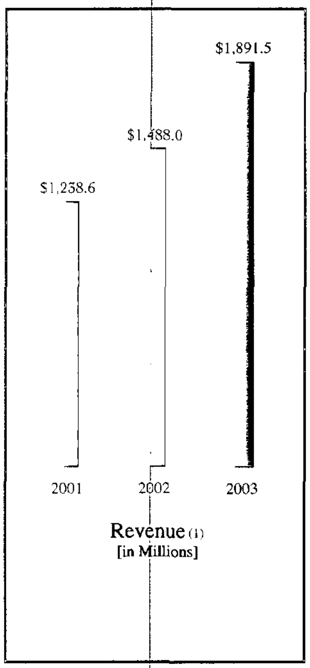
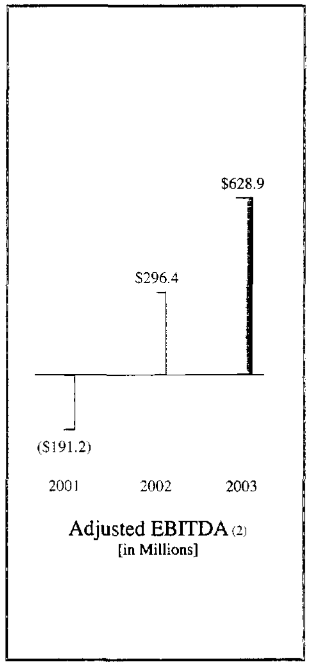
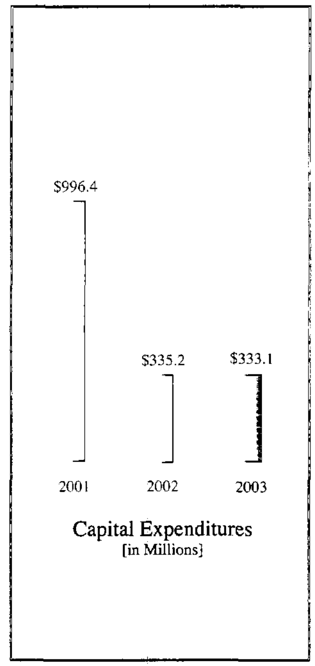
UNITEDGLOBALCOM

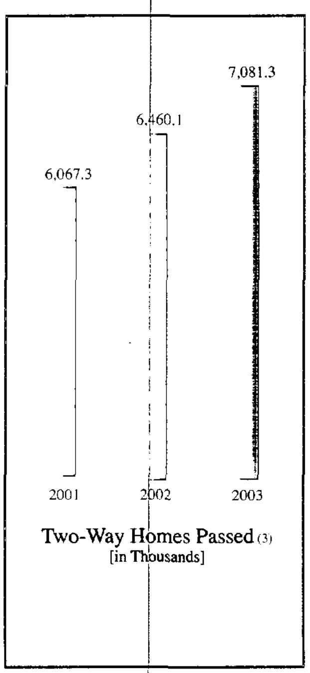
2003 Annual Report

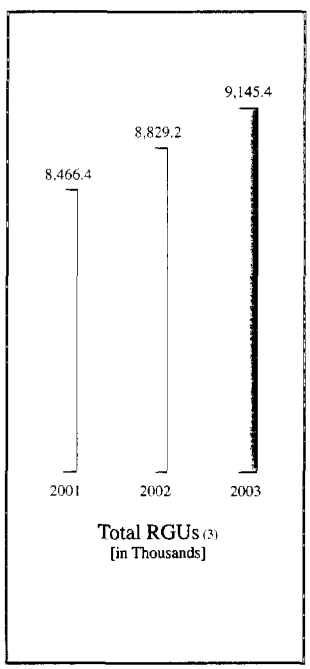
Financial & Operating Highlights

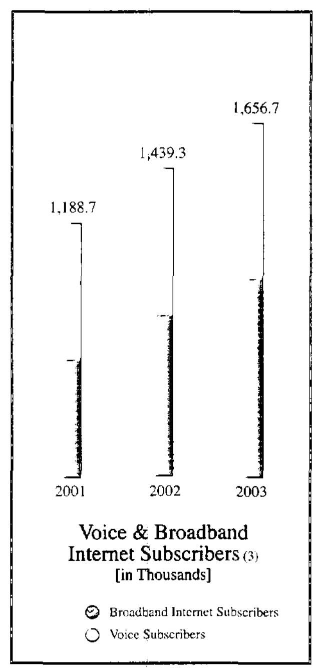












(1) Revenue from Ongoing Operations only, which excludes all disposed, deconsolidated & closed operations.

(2) Please refer to page 28 for a definition and page F-41 for a reconciliation with net income (loss).

(3) Please refer to page 5 for a definition of Two-Way Homes Passed, Revenue Generating Unit (RGU) and Voice & Broadband Internet Subscribers.

Letter To Shareholders

Dear Shareholders,

The last 18 months have been transformational for UnitedGlobalCom. We completed a three-year restructuring phase that has transformed our balance sheet into one of the strongest in our industry. We have taken important steps to simplify our corporate and organizational structure. And all the while, our operations have been producing record results.

Our 2003 performance was strong across the board, and this positive momentum has carried over into 2004. Last year we added over 300,000 video, voice and broadband Internet subscribers to our worldwide customer base that, including the robust customer growth during the first half of this year, now exceeds 9.3 million total revenue generating units (RGUs) across 14 countries.

In fiscal 2003, our revenue increased 25% to $1.9 billion, while Adjusted EBITDA, our key measure of profitability, rose 112% to $629 million. We also generated positive free cash flow for the first time in the Company's history - a $1.7 billion improvement compared to fiscal 2001.

During the first six months of this year, we successfully raised $1.6 billion of new capital, which positions us to take advantage of significant investment opportunities within our existing business. We are actively deploying new products with exciting growth potential – including new tiers of high-speed Internet access service, new Voice Over Internet Protocol (VOIP) telephony services, and new digital and interactive television services across our state-of-the-art broadband networks. We are also well positioned to selectively participate in the consolidation of the fragmented European cable industry. We recently completed the purchase of the Paris cable system and, as a result, we are now the largest cable operator in France with 2.3 million RGUs. We will pursue additional acquisition opportunities with a disciplined focus to ensure a strong strategic, financial, and operational fit with our existing businesses.

Our efforts have not gone unnoticed by the financial markets. Our stock price is up nearly 300% from January 1, 2003, and we remain committed to maximizing shareholder value over the long term. We believe the Company is well positioned strategically and financially to capitalize on the exciting growth opportunities ahead.

We appreciate your continued support.

Sincerely,

Gene W. Schneider
Chairman of the Board

Michael T. Fries
President and Chief Executive Officer

September 15, 2004

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BUSINESS

The information contained in this portion of the Annual Report is derived from, and should be read together with, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 15, 2004. Certain information in this portion of the Annual Report has been updated for events occurring after March 15, 2004.

We are the largest international broadband communications provider of video, voice and Internet services with operations in 14 countries outside the United States. Our networks reach approximately 12.3 million homes and serve approximately 7.5 million video subscribers, 733,000 voice subscribers and 923,700 Internet access subscribers. UGC Europe, Inc. (together with its subsidiaries "UGC Europe"), our largest consolidated operation, is a leading pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. UGC Europe's operations are currently organized into two principal divisions – UPC Broadband and chellomedia. UPC Broadband delivers video, high-speed Internet access and telephone services to residential customers. chellomedia provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates our digital media center and operates a competitive local exchange carrier ("CLEC") business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Our primary Latin American operation, VTR GlobalCom S.A., ("VTR") is Chile's largest multi-channel television and high-speed Internet access provider in terms of homes passed and number of subscribers, and Chile's second largest provider of residential telephone services, in terms of lines in service. We also have an approximate 19% interest in SBS Broadcasting S.A. ("SBS"), a European commercial television and radio broadcasting company, and an approximate 34% interest in Austar United Communications Ltd. ("Austar United"), a leading pay-TV provider in Australia.

UnitedGlobalCom, Inc. (together with its subsidiaries the "Company", "UGC", "we", "us", "our" or similar terms) was formed in February 2001 as part of a series of planned transactions with Old UGC, Inc. ("Old UGC", formerly known as UGC Holdings, Inc., now our wholly owned subsidiary) and Liberty Media Corporation (together with its subsidiaries and affiliates "Liberty"), which restructured and recapitalized our business. Old UGC has operated international broadband communications companies since 1989.

Broadband Services

We offer a variety of services over our cable networks, including analog video, digital video, high-speed Internet access and telephone services. Available service offerings depend on the bandwidth capacity of our cable networks. As bandwidth increases, the information-carrying capacity of the system increases. When we upgrade our network, we replace parts of the coaxial cable with fiber optic lines and upgrade the remaining coaxial cable to provide for two-way transmission and increase transmission speed and bandwidth. This upgrading allows signals to be sent to and from the subscriber's home, enabling us to provide enhanced video, telephone, and Internet access services. As of December 31, 2003, approximately 58% of our network is capable of handling two-way communications.

We plan to continue increasing our growth in average revenue per subscriber, commonly known as "ARPU", through rate increases for our video services, migrating more customers to our digital offerings, which include premium programming and enhanced pay-per-view services, and increasing penetration in higher ARPU services such as high-speed Internet access and telephone services. We receive the majority of our revenues from subscription services. Subscribers typically pay us on a monthly basis and generally may discontinue services at any time (subject to a notice period that varies by country and other contractual restrictions). Monthly subscription rates and related charges vary according to the type of service selected and the type of equipment used by subscribers.

Analog Video Services

We offer a full range of analog video services. We tailor both our basic channel line-up and our additional channel offerings to each system according to culture, demographics, programming preferences and local regulation. Our analog video service offerings vary by country, but generally include the following:

- Basic programming. Our basic cable service typically consists of between 10-30 channels of programming (with the exception of Chile, where over 50 channels of basic programming are provided). This service generally consists of programming provided by national television networks, local broadcast television stations, locally originated programming, including governmental and public access, and limited satellite-delivered programming. In some countries we have a lifeline service, representing the lowest regulated tier of video services, with only a few channels.

- Expanded basic programming. Our expanded basic cable service, which may vary in size depending on the system's channel capacity, generally includes from 5 to 15 satellite-delivered or non-broadcast channels in addition to the basic channel line-up.

Some of our subscribers in Eastern Europe and Chile receive our video services broadcast directly to the home via geosynchronous satellites, commonly known as "DTH".

Digital Cable Services

Digital compression technology enables us to substantially increase the number of channels our cable systems can carry, thereby providing a significant number of additional programming choices to our subscribers, such as near video-on-demand and video-on-demand, commonly known as "NVOD" and "VOD", interactive television and customizable programming guides. At the home, a set-top video terminal often referred to as a "digital set-top box," converts the digital signal into analog signals that can be viewed on a television set. Subscribers typically pay us on a monthly basis for digital cable services and generally may discontinue services at any time. Monthly rates vary generally according to the level of service and the number of digital set-top boxes selected by the subscriber. Our digital service offerings vary by country, but generally include:

- Basic services. Our digital basic package generally includes over 50 channels of programming in various genres.
- Premium services. Our premium services generally offer, without commercial interruption, movies, live and taped sporting events, concerts and other special features. The charge for premium services depends upon the type and number of premium channels selected by the subscriber.
- Pay-per-view programming. Our pay-per-view service permits our subscribers to order, for a separate fee, movies and special event programs, such as professional sports and concerts on an unedited, commercial-free basis.

