

> Fair value less costs to sell has been determined by reference to the revenue multiples of appropriate transactions in the industry in recent years applied to the business's own internal estimates.

> The value in use calculations are based on cashflow projections over the remaining useful life of the CGUs discounted at a post-tax discount rate (excluding inflation) of 7.75%. A post-tax discount rate is used because this is readily available in the financial markets. Calculating the recoverable amount on a post-tax basis using a post-tax discount rate would lead to substantially the same results as pre-tax calculations. The cashflows utilise the business's internal estimates for the next three years with revenue and direct cost growth in subsequent years (the most sensitive assumption) based on HM Treasury's neutral growth estimate for the UK of 2.5%.

The key assumptions in determining the value in use calculations are:

Assumptions	How determined
Advertising revenue	Macro-economic outlook, industry forecasts and internal estimates
Audience performance	Long-term trends and internal estimates

The results of the review undertaken at 31 March 2006 indicated that an impairment charge of £12.8 million was necessary in respect of goodwill held in relation to broadcast brands (see note 4). This charge is included within the amortisation and impairment caption in the income statement and has been classified as part of separately disclosed items.

11 Investments in subsidiaries and associates

The Group has the following principal investments in subsidiaries and associates:

Principal subsidiary undertakings	Principal activity	Proportion of nominal value of issued shares held by: Group %	Company %
GCap Media Services Limited	Holding company	100	–
GWR Group plc	Holding company	100	100
Midlands Radio plc	Holding company	100	100
Southern Radio Group Limited	Holding company	100	100
Capital Radio Investments Limited	Investment company	100	100
Classic FM plc	National radio operator	100	–
Now Digital (Southern) Limited	Commercial digital radio	100	100
Capital Radio UBC Data Limited	Commercial digital data	70	70
Now Digital Limited	Local digital multiplex operator	100	–
Beacon Broadcasting Limited	Local radio operator	100	–
Birmingham Broadcasting Limited	Local radio operator	100	–
Capital Gold Birmingham Limited	Local radio operator	100	100
Capital Gold Hampshire Limited	Local radio operator	100	100
Capital Gold Kent Limited	Local radio operator	100	100
Capital Gold Manchester Limited	Local radio operator	100	100
Capital Gold Sussex Limited	Local radio operator	100	100
GCap Media Management Limited	Local radio operator	100	–
Cardiff Broadcasting Company Limited	Local radio operator	100	100
Century Radio Limited	Local radio operator	100	100
Century Radio 105 Limited	Local radio operator	100	100
Chiltern Radio PLC	Local radio operator	100	–
Essex Radio Limited	Local radio operator	100	–
First Oxfordshire Radio Company Limited	Local radio operator	100	40
Gemini Radio Limited	Local radio operator	100	–
GWR (West) Limited	Local radio operator	100	–
Harlow FM Limited	Local radio operator	99	–
Lantern Radio Limited	Local radio operator	99	–
Leicester Sound Limited	Local radio operator	100	–
Marcher Radio Group Limited	Local radio operator	100	–
Mercia Sound Limited	Local radio operator	100	–
Mid Anglia Radio plc	Local radio operator	100	–
Orchard FM Limited	Local radio operator	100	–
Plymouth Sound Limited	Local radio operator	100	–
Radio Broadland Limited	Local radio operator	100	–
Radio Invicta Limited	Local radio operator	100	–
Radio Mercury Limited	Local radio operator	100	–
Radio Trent Limited	Local radio operator	100	–
Radio Wyvern plc	Local radio operator	100	–
Soul Media Limited	Local radio operator	100	–
South Hams Radio Limited	Local radio operator	63	–
Southern Radio Limited	Local radio operator	100	–
Suffolk Group Radio plc	Local radio operator	100	–
Tainside Limited	Local radio operator	100	100
Thames Valley Broadcasting plc	Local radio operator	100	–
The Ocean Radio Group Limited	Local radio operator	100	–
Two Counties Radio Limited	Local radio operator	100	–
Wiltshire Radio plc	Local radio operator	100	–
XFM Limited	Local radio operator	100	100
XFM Manchester Limited	Local radio operator	100	100
XFM Scotland Limited	Local radio operator	100	100
Digital One Limited	National digital radio multiplex operator	63	–
GCap Media Digital Limited	Holding company for digital investments	100	–
Independent Radio News Limited	Programme production	54	46

11 Investments in subsidiaries and associates continued

Principal associated undertakings	Principal activity	Proportion of nominal value of issued shares held by: Group %	Company %
Radio Advertising Bureau Limited	Marketing of commercial radio	46.3	19.6
Wildstar Records Limited	Record production	50	50
Hit 40 UK Limited	Commercial radio	72.3	38.10
CE Digital Limited	Commercial digital radio	50	–
MXR Limited	Commercial digital radio	24	24
Digital News Network Limited	Commercial radio	22	22
EG Digital Limited	Digital radio broadcaster	49	–
Classic Gold Digital Limited	Radio operator	20	–
Digital Radio Group (London) Limited	London digital radio multiplex operator	46.46	–

The Group's share of post-acquisition total recognised profit or loss in the above associates for the year ended 31 March 2006 was £0.9 million (six months to 31 March 2005: loss of £0.04 million).

Dormant companies have been excluded from the above list.

With the exception of Hit 40 UK Limited, in which the Company does not have a controlling shareholding by virtue of voting rights and which has therefore been accounted for as an associate, the results of the subsidiary companies have been included within these consolidated accounts.

Digital News Network Limited and MXR Limited have a 31 August year end. Independent Radio News Limited and Wildstar Records Limited have a 30 September year end and Hit 40 UK Limited has a 31 December year end.

All of the principal subsidiary and associated undertakings are incorporated in Great Britain and registered in England and Wales with the exception of XFM Scotland Limited which is incorporated in Scotland.

Summary financial information on associates – 100%:

	2006 £'000	2005 £'000
Assets	**4,897**	9,852
Liabilities	**(2,372)**	(5,473)
Revenues	**7,365**	8,169
Profit after taxation	**1,553**	564

12 Other investments

Other investments include a 3.1% Group holding in UBC Media Group plc which is classified as being available-for-sale and is stated at fair value. The remaining investments are stated at cost as they relate to non-quoted investments whose fair value cannot be reliably measured.

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 March 2006 £'000	31 March 2005 £'000	31 March 2006 £'000	31 March 2005 £'000	31 March 2006 £'000	31 March 2005 £'000
Property, plant and equipment	–	–	(178)	(74)	(178)	(74)
Intangible assets	–	–	(83,563)	–	(83,563)	–
Employee benefits	2,877	1,608	–	–	2,877	1,608
Provisions	205	157	–	–	205	157
Tax value of loss carry-forwards recognised	261	15	–	–	261	15
Held-over gains	–	–	(870)	–	(870)	–
Net tax assets/(liabilities)	3,343	1,780	(84,611)	(74)	(81,268)	1,706

Unrecognised deferred tax assets

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Share-based payments	389	178
Tax losses	1,702	1,702

Additional potential deferred tax assets estimated at £4.5 million (2005: £4.4 million), primarily in respect of capital losses, have not been recognised due to uncertainties as to whether gains will arise in the appropriate form against which such losses could be utilised.

Movement in deferred tax during the year

	1 April 2005 £'000	Recognised on merger £'000	Created by fair value adjustment £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2006 £'000
Property, plant and equipment	(74)	(141)	–	37	–	(178)
Intangible assets	–	–	(96,416)	12,853	–	(83,563)
Employee benefits	1,608	728	–	274	267	2,877
Provisions	157	122	–	(74)	–	205
Tax value of loss carry-forwards recognised	15	246	–	–	–	261
Held-over gains	–	(870)	–	–	–	(870)
	1,706	85	(96,416)	13,090	267	(81,268)

Movement in deferred tax during the prior period

	1 October 2004 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2005 £'000
Property, plant and equipment	(94)	20	–	(74)
Employee benefits	1,506	(22)	124	1,608
Provisions	103	54	–	157
Tax value of loss carry-forwards recognised	23	(8)	–	15
	1,538	44	124	1,706

14 Trade and other receivables

	31 March 2006 £'000	31 March 2005 £'000
Amounts falling due within one year:		
Trade receivables	**27,293**	13,785
Amounts due from associated undertakings	**1,162**	–
Other receivables	**4,796**	1,463
Prepayments	**5,662**	7,544
	38,913	22,792
Amounts falling due after more than one year:		
Other receivables	**848**	716

15 Cash and cash equivalents

	31 March 2006 £'000	31 March 2005 £'000
Cash and cash equivalents per balance sheet	**6,079**	285
Bank overdrafts	**–**	(13,356)
Cash and cash equivalents in the statement of cash flows	**6,079**	(13,071)

16 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	31 March 2006 £'000	31 March 2005 £'000
Current liabilities		
Unsecured bank loans	**–**	20,000

	31 March 2006 £'000	31 March 2005 £'000
Non-current liabilities		
Unsecured bank loans	**82,000**	–

The Group has unsecured borrowings totalling £82 million as at 31 March 2006. Interest on the loans is calculated on a floating rate based on LIBOR plus performance criteria as defined in the credit facilities, financial covenant clause. The current facilities expire in 2010. Interest rates swaps, in sterling, have been entered into to achieve a suitable mix of fixed and floating rate exposure (see note 23).