High-Speed Internet Services

We offer Internet services in ten countries in Europe and four in Latin America. Residential subscribers can access the Internet via cable modems connected to their personal computers at faster speeds than that of conventional modems. Our product offerings, (branded chello in Europe and Banda Ancha in Chile), include several tiers of always on, unlimited-use services, from 64 Kbps of access speed to 5 Mbps (high). Pricing for each different tier of service is determined by speed, data limits and other features.

Telephone Services

We offer telephone services in six countries in Europe and Chile. In addition to basic dial tone service, we offer a full complement of services to subscribers including caller identification, call waiting, call forwarding, call blocking, speed dial, distinctive ringing, three-way calling, voice mail and second lines.

Operating Data

The following tables present certain subscriber data for systems we control and consolidate the results of operations in our financial statements:

	December 31, 2003											
						Video			Internet		Telephone	
	Homes in Service Area	Homes Passed	Two-way Homes Passed	Customer Relationships	Total RGUs	Analog Cable Subscribers	DTH Subscribers	Digital Cable Subscribers	Homes Serviceable	Subscribers	Homes Serviceable	Subscribers
	(1)	(2)(14)	(3)(14)	(4)(13)(15)	(5)(15)	(6)(15)	(7)	(8)	(9)(14)	(10)	(11)	(12)
Europe:												
The Netherlands	2,651,300	2,603,000	2,372,500	2,308,000	2,837,100	2,303,800	-	50,400	2,372,500	324,300	1,605,900	158,600
Austria	1,081,400	923,300	920,100	567,300	881,700	497,300	-	24,700	920,100	205,800	899,700	153,900
France	2,656,600	1,384,600	695,000	500,100	558,200	467,100	-	6,500	695,000	26,200	695,000	58,400
Norway	529,000	484,400	221,700	340,600	434,500	340,600	-	33,300	221,700	37,000	141,700	23,600
Sweden	770,000	421,600	271,300	281,700	374,600	281,700	-	24,300	271,300	68,600	-	-
Belgium	530,000	154,200	154,200	144,200	159,200	131,800	-	-	154,200	27,400	-	-
Total Western Europe	8,218,300	5,971,100	4,634,800	4,141,900	5,245,300	4,022,300	-	139,200	4,634,800	689,300	3,342,300	394,500
Poland	1,875,300	1,875,300	400,900	988,900	1,021,500	988,900	-	-	400,900	32,600	-	-
Hungary	1,170,400	986,100	600,600	851,600	917,300	708,200	103,000	-	568,400	41,300	87,200	64,800
Czech Republic	913,000	720,900	287,500	386,400	404,400	299,900	76,700	-	287,500	25,400	17,700	2,400
Romania	659,600	458,400	-	333,300	333,300	333,300	-	-	-	-	-	-
Slovak Republic	517,800	399,800	80,200	296,300	298,400	283,800	12,100	-	76,100	2,500	-	-
Total Central and Eastern Europe	5,136,100	4,440,500	1,369,200	2,856,500	2,974,900	2,614,100	191,800	-	1,332,900	101,800	104,900	67,200
Total Europe	13,354,400	10,411,600	6,004,000	6,998,400	8,220,200	6,636,400	191,800	139,200	5,967,700	791,100	3,447,200	461,700
Latin America:												
Chile	2,350,000	1,765,400	1,030,700	596,100	894,000	488,000	5,500	-	1,030,700	129,200	1,020,600	271,300
Brazil	650,000	16,300	16,300	16,200	16,200	9,000	-	6,500	16,300	700	-	-
Peru	140,000	66,800	30,300	13,600	15,000	12,300	-	-	30,300	2,700	-	-
Total Latin America	3,140,000	1,848,500	1,077,300	625,900	925,200	509,300	5,500	6,500	1,077,300	132,600	1,020,600	271,300
Grand Total	16,494,400	12,260,100	7,081,300	7,624,300	9,145,400	7,145,700	197,300	145,700	7,045,000	923,700	4,467,800	733,000

	December 31, 2002											
					Video			Internet		Telephone		
	Homes in Service Area	Homes Passed	Two-way Homes Passed	Total RGUs	Analog Cable Subscribers	DTH Subscribers	Digital Cable Subscribers	Homes Serviceable	Subscribers	Homes Serviceable	Subscribers
	(1)	(2)(14)	(3)(14)	(5)(15)	(6)(15)	(7)	(8)	(9)(14)	(10)	(11)	(12)
Europe:											
The Netherlands	2,650,700	2,580,300	2,332,000	2,849,000	2,323,200	–	52,200	2,332,000	303,600	1,587,900	170,000
Austria	1,081,400	923,300	920,100	847,100	502,200	–	18,700	920,100	177,600	899,700	148,600
France	2,656,600	1,350,200	661,600	542,700	459,800	–	8,300	661,600	20,400	661,600	54,200
Norway	529,000	481,700	190,700	421,600	336,400	–	32,200	190,700	31,200	132,400	21,800
Sweden	770,000	421,600	257,400	349,600	273,000	–	14,900	257,400	61,700	–	–
Belgium	530,000	153,500	153,500	154,600	130,500	–	–	153,500	24,100	–	–
Total Western Europe	8,217,700	5,910,600	4,515,300	5,164,600	4,025,100	–	126,300	4,515,300	618,600	3,281,600	394,600
Poland	1,869,000	1,869,000	190,800	1,008,800	994,900	–	–	190,800	13,900	–	–
Hungary	1,001,100	952,800	481,800	859,300	686,900	79,100	–	420,200	28,200	84,900	65,100
Czech Republic	913,000	678,100	238,300	365,800	295,400	52,000	–	238,300	15,300	17,700	3,100
Romania	659,600	458,400	–	324,100	324,100	–	–	–	–	–	–
Slovak Republic	517,800	381,000	17,300	307,300	297,400	9,900	–	–	–	–	–
Total Central and Eastern Europe	4,960,500	4,339,300	928,200	2,865,300	2,598,700	141,000	–	849,300	57,400	102,600	68,200
Total Europe	13,178,200	10,249,900	5,443,500	8,029,900	6,623,800	141,000	126,300	5,364,600	676,000	3,384,200	462,800
Latin America:											
Chile	2,350,000	1,705,500	971,200	767,900	462,600	6,900	–	958,100	70,300	971,200	228,100
Brazil	650,000	16,300	16,300	18,000	8,800	–	8,900	16,300	300	–	–
Peru	140,000	66,600	29,100	13,400	11,600	–	–	29,100	1,800	–	–
Total Latin America	3,140,000	1,788,400	1,016,600	799,300	483,000	6,900	8,900	1,003,500	72,400	971,200	228,100
Grand Total	16,318,200	12,038,300	6,460,100	8,829,200	7,106,800	147,900	135,200	6,368,100	748,400	4,355,400	690,900

(1) "Homes in Service Area" are homes that can potentially be served in the areas we operate, based on census data and other market information.

(2) "Homes Passed" are homes that can be connected to our broadband network without further extending the distribution plant.

(3) "Two-way Homes Passed" are homes passed by our network where customers can request and receive the installation of a two-way addressable set-top computer, cable modem, transceiver and/or voice port which, in most cases, allows for the provision of video, telephone and broadband Internet services.

(4) "Customer Relationships" are the number of customers who receive at least one level of service (video/telephone/ broadband Internet) without regard to which service(s) they subscribe.

(5) "Revenue Generating Unit" is separately an Analog Cable Subscriber, DTH Subscriber, Digital Cable Subscriber, Broadband Internet Subscriber or Telephone Subscriber. A home may contain one or more RGUs. For example, if a residential customer in our Austrian system subscribed to our analog cable service, digital cable service, telephone service and high-speed broadband Internet access service, the customer would constitute four RGUs. "Total RGUs" is the sum of Analog, DTH, Digital Cable, Broadband Internet and Telephone Subscribers.

(6) "Analog Cable Subscriber" is comprised of basic analog customers and lifeline customers that are counted on a per connection basis. The lifeline tier is the least expensive regulated tier of our video services, containing only a few channels. Commercial contracts such as hotels and hospitals are counted on an equivalent bulk unit ("EBU") basis. EBU is calculated by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. Non-paying subscribers are counted as subscribers during their free promotional or service period. Some of these customers may choose to disconnect after their free service period.

(7) "DTH Subscriber" is a home or commercial unit that receives our video programming broadcast directly to the home via geosynchronous satellites.

(8) "Digital Cable Subscriber" is a home or commercial unit connected to our distribution network with one or more digital converter boxes that receives our digital video service. A Digital Cable Subscriber is also counted as an Analog Cable Subscriber.

(9) "Broadband Internet Homes Serviceable" are homes that can be connected to our broadband network where customers can request and receive broadband Internet access services.

(10) "Broadband Internet Subscriber" is a home or commercial unit with one or more cable modems connected to our broadband network, where a customer has requested and is receiving high-speed broadband Internet access services.

(11) "Telephone Homes Serviceable" are homes that can be connected to our broadband network (or twisted pair network in Hungary), where customers can request and receive voice services.

(12) "Telephone Subscriber" is a home or commercial unit connected to our broadband network (or twisted pair network in Hungary), where a customer has requested and is receiving voice services.

(13) The December 31, 2003 and 2002 numbers have been restated to conform to the current methodology. In 2003 and 2002, certain analog cable customers in The Netherlands that also received our broadband Internet services were counted as two separate customer relationships, due to the nature of our billing arrangement (cable through the local utility company and broadband Internet directly by UGC Europe). We now count customers in this situation as one customer relationship.

(14) Included in analog cable subscribers are multi-channel multi-point distribution system ("MMDS") subscribers that receive our video service through microwave transmissions and are not part of our wireline network. Total MMDS subscribers represent less than 1% of our total analog video subscriber base. In 2003 and 2002, we counted nil homes passed for MMDS subscribers in Chile and one home passed for every line-of-sight home in Brazil. We now count one home passed for every MMDS customer. The December 31, 2003 and 2002 numbers have been restated to conform to the current methodology.

(15) In 2003 and 2002, we inadvertently counted certain commercial contracts in the Netherlands on a per connection basis. We now count these commercial contracts on an EBU basis. The December 31, 2003 and 2002 numbers have been restated to conform to the current methodology.

Broadband Services by Country

The Netherlands

We operate the largest cable network in The Netherlands in terms of number of subscribers. We provide services to over 30% of Dutch households. Our subscribers are located in six regional clusters, including the major cities of Amsterdam and Rotterdam. Our network is approximately 91% upgraded to two-way capability, with approximately 94% of our cable subscribers served by a system with a bandwidth of at least 860 MHz.