17 Trade and other payables

	31 March 2006 £'000	31 March 2005 £'000
Current:		
Trade payables	**6,676**	10,608
Other payables and accrued expenses	**32,790**	13,607
	39,466	24,215
Non-current:		
Other payables	**1,215**	–

18 Employee benefits

Pension plans

The Group operates four pension schemes on behalf of its employees. The Capital Radio Plc Pension and Assurance Scheme (CRPPAS) and the Midlands Radio Group Pension Scheme (MRGPS) are contributory defined benefit schemes. Both schemes were closed to new employees from 31 March 1995. At 31 March 2006, the MRGPS had 18 active members and the CRPPAS had 12 active members. The Border Television Radio Companies Group Pension Plan (BTRCGPP) is a defined contribution scheme which is now closed to new members but at 31 March 2006 had 13 active members. All other employees, and in particular new employees, are eligible to join the GCap Media Group Personal Pension Plan. This scheme is a contributory defined contribution arrangement and as at 31 March 2006, 378 employees were active members of this scheme. The Group makes age-related contributions to the scheme.

Defined benefit schemes

	MRGPS		CRPPAS	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Present value of funded defined benefit obligations	**(14,595)**	(6,514)	**(16,055)**	(14,357)
Fair value of plan assets	**8,892**	4,074	**13,273**	11,438
Recognised liability for defined benefit obligations	**(5,703)**	(2,440)	**(2,782)**	(2,919)

Movement in present value of defined benefit obligation

	MRGPS		CRPPAS	
	2006 £'000	Six months ended 31 March 2005 £'000	2006 £'000	Six months ended 31 March 2005 £'000
At beginning of period	**6,514**	5,961	**14,357**	13,437
Current service cost	**164**	22	**187**	83
Interest cost	**635**	162	**759**	366
Curtailment	**–**	–	**13**	74
Actuarial losses	**1,910**	384	**1,086**	550
Benefits paid	**(81)**	(15)	**(347)**	(167)
Contributions by members	**36**	–	**–**	14
Acquisitions through business combinations	**5,417**	–	**–**	–
At end of period	**14,595**	6,514	**16,055**	14,357

Movements in fair value of plan assets

	MRGPS		CRPPAS	
	2006 £'000	Six months ended 31 March 2005 £'000	2006 £'000	Six months ended 31 March 2005 £'000
At beginning of period	**4,074**	3,759	**11,438**	10,620
Expected return on plan assets	**504**	119	**665**	331
Actuarial gains	**1,131**	161	**974**	371
Contributions by employer	**237**	50	**543**	269
Contributions by members	**36**	–	**–**	14
Benefits paid	**(81)**	(15)	**(347)**	(167)
Acquisitions through business combinations	**2,991**	–	**–**	–
At end of period	**8,892**	4,074	**13,273**	11,438

Expense recognised in the consolidated income statement

	MRGPS		CRPPAS	
	2006 £'000	Six months ended 31 March 2005 £'000	2006 £'000	Six months ended 31 March 2005 £'000
Current service cost	**(164)**	(22)	**(187)**	(83)
Curtailments	**–**	–	**(13)**	(74)
Interest on defined benefit pension plan obligation	**(635)**	(162)	**(759)**	(366)
Expected return on defined benefit pension plan assets	**504**	119	**665**	331
Total	**(295)**	(65)	**(294)**	(192)

18 Employee benefits continued

The expense is recognised in the following line items in the consolidated income statement:

	MRGPS 2006 £'000	MRGPS Six months ended 31 March 2005 £'000	CRPPAS 2006 £'000	CRPPAS Six months ended 31 March 2005 £'000
Personnel costs	**(164)**	(22)	**(200)**	(157)
Finance expense	**(635)**	(162)	**(759)**	(366)
Finance income	**504**	119	**665**	331
	(295)	(65)	**(294)**	(192)

Cumulative actuarial losses reported in the statement of recognised income and expenses since 1 October 2004, the transition date to Adopted IFRSs, are £1.3 million (2005: £0.4 million).

The fair value of the plan assets and the return on those assets were as follows:

	MRGPS 2006 £'000	MRGPS Six months ended 31 March 2005 £'000	CRPPAS 2006 £'000	CRPPAS Six months ended 31 March 2005 £'000
Equities	**7,011**	3,106	**5,973**	4,461
Bonds	**1,843**	945	**5,309**	5,261
Other	**38**	23	**1,991**	1,716
	8,892	4,074	**13,273**	11,438
Actual return on plan assets	**1,635**	280	**1,639**	702

The expected long-term rate of return on assets assumption is assessed by considering the current level of returns on risk-free investments (primarily government bonds) and the expectations for the risk premium of each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Principal actuarial assumptions (expressed as weighted averages):

	MRGPS/ CRPPAS 2006	MRGPS/ CRPPAS 2005
Discount rates	**4.85%**	5.30%
Expected rate of return on plan assets	**5.50%**	6.00%
Indexed pension increases	**3.25%**	3.25%
Future salary increases	**4.00%**	4.50%
Other material assumptions – inflation	**2.90%**	2.75%

For mortality rates the Group has used PA92 tables (2005: MRGPS – PA80, CRPPAS – PA92) with mortality projected to 2025 (2005: MRGPS – 2020, CRPPAS: 2030) for pensioner members. Expectation of life at normal retirement age is 24.9 years for males and 27.9 for females.

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet	MRGPS 2006 £'000	MRGPS 2005 £'000	CRPPAS 2006 £'000	CRPPAS 2005 £'000
Present value of defined benefit obligation	**(14,595)**	(6,514)	**(16,055)**	(14,357)
Fair value of plan assets	**8,892**	4,074	**13,273**	11,438
Deficit	**(5,703)**	(2,440)	**(2,782)**	(2,919)

Experience adjustments	MRGPS 2006 £'000	MRGPS 2005 £'000	CRPPAS 2006 £'000	CRPPAS 2005 £'000
Experience adjustments on plan liabilities	**473**	(127)	**108**	(37)
Experience adjustments on plan assets	**1,131**	161	**974**	371

The Group currently expects to contribute approximately £1.2 million to its defined benefit plans in the next financial year.

Defined contribution plans

The total expense relating to these plans in the current year was £1.9 million (2005: £0.8 million).

18 Employee benefits continued

Share-based payments

The income statement includes a charge for share-based payments of £2.4 million (six months ended 31 March 2005: £0.6 million). Of the £2.4 million, £1.6 million was included within separately disclosed items.

These charges arise when employees are granted awards under the Group's share option scheme, savings-related share scheme or long-term incentive plan ('LTIP'). The charges equate to the fair value of the award. This has been calculated using the Monte Carlo, Bi-nomial and Black-Scholes models, using the most appropriate model for each scheme. Assumptions have been made in these models as to expectations of early exercise, expected volatility, risk-free interest rates and dividend yield.

The Company has not applied IFRS 2 Share-Based Payment retrospectively and therefore IFRS has only been applied to equity instruments granted after 7 November 2002 which had not vested before 1 January 2005. The Group's annual charge is therefore likely to increase as share-based awards are granted over the next two years.

Details of the schemes, including the required vesting conditions, can be found in the Directors' Remuneration Report. The amounts awarded under the LTIP are also detailed in the Directors' Remuneration Report and all awards under other schemes are detailed in note 20. All schemes are equity-settled apart from the Interim Merger Scheme.

A summary of the status of the share schemes as at 31 March 2006, changes during the year and details of awards granted during the year is presented below:

	31 March 2006		31 March 2005	
	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)	Number of options
Outstanding at start of period	**497.3**	**5,063,043**	528.7	4,798,585
Expired during the period	**480.3**	**668,244**	796.9	44,437
Cancelled during the period	**348.1**	**270,994**	373.9	102,897
Exercised during the period	**297.0**	**12,644**	332.0	24,100
Granted during the period	**144.0**	**2,676,305**	159.0	700,840
Forfeited during the period	**251.7**	**519,576**	184.0	264,948
Outstanding at end of period	**375.5**	**6,267,890**	497.3	5,063,043
Exercisable at end of period	**464.4**	**1,070,982**	634.8	33,081

The weighted average share price at the date of exercise of share options exercised during the period was 292.0p (2005: 415.2p).

The options outstanding at the year end have an exercise price in the range of 220.0p to 502.50p.

18 Employee benefits continued

Assumptions relating to grants of share options:

Scheme	Date of grant	Market price on grant date (pence)	Exercise price (pence)	Volatility of share price	Dividend yield	Risk-free interest rate	Fair value at grant date (pence)
SAYE	06/12/02	550.00	428.00	35%	3.4%	4.4%	201.00
	05/12/03	499.00	358.00	35%	3.7%	4.8%	197.53
	16/12/04	405.00	315.00	35%	4.6%	4.5%	125.00
	22/12/05	287.50	220.00	35%	3.1%	4.2%	98.63
GWR SRSOS	06/05/05	334.50	280.56	35%	5.5%	4.5%	77.24
	06/05/05	334.50	338.67	35%	5.5%	4.5%	61.72
1998 Scheme (non-Directors)	27/11/02	502.50	502.50	35%	3.7%	4.5%	149.05
	21/05/03	427.50	427.50	35%	4.3%	3.7%	115.12
	19/11/03	458.50	458.50	35%	4.0%	4.8%	127.49
	26/05/04	455.00	455.00	35%	4.1%	5.1%	128.85
	25/11/04	394.00	394.00	35%	4.7%	4.5%	103.03
	04/01/06	299.50	299.50	35%	3.0%	4.2%	89.28
1998 Scheme (Directors)	21/05/03	427.50	427.50	35%	4.3%	3.8%	48.37
	26/05/04	455.00	455.00	35%	4.1%	5.1%	54.74
Presenters	27/11/02	502.50	502.50	35%	3.7%	4.5%	155.87
	19/11/03	458.50	458.50	35%	4.0%	4.8%	135.51
LTIP	27/11/02	502.50	–	35%	3.7%	4.3%	250.10
	23/01/03	430.00	–	35%	4.3%	3.9%	213.74
	19/11/03	458.50	–	35%	4.0%	4.7%	234.35
	01/12/04	398.00	–	35%	4.6%	4.5%	198.41
2005 LTIP	15/12/05	287.75	–	35%	Note 1	4.4%	103.42
	05/01/06	298.00	–	35%	Note 1	4.2%	105.41
Interim Merger Scheme (non-Directors)	05/01/06	298.00	–	N/a	Note 1	N/a	298.00
Interim Merger Scheme (Directors)	15/12/05	287.75	–	N/a	Note 1	N/a	287.75

Notes

1. Dividends will be rolled up and paid to the participants on date of vesting with the transfer of shares.

2. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility derived from publicly available information.

3. All of the above schemes have performance conditions attached apart from GWR SRSOS and the SAYE. The performance conditions for the 1998 scheme for Directors, the LTIP and the 2005 LTIP are market-based, and are taken into account in the fair value.

The total expenses recognised for the period arising from share-based payments are as follows:

	2006 £'000	2005 £'000
Equity-settled share-based payment expense	**1,674**	593
Cash-settled share-based payment expense	**761**	–
Total carrying amount of liabilities	**761**	–
Total intrinsic carrying amount of liabilities in respect of vested benefits	**–**	–

Disclosure basis and assumptions for fair value assessment of cash-settled schemes

The fair value of the equity-settled part of the awards under the Interim Merger Share Scheme at grant date is equal to the market price of the shares at close of business immediately preceding the date of grant. No deduction has been made for dividends because it is assumed that the Remuneration Committee will exercise its discretion to transfer the rolled-up value of any dividends accrued between date of grant and vesting to the participants in addition to the shares promised under the Scheme.

The fair value of the cash-settled part of the awards under the Interim Merger Share Scheme is re-measured at each balance sheet date and settlement date. The fair value in this case is equal to the market price of the shares on the balance sheet date plus the value of dividends accrued between the date of award and the date of measurement.

19 Provisions

Property provision

	£'000
As at 1 April 2005	563
Provisions made during the year	4,637
Provisions used during the year	(233)
As at 31 March 2006	**4,967**

A provision of £0.6 million was made during the period ended 31 March 2005 in respect of the Group's obligation to repair, decorate and reinstate alterations made, and future liabilities in respect of vacant properties. Expenditure of £0.2 million was charged against the provision brought forward. A further provision of £0.2 million was made during the year ended 31 March 2006 in respect of these properties and a provision of £4.4 million was made in respect of future liabilities following the transfer of operations from Swallow Place, London. Based on the current state of the property market the Group cannot assume that all the properties will be sublet before the end of the lease; however if the properties are sublet the Group's liability will decrease.

Of the total amount, £4.4 million is recognised within separately disclosed items.

20 Called-up share capital

	Authorised		Allotted, called-up and fully paid	
	Number	£'000	Number	£'000
Ordinary Shares of 2.5p each				
At 1 April 2005	100,000,000	2,500	85,512,086	2,138
Increased authorised	100,000,000	2,500	–	–
Shares issued	–	–	79,336,921	1,983
At 31 March 2006	**200,000,000**	**5,000**	**164,849,007**	**4,121**

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The authorised share capital of the Company was increased to £5 million by ordinary resolution of the Company passed at an Extraordinary General Meeting of the Company on 15 April 2005, following the creation of an additional 100,000,000 Ordinary Shares of 2.5p each.

20 Called-up share capital continued

At 31 March 2006, the Company had options outstanding to subscribe for 4,659,714 (2005: 4,198,435) Ordinary Shares. Details of the outstanding options are as follows:

Option

Grant date	Number of shares under option	Exercise price (pence)	Exercisable not earlier than
Capital Radio 1986 Senior Executive Share Option Scheme			
December 1996	24,300	540	December 1999
GCap Media Savings Related Share Option Scheme			
December 2000	2,400	1054	February 2006
December 2001	19,519	614	February 2007
December 2002	59,238	428	February 2008
December 2003	86,220	358	February 2009
December 2004	92,940	315	February 2010
December 2005	326,876	220	February 2009
GWR Group Savings Related Share Option Scheme			
July 2003	165,546	280.6	September 2006
June 2004	75,348	338.7	September 2007
Capital Radio 1998 Share Option Scheme			
March 1998	100,285	633	March 2001
November 1998	161,076	541	November 2001
June 1999	19,226	865	May 2002
November 1999	107,110	1224.5	November 2002
May 2000	29,329	1262.5	May 2003
November 2000	147,673	1172.5	November 2003
February 2001	49,165	1080	February 2004
May 2001	77,737	765	May 2004
November 2001	217,110	815	November 2004
January 2002	77,208	705	January 2005
May 2002	73,888	772.5	May 2005
June 2002	23,256	645	June 2005
July 2002	56,184	667.5	July 2005
November 2002	445,374	502.5	November 2005
May 2003	522,248	427.5	May 2006
November 2003	258,911	458.5	November 2006
May 2004	456,136	455	May 2007
November 2004	89,494	394	November 2007
January 2006	720,000	299.5	January 2009
Capital Radio Presenters' Share Option Scheme			
December 2000	40,358	1115	December 2003
November 2002	64,676	502.5	November 2005
November 2003	70,883	458.5	November 2006

Options awarded under the GWR Group plc Save As You Earn Scheme have been recalculated as options over GCap Media Shares, following the Merger of Capital Radio plc and GWR Group plc.

GCap Media plc Save As You Earn Scheme

During the year, no options over Ordinary Shares of 2.5p each were exercised under the GCap Media Save As You Earn Scheme. Options over 285,220 shares lapsed during the period. The number of shares held in the Capital Radio Qualifying Employee Share Trust as at 31 March 2006 was 263,011 and their market value was £602,295.

GWR Group plc Save As You Earn Scheme

From 9 May 2005, 12,644 Ordinary Shares of 2.5p each were exercised. Options over 62,932 shares lapsed during the period. The number of shares held in the GWR Group Qualifying Employee Share Trust as at 31 March 2006 was 272,633 and their market value was £624,329.

Share options under the Capital Radio 1986 Senior Executive Share Option Scheme and the Capital Radio 1998 Share Option Scheme and the Capital Radio Presenters' Share Option Scheme expire ten years after the date of grant. Options under both the GCap Media and GWR Savings-Related Share Option Schemes expire six months after the date on which they can first be exercised.

21 Capital and reserves

	Issued capital £'000	Share premium £'000	Merger reserve £'000	Share premium and reserves £'000	Retained earnings £'000
As at 1 October 2004	2,136	78,965	37,095	116,060	24,337
Issue of ordinary shares	2	78	–	78	–
Total recognised income and expense	–	–	–	–	3,846
Dividends	–	–	–	–	(10,572)
Movements due to share-based compensation	–	–	–	–	363
As at 31 March 2005	2,138	79,043	37,095	116,138	17,974

	Attributable to GCap Media shareholders £'000	Minority interest £'000	Total equity £'000
As at 1 October 2004	142,533	–	142,533
Net movement in period	(6,283)	–	(6,283)
As at 31 March 2005	136,250	–	136,250

	Issued capital £'000	Share premium £'000	Merger reserve £'000	Fair value reserve £'000	Share premium and reserves £'000	Retained earnings £'000
As at 1 April 2005	2,138	79,043	37,095	–	116,138	17,974
Issue of ordinary shares	1,983	–	263,399	–	263,399	–
Total recognised income and expense	–	–	–	(499)	(499)	(37,286)
Movements due to share-based compensation	–	–	–	–	–	1,674
Equity dividends	–	–	–	–	–	(14,922)
Foreign exchange differences	–	–	–	–	–	14
Transfer between reserves	–	–	(30,162)	–	(30,162)	30,162
As at 31 March 2006	4,121	79,043	270,332	(499)	348,876	(2,384)

	Attributable to GCap Media shareholders £'000	Minority interest £'000	Total equity £'000
As at 1 April 2005	136,250	–	136,250
Minority interest acquired	–	1,292	1,292
Net movement in period	214,363	439	214,802
As at 31 March 2006	**350,613**	**1,731**	**352,344**

Merger reserve
This reserve comprises premiums arising on acquisitions where by the consideration was greater than 90% in shares. The addition in the year relates to the acquisition of GWR Group plc (see note 3).

Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Reserves
The Company holds own shares of 581,066 (2005: 606,370). These have been deducted from retained earnings.

22 Dividends
The following dividends were paid by the Company during the periods specified below:

		Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Final	12.5p per share paid 28 January 2005	–	10,572
Second interim	6.0p per share paid 8 July 2005	9,839	–
Interim	3.1p per share (2005: nil) paid 27 January 2006	5,083	–
Total		14,922	10,572

Subject to approval at the Company's AGM, to be held on 24 July 2006, the proposed final dividend of 6.15p per share is payable on 28 July 2006 to all shareholders on the register at the close of business on 7 July 2006 (ex-dividend date: 5 July 2006). This has not been included within creditors in accordance with Adopted IFRSs.

23 Financial instruments

The Group's treasury operations are managed by the Group Finance Department. Financial instruments are only permitted for use in managing financial risk arising from the Group's operations on the authority of the Board.

The Group's policies as regards derivatives and financial instruments are set out in the accounting policies.