We offer analog television services to approximately 91% of the households in our footprint. We launched digital cable service in 1999, and approximately 82% of our homes passed are capable of receiving digital television. We offer our digital cable subscribers a basic package of 58 channels with an option for 15 additional general entertainment, movie, sports, music and ethnic channels or packages and an electronic program guide. Our digital cable service offers NVOD services, interactive services and is capable of emailing via the television to 57% of our homes passed.

We offer five tiers of high-speed Internet access service under the brand name chello, with download speeds ranging from 128 Kbps to 4.6 Mbps. chello starter, chello entry, chello light, chello classic and chello plus offer download speeds of 128 Kbps, 400 Kbps, 1.0 Mbps, 2.6 Mbps and 4.6 Mbps, respectively.

We launched telephone services in 1998, and are capable of providing multi-feature services to approximately 62% of the homes in our networks. We offer several extra telephone features such as voice mail and wake up service. During 2004, we plan to begin offering telephone services to our two-way upgraded homes by applying IP-based technology.

In September 2003, we began offering incentives to customers who subscribe to more than one service other than the basic analog subscription. Bundles consist of two or more combinations of our three main services—digital cable, high-speed Internet access and telephone service, and their variants. During 2004, we plan to offer a variety of up to ten bundles. The incentives we provide to our subscribers vary from a monthly recurring discount to 30 free call minutes or a free NVOD movie.

In 2004, we launched self-install for all of our Internet access services which allows subscribers to install themselves and save money on the installation fee. We also plan to launch self-install for our digital cable and telephone services during 2004. Currently 50% of our new chello Internet access subscribers have chosen to self-install their new service.

Austria

We own and operate the largest cable television system in Austria in terms of number of homes passed and number of subscribers. Our subscribers are located in regional clusters encompassing the capital city of Vienna, two other regional capitals and two smaller cities. Each of the respective cities in which we operate owns, directly or indirectly, 5% of our operating company. Our network in Austria is over 99% upgraded to two-way capability, with 97% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz. Our system that serves Vienna operates one of the largest clusters of cable systems in Europe in terms of subscribers served from a single headend.

We provide a single offering for analog TV that consists of 34 channels, mostly in the German language. We initially launched an expanded basic tier of analog TV and a pay-per-view service in 1997. This was replaced in the second half of 2001 when we launched digital video services in Austria. Our digital platform is one of the most sophisticated in Europe, offering more than 100 regular and premium TV channels, plus NVOD, interactive services, e-mail functionality and an electronic program guide. Later in 2004 we plan to offer subscription video-on-demand, or "SVOD", and true-video-on-demand, commonly known as "TVOD". Our premium content includes first run movies, as well as specific ethnic offerings, for example Serb and Turkish channels.

High-speed Internet access services were launched in 1997 and we currently offer five tiers of service to subscribers under the chello brand, in all the cities in our footprint. Download speeds for these tiers range from 256 Kbps to 2 Mbps. Most of our Internet access subscribers use services with a transfer speed of 1.024 Mbps download and 128 Kbps upload, branded chello classic. We started to diversify our Internet access services by launching chello plus (premium tier with 1.536 Mbps download speed) in Q2 2001 and launched chello light (lower tier) in late 2003. We also provide a chello professional product to small office/home office, or "SOHO", subscribers and a chello student product to university students. Approximately 32% of our cable subscribers also receive Internet access service, representing approximately 90% of our Internet access subscribers in Austria.

Telephone services were launched in 1998 and we are technically capable of providing multi-feature telephone lines to the vast majority of our residential subscribers. We offer basic dial tone service as well as several value-added services, including voice mail, caller ID, speed dial, wake-up service, call waiting, call forwarding, local bill detail, access control service, and unlisted number, some of which are provided as part of the normal monthly line rental charge. We primarily provide service to residential customers who require one or two telephone lines. We also have cooperation with the third largest mobile phone operator in Austria to offer a bundled product of fixed line and mobile telephone services under the brand "Take Two". More than 100,000 of our customers subscribe to this product.

In 2001 we introduced bundled services and have focused on selling product bundles rather than individual services since then. Currently we have a ratio of approximately 1.5 services per subscriber. Our product offering, market communication and sales structure are based on promoting product bundles.

France

We are one of the largest cable television providers in France in terms of homes passed and number of subscribers. Our major operations are located in suburban Paris, the Marne la Vallee area east of Paris and Lyon, with our other operations spread throughout France. Our network is approximately 50% upgraded to two-way capability, with 83% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz. In 2003 we launched a new digital TV platform throughout 90% of our homes passed. This platform offers two basic packages—63 channels and 78 channels (including set-top-box rental). Programming includes series, general entertainment, youth, sports, news, documentary, music, lifestyle and foreign channels. With the expanded basic tier, we provide three movie premium packs, a pay-per-view service, two "a la carte" channels and several Canal+ channels. We intend to migrate most of our analog subscribers to this new digital tier. Approximately 29% of our analog cable subscribers subscribe to a bundled service (telephone and/or Internet).

High-speed Internet access service is available to 53% of our homes passed on two tiers, with an additional two tiers planned for launch. We launched a chello light service in June 2003, with download speeds at 128 Kbps. We increased the speed of our chello classic service from 512 Kbps to 768 Kbps in November 2003, and plan to increase the speed to 1 Mbps in mid 2004. Approximately 75% of all our Internet subscribers also subscribe to another service (video and/or telephone).

We launched telephony services to selected areas of our network in 1998. We are capable of providing multi-feature telephone service to 50% of our homes passed. Local number portability was introduced in 2003, which allows subscribers to change to our network and retain their current telephone number. Approximately 63% of our telephone customers subscribe to a bundled service (video and/or Internet).

On July 1, 2004, we acquired 100% of Suez-Lyonnaise Télécom SA ("Noos"), from Suez SA ("Suez"). Noos is the largest provider of digital and analog cable television services in France and a leading provider of high-speed Internet access services in France. We purchased Noos to achieve certain financial, operational and strategic benefits through the integration of Noos with our French operations and the creation of a platform for further growth and innovation in Paris and our remaining French systems. The purchase price for Noos was approximately €615 ($744) million, consisting of €530 million in cash and a 19.9% equity interest in our combined French operations, UPC Broadband France, valued at approximately €85 million. As of June 30, 2004, we have incurred approximately €8.0 million in acquisition costs. We will account for this acquisition using the purchase method of accounting.

Suez' approximate 19.9% interest in UPC Broadband France consists of 85.0 million shares of Class B common stock of UPC Broadband France (the "Class B Shares"). Subject to the terms of a call option agreement, during the first twelve months following the purchase of Noos by UPC France Holding BV ("UPC France"), UPC France may purchase from Suez all of the Class B Shares for €85.0 million plus interest. The purchase price for the Class B Shares may be paid in cash, our Class A common stock or Series A common stock of LMI. Subject to the terms of a put option, Suez may require UPC France to purchase the Class B Shares at specific times prior to or after the third, fourth or fifth anniversaries of the purchase date. UPC France will be required to pay the then fair market value, payable in cash or marketable securities, for the Class B Shares or assist Suez in obtaining an offer to purchase the Class B Shares. UPC France also has the option to purchase the Class B Shares from Suez shortly after the third, fourth or fifth anniversaries of the purchase date at the then fair market value in cash or marketable securities.

Norway

We are Norway's second largest cable television operator in terms of number of subscribers. Our main network is located in Oslo and our other systems are located primarily in the southeast and along the southwestern coast. Our network in Norway is approximately

46% upgraded to two-way capability, with 30% of our cable subscribers served by a system with a bandwidth capacity of at least 860 MHz. Digital TV services were launched in 2001 and 37% of our network is digital TV ready.

Our basic analog cable package is the plus-package with 23 channels in various genres. In addition to the plus-package, customers can subscribe to pairs of channels from the upper level tier. Our highest analog tier, the total-package, includes the plus-package and 12 additional channels. All analog customers can also subscribe to different movie, sports, entertainment and ethnic channels. Approximately 60% of our customer base consists of multi-dwelling units ("MDUs"), with a discounted pricing structure. On March 1, 2004, we launched a new lower-tier analog cable package with 15 channels.

Our basic digital TV package consists of 27 channels. The upper level package is our total-DTV package, with an additional 23 channels. Basic DTV customers can subscribe to pairs of channels from the Total-DTV package for an additional fee. DTV customers can choose different movie, sports, entertainment and ethnic channels from an a la carte menu by paying per channel.

We were the first company in Norway to launch high-speed Internet access in 1999. Currently we offer our customers three different tiers: chello light (256 Kbps/64 Kbps download/upload speed); chello classic (768 Kbps/128 Kbps); and chello plus (1.024 Mbps/256 Kbps). chello light was launched in 2003 and is currently the cheapest Internet access subscription fee in Norway. In 2004 we plan to increase the number of available tiers to five in 2004, with download speeds ranging from 128 Kbps to 4 Mbps.

We launched telephony services in our Oslo network in 1998 and we have the capability to provide feature-rich telephone services to 30% of our homes passed.

Sweden

We operate cable television and communications systems serving the greater Stockholm area. We operate on leased fiber from Stokab AB, a city controlled entity with exclusive rights to lay cable ducts for communications or broadcast services in the city of Stockholm. These lease terms vary from 10 to 25 years, and expire beginning in 2012 through 2018. The network is built according to the tree and branch concept with a bandwidth capacity of at least 550 MHz. Approximately 96% of our homes connected are upgraded to two-way capability. We provide all of our analog TV subscribers with a lifeline service consisting of four "must-carry" channels. In addition to this lifeline service, we offer analog and digital tiered services ranging from a 12 channel analog basic package up to a digital package with 59 channels. We distribute a wide variety of TV channels, including domestic, foreign, sport and premium movie/adult channels, as well as digital event channels such as seasonal sport and real life entertainment events. Approximately 38% of our connected homes subscribe to the lifeline analog TV service only. Approximately 9% of our analog TV subscribers are also digital TV subscribers.

We began offering high-speed Internet services to our cable customers under the brand name chello in 1999. Currently three tiers of high-speed Internet access service are available to residential subscribers, with download speeds of 300 Kbps to 1 Mbps. We anticipate that the top tier speed will be increased to 1.5 Mbps in 2004. Approximately 24% of our video subscribers subscribe to our Internet access service. Within the greater Stockholm area we are the second largest Internet services provider with 15% of the broadband Internet market.

Belgium

We provide cable television and communication services in certain areas of Leuven and Brussels, the capital city of Belgium. Our network is fully upgraded to two-way capability, with all of our cable subscribers served by a system with a bandwidth capacity of 860 MHz. Our basic tier television service, consisting of all Belgium terrestrial channels, regional channels and selected European channels, includes 34 channels in Brussels and 36 channels in Leuven. In both regions we offer expanded basic tier cable television services, including a "starters pack" of three channels that can be upgraded to 15 channels in Leuven and 18 channels in Brussels. The programming generally includes a selection of European and United States thematic satellite channels with a broad genre such as sports, kids, adult, nature, movies and entertainment. We also distribute three premium channels that are provided by Canal+, two in Brussels and one in Leuven.