The main financial risks faced by the Group relate to credit and interest rates. The policies for managing these risks are summarised below:

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers with potential credit exposure over certain amounts. The Group does not require collateral in respect of financial assets. At the balance sheet date there were no significant concentrations of credit risk represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The Group uses derivatives to protect against fluctuating interest rates. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

Interest rates swaps, in sterling, have been entered into to achieve a suitable mix of fixed and floating rate exposure. The swaps mature over the next one to four years and have fixed rates ranging from 4.6425% to 4.87%. At 31 March 2006 the Group had interest rate swaps with a notional contract amount of £45 million (2005: £nil). These interest rate swaps are stated at fair value.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

				2006			2005
	Effective interest rate %	Total £'000	0-1 years £'000	1-5 years £'000	Effective interest rate %	Total £'000	0-1 years £'000
Cash and cash equivalents	3.6	6,079	6,079	–	–	285	285
Interest rate swaps	–	115	(38)	153	–	–	–
Secured bank loans	5.1	(82,000)	–	(82,000)	5.7	(20,000)	(20,000)
Bank overdrafts	–	–	–	–	5.7	(13,356)	(13,356)
		(75,806)	6,041	(81,847)		(33,071)	(33,071)

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2006 £'000	Fair value 2006 £'000	Carrying amount 2005 £'000	Fair value 2005 £'000
Available-for-sale investment	929	929	–	–
Trade and other receivables	39,761	39,761	23,508	23,508
Cash and cash equivalents	6,079	6,079	285	285
Interest rate swaps	115	115	–	–
Secured bank loans	(82,000)	(82,000)	(20,000)	(20,000)
Trade and other payables	(40,681)	(40,681)	(24,215)	(24,215)
Bank overdraft	–	–	(13,356)	(13,356)
Unrecognised losses	(75,797)	(75,797)	(33,778)	(33,778)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the tables:

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables/payables

For receivables and payables the notional amount is deemed to reflect the fair value. The impact of discounting for those due after more than one year is not deemed to be significant.

23 Financial instruments continued

Interest rate swaps

As stated above the fair value of interest rate swaps is calculated using prevailing interest rates as at the balance sheet date.

Available-for-sale investments

The fair value is based on the published bid price at the balance sheet date.

24 Earnings per share

The calculation of basic earnings per share for the 12 months ended 31 March 2006 is based on the loss attributable to ordinary shareholders of £36.7 million (six months ended 31 March 2005: profit of £4.1 million) and a weighted average number of Ordinary Shares outstanding during the 12 months ended 31 March 2006 of 157,035,064 (six months ended 31 March 2005: 84,599,768) calculated as follows:

Weighted average number of shares

	2006
Issued Ordinary Shares at the start of the period	**84,642,705**
Effect of shares issued	**72,392,359**
At the end of the financial year	**157,035,064**

Diluted earnings per share

Dilution increases the weighted average number of shares to 157,082,246 (2005: 84,674,664). The dilution effect is caused by the inclusion of 47,182 share options (2005: 74,896).

For the purpose of disclosures required by IAS 33 Earnings per share none of the potential Ordinary Shares are regarded as being dilutive as their conversion would reduce the basic loss per share. Consequently the diluted loss per share is the same as the basic loss per share.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring in less than one year	**3,046**	**507**	1,518	528
Expiring between one and five years	**12,150**	**1,681**	5,320	543
Expiring in over five years	**26,606**	**–**	14,618	–
Total	**41,802**	**2,188**	21,456	1,071

The Group leases a number of offices with car parking facilities. Land and buildings have been considered separately for lease consideration. The terms of the agreements run between five years and 25 years.

The Group leases a number of vehicles under operating lease agreements. Each vehicle is leased for a period of three years.

The Group leases a number of copier machines under operating leases. Each agreement runs between three and five years.

During the year £4.6 million was recognised as an expense in the income statement in respect of operating leases (2005: £2.2 million).

26 Contingent liabilities and capital commitments

Contingent liabilities are as follows:

(a) Various inter-Group cross-guarantees are held by Barclays Bank, Lloyds TSB and HSBC.
(b) The Company is a member of a Group for VAT purposes, resulting in a joint and several liability for amounts owing by other Group companies for unpaid VAT.

The possibility of cash outflows on both of the above is considered remote.

(c) GCap Media Digital Limited, a subsidiary of the Company, is party to an agreement with NTL Digital Radio Limited whereby NTL Digital Radio can require GWR Digital to acquire, for a sum yet to be ascertained, 24% of the issued share capital of MUKBL Radio Services Limited. The amount of the cash outflow will be matched against the acquisition of an asset for a corresponding amount.

27 Related-party transactions

The Group has trading relationships with Classic Gold Digital Limited, Digital Radio Group Limited, Radio Advertising Bureau Limited ('RAB'), Hit 40 UK Limited, CE Digital Limited, Holiday FM and Children's Radio UK Limited. The Group holds significant shareholdings in all these companies and is therefore in a position to exercise significant influence over these companies. All transactions were conducted at normal commercial rates.

Related-party transactions during the year were as follows:

(a) During the year the Group paid £4.2 million (2005: £nil) to Classic Gold Digital Ltd for inventory, a company in which GCap Media Services Limited has an investment of 20%. At 31 March 2006 there was an outstanding creditor of £0.5 million (2005: £nil).
(b) During the year the Group paid £0.2 million (2005: £nil) to the Digital Radio Group. The Group had an outstanding creditor of £0.03 million at 31 March 2006 (2005: £nil).
(c) The RAB is a trade body promoting commercial radio to advertisers. The RAB is funded by levies paid by the commercial radio industry in the UK based on volumes of advertising. During the year the Group paid £0.6 million (six months to 31 March 2005: £0.4 million) in levies to the RAB and had an outstanding creditor of £0.02 million (2005: £0.1 million).
(d) Hit 40 UK operates a chart show, which is broadcast over various radio networks. GCap Media's Commercial Division, as agent for Hit 40 UK, sells the related airtime. During the year the Group received £0.7 million (six months to 31 March 2005: £0.2 million) of income from Hit 40 UK and paid over £2.0 million to Hit 40 UK (2005: £2.0 million). At 31 March 2006 there was an outstanding debtor of £0.04 million (outstanding creditor 2005: £0.2 million).
(e) CE Digital operates local digital multiplexes. During the year the Group paid £0.6 million (six months to 31 March 2005: £0.3 million) to CE Digital in respect of radio broadcasts and received £0.1 million (six months to 31 March 2005: £0.1 million) from CE Digital in respect of legal expertise and engineering time. At 31 March 2006 there were no outstanding amounts (2005: creditor £0.3 million).
(f) Holiday FM broadcasts content via commercial radio stations in Spain. During the year the Group received £0.06 million (six months to 31 March 2005: £0.03 million) from Holiday FM. At 31 March 2006 there was a debtor to the Group of £0.01 million (2005: £0.01 million).
(g) Children's Radio UK Limited operates a digital radio station. During the year the Group charged Children's Radio £0.2 million (2005: £nil) for transmission and programming costs. At 31 March 2006 there was a debtor of £0.2 million (2005: £nil) which has been fully provided for.

Key management personnel are regarded to be the Directors of the Company. Details of their compensation are as follows:

	Short-term employee benefits £'000	Termination £'000	Post-employment benefits £'000	Share-based payments £'000
Total	2,407	2,596	649	1,246

28 Accounting estimates and judgements

Details of significant accounting estimates and judgements have been disclosed under the relevant note or accounting policy for each area where disclosure is required. Principally these are pensions (note 18), valuation of acquired intangible assets and goodwill impairment testing (note 10), leases (note 25) and provisions (note 19).

29 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31 March 2005 and in the preparation of an opening IFRS balance sheet at 1 October 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following notes and tables.

Business Combinations and Intangible Assets (adjustment i)

As stated in note 1 GCap Media has elected not to restate business combinations that occurred before 1 October 2004. Under IAS 38 goodwill is not amortised but tested for impairment annually. This results in a statutory increase in profit before tax of £5.1 million for the write-back of goodwill amortisation in the period to 31 March 2005 and a corresponding increase in goodwill on the balance sheet at that date.

Business combinations occurring after 1 October 2004 have been accounted for in accordance with IFRS 3 Business Combinations. No business combinations occurred between 1 October 2004 and 31 March 2005. Since 31 March 2005 the only business combination has been the acquisition of GWR by GCap Media plc (formerly Capital Radio) on 9 May 2005.

29 Explanation of transition to Adopted IFRSs continued

Employee Benefits

Defined benefit schemes (adjustment ii)

At transition, as stated in note 1, GCap Media has elected to recognise in full all cumulative actuarial gains and losses on defined benefit pension schemes in equity. The Group has also elected to adopt the amendment to IAS 19 (December 2004) early and recognise all actuarial gains and losses in the statement of recognised income and expense in the period they arise.

Under IAS 19, for the period ended 31 March 2005, the statutory operating charge is £0.2 million lower and an additional financing charge is recognised of £0.08 million.

The Group has two defined benefit pension schemes which were both in a deficit position at the transition date. These deficits (totalling £5.0 million) are recognised in full in the statutory results on transition to IFRS at 1 October 2004. At 31 March 2005 the deficits on the balance sheet had increased to £5.4 million, which compares with a net prepayment recognised under SSAP 24 under UK GAAP of £0.3 million. A corresponding deferred tax asset of £1.6 million at 31 March 2005 has been recognised in relation to the defined benefit pension scheme liability.