In September 1997, we began offering broadband Internet access services under the brand name chello to our customers. The Belgium chello portfolio includes chello classic with a transfer speed of 1 Mbps download and 128 Kbps upload, chello plus and chello professional with a transfer speed of 1.5 Mbps download and 128 Kbps upload. In March 2004 we plan to implement speed increases for our data products—chello classic up to 3 Mbps download and 256 Kbps upload, chello plus up to 4 Mbps download and 384 Kbps upload and the professional product up to 5 Mbps download and 384 Kbps upload. Approximately 21% of our cable subscribers also receive Internet access service.

Poland

We own and operate the largest cable television system in Poland in terms of number of homes passed and number of subscribers. Our subscribers are located in regional clusters encompassing eight of the ten largest cities in Poland, including Warsaw and Katowice. Our network is approximately 21% upgraded to two-way capability. All of the networks that we constructed have bandwidths of at least 550 MHz. New construction of our network is being built with minimum bandwidths of 860 MHz. We continue to upgrade portions of our network that have bandwidths below 550 MHz to at least 860 MHz in an effort to prepare the networks for additional channels and services and reduce the number of satellite receivers and inventory parts required in the networks. We offer cable subscribers three different packages of cable television service. Our lowest tier, the Broadcast Package, includes 6 to 12 channels. Our next highest tier, the Intermediate Package, includes approximately 20 to 22 channels. Our highest tier, the Basic Package, includes approximately 34 to 60 channels which generally includes all Polish terrestrial broadcast channels, selected European satellite programming and regional and local programming which consists of proprietary and third party channels. For an additional monthly charge we offer two premium television services, the HBO Poland service and Canal+ Multiplex, a Polish-language premium package of three movie, sport and general entertainment channels.

We offer Internet access services under the chello brand to our cable television customers in portions of our system. We are currently expanding our Internet ready network in Warsaw, Krakow, Gdansk and Katowice and are planning to begin providing Internet access services in Szczecin and Lublin in the second quarter of 2004. Nearly all of our Internet access subscribers use services with transfer speed of 512 Kbps download and 128 Kbps upload (chello classic). We started to diversify our Internet access services by launching chello plus (premium tier with 768 Kbps download speed) in late 2003 and launched chello light (lower tier) in early 2004. Approximately 5.2% of our cable subscribers also receive our Internet service.

Hungary

We operate the largest cable network in Hungary in terms of homes passed and subscribers served. We offer up to four tiers of programming services (between 4 and 60 channels) and two premium channels, depending on the technical capability of the network. Programming consists of the national Hungarian terrestrial broadcast channels and selected European satellite and local programming that consists of proprietary and third party channels. Our network in Hungary is approximately 57.6% upgraded to two-way capability (minimum 550 MHz), with 50% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz.

High-speed Internet access is available under the chello brand in three tiers, with download speeds of 416 Kbps, 512 Kbps and 768 Kbps. We provide Internet services to the cities of Budapest, Sopron, Miskolc, Szombathely, Salgotarján, Debrecen, Dunaujvaros, Veszprém, Várpalota, Nyiregyháza, Nagykanizsa and Szolnok covering 568,400 homes. We plan to increase the download speed of the two top tiers to 768 Kbps and 1 Mbps, respectively, in 2004.

Monor Telefon Tarsasag Rt., one of our Hungarian operating companies, offers traditional switched telephone services over a twisted copper pair network in the southeast part of Pest County. At the end of 2003, it had 64,800 telephone subscribers using 71,700 lines. It also had 542 asymmetric digital subscriber line ("ADSL") and 3,653 dial-up Internet access subscribers.

Czech Republic

We are the largest cable operator in the Czech Republic, providing video services in more than 80 cities and towns in the Czech Republic, including Prague and Brno, the two largest cities in the country. Our network in the Czech Republic is approximately 40% upgraded to two-way capability, with 40% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz. We offer two to three tiers of programming services and two premium channel offerings. We also offer three tiers of high-speed Internet access to residential and business subscribers with download speeds of 256 Kbps to 768 Kbps. We plan to introduce two lower-speed tiers, and increase the speed of the top residential and business tier to 1 Mbps. We also provide residential telephone services to a small number of subscribers.

Romania

We are Romania's third largest cable television operator, serving 34 cities in Romania with 75% of our subscriber base in six cities: Timisoara, Cluj, Ploiesti, Focsani, Bacau and Botosani. Approximately 65% of our customers are served by a system with a bandwidth capacity of 550 MHz. We continue to upgrade our medium size systems to 550 MHz. We offer analog cable television service with 24 to 36 channels in all of our cities, which include Romania terrestrial broadcast channels, European satellite programming and regional local programming. Two extra basic packages of 6 to 10 channels each are offered in Timisoara and

Ploiesti. Premium Pay TV (HBO Romania) is offered in 13 cities. We are currently test-marketing an Internet access product to a very limited amount of subscribers in one of our main systems.

Slovak Republic

We are the largest cable operator in the Slovak Republic in terms of number of homes passed and number of subscribers, including Bratislava, the capital city. Our network in the Slovak Republic is approximately 20% upgraded to two-way capability, with 23% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz. In some areas like Bratislava, our network is 50% upgraded to two-way capability. Our Slovak systems offer two tiers of cable television service and three premium services. Our lower tier, the Lifeline Package, includes 4 to 9 channels. Our most popular tier, the Basic Package, includes 16 to 40 channels that generally offer all Slovak terrestrial, cable and local channels, selected European satellite programming and special third-party programming. For an additional monthly charge we offer three premium TV services—HBO, Private Gold (adult entertainment channel) and the UPC Komfort package consisting of six third-party channels.

In 2003, we began providing Internet access services under the brand name chello to our cable television subscribers in Bratislava. We started with chello classic in April 2003, followed by chello plus in November 2003. We expect to launch additional tiers in the near future to the residential and business markets. The vast majority (95%) of our Internet subscribers use our chello classic service with transfer speeds of 512 Kbps download and 128 Kbps upload. Our remaining customers use our chello plus service with transfer speeds of 768 Kbps download and 256 Kbps upload. Approximately 4% of our cable subscribers within our Internet serviceable area also receive Internet access service.

Chile

We are the largest provider of video services in Chile, serving Santiago, Chile's largest city, the large regional cities of Iquique, Antofagasta, Concepcion, Viña del Mar, Valparaiso and Rancagua, and smaller cities across Chile. Approximately 98% of our video subscribers are served via wireline cable. Our network is approximately 58% upgraded to two-way capability, with 65% of our cable subscribers served by a system with a bandwidth capacity of at least 750 MHz. We have an approximate 69% market share of cable television services throughout Chile and an approximate 51% market share within Santiago. Our channel lineup consists of 53 to 69 channels segregated into two tiers of service – a basic service with 53 to 58 channels and a premium service with 11 channels. We offer basic tier programming similar to the basic tier program lineup in the United States, plus more premium-like channels such as HBO, Cinemax and Cinecanal on the basic tier. As a result, subscription to our existing premium service package is limited because our basic cable package contains similar channels. In order to better differentiate our premium service, increase the number of subscribers to premium service and increase average monthly revenue per subscriber, we anticipate gradually moving some channels out of our basic tier and into premium tiers or pay-per-view events, offering additional movies and additional adult programming on premium tiers in the future. We obtain programming from the United States, Europe, Argentina and Mexico. Domestic cable television programming in Chile is only just beginning to develop around local events such as soccer matches.

In 1999, we began offering high-speed Internet access. Currently, with a two-way network passing approximately 58% of homes passed, we offer several alternatives of always on, unlimited-use services to residences and small/home offices under the brand name Banda Ancha in 22 communities within Santiago and 12 cities outside Santiago. Subscribers can purchase a light service (64 Kbps), a moderate service (300 Kbps) or high-speed service (600 Kbps). For a moderate to heavy Internet user, our Internet service is generally less expensive than a dial-up service with its metered usage. To provide even more flexibility to the user, we also offer Banda Ancha Flex, where a low monthly flat fee includes the first 200 minutes, with metered usage above 200 minutes.

We began marketing cable telephone service to residential customers in several communities within Santiago in 1997, and today continue our wide-scale rollout of residential cable telephone service in 22 communities within Santiago and seven cities outside Santiago. Approximately 58% of the homes passed by our cable television systems are capable of using our telephone services. We are technologically capable of providing telephone service to approximately 1.0 million homes. We offer basic dial tone service as well as several value-added services, including voice mail, caller ID, speed dial, wake-up service, call waiting, call forwarding, local bill detail, access control service, unlisted number and directory assistance. We primarily provide service to residential customers who require one or two telephone lines. We also provide service to small businesses and home offices.

chellomedia and Other

chello broadband

Through agreements with UPC Broadband, chello broadband provides Internet access, on-line content, product development, aspects of customer support, local language broadband portals and marketing support for a fee, based upon a percentage of subscription and installation revenue as determined in the agreements. The agreements with UPC Broadband operating companies further provide that in the future the local operator will receive a percentage of chello broadband's ecommerce and advertising revenue.

Interactive Services

We expect the development of interactive television services will play an important role in the take up of our digital television product in Europe. Our Interactive Services Group is responsible for developing our core digital products, such as electronic program guides, television-based email, and PC / TV portals as well as other television and PC-based applications supporting various areas, including communications services and enhanced television services. We expect to offer increasing support and services built upon the core platform to enable areas such as on-screen betting, synchronous broadcast of interactive applications and games services. We have successfully completed the initial launch of our base set of interactive services in both The Netherlands and Austria.

Transactional Television

Transactional television, branded as "Arrivo", consisting of NVOD and VOD, is another component of our digital services. Our current digital product includes 42 channels of NVOD programming in The Netherlands and 56 channels of NVOD programming in Austria. Arrivo provides digital customers with a wide range of Hollywood blockbusters and other movies. Arrivo is also in the process of developing VOD services for our operating companies and other cable operators. The VOD service will provide VOD subscribers with enhanced playback functionality and will give subscribers access to a broad array of on-demand programming, including movies, live events, local drama, music videos, kids programming, and adult programming.

Pay Television

UPCtv produces and markets its own pay television products, currently consisting of three thematic channels launched in 1999 and 2000. The channels target the following genres: extreme sports and lifestyles; women's information and entertainment; and real life documentaries. All three channels originate from our digital media center located in Amsterdam. The "DMC" is a technologically advanced production facility that services UPCtv and other clients with channel origination, post-production and satellite and fiber transmission. The DMC delivers high-quality, customized programming by integrating different video elements, languages (either in dubbed or sub-titled form) and special effects, then transmits the final product to various customers in numerous countries through our cable systems and DTH platforms, as well as through cable systems and DTH platforms not affiliated with us. We are also involved in branded equity ventures for the development of country specific programming, including Iberian Programming Services, Xtra Music, MTV Networks Polska and Sports I.

Priority Telecom

Priority Telecom is a facilities-based business telecommunications provider that focuses primarily on its core metropolitan markets in the Netherlands, Austria and Norway. Priority Telecom provides voice services, high-speed Internet access, private data networks and customized network services to over 7,700 business customers. Targeted mainly towards medium and large business customers and metropolitan/national telecommunications providers, Priority Telecom capitalizes on its dense metropolitan fiber network and experienced direct local sales force. Priority Telecom is a publicly traded company on Euronext Amsterdam under the symbol "PRIOR". We provide services to Priority Telecom, including equipment, local loop and other capacity leases, human resources, billing, information technology and co-location services.

Competition

Analog Video and Digital Cable Services

Our cable systems compete with a number of different sources that provide news, information and entertainment programming to consumers, including:

- DTH satellite service providers (systems that transmit satellite signals containing video programming, data and other information to receiving dishes of varying sizes located on the subscriber's premises);
- Local terrestrial television broadcast stations that provide off-air programming which can be received using an antenna and a television set;
- Satellite master antenna television systems, commonly known as "SMATVs", which generally serve condominiums, apartment and office complexes and residential developments;
- Multi-channel multi-point distribution systems, commonly known as "MMDS";
- Other operators who build and operate wireline communications systems in the same communities that we serve;
- Interactive online computer services, including Internet distribution of movies;
- Newspapers, magazines and book stores;
- Movie theaters;
- Live concerts and sporting events; and
- Video stores and home video products.

In order to compete effectively, our cable systems strive to provide, at a reasonable price to subscribers, new products and services, superior technical performance, superior customer service and a greater variety of video programming. We face the most competition from DTH providers in Austria, France, Norway, Poland and Sweden. We face the most competition from digital television terrestrial broadcasters in The Netherlands and Sweden. In certain areas, including Belgium, Chile, France, Poland and Sweden, our operating companies face competition from other cable television service providers.

Internet

With respect to Internet access services and online content, we face competition from incumbent and non-incumbent telecommunications companies, other cable-based Internet service providers, non-cable-based Internet service providers and Internet portals, many of which have substantial resources. The Internet services offered by these competitors include both traditional dial-up Internet services and high-speed Internet access services using digital subscriber line ("DSL") and ADSL technology, in a range of product offerings with varying speeds and pricing, as well as interactive computer-based services, data and other non-video services to homes and businesses.

Telephone

With respect to telephone services, our operating companies face competition from the incumbent telecommunications operator in each country. These operators have substantially more experience in providing telephone services, greater resources to devote to the provision of telephone services and longstanding customer relationships. In many countries, our operating companies also face competition from other cable telephone providers, wireless telephone providers and indirect access providers.

Employees

As of December 31, 2003, we, together with our consolidated subsidiaries, had approximately 10,200 employees. Most of our operating subsidiaries are parties to collective bargaining agreements with some of their respective employees. We believe that our relations with our employees are good.

Regulation

Our tv distribution, telephony, Internet and content businesses are regulated to a greater or lesser degree in each of the countries in which we operate. The scope of regulation varies from country to country. Adverse regulatory developments could subject us to a number of risks. Such adverse developments could limit our growth plans, limit our revenues, and limit the number and types of services we offer in different markets. In addition, regulation may impose certain obligations on our systems that subject them to competitive pressure, including pricing restrictions, interconnect obligations, access obligations and restrictions on content we deliver, including content provided by third parties. Failure to comply with current or future regulation could expose us to various penalties.

European Union

Regulation of European markets is harmonized under the regulatory structure of the European Union ("EU"). EU law comes in various forms. Directives are the most relevant in UGC Europe's sector. Directives are legal instruments adopted by the European Parliament and the European Council acting together on a proposal from the European Commission or by the European Commission acting alone. Directives are addressed to the member states and require the member states to harmonize their national laws with the requirements of the directive by a specified date. That is, they are binding as to the ends to be achieved but not as to the specific means. Various directives harmonize the regulation of material aspects of UGC Europe's operations.

To ensure the compliance of member states with the requirements of the directives or other binding measures, the European Commission acts as the guardian of EU legislation. The European Commission will pro-actively monitor the compliance of the member states and will act on complaints. The European Commission formally addresses member states where legislation or practice is seen as inconsistent with EU law and ultimately, can refer a member state to the European Court of Justice to secure its compliance. In the sector in which UGC Europe operates, the European Commission produces regular reports highlighting compliance of the member states and takes enforcement action following direct complaints on their own initiative. In addition, member state courts and regulatory authorities are required by EU law to disregard inconsistent national laws and apply only EU law, although the extent to which this happens varies from country to country.

Since January 1, 1998, EU directives have set out a framework for telecommunications regulation that all EU member states must follow. Recently, the scope of harmonization was substantially extended by a series of directives and other instruments (the "New Package"), and now covers almost all of our telecommunications and broadcasting activities. The New Package consists of:

- Framework Directive (2002/21/EC);
- Access and Interconnection Directive (2002/19/EC);
- Authorizations Directive (2002/20/EC);
- Universal Service Directive (2002/22/EC); and
- Spectrum Decision (766/2002/EC).

Member states were required to harmonize their laws with these new directives effective July 25, 2003. Those countries which were not EU member states at that date but have since joined the EU (from UGC Europe's footprint these comprise of the Czech Republic, Hungary, Malta, Poland and the Slovak Republic) were required to harmonize their laws as of May 1, 2004. In practice, harmonization remains patchy across many EU Member States old and new although the European Commission continues to push towards full compliance.

The final element of the New Package is the directive on Privacy and Electronic Communications (2002/58/EC), adopted on June 25, 2002. Member states had to transpose this directive into national law by October 30, 2003. Again, this directive should have been applied in the new member states on May 1, 2004. The EU has therefore taken steps to substantially increase the level of harmonization across the whole range of communications and broadcasting services. Currently, UPC's markets are not fully compliant with the New Package and the European Commission has commenced enforcement actions against some member states (including Belgium, France and the Netherlands) for late transposition of the New Package although the Netherlands and France have subsequently broadly transposed the New Package. In addition, in certain countries in which we operate, we are affected by contractual arrangements with state authorities that previous owners or we entered into. The impact of the New Package under these contracts is unclear.

Of the countries in which we operate, Austria, Belgium, Czech Republic, France, Hungary, Malta, The Netherlands, Poland, the Slovak Republic and Sweden are all member states of the EU. As such, these countries are required to enact national legislation that implements EU directives. Although not a EU member state, Norway is a member of the European Economic Area and has generally implemented or is implementing the same principles as EU member states. The only European market in which we operate where EU law is not in force is Romania, which is expected to join the EU member states in 2007. Although Romania is not under an obligation to apply EU rules, it is expected to follow the EU regulatory system as well. As a result, the European markets in which we operate have been significantly affected by regulation initiated at the EU level.

The New Package seeks, among other things, to harmonize national regulations and licensing systems and further increase market competition. These policies seek to harmonize licensing procedures, reduce administrative fees, ease access and interconnection, and reduce the regulatory burden for telecommunications companies. The New Package relies on general competition law principles, rather than traditional regulatory instruments, to prevent operators from abusing their market power. For example, national regulators must conduct regular market analysis exercises taking into account markets defined by the European Commission as suitable for ex-ante regulation, in order to identify any operators in a dominant position who will need regulatory control. The New Package is focused on the regulation of electronic communications networks, which include cable networks and electronic communications services, which include nearly all aspects of our services.

Certain key elements of the New Package are set forth below, followed by a status for each of our key countries. This is not intended to be a comprehensive description of all aspects of regulation in this area.

Licensing. Individual licenses are not required for the operation of an electronic communications network or the offering of electronic communications services. A simple registration is required in these cases. Member states are limited in the obligations that they may place on someone who has so registered; the only obligations that may be imposed are specifically set out in an EU directive.

Access Issues. A specific directive sets forth the general framework for interconnection of, and third party access to, networks, including cable networks. Public telecommunications network operators are required to negotiate interconnection agreements on a non-discriminatory basis with each other. In addition, some specific obligations are provided for in this directive such as an obligation to distribute wide-screen television broadcasts in that format and certain requirements to provide access to conditional access systems. Other access obligations can be imposed on operators identified as having a dominant position in a particular market. These obligations are closely based on the outcomes that would present themselves under general competition law.

We might face access obligations in circumstances where, following a market review by a national regulator, we were found to be dominant in a market identified by the European Commission as suitable for ex-ante regulation or approved by the Commission upon the request of a national regulator. Based on previous decisions by the European Commission, these obligations are likely to focus on the distribution of programming. However, there is substantial debate around access to cable networks by unaffiliated Internet service providers. While we are unlikely to be dominant in this area due to competition from DSL networks, we are not certain whether obligations in this area will be imposed on us in the future.

"Must Carry" Requirements. In most countries where we provide video and radio services, we are required to transmit to subscribers certain "must carry" channels, which generally include public national and local channels. In some European countries we can be required to transmit quite a large number of channels by virtue of these requirements. Until recently, there was no meaningful oversight of this issue at the EU level. This changed when the New Package came into effect. Member states are only permitted to impose must carry obligations where they are necessary to meet clearly defined general interest objectives and where they are proportionate and transparent. Any such obligations must be subject to periodic review. It remains unclear what effect this new rule will have in practice but over time we expect it to lead to a reduction of the size of must-carry packages in some countries.

API Standards. We may use any Application Programming Interface ("API") for our digital product offerings. However, the New Package requires member states to encourage the use of open APIs. It further requires the European Commission to conduct a review before July 24, 2004 to ascertain whether interoperability and freedom of choice have been adequately achieved with respect to digital interactive video services. If the European Commission had taken a negative view towards one or more member states, it has the power to mandate a particular API. In fact the European Commission chose not to make any API mandatory during this review but it will revisit this issue next year. Thus, the possibility exists that we may be required to use an API in one or more European markets that we do not currently use. Such a decision may have a negative impact on our cost structure and on our speed of deployment of digital interactive video services.

Consumer Protection Issues and Pricing Restrictions. Under the New Package, we may face various consumer protection restrictions if we are in a dominant position in a particular market. However, before the implementation of the New Package, local or national regulatory authorities in many European countries where we provide video services already imposed pricing restrictions. This is often a contractual provision rather than a regulatory requirement. Often, the relevant local or national authority must approve basic tier price increases. In certain countries, price increases will only be approved if the increase is justified by an increase in costs associated with providing the service or if the increase is less than or equal to the increase in the consumer price index. Even in countries where rates are not regulated, subscriber fees may be challenged if they are deemed to constitute anti-competitive practices. These price restrictions are generally not applied to expanded basic tier or digital programming. It remains to be seen the extent to which the New Package will act to restrict these pre-existing requirements.

Other. Our European operating companies must comply with both specific and general legislation concerning data protection, content provider liability and electronic commerce. These issues are broadly harmonized at the EU level. This is an area that may become more significant over time.

Austria. In August 2003, Austria adopted a new law seeking to harmonize its laws with the New Package. We believe the new law is materially consistent with the New Package.