Holiday pay (adjustment iii)

IAS 19 requires a liability and an expense to be recognised for paid annual leave. The Group has therefore recognised an additional accrual for holiday pay of £0.4 million at 31 March 2005.

Share-based Payment (adjustment iv)

As stated above, GCap Media has elected not to apply IFRS 2 Share-based Payment to equity instruments that were granted before or on 7 November 2002, or were granted after 7 November 2002 and vested before 1 January 2005. GCap Media only had equity-settled share-based instruments; the Group did not have any cash-settled instruments outstanding.

Under IFRS 2 the charge to the income statement for these equity instruments is determined by spreading the fair value of the instruments at grant date over the vesting period. A calculation is then performed at period end to account for the most current estimate of the number of instruments that will vest taking into account both service and non-market vesting conditions.

The fair value of the instruments is measured under the Monte Carlo, Bi-nomial and Black-Scholes models, depending upon which is the most appropriate model given the terms of the relevant scheme.

UK GAAP charges for these schemes were based on UITF 17, where the difference between the exercise price of the option and the market price of the underlying shares at the date of the grant is recognised as a charge. Under IFRS 2 the fair value of the equity instrument is recognised as a charge. As a result there is an increase in the statutory charge under IFRS of £0.6 million for the six months ended 31 March 2005. There is no impact on the net assets of the Group as this charge is matched by a corresponding increase in equity.

Associates (adjustment v)

The Group's share of associates' taxation charge has been reclassified from the taxation line to the share of profit of associates. This amounts to a statutory adjustment of £0.3 million for the six months to 31 March 2005.

The Group's share of associates' interest income has been reclassified from the interest line to the share of the profit of associates. This amounts to a statutory adjustment of £0.03 million for the six months to 31 March 2005.

Dividends (adjustment vi)

Under IAS 10 Events after the Balance Sheet Date (and similarly under FRS 21 of the same name which applies under UK GAAP for periods beginning on or after 1 January 2005) dividends are only recognised when they are formally declared, i.e. for interim dividends when paid and for final dividends when authorised by a general meeting.

Accordingly a statutory adjustment has been made. Dividends of £5.1 million at 31 March 2005 have been reversed and are included in the subsequent period; therefore liabilities have been reduced by this amount. The amount of dividends approved and paid in the six months to 31 March 2005 was £10.6 million.

29 Explanation of transition to Adopted IFRSs continued

Reconciliation of profit for the six months ended 31 March 2005

	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(iv) £'000	(v) £'000	(vi) £'000	Adopted IFRS £'000
Revenue	58,497							58,497
Cost of sales	(6,987)							(6,987)
Gross profit	51,510							51,510
Other operating expenses	(48,509)	5,137	159	(163)	(593)			(43,969)
Operating profit/(loss) before financing costs	3,001	5,137	159	(163)	(593)			7,541
Finance income	54		450			(30)		474
Finance expenses	(994)		(528)					(1,522)
Net financing costs	(940)		(78)			(30)		(1,048)
Share of profit/(loss) of associates	265					(307)		(42)
Profit before tax	2,326	5,137	81	(163)	(593)	(337)		6,451
Taxation	(2,638)		(37)			337		(2,338)
(Loss)/profit for the period	(312)	5,137	44	(163)	(593)			4,113
Dividends	(5,079)						(5,493)	(10,572)

Explanation of material adjustments to consolidated cash flow statement

For the six months ended 31 March 2005

Bank overdrafts of £13.4 million at 31 March 2005 that are repayable on demand and form an integral part of the Group's cash management were classified as liabilities under UK GAAP but are reclassified as part of cash and cash equivalents for the purposes of the cash flow statement under IFRS. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous GAAP, other than presentational changes.

29 Explanation of transition to Adopted IFRSs continued

Reconciliation of equity at 31 March 2005

	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(vi) £'000	Adopted IFRS £'000
Non-current assets						
Property, plant and equipment	**15,399**					**15,399**
Intangible assets	**154,712**	5,137				**159,849**
Investments in associates	**2,074**					**2,074**
Other investments	**17**					**17**
Deferred tax assets	**98**		1,608			**1,706**
Total non-current assets	**172,300**	5,137	1,608			**179,045**
Current assets						
Trade and other receivables	**23,937**		(429)			**23,508**
Cash and cash equivalents	**285**					**285**
Total current assets	**24,222**		(429)			**23,793**
Current liabilities						
Bank overdraft	**(13,356)**					**(13,356)**
Interest-bearing loans and borrowings	**(20,000)**					**(20,000)**
Trade and other payables	**(29,593)**		93	(354)	5,076	**(24,778)**
Current tax liabilities	**(3,095)**					**(3,095)**
Total current liabilities	**(66,044)**		93	(354)	5,076	**(61,229)**
Net current liabilities	**(41,822)**		(336)	(354)	5,076	**(37,436)**
Non-current liabilities						
Employee benefits	**–**		(5,359)			**(5,359)**
Total non-current liabilities	**–**		(5,359)			**(5,359)**
Net assets	**130,478**	5,137	(4,087)	(354)	5,076	**136,250**
Equity						
Issued capital	**2,138**					**2,138**
Share premium	**79,043**					**79,043**
Reserves	**37,095**					**37,095**
Retained earnings	**12,202**	5,137	(4,087)	(354)	5,076	**17,974**
Total equity	**130,478**	5,137	(4,087)	(354)	5,076	**136,250**

29 Explanation of transition to Adopted IFRSs continued

Reconciliation of equity at 1 October 2004

	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(vi) £'000	Adopted IFRS £'000
Non-current assets						
Property, plant and equipment	17,520					17,520
Intangible assets	159,818					159,818
Investments in associates	2,602					2,602
Other investments	17					17
Deferred tax assets	32		1,506			1,538
Total non-current assets	179,989		1,506			181,495
Current assets						
Trade and other receivables	21,543		(429)			21,114
Cash and cash equivalents	400					400
Total current assets	21,943		(429)			21,514
Current liabilities						
Bank overdraft	(5,736)					(5,736)
Interest-bearing loans and borrowings	(20,000)					(20,000)
Trade and other payables	(36,538)		78	(191)	10,569	(26,082)
Current tax liabilities	(3,639)					(3,639)
Total current liabilities	(65,913)		78	(191)	10,569	(55,457)
Net current liabilities	(43,970)		(351)	(191)	10,569	(33,943)
Non-current liabilities						
Employee benefits	–		(5,019)			(5,019)
Total non-current liabilities	–		(5,019)			(5,019)
Net assets	136,019		(3,864)	(191)	10,569	142,533
Equity						
Issued capital	2,136					2,136
Share premium	78,965					78,965
Reserves	37,095					37,095
Retained earnings	17,823		(3,864)	(191)	10,569	24,337
Total equity	136,019		(3,864)	(191)	10,569	142,533

Company balance sheet

Prepared under UK GAAP

As at 31 March

	Notes	2006 £'000	2005 £'000 Restated
Fixed assets			
Financial assets	35	**138**	–
Tangible fixed assets	33	**7,684**	9,324
Investments	34	**477,417**	252,516
		485,239	261,840
Current assets			
Debtors	35	**13,196**	45,643
Cash	–	**–**	285
		13,196	45,928
Creditors: amounts falling due within one year	36	**(761)**	(104,152)
Net current assets/(liabilities)		**12,435**	(58,224)
Total assets less current liabilities		**497,674**	203,616
Creditors: amounts falling due after more than one year	37	**(82,000)**	–
Provisions for liabilities and charges	38,39	**(172)**	(518)
Net assets (excluding pension liability)		**415,502**	203,098
Pension liability	41	**(1,947)**	(2,043)
Net assets (including pension liability)		**413,555**	201,055
Capital and reserves			
Called-up share capital	20	**4,121**	2,138
Share premium account	40	**79,043**	79,043
Revaluation reserve	40	**429**	429
Merger reserve	40	**283,808**	44,116
Profit and loss account	40	**46,154**	75,329
Equity shareholders' funds		**413,555**	201,055

These accounts were approved by the Board of Directors on 24 May 2006 and were signed on its behalf by:

Ralph Bernard
Chief Executive

Wendy Pallot
Group Finance Director

Company reconciliation of movements in equity shareholders' funds

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000 Restated
Loss for the financial year	**(39,556)**	(9,149)
Dividends	**(14,922)**	(10,572)
Retained loss for the financial year	**(54,478)**	(19,721)
Actuarial gains and losses (net of tax)	**(78)**	(125)
New share capital issued	**265,382**	480
Movements due to share-based compensation	**1,674**	363
Movement on shares to be issued	**–**	(400)
Net increase/(decrease) in equity shareholders' funds	**212,500**	(19,403)
Opening equity shareholders' funds (originally £211,765,000, restated for prior year adjustment of £8,693,000) (note 30)	**201,055**	220,458
Closing equity shareholders' funds	**413,555**	201,055

Company statement of recognised gains and losses

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Loss for the financial year	**(39,556)**	(9,149)
Actuarial loss recognised in the pension scheme	**(112)**	(179)
Deferred tax arising on losses in the pension scheme	**34**	54
Total recognised gains and losses relating to the financial year	**(39,634)**	(9,274)
Prior year adjustment (as explained in note 30)	**(664)**	–
Total gains and losses recognised since last Annual Report	**(40,298)**	–

30 Accounting policies

A summary of the principal Company accounting policies, all of which have been applied consistently throughout the period, is set out below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 Share-based payment;
- FRS 21 Events after the balance sheet date;
- FRS 25 Financial instruments: presentation and disclosure;
- FRS 26 Financial instruments: measurement; and
- FRS 28 Corresponding amounts.