France. A new law entered into force in France in July 2004 which substantially transposed the New Package. However, France is a country where, due to previous law, there has been some control of our activities principally regarding network build-out and ownership, by local authorities. Since the previous law required that these controls be given contractual expression, many of these are still in force. We are seeking to re-negotiate these contracts to end such obligations. Although we are having some success, there can be no assurance that we will be able to re-negotiate all these contracts.

Hungary. In January 2004, Hungary adopted a new law seeking to harmonize its laws with the New Package. We believe the new law is materially consistent with the New Package.

The Netherlands. A new telecommunications act has been adopted and came into force in May 2004. The act largely transposes the New Package with the exception of the must carry provisions. We do not believe this to be a material divergence. In addition, in many parts of the Netherlands, we are a party to contracts with local municipalities that seek to control aspects of our Dutch business including, in some cases, pricing and package composition. The enforceability of these contracts is currently in dispute. For example, we recently prevailed in a court case against one municipality where the court ruled that it was in conflict with the Dutch Constitution for a municipality to seek to impose or enforce restrictions of this kind. In another case, which related to interlocutory relief, another court found a different kind of contract to be prima facie enforceable as regards to price control. Appeals and other legal challenges are continuing but, in practice, we are working to renegotiate many of these contracts and, whilst there can be no assurances, we would expect that they will have a smaller effect on our business over time.

Poland. Poland joined the EU on May 1, 2004 and should have harmonized its national laws with the EU norms before that date. In practice, Poland's laws are not yet fully compliant with the New Package. However, a new law due to enter into force in September 2004 will bring Poland closer into line with EU requirements.

European Competition Law and Other Matters

EU rules and national consumer protection and competition laws in most of our European markets impose limitations on the pricing and marketing of integrated packages of services, such as video, telephone and Internet access services. These limitations are common in developed market economies and are designed to protect consumers and ensure a fair competitive market. While we may offer our services in integrated packages, we are generally not permitted to make subscription to one service, such as cable television, conditional upon subscription to another service, such as telephone, that a subscriber might not otherwise take. In addition, in areas where our power is greater, we must not abuse or enhance a dominant market position through unfair anti-competitive behavior. For example, cross-subsidization between our business lines that would have this effect would be prohibited. As we become larger throughout the EU and in individual countries in terms of service area coverage and number of subscribers, it is likely that competition and consumer protection laws would have a greater impact on our European business and growth. The competition law of the EU and individual countries may lead regulatory authorities to prevent or permit certain acquisitions, dispositions or business relationships subject to certain conditions.

Chile

Cable and telephone applications for concessions and permits are submitted to the Ministry of Transportation and Telecommunications, which, through the Subsecretary of Telecommunications, is the government body in Chile responsible for regulating and granting concessions and registering all telecommunications. Wireline cable television licenses are non-exclusive and granted for indefinite terms, based on a business plan for a particular geographic area. Wireless licenses have renewable terms of 10 years. VTR has cable permits in most major and medium sized markets in Chile. Cross ownership between cable television and telephone is also permitted.

The General Telecommunications Law of Chile allows telecommunications companies to provide service and develop telecommunications infrastructure without exclusive rights to serve. Chile currently has a competitive, multi-carrier system for international, local and long distance telecommunications services. Regulatory authorities currently determine prices for local services until the market is determined to be competitive. The maximum rate structure is determined every five years. The current rate structure is scheduled to expire in May 2004. Local service providers with concessions are obligated to provide service to all concessionaires who are willing to pay for an extension to get service. Local providers must also give long distance service providers equal access to their network connections.

Available Information

We, as a reporting company, are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and accordingly file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. As an electronic filer, our public filings are maintained on the SEC's Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is http://www.sec.gov. In addition, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act may be accessed free of charge through our website as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. Also, our code of business conduct and code of ethics is available on our website and amendments to and waivers from the code of ethics will be disclosed through our website. The address of our website is http://www.unitedglobal.com.

PROPERTIES

Our principal physical assets consist of broadband networks and equipment, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems and customer drop equipment for each of our broadband networks. Our broadband plant and related equipment are either attached to utility poles under pole rental agreements with local public utilities and telephone companies, or buried in underground ducts or trenches. We own or lease real property for signal reception sites and own most of our service vehicles. We lease our executive offices in Denver, Colorado. Our various operating companies lease or own their respective administrative offices, headend facilities, tower sites and other property necessary for their operations. We generally own the towers on which our equipment is located. The physical components of our broadband networks require maintenance and periodic upgrades to support the new services and products we introduce. We believe that our properties are in good operating condition and are suitable for our business operations.

LEGAL PROCEEDINGS

The following is a description of certain legal proceedings to which we or one of our subsidiaries is a party. From time to time we may become involved in litigation relating to claims arising out of our operations in the normal course of business. In our opinion, the ultimate resolution of these legal proceedings would not likely have a material adverse effect on our business, results of operations, financial condition or liquidity.

Cignal

On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications ("Cignal") filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200.0 million alleging that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful consummation of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders' claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering.

Excite@Home

In 2000, certain of our subsidiaries, including UPC, pursued a transaction with Excite@Home, which if completed, would have merged UPC's chello broadband subsidiary with Excite@Home's international broadband operations to form a European Internet business. The transaction was not completed, and discussions between the parties ended in late 2000. On November 3, 2003, we received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors' Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation, Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleges breach of contract and fiduciary duty by UGC and Old UGC. The action has been stayed as to Old UGC by the Bankruptcy Court in the Old UGC bankruptcy proceeding. The plaintiff has filed a claim in the bankruptcy proceedings of approximately $2.2 billion. We deny the material allegations and intend to defend the litigation vigorously.

HBO

UPC Polska was involved in a dispute with HBO Communications (UK) Ltd., Polska Programming B.V. and HBO Poland Partners (collectively "HBO") concerning its cable carriage agreement and its D-DTH carriage agreement for the HBO premium movie channel. In February 2004, the matter was settled and UPC Polska paid $6.0 million to HBO.

ICH

On July 4, 2001, ICH, InterComm France CVOHA ("ICF I"), InterComm France II CVOHA ("ICF II"), and Reflex Participations ("Reflex," collectively with ICF I and ICF II, the "ICF Party") served a demand for arbitration on UPC, Old UGC, and its subsidiaries, Belmarken Holding B.V. ("Belmarken") and UPC France Holding B.V. The claimants alleged breaches of obligations allegedly owed by UPC in connection with the ICF Party's position as a minority shareholder in Médiaréseaux S.A. In February 2004 the parties entered into a settlement agreement pursuant to which UPC purchased the shares owned by the ICF Party in Médiaréseaux S.A. for consideration of 1,800,000 shares of our Class A common stock.

Movieco

On December 3, 2002, Europe Movieco Partners Limited ("Movieco") filed a request for arbitration (the "Request") against UPC with the International Court of Arbitration of the International Chamber of Commerce. The Request contains claims that are based on a cable affiliation agreement entered into between the parties on December 21, 1999 (the "CAA"). The arbitral proceedings were suspended from December 17, 2002 to March 18, 2003. They have subsequently been reactivated and directions have been given by the Arbitral Tribunal. In the proceedings, Movieco claims (i) unpaid license fees due under the CAA, plus interest, (ii) an order for specific performance of the CAA or, in the alternative, damages for breach of that agreement, and (iii) legal and arbitration costs plus interest. Of the unpaid license fees, approximately $11.0 million had been accrued prior to UPC commencing insolvency proceedings in the Netherlands on December 3, 2002 (the "Pre-Petition Claim"). Movieco made a claim in the Dutch insolvency proceedings for the Pre-Petition Claim and shares of the appropriate value were delivered to Movieco in December 2003. UPC filed a counterclaim in the arbitral proceeding, stating that the CAA is null and void because it breaches Article 81 of the EC Treaty. UPC also relies on the Order of the Southern District of New York dated January 7, 2003, in which the New York Court ordered that the rejection of the CAA was approved effective March 1, 2003, and that UPC shall have no further liability under the CAA.

Philips

On October 22, 2002, Philips Digital Networks B.V. ("Philips") commenced legal proceedings against UPC, UPC Nederland B.V. and UPC Distribution (together the "UPC Defendants") alleging failure to perform by the UPC Defendants under a Set Top Computer Supply Agreement between the parties dated November 19, 2001, as amended (the "STC Agreement"). The action was commenced by Philips following a termination of the STC Agreement by the UPC Defendants as a consequence of Philips' failure to deliver STCs conforming to the material technical specifications required by the terms of the STC Agreement. On July 16, 2004, the District Court of Amsterdam terminated the pending proceedings between Philips and the UPC Defendants, as a result of the fulfillment of all conditions as set out in the settlement agreement between the parties.

Rate Increases in The Netherlands

Recently we announced that we would increase rates for analog video customers in The Netherlands towards a standard rate, effective January 1, 2004. As previously reported, we have been enjoined from, or have voluntarily waived, implementing these rate increases in certain cities within The Netherlands. Thus far, we have reached agreement with several municipalities, including the municipality of Amsterdam, allowing us to increase our cable tariffs to a standard rate of €15.20 through the course of the year. We are currently negotiating with other municipalities and expect a satisfactory resolution.

UGC Europe Exchange Offer

On October 8, 2003, an action was filed in the Court of Chancery of the State of Delaware in New Castle County, in which the plaintiff named as defendants UGC Europe, UGC and certain of our directors. The complaint purports to assert claims on behalf of all public shareholders of UGC Europe. On October 21, 2003, the plaintiff filed an amended complaint in the Delaware Court of Chancery. The complaint alleges that UGC Europe and the defendant directors have breached their fiduciary duties to the public shareholders of UGC Europe in connection with an offer by UGC to exchange shares of its common stock for outstanding common stock of UGC Europe. Among the remedies demanded, the complaint seeks to enjoin the exchange offer and obtain declaratory relief, unspecified damages and rescission. On November 12, 2003, we and the plaintiff, through respective counsel, entered into a memorandum of understanding agreeing to settle the litigation and to pay up to $975,000 in attorney fees, subject to court approval of the settlement.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our Class A Common Stock trades on The Nasdaq National Market under the symbol "UCOMA." The following table shows the range of high and low sales prices of UCOMA reported on The Nasdaq National Market for the periods indicated:

	High	Low
Year ended December 31, 2002:		
First Quarter	$ 6.22	$ 3.65
Second Quarter	$ 6.41	$ 2.13
Third Quarter	$ 2.75	$ 1.19
Fourth Quarter	$ 3.41	$ 1.42
Year ended December 31, 2003:		
First Quarter	$ 3.22	$ 2.20
Second Quarter	$ 5.63	$ 2.81
Third Quarter	$ 7.70	$ 4.92
Fourth Quarter	$ 9.00	$ 5.95

Holders

As of March 1, 2004, there were 162 holders of record of our Class A common stock, one holder of record of our Class B common stock and four holders of record of our Class C common stock.

Dividends

We have never declared or paid cash dividends on our common stock. We do not intend to pay dividends on our common stock in the foreseeable future.