The recognition and measurement requirements of FRS 17 Retirement benefits have also been adopted; previously the transitional disclosures of that standard have been followed.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

The Company has elected to recognise in full all cumulative actuarial gains and losses on defined benefit pension schemes in equity.

Under FRS 17, for the period ended 31 March 2005, the statutory operating charge is £0.1 million lower and an additional financing charge is recognised of £0.04 million.

The Company has one defined benefit pension scheme which was in deficit at the FRS 17 adoption date. This deficit of £2.9 million is recognised in full in the statutory results on adoption of FRS 17. A corresponding deferred tax asset of £0.9 million at 31 March 2005 has been recognised in relation to the defined benefit pension scheme liability.

Under FRS 20 the charge to the income statement for these equity instruments is determined by spreading the fair value of the instruments at grant date over the vesting period. A calculation is then performed at period end to account for the current estimate of the number of instruments that will vest taking into account both service and non-market vesting conditions.

The fair value of the instruments is measured under the Monte Carlo, Bi-nomial and Black-Scholes models, depending upon which is the most appropriate model given the terms of the relevant scheme.

As a result there is a statutory charge under FRS 20 of £0.6 million for the six months ended 31 March 2005. There is no impact on the net assets of the Group as this is matched by a corresponding increase in equity.

Under FRS 21 dividends are only recognised when they are formally declared, i.e. for interim dividends when paid and for final dividends when authorised by a general meeting.

Accordingly a statutory adjustment has been made. Dividends of £5.1 million at 31 March 2005 have been reversed and will be included in the subsequent period. A charge of £10.6 million was made in relation to dividends approved and paid in the six months to 31 March 2005.

The Company has elected to restate its comparatives as it has applied FRS 25 and FRS 26 from the start of the comparative period.

FRS 28 has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

	Total equity 31 March 2005 £'000	Total equity 1 October 2004 £'000
Equity reconciliation		
Brought forward pre IFRS restatement	197,926	211,765
Adoption of FRS 21	5,079	10,572
Adoption of FRS 17	(1,950)	(1,879)
Total prior year adjustments	3,129	8,693
Total brought forward post restatement	201,055	220,458

30 Accounting policies continued

	Six months ended 31 March 2005 £'000
Summary profit reconciliation	
Loss for the period (pre restatement)	(8,610)
Share based payment charge	(593)
Difference between the SSAP 24 and FRS 17 charge for defined benefit schemes (net of tax)	54
Total loss for the period (post restatement)	(9,149)
Actuarial gains and losses net of tax	(125)
Total recognised gains and losses (post restatement)	(9,274)

Basis of accounting
The accounts have been prepared under the historical cost accounting rules, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Cash flow statement
The Company is exempt from the requirement of FRS 1 (revised 1996) to prepare a cash flow statement on the grounds that its parent undertaking GCap Media plc includes the Company in its own published consolidated financial statements.

Company profit and loss
Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial period dealt with in the financial statements of the holding company was £39.6 million (six months to 31 March 2005: loss of £9.1 million (restated)).

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost (less estimated residual value) of each asset on a straight-line basis over its expected useful life, as follows:

> Freehold buildings	2%-4% per annum;
> Long leasehold premises	2%-6% per annum;
> Short leasehold premises	over the term of the lease, or where the lease is renewable, 5% per annum;
> Fixtures and technical equipment	10%-33% per annum;
> Digital equipment	over the term of the contract; and
> Motor vehicles	20%-33% per annum.

Freehold land is not depreciated.

Investments
In the Company's accounts investments in subsidiary companies are stated at cost less provisions where, in the opinion of the Directors, there has been an impairment in the value of the investment. Dividends receivable from subsidiary companies are credited to the Company's profit and loss account unless there is an impairment of the investment. Fixed asset investments are stated at cost less provisions where, in the opinion of the Directors, there has been an impairment in the value of the investment.

Taxation
The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

30 Accounting policies continued

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis.

Turnover

Turnover comprises income from the sale of advertising airtime, sponsorship and promotions (net of agencies' commissions) and income from advertising on the internet. Turnover is stated excluding VAT, trade discounts, and intra-Group transactions and derives from goods and services provided in the normal course of business.

Airtime revenue is recognised on the date of broadcast. Sponsorship revenue and internet advertising are recognised over the life of the contract.

Licences

Expenditure incurred in the purchase of licences, and in the applications and re-applications for licences, is written off to the profit and loss account as it is incurred.

Pensions

Most of the Company's employees participate in defined contribution pension schemes. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Differences between contributions payable and contributions paid are shown as either accruals or prepayments in the balance sheet.

The Company provides for and funds pension liabilities on a going concern basis, on the advice of external actuaries. The amount charged to the profit and loss account is calculated to produce a level percentage of the current and future pensionable payroll.

The Company operates a defined contribution pension scheme.

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

As all members of the Capital Radio Plc Pension and Assurance Scheme (CRPPAS) are past or present employees of GCap Media plc, the amount recorded in the income statement and the balance sheet relates solely to the Capital Radio Plc Pension and Assurance Scheme (CRPPAS). The Company has no members in the Midlands Radio Group scheme.

Own shares held under trust

Shares in the Company issued to cover SAYE schemes are held in a Qualifying Share Ownership Trust (QUEST). Shares in the Company issued to cover the long-term incentive plan (Capital Radio Restricted Share Plan) are held in the Capital Radio Employee Trust. Own shares held under trust are deducted from shareholders' funds.

30 Accounting policies continued

Employee share schemes

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For cash-settled share-based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Development expenditure

Development expenditure is written off to the profit and loss account in the period in which it is incurred.

31 Employee information

The average monthly number of persons (including Directors) employed by the Company during the year analysed by category, was as follows:

	Monthly average	
	2006 Number	**2005 Number**
Programming	**18**	21
Sales	**174**	200
Technical	**24**	28
Management and administration	**89**	102
Total	**305**	351

	Year ended 31 March 2006 £'000	**Six months ended 31 March 2005 £'000**
Staff costs (for those mentioned above):		
Wages and salaries	**11,002**	8,529
Compulsory social security contributions	**1,122**	1,015
Contributions to defined contribution plans	**915**	660
Equity-settled transactions	**1,674**	593
Cash-settled transactions	**761**	–
	15,474	10,797
Exceptional staff costs relating to Merger	**2,909**	2,007
Total	**18,383**	12,804

The above analysis includes the costs relating to Directors but excludes persons engaged under freelance contracts (mainly presenters and casual short-term contracts). The total cost of these persons amounts to £1.7 million (2005: £2.0 million).

Directors' emoluments

Details of individual Directors' emoluments, pension entitlements, long-term incentive schemes and share options are disclosed in the Report of the Board on Directors' remuneration to the members of GCap Media plc on pages 48 to 58.

32 Auditors' remuneration

	2006 £'000	2005 £'000
Auditors' remuneration:		
Audit fees	**25**	25
Total	**25**	25

33 Tangible fixed assets

	Short leasehold £'000	Transmitters, fixtures and technical equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2005	8,087	21,494	88	29,669
Additions	–	342	–	342
Disposals	–	(1,104)	(55)	(1,159)
At 31 March 2006	**8,087**	**20,732**	**33**	**28,852**
Depreciation				
At 1 April 2005	2,206	18,056	83	20,345
Depreciation charge for the year	348	1,537	2	1,887
Disposals	–	(1,012)	(52)	(1,064)
At 31 March 2006	**2,554**	**18,581**	**33**	**21,168**
Net book value				
At 31 March 2006	**5,533**	**2,151**	**–**	**7,684**
Net book value				
At 31 March 2005	5,881	3,438	5	9,324

The Company did not have any assets under finance lease as at 31 March 2006 or 31 March 2005.

34 Investments

	Subsidiary companies £'000	Associated companies £'000	Other investments £'000	Total £'000
Cost				
At 1 April 2005	312,155	1,201	584	313,940
Additions	280,608	–	–	280,608
Disposals	(21,787)	–	(572)	(22,359)
Transfer to subsidiary	455	(455)	–	–
Amounts written off	–	–	–	–
At 31 March 2006	**571,431**	**746**	**12**	**572,189**
Provisions				
At 1 April 2005	60,437	415	572	61,424
Change in provision	33,920	–	–	33,920
Disposals	–	–	(572)	(572)
At 31 March 2006	**94,357**	**415**	**–**	**94,772**
Net book value				
At 31 March 2006	**477,074**	**331**	**12**	**477,417**
At 31 March 2005	251,718	786	12	252,516

35 Debtors

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Amounts falling due within one year:		
Trade debtors	**–**	13,785
Amounts owed by subsidiary undertakings	**12,495**	18,873
Corporation tax	**578**	5,132
Other debtors	**–**	1,032
Deferred tax (note 38)	**123**	–
Prepayments and accrued income	**–**	6,105
	13,196	44,927
Amounts falling due after more than one year:		
Prepayments and accrued income	**–**	716
Total	**13,196**	45,643

Trade and other receivables
For receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables are discounted to determine the fair value.

Financial assets
As disclosed in note 23 the Group has a number of interest rate swaps held by different members of the Group. The amount recognised of £0.1 million is the fair value of the interest rate swaps held by the Company.

36 Creditors – amounts falling due within one year

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 Restated £'000
Loan notes	**–**	1,520
Bank loans and overdrafts	**–**	34,202
Trade creditors	**–**	9,707
Amounts owed to subsidiary undertakings	**–**	48,312
Other taxation and social security	**–**	3,779
Other creditors	**–**	1,139
Accruals and deferred income	**761**	5,493
Total	**761**	104,152

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other payables
For payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other payables are discounted to determine the fair value.