Recent Sales of Unregistered Securities

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 890,030 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. The closing price for our Class A common stock as reported on the Nasdaq National Market on February 6, 2003 and February 12, 2003 was $2.36 per share and $2.33 per share, respectively, making the value of the transaction approximately $0.7 million as of the contract date. There was no public market for the UPC preference shares or warrants. The following table sets forth the number of shares of Class A common stock that we issued to the Alliance Parties and the ordinary shares A and warrants that we acquired from them in such transaction. These shares of Class A common stock were subsequently registered for resale in December 2003.

	Consideration Received from Selling Securityholders		Consideration Paid to Selling Securityholders
Selling Securityholder	UPC Preference Shares	UPC Shares Underlying Warrants	UGC Class A Common Stock
Alliance Balanced Shares	2	971	399
Alliance Growth Fund	450	218,502	90,415
EQ Alliance Common Stock Portfolio	1,351	655,990	271,444
Alliance Global Strategic Income Trust	30	14,567	6,029
Total	1,833	890,030	368,287

On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 1,165,342 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. The closing price for our Class A common stock as reported on the Nasdaq National Market on February 11, 2003 and February 13, 2003 was $2.40 per share and $2.26 per share, respectively, making the value of the transaction approximately $1.2 million as of the contract date. There was no public market for the UPC preference shares or warrants. These shares of Class A common stock were subsequently registered for resale in December 2003. The following table sets forth the number of shares of Class A common stock that we issued to the Capital Research Parties and the ordinary shares A and warrants that we acquired from them in such transaction.

	Consideration Received from Selling Securityholders		Consideration Paid to Selling Securityholders
Selling Securityholder	**UPC Preference Shares**	**UPC Shares Underlying Warrants**	**UGC Class A Common Stock**
The Income Fund of America	1,180	572,960	237,090
Capital World Growth and Income Fund, Inc.	100	48,556	20,092
Fundamental Investors, Inc.	1,120	543,826	225,035
Total	2,400	1,165,342	482,217

On April 4, 2003, we issued 879,041 shares of our Class A common stock in a private transaction pursuant to a transaction agreement dated March 31, 2003, among us, a subsidiary of ours, Motorola Inc. and Motorola UPC Holding, Inc. In consideration for the 879,041 shares of our Class A common stock, we acquired 3,500 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 1,669,457 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On March 31, 2003 and April 4, 2003, the closing price for our Class A common stock as reported on the Nasdaq National Market was $3.05 per share and $3.50 per share, respectively, making the value of the transaction approximately $2.7 million as of the contract date. There was no public market for the UPC preference shares or warrants. These shares of Class A common stock have not yet been registered.

On April 14, 2003, we issued 426,360 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement, dated April 8, 2003, between us and Liberty International B-L LLC. In consideration for the 426,360 shares of our Class A common stock, we acquired 2,122 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 971,118 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On April 8, 2003 and April 14, 2003, the closing price for our Class A common stock as reported on the Nasdaq National Market was $3.46 per share and $3.68 per share, respectively, making the value of the transaction approximately $1.5 million as of the contract date. There was no public market for the UPC preference shares or warrants. These shares of Class A common stock were subsequently registered for resale in December 2003.

SELECTED FINANCIAL DATA

In the table below, we provide our selected historical consolidated financial data. We prepared this information using our consolidated financial statements for the dates indicated. The financial data presented below are not necessarily comparable from period to period as a result of several transactions, including certain mergers, acquisitions and dispositions. For this and other reasons, you should read it together with our historical financial statements and related notes and also with management's discussion and analysis of financial condition and results of operations included elsewhere herein.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 1,891,530	$ 1,515,021	$ 1,561,894	$ 1,251,034	$ 720,762
Operating expense	(768,838)	(772,398)	(1,062,394)	(893,682)	(458,748)
Selling, general and administrative expense	(493,810)	(446,249)	(690,743)	(725,816)	(395,191)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)	(815,522)	(418,714)
Impairment of long-lived assets	(402,239)	(436,153)	(1,320,942)	–	–
Restructuring charges and other	(35,970)	(1,274)	(204,127)	–	–
Stock-based compensation	(38,024)	(28,228)	(8,818)	43,183	(223,734)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)	(1,140,803)	(775,625)
Interest income	13,054	38,315	104,696	133,297	54,375
Interest expense	(327,132)	(680,101)	(1,070,830)	(928,783)	(399,999)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)	(215,900)	(39,501)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447	–	–
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)	6,194	–
Provision for loss on investments	–	(27,083)	(342,419)	(5,852)	(7,127)
Other (expense) income, net	(14,884)	(93,749)	76,907	123,426	1,494,198
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)	(2,028,421)	326,321
Reorganization expense, net	(32,009)	(75,243)	–	–	–
Income tax (expense) benefit, net	(50,344)	(201,182)	40,661	2,897	(198)
Minority interests in subsidiaries, net	183,182	(67,103)	496,515	934,548	360,444
Share in results of affiliates, net	294,464	(72,142)	(386,441)	(129,914)	(50,249)
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)	(1,220,890)	636,318
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056	–	–
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)	$ (1,220,890)	$ 636,318
Earnings per share:					
Basic net income (loss) per share	$ 7.41	$ (0.84)	$ (41.29)	$ (12.00)	$ 6.83
Diluted net income (loss) per share	$ 7.41	$ (0.83)	$ (41.29)	$ (12.00)	$ 6.13
Balance Sheet Data:					
Cash, cash equivalents, restricted cash, marketable equity securities and other investments	$ 543,872	$ 504,258	$ 1,085,711	$ 2,235,524	$ 2,573,821
Other current assets, net	284,774	361,293	857,540	701,807	329,450
Property, plant and equipment, net	3,342,743	3,640,211	3,692,485	3,880,657	2,462,832
Goodwill and other intangible assets, net	2,772,067	1,264,109	2,843,922	5,154,907	2,944,802
Other non-current assets	156,215	161,723	558,982	1,174,057	691,948
Total assets	$ 7,099,671	$ 5,931,594	$ 9,038,640	$13,146,952	$ 9,002,853
Current liabilities	$ 1,604,791	$ 7,423,688	$10,223,125	$ 1,553,765	$ 908,700
Long-term debt	3,615,902	472,671	1,643,893	9,699,121	5,989,455
Other non-current liabilities	383,725	917,963	456,447	66,615	95,502
Total liabilities	5,604,418	8,814,322	12,323,465	11,319,501	6,993,657
Minority interests in subsidiaries	22,761	1,402,146	1,240,665	1,884,568	867,970
Preferred stock	–	–	29,990	28,117	26,920
Stockholders' equity (deficit)	1,472,492	(4,284,874)	(4,555,480)	(85,234)	1,114,306
Total liabilities and stockholders' equity (deficit)	$ 7,099,671	$ 5,931,594	$ 9,038,640	$13,146,952	$ 9,002,853

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in financial condition and results of operations. This discussion is organized as follows:

- *Overview.* This section provides a general description of our business, economic and industry-wide factors relevant to us and material opportunities, challenges and risks in our business.
- *Results of Operations.* This section provides an analysis of our results of operations for all three years presented in the accompanying consolidated statements of operations.
- *Liquidity and Capital Resources.* This section provides an analysis of our sources and uses of cash, capital expenditures and the amount of financial capacity available to fund our future commitments.
- *Market Risk Management.* This section discusses how we manage exposure to potential losses arising from adverse changes in interest rates, foreign exchange fluctuations and equity price fluctuations.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those accounting policies that are considered important to our financial condition and results of operations and require significant judgment and uncertainties in their application.
- *Cautionary Factors Concerning Forward-Looking Statements.* This section provides a description of risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results to be materially different from what is reported.

Overview

We are the largest international broadband communications provider of video, voice and Internet services with operations in 15 countries outside the United States. UGC Europe, our largest consolidated operation, is a leading pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. Our primary Latin American operation, VTR, is Chile's largest multi-channel television and high-speed Internet access provider, and Chile's second largest provider of residential telephone services.

At the operational level, we have continued to focus on profitable customer growth. During 2003 we increased the number of RGUs by adding new subscribers and by selling new services to our existing subscribers. In addition to RGU growth, we have increased ARPU through rate increases and penetration of new services. Our Internet services have been a key factor in this growth. We plan to increase revenue and operating cash flow in 2004 through rate increases for our video services, migrating more customers to our digital offerings, which include premium programming and enhanced pay-per-view services, and increasing penetration in higher ARPU services such as high-speed Internet access and telephone services. We also plan to increase RGUs, revenue and operating cash flow through acquisitions, such as the recently announced Noos transaction in France, as well as selectively extending and upgrading our existing networks.

At the corporate level, we have streamlined our organizational and capital structure which we believe will improve operating efficiencies and better position ourselves in the capital markets. We recently completed the UGC Europe Exchange Offer whereby we created a simpler, more unified capital structure in which equity investors participate in our equity at a single level. We believe this provides greater liquidity for investors due to the larger combined public float. Owning 100% of UGC Europe has also served to facilitate our investment in it and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources.

We believe that there is and will continue to be growth in the demand for broadband video, telephone and Internet access services in the residential and business marketplace where we do business. We believe our triple play offering of video, telephone, and broadband access to the Internet will continue to prove attractive to our existing customer base and allow us to be competitive and grow our business.

The video, telephone and Internet access businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for labor and equipment costs. As technology changes in the video, telephone and Internet access industries, we may need to upgrade our systems to compete effectively in markets beyond what we currently plan. We may not have enough capital available from cash on hand, existing credit facilities and cash to be generated from operations for future capital needs. Our inability to pay for costs associated with adding new customers, expand or upgrade our networks or make our other planned or unplanned capital expenditures could limit our growth and harm our competitive position.

The telecommunications industry is highly regulated and adverse regulation of our services and rates charged to customers could decrease the value of our assets and limit our growth. In most of our markets, regulation of video services takes the form of price controls, programming content restrictions and ownership restrictions. To operate our telephone services, we are generally required to obtain licenses from appropriate regulatory authorities and to comply with interconnection requirements. The growth of our Internet access services may decline if more extensive laws and regulations are adopted with respect to electronic commerce. We are facing increased regulatory review from competition authorities with respect to our operations in some countries because we own interests in both video distribution and Internet access systems as well as companies that provide content for video services and Internet subscribers. In The Netherlands and at the European Union level there are debates ongoing regarding the question of what rights should be afforded to third parties in terms of access to cable networks. If we are required to offer third parties access to our distribution infrastructure for the delivery of video or Internet access services without being able to specify the terms and conditions of such access, Internet access service providers could potentially provide services that compete with our services over our network infrastructure. Providing third parties access to this distribution system may also diminish the value of our assets because we may not realize a full return on the capital that we invested in the distribution system.

The broadband communications industry is subject to rapid and significant changes in technology and the effect of technological changes on our business cannot be predicted. Our ability to anticipate changes in technology and regulatory standards and to develop and introduce new and enhanced products successfully on a timely basis will affect our ability to continue to grow, increase our revenue and number of subscribers and remain competitive. Our new products are also subject in all of our markets to lack of market acceptance, delays in development and failure to operate properly or meet customer expectations.