37 Creditors – amounts falling due after more than one year

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Bank loans and overdrafts	**82,000**	–
Total	**82,000**	–

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows. See note 23.

38 Deferred tax assets and liabilities

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
Deferred tax liability at 1 April	**(212)**	(253)
Credit to the income statement for the year	**335**	41
Deferred tax asset/(liability) at 31 March	**123**	(212)

Deferred taxation provided in the accounts, which represents the total potential asset or liability for deferred taxation, is as follows:

	2006 £'000	2005 £'000
Accelerated capital allowances	**(323)**	(448)
Other timing differences	**112**	236
Employee benefits	**334**	–
Deferred tax asset	**123**	–
Deferred tax liability	**–**	(212)

39 Provisions

	Year ended 31 March 2006 £'000	Six months ended 31 March 2005 £'000
At beginning of year	**306**	306
Provisions made during the year	**100**	–
Provisions used during the year	**(234)**	–
At end of year	**172**	306

A provision of £0.3 million was made during the period ended 31 March 2005 in respect of the Company's obligation to repair, decorate and re-instate alterations made and future liabilities in respect of vacant properties.

40 Reserves

	Share premium £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000
As at 1 April 2005 (restated)	79,043	429	44,116	75,329
Issue of ordinary shares	–	–	263,399	–
Total recognised income and expense	–	–		(39,556)
Actuarial gains and losses	–	–	–	(78)
Movements due to share-based compensation	–	–	–	1,674
Equity dividends	–	–	–	(14,922)
Reserves transfer	–	–	(23,707)	23,707
As at 31 March 2006	**79,043**	**429**	**283,808**	**46,154**

41 Pension funds

The Capital Radio Plc Pension and Assurance Scheme (CRPPAS) is a contributory defined benefit scheme. The scheme was closed to new employees from 31 March 1995. At 31 March 2006, 12 employees of GCap Media plc were active members of these schemes.

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £0.9 million (six months to 31 March 2005: £0.7 million).

This scheme provides benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 1 April 2005 and was updated for FRS 17 purposes to 31 March 2006 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 28.4% of pensionable pay will apply in future years.

As the scheme is closed to new entrants, the service costs as a percentage will increase as members approach retirement.

41 Pension funds continued

The major assumptions used in this valuation were:

	2006	2005	2004
Rate of increase in salaries	**4.00%**	4.50%	4.50%
Rate of increase in pensions in payment and deferred pensions	**3.25%**	3.25%	3.25%
Discount rate applied to scheme liabilities	**4.85%**	5.30%	5.50%
Inflation assumption	**2.90%**	2.75%	2.75%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	31 March 2006 £'000	31 March 2005 £'000	30 September 2004 £'000
Equities	**5,973**	4,461	3,953
Bonds	**5,309**	5,261	3,953
Other	**1,991**	1,716	2,714
Total fair value of assets	**13,273**	11,438	10,620
Present value of scheme liabilities	**(16,055)**	(14,357)	(13,437)
Deficit in the scheme	**(2,782)**	(2,919)	(2,817)
Related deferred tax asset	**835**	876	845
Net pension liability	**(1,947)**	(2,043)	(1,972)

The expected rates of return on the assets in the scheme were:

	Long-term rate of return 2006	Long-term rate of return 2005	Long-term rate of return 2004
Equities	**7.50%**	7.00%	6.50%
Bonds	**4.85%**	4.75%	6.50%
Other	**7.50%**	4.75%	4.75%

Movement in surplus/deficit during the year

	31 March 2006 £'000	31 March 2005 £'000
Deficit in scheme at beginning of year	**(2,919)**	(2,817)
Current service cost	**(187)**	(83)
Contributions paid	**543**	269
Other finance cost	**(94)**	(35)
Loss on settlements/curtailments	**(13)**	(74)
Actuarial loss	**(112)**	(179)
Deficit in the scheme at the end of the year	**(2,782)**	(2,919)

42 Operating leases

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring in less than one year	**–**	**50**	–	20
Expiring between one and five years	**–**	**197**	–	425
Expiring in over five years	**1,472**	**–**	1,472	–
Total	**1,472**	**247**	1,472	445

43 Share-based payments

The profit and loss account includes a charge for share-based payments within personnel costs of £2.4 million (six months ended 31 March 2005: £0.6 million). Please see note 18 for details of the awards and the assumptions used in arriving at the charge.

Company Secretary and advisers for the period

Secretary and Registered Office
Richard Manning
30 Leicester Square
London
WC2H 7LA

Company Registration Number
923454

Solicitors
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One New Change
London EC4M 9QQ

Bankers
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27 Soho Square
London W1D 3QR

Lloyds TSB Bank Plc
25 Gresham Street
London EC2V 7HN

HSBC Bank plc
8 Canada Square
London E14 5HQ

Auditors
KPMG Audit Plc
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London EC4Y 8BB

Stockbrokers
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One Cabot Square
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Bridgewell Ltd
Old Change House
128 Queen Victoria Street
London EC4V 4BJ

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
Sussex
BN99 6DA

Financial record

	IFRS Year ended 31 March 2006 £'m	IFRS Six months to 31 March 2005 £'m	UK GAAP* Year ended 30 September 2004 £'m	UK GAAP* Year ended 30 September 2003 £'m	UK GAAP* Year ended 30 September 2002 £'m
Turnover	**210.7**	58.5	119.9	115.3	120.0
Underlying profit and loss account (1)					
Operating profit	**25.9**	9.8	23.7	22.0	27.9
Operating profit margin	**12.3%**	16.8%	19.8%	19.1%	23.3%
Profit before taxation	**22.8**	8.7	23.7	22.8	27.8
Underlying earnings per share	**17.9p**	8.2p	20.1p	19.3p	23.5p
Statutory profit and loss account					
Operating (loss)/profit	**(56.7)**	7.5	12.6	12.6	15.0
Operating (loss)/profit margin	**(26.9)%**	12.8%	10.5%	10.9%	12.5%
(Loss)/profit before taxation	**(47.9)**	6.5	12.6	13.3	14.6
Basic (loss)/earnings per share	**(23.3)p**	4.9p	7.1p	7.7p	8.8p
Taxation	**13.1**	(2.4)	(6.6)	(6.9)	(7.5)
(Loss)/profit for the financial year	**(34.8)**	4.1	6.0	6.4	7.1
Attributable to parent	**(36.7)**	(4.1)	6.0	6.4	7.1
Minority interest	**(1.9)**	–	–	–	–
Dividends	**(14.9)**	(10.6)	(15.6)	(15.2)	(15.2)
Cash flow					
Net cash inflow from operating activities	**12.8**	7.2	25.5	27.0	30.1

	31 March 2006 £'m	31 March 2005 £'m	30 September 2004 £'m	30 September 2003 £'m	30 September 2002 £'m
Balance sheet					
Fixed assets	**523.3**	179.8	180.0	174.6	183.7
Current assets	**46.4**	23.1	22.0	21.0	20.1
Total assets	**569.7**	202.9	202.0	195.6	203.8
Creditors: due within one year	**(39.5)**	(60.7)	(45.9)	(63.3)	(62.9)
Total assets less current liabilities	**530.2**	142.2	156.1	132.3	140.9
Creditors: due after more than one year	**(177.9)**	(5.9)	(20.0)	–	–
Net assets	**352.3**	136.3	136.1	132.3	140.9
Net debt	**(75.9)**	(34.9)	(27.0)	(27.6)	(29.0)
Share information					
Dividends per share **pence**	**9.25**	6.00	18.50	18.50	18.50
Dividend cover **times**	**0.8**	1.5	1.1	1.0	1.3
Shares in issue **million**	**164.8**	85.5	85.4	83.0	82.2
Share price during year **£** High	**4.03**	4.40	5.64	5.90	8.48
Low	**2.26**	3.90	3.98	3.58	4.53
Share price **£**	**2.29**	4.04	4.11	4.73	4.90
Market capitalisation **£ million**	**377**	345	351	392	403
Average employee numbers	**1,502**	683	677	662	687

The financial information set out above has been prepared in accordance with the accounting policies set out on pages 66 and 70.

(1) Underlying results exclude goodwill amortisation and separately disclosed items. This presentation is used to provide a normalised picture of the Group's earnings, making year-on-year comparisons more valid.

* The main adjustments required to align these results with IFRS would be the inclusion of share-based payments and accounting for defined benefit pension schemes in accordance with IAS 19. The inclusion of share-based payments would increase expenses and hence reduce operating profit, while accounting for defined benefit pension schemes would reduce net assets by the scheme deficit. Amortisation would not have been charged on goodwill therefore increasing profit after tax (and increasing net assets) whist dividends would not have been recognised until approved by the Board (thereby increasing net assets).

Shareholder information

Analysis of Ordinary Shareholders at 24 May 2006

	Number of accounts	% of total accounts	Shares	% of Ordinary Shares
Holding of				
Up to 1,000 shares	3,055	67.53	1,300,430	0.79
1,001 to 5,000 shares	922	20.38	2,010,042	1.22
5,001 to 10,000 shares	150	3.32	1,096,971	0.67
10,001 to 1,000,000 shares	371	8.20	45,370,066	27.52
Over 1,000,000 shares	26	0.57	115,071,498	69.80
Totals	**4,524**	**100.00**	**164,849,007**	**100.00**
Held by				
Banks and nominee companies	707	15.62	125,122,295	75.90
Institutions	122	2.70	32,956,063	19.99
Private individuals	3,695	81.68	6,770,649	4.11
Totals	**4,524**	**100.00**	**164,849,007**	**100.00**

Holders of Ordinary Shares

Registrar:

The Company's Registrar is Lloyds TSB Registrars and all correspondence regarding Ordinary Shares should be sent to the address shown on page 106.

Dividends:

The record date for the proposed interim dividend, payable on 28 July 2006, is 7 July 2006 and the shares will trade ex-dividend on the London Stock Exchange from 5 July 2006.

Capital Radio plc loan notes

Capital Radio plc loan notes amounting to £1,520,000 were redeemed by the Company on 17 May 2005. The loan notes were issued in June and August 2000 over a five-year term. Interest was paid six-monthly in arrears at 1% below London Inter-Bank Offered Rates.

Notice of Annual General Meeting

Notice is hereby given that the 33rd Annual General Meeting of the members of GCap Media plc (the ‘Company’) will be held on Monday 24 July 2006 at the offices of Allen & Overy LLP, One New Change, London EC4M 9QQ at 2.30pm for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass resolutions 1-9 (inclusive) which will be proposed as Ordinary Resolutions of the Company:

1. To receive and adopt the annual accounts for the financial year 1 April 2005 to 31 March 2006 and the associated reports of the Directors and Auditors.

2. To approve the Directors’ Remuneration Report for the financial year 1 April 2005 to 31 March 2006.

3. To approve the payment of a final dividend of 6.15p per Ordinary Share recommended by the Directors.

4. To re-elect as a Director Wendy Pallot who retires by rotation under the provisions of the Articles of Association.

5. To re-elect as a Director Patricia Hodgson who retires by rotation under the provisions of the Articles of Association.

6. To re-elect as a Director Peter W Williams who retires by rotation under the provisions of the Articles of Association.

7. To elect as a Director Steve Orchard who having been appointed by the Board since the last Annual General Meeting retires in accordance with the Articles of Association.

8. That KPMG Audit Plc be and are hereby appointed as the Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

9. That the Directors be and are hereby authorised to determine the remuneration of the Auditors of the Company.

SPECIAL BUSINESS

To consider and, if thought fit, pass the resolutions set out below of which resolutions 10 and 11 will be proposed as Ordinary Resolutions and resolutions 12 and 13 will be proposed as Special Resolutions of the Company. Please see the explanatory note at Appendix 1 of this notice in relation to resolution 11.

Ordinary Resolutions

10. That:

    (i) for the purposes of section 80 of the Companies Act 1985 (‘the Act’), the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to a maximum nominal amount of £878,774, such authority to expire on 24 October 2007 (unless previously renewed, varied or revoked by the Company in general meeting);

    (ii) the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement; and

    (iii) this authority shall replace all existing authorities conferred on the Directors in respect of the allotment of relevant securities to the extent that the same have not been previously utilised.

11. That the amendments to the Capital Radio Savings-Related Share Option Scheme adopted by resolution of the Company on 11 January 1995 with authority renewed by resolution of the Company on 25 January 2005 (the ‘SAYE Scheme’), such amendments having the effect of:

    (i) amending the name of the SAYE Scheme to the GCAP Media Plc Savings-Related Share Option Scheme (formerly the Capital Radio Savings-Related Share Option Scheme); and

    (ii) reducing the qualifying period of employment for compulsory eligibility in the SAYE Scheme from 12 months to six months; but

    (iii) including a discretion for the Directors to allow persons who do not meet such eligibility criteria to be eligible in the SAYE Scheme; and

    (iv) making small housekeeping changes to the rules of the SAYE Scheme,

(in each case shown in blackline in a version of the rules of the SAYE Scheme currently on display at the Company’s registered office) be and are hereby adopted by the Company, but shall not take effect unless and until they are approved by HM Revenue & Customs.

Special Resolutions

12. That:

(i) subject to and conditional upon the passing of resolution number 10 set out in the Notice of Annual General Meeting dated 23 June 2006 (the 'section 80 resolution'), the Directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by the section 80 resolution (or any renewal thereof) as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities, whether by way of rights issue, open offer or otherwise, to ordinary shareholders and holders of any other shares or securities of the Company that by their terms are entitled to participate in such rights issue, open offer or otherwise where the equity securities respectively attributable to the interests of all ordinary shareholders and such holders of other shares or securities are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them or into which their shares or securities are to be deemed converted in calculating the extent of their participation but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or stock exchange in, any territory; and

(b) to the allotment of equity securities for cash (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value of £206,061;

(ii) this power expires at the conclusion of the next Annual General Meeting following the date of this resolution or 24 October 2007, whichever is the earlier, (unless previously renewed, varied or revoked by the Company in General Meeting);

(iii) this power shall enable the Company to make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of any such offer or agreement; and

(iv) this power shall replace all existing powers granted to the Directors to allot equity securities as if the said section 89(1) of the Act did not apply to the extent that the same have not been previously utilised.

13. That, pursuant to Article 9 of the Company's Articles of Association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Act) of Ordinary Shares of 2.5p each ('Ordinary Shares') in the capital of the Company provided that:

(i) the maximum number of Ordinary Shares authorised to be purchased is 16,484,900;

(ii) the minimum price which may be paid for each Ordinary Share is 2.5p exclusive of expenses;

(iii) the maximum price which may be paid for each Ordinary Share is the higher of:

(a) an amount equal to 105% of the average closing middle-market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day of purchase; and

(b) from 1 July 2005, an amount equal to the highest of the last independent trade and the highest current independent bid as derived from the Stock Exchange Trading System ('SETS');

(iv) this authority expires at the conclusion of the next Annual General Meeting following the date of this resolution or 24 January 2008, whichever is the earlier; and

(v) the Company may make a contract to purchase Ordinary Shares prior to the expiry of this authority which will or may be executed wholly or partly after the expiry of such authority and the Company may make purchases of Ordinary Shares in pursuance of any such contract.

By order of the Board

Richard Manning
Company Secretary

30 Leicester Square
London WC2H 7LA

23 June 2006

NOTES

1. A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. To be effective the accompanying Form of Proxy should be lodged together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified or office copy of such power or authority) at the registered office of the Company not later than 48 hours before the time fixed for the Meeting or adjourned meeting. Completion and return of the Form of Proxy will not affect the right of a member to attend and vote in person at the Meeting.

2. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members registered in the register of members of the Company as at 6.00pm two days before the AGM shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the Meeting.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on Monday 24 July 2006 and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST-sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Lloyds TSB Registrars (ID 7RA01) by no later than 2.30pm on Saturday 22 July 2006. No message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which our registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid CREST Proxy instructions in the circumstances set out in Regulation 35(S)(a) of the Uncertificated Securities Regulations 2001.

4. Copies of the Directors' service contracts with the Company and the rules of the SAYE Scheme will be available for inspection at the registered office of the Company during normal business hours on any weekday (public holidays excluded) from the date of this notice until the date of the Annual General Meeting itself and will be available for inspection at the Meeting and for a period of 15 minutes before it commences. The register of Directors' share interests is available for inspection at the registered office of the Company during normal business hours on any weekday (public holidays excluded).

Appendix to Notice of Annual General Meeting

Explanatory information in relation to Resolution 11: SAYE Scheme

1. The amendments to the rules of the SAYE Scheme are shown in blackline in a version of the rules which is currently on display at the Company's registered office. See paragraph 4 of the notes on page 111 for further information.

2. The change of name of the SAYE Scheme is to reflect the Company's change of name from "Capital Radio plc" to "GCAP Media plc" on 9 May 2005. This amendment is of no substantive effect.

3. The reasons for the reduction in the length of the qualifying period of employment for compulsory eligibility in the SAYE Scheme are two-fold:

   (i) to more closely align the Company's all-employee incentive policy with current market practice; and

   (ii) to entitle a greater number of the group's employees and full-time directors to qualify for compulsory eligibility in the SAYE Scheme, thereby widening the maximum potential take-up of the SAYE Scheme across the Group.

4. A Directors' discretion to allow those outside of the compulsory eligibility criteria to participate in the SAYE Scheme has been added to allow the SAYE Scheme to be operated more flexibly. For example, it would permit the Directors to allow an employee or full-time director to participate even though they had been employed for less than six months or where their tax position is such that they would not benefit from the advantageous tax/National Insurance contributions treatment afforded to option schemes of this type, but where, it is wished to allow such person to participate in the same equity related benefits enjoyed by their colleagues.

5. Both of the amendments referred to in paragraphs 3 and 4 above are contained in the definition of "Eligible Employee" which appears in Rule 1(A) of the rules of the SAYE Scheme.

6. The other amendments to the rules of the SAYE Scheme are for housekeeping purposes and have no substantive effect, save for the amendment to Rule 10(C) in relation to schemes of arrangement/compromise, so that the exercise trigger in that Rule matches the point at which the scheme of arrangement/compromise would take effect under the relevant Company Law provisions.

Glossary of terms

DRDB

The Digital Radio Development Bureau

RAJAR – Radio Joint Audience Research

RAJAR is a company specifically established to manage the UK's agreed system of radio audience measurement. It is jointly owned by the RadioCentre (on behalf of commercial radio companies) and by the BBC.

Reach – Weekly

The number in thousands or as a percentage of the UK/area population who listen to a station for at least five minutes in the course of an average week.

Share of Listening

The percentage of total listening time accounted for by a station either in the UK or a particular area.

Total Hours

Total amount of time spent listening to a given station by all individuals who listen to it in an average week.

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