We rely on programming suppliers for the bulk of our programming content. We have various contracts to obtain basic and premium programming from program suppliers whose compensation is typically based on a fixed fee per customer or a percentage of our gross receipts for the particular service. Some program suppliers provide volume discount pricing structures or offer marketing support to us. Our programming contracts are generally for a fixed period of time and are subject to negotiated renewal. Our programming costs have increased in recent years and are expected to continue to increase due to additional programming being provided to our customers, increased costs to produce or purchase programming, inflationary increases and other factors. Increases in the cost of programming services have been offset in part by additional volume discounts as a result of our growth and our success in selling such services to our customers. Historically, we have been able to offset increased programming costs through increased prices to our customers. However, with the impact of competition and other marketplace factors, there is no assurance that we will be able to continue to do so. Generally, to the extent that a reduced number of customers receive a given channel, our costs of providing that channel in our line-up decreases under our programming agreements, although we may lose the benefit of certain volume discounts. We renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we may be forced to remove such programming channels from our line-up by the programmers, which could result in a further loss of customer relationships. We may not be able to obtain sufficient high-quality programming for our digital video services on satisfactory terms or at all in order to offer compelling digital video services. This may reduce demand for our services, thereby lowering our future revenues. It may also limit our ability to migrate customers from lower tier programming to higher tier programming, thereby inhibiting our ability to execute our business plan. We may not be able to obtain attractive programming for our video services in the local language. This could further lower our revenues and profitability.

The markets in which we operate are competitive and often are rapidly changing. We face competition today from other cable television service providers, direct-to-home satellite service providers and terrestrial television broadcasters. In the provision of telephone services, our operating companies face competition from the incumbent telecommunications operator in each country. These operators have substantially more experience in providing telephone services and have greater resources to devote to the provision of telephone services. In many countries, our operating companies also face competition from wireless telephone providers. In the provision of Internet access services and online content, we face competition from incumbent telecommunications companies and other telecommunications operators, other cable-based and non cable-based Internet service providers. The Internet services offered by these competitors include both traditional dial-up access services and high-speed access services, such as DSL. If we are unable to compete effectively, we may lose subscribers, and our growth may suffer.

We operate all of our businesses outside of the United States. Risks inherent in foreign operations include loss of revenue, property and equipment from expropriation, nationalization, war, insurrection, terrorism, general social unrest and other political risks, currency fluctuations, risks of increases in taxes and governmental royalties and fees and involuntary renegotiation of contracts with foreign governments. We are also exposed to the risk of changes in foreign and domestic laws and policies that govern operations of foreign-based companies.

From time to time we may acquire telecommunications companies, all of which are likely to be located outside of the United States. These acquired companies may not have disclosure controls and procedures or internal controls over financial reporting that are as thorough or effective as those required by U.S. securities law. While we intend to implement appropriate controls and procedures as we integrate acquired companies, we may not be able to certify as to the effectiveness of these companies' disclosure controls and procedures or internal controls over financial reporting until we have fully integrated them.

Results of Operations

Revenue

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe	$ 1,653,897	$ 1,319,741	$ 1,233,188
VTR	229,835	186,426	166,590
Other	7,798	8,854	162,116
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

Revenue increased $376.5 million, or 24.9%, for the year ended December 31, 2003 compared to the prior year, primarily due to an increase in RGUs through organic subscriber growth and successfully driving higher service penetration in existing customers, as well as rate increases and strengthening of the euro against the U.S. dollar (approximately 16.1%) from period to period. Revenue decreased $46.9 million, or 3.0%, for the year ended December 31, 2002 compared to the prior year, primarily as a result of the sale of 49.99% of our interest in UAP, whereby we deconsolidated the results of operations of Austar United effective November 15, 2001 (the "Austar United Deconsolidation"), offset by increases in RGUs and ARPU. The following provides revenue detail for certain of our operating segments in U.S. dollars and in the local currency of each segment.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 592,223	$ 459,044	$ 365,988
Austria	260,162	198,189	163,073
Belgium	31,586	24,646	22,318
Czech Republic	63,348	44,337	38,588
Norway	95,284	76,430	59,707
Hungary	165,450	124,046	93,206
France	113,946	92,441	83,811
Poland	85,356	76,090	132,669
Sweden	75,057	52,560	40,493
Slovak Republic	25,467	18,852	17,607
Romania	20,189	16,119	12,710
Total	1,528,068	1,182,754	1,030,170
Germany	–	28,069	45,848
Corporate and other	32,563	35,139	51,762
Total	1,560,631	1,245,962	1,127,780
chellomedia			
Priority Telecom	121,330	112,637	206,149
Media	98,463	69,372	75,676
Investments	528	465	–
Total	220,321	182,474	281,825
Intercompany Eliminations	(127,055)	(108,695)	(176,417)
Total	1,653,897	1,319,741	1,233,188
Latin America:			
Broadband			
Chile	229,835	186,426	166,590
Other	7,798	7,054	6,044
Total	237,633	193,480	172,634
Other	–	1,800	156,072
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Europe:			
UPC Broadband			
The Netherlands	€ 522,977	€ 485,589	€ 409,192
Austria	229,742	209,649	182,323
Belgium	27,893	26,071	24,953
Czech Republic	55,941	46,901	43,143
Norway	84,143	80,850	66,755
Hungary	146,105	131,219	104,209
France	100,623	97,786	93,705
Poland	75,376	80,490	148,330
Sweden	66,281	55,599	45,273
Slovak Republic	22,489	19,942	19,685
Romania	17,829	17,051	14,210
Total	1,349,399	1,251,147	1,151,778
Germany	–	29,692	51,260
Corporate and other	28,755	37,171	57,874
Total	1,378,154	1,318,010	1,260,912
chellomedia			
Priority Telecom	107,143	119,150	230,485
Media	86,950	73,384	84,610
Investments	466	492	–
Total	194,559	193,026	315,095
Intercompany Eliminations	(112,199)	(114,980)	(197,243)
Total	€ 1,460,514	€ 1,396,056	€ 1,378,764
Latin America:			
Broadband			
Chile	CP 157,675,816	CP 128,546,629	CP 105,833,894

2003 vs. 2002

On a functional currency basis, the movement in UGC Europe's revenue for the year ended December 31, 2003 compared to the prior year was primarily attributable to:

- a 2.4% increase in the number of RGUs from 8,039,300 as of December 31, 2002 to 8,229,600 as of December 31, 2003;
- a 5.0% increase in ARPU in Western Europe from €15.69 for the year ended December 31, 2002 to €16.48 for the year ended December 31, 2003, primarily due to rate increases and penetration of our higher-rate Internet services;
- a 4.5% increase in ARPU in Central and Eastern Europe from €8.69 for the year ended December 31, 2002 to €9.08 for the year ended December 31, 2003, primarily due to rate increases and penetration of our higher-rate Internet services;
- the deconsolidation of UPC Germany effective August 1, 2002;
- a decrease in revenue from Priority Telecom due to discontinued residential revenue, termination of certain interconnect revenue and price erosion and customer cancellations in a continuing weak wholesale market.

On a functional currency basis, the movement in VTR's revenue for the year ended December 31, 2003 compared to the prior year was primarily attributable to:

- a 16.4% increase in the number of RGUs from 767,900 as of December 31, 2002 to 894,000 as of December 31, 2003, primarily due to increased effectiveness of VTR's direct sales force and mass marketing initiatives for its Internet services; and
- a 5.3% increase in ARPU from CP15,023 ($21.79) to CP15,813 ($23.05) for the years ended December 31, 2002 and 2003, respectively, primarily due to increased premium tier customers and a decrease in promotions and pricing discounts.

2002 vs. 2001

On a functional currency basis, the movement in UGC Europe's revenue for the year ended December 31, 2002 compared to the prior year was primarily attributable to:

- a 3.2% increase in the number of RGUs from 7,791,200 as of December 31, 2001 to 8,039,300 as of December 31, 2002;
- a 8.4% increase in ARPU in Western Europe from €14.47 for the year ended December 31, 2001 to €15.69 for the year ended December 31, 2002, primarily due to rate increases and penetration of our higher-rate Internet services;
- a 4.1% decrease in ARPU in Central and Eastern Europe from €9.06 for the year ended December 31, 2001 to €8.69 for the year ended December 31, 2002;
- the deconsolidation of UPC Germany effective August 1, 2002;
- the abandonment of UPC's programming business in Poland in December 2001 and the closure of the sports channels in the central European region;
- a decrease in revenue from Priority Telecom due to the closure of its international wholesale business, general weak market conditions in the CLEC business and, to a lesser extent, the closure of operations in non-core countries; and
- a decrease in revenue from Media due to a revision of the chello broadband affiliate agreement, the liquidation of certain divisions and the closure of underperforming thematic channels.

On a functional currency basis, the movement in VTR's revenue for the year ended December 31, 2002 compared to the prior year was primarily attributable to:

- a 16.7% increase in the number of RGUs from 658,200 as of December 31, 2001 to 767,900 as of December 31, 2002, primarily due to heavy promotions and mass marketing initiatives for its Internet services; and
- a 3.1% decrease in ARPU from CP14,572 ($22.94) to CP15,023 ($21.79) for the years ended December 31, 2001 and 2002, respectively, primarily due to the reduction of outgoing telephone traffic because of a general contraction in the market and heavy pricing discounts for its Internet services.

Operating Expense

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
UGC Europe	$ (682,614)	$ (693,460)	$ (835,112)
VTR	(80,671)	(76,185)	(71,678)
Other	(5,553)	(2,753)	(155,604)
Total	$ (768,838)	$ (772,398)	$ (1,062,394)

Operating expense, which includes programming, broadcasting, content, franchise fees, network operations, customer operations, customer care, billing and collections and other direct costs, decreased $3.6 million for the year ended December 31, 2003 compared to the prior year, primarily due to improved operational cost control through restructuring activities and other cost cutting initiatives, offset by the strengthening of the euro against the U.S. dollar from period to period. Operating expense decreased $290.0 million for the year ended December 31, 2002 compared to the prior year, primarily due to the Austar United Deconsolidation and operational cost control through restructuring activities and other cost cutting initiatives. The following provides operating expense detail for certain of our operating segments in U.S. dollars and in the local currency of each segment.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe			
Dollars:			
UPC Broadband	$ (696,368)	$ (662,184)	$ (689,891)
chellomedia	(103,668)	(127,314)	(311,070)
Intercompany eliminations	117,422	96,038	165,849
Total	$ (682,614)	$ (693,460)	$ (835,112)
Euros:			
UPC Broadband	€ (615,967)	€ (701,643)	€ (770,725)
chellomedia	(91,699)	(134,901)	(347,518)
Intercompany eliminations	103,865	101,761	185,282
Total	€ (603,801)	€ (734,783)	€ (932,961)
VTR			
Dollars:			
Broadband	$ (80,671)	$ (76,185)	$ (71,678)
Chilean Pesos:			
Broadband	CP (55,603,772)	CP (52,504,608)	CP (45,410,558)

2003 vs. 2002

On a functional currency basis, the movement in UGC Europe's operating expense for the year ended December 31, 2003 compared to the prior year was primarily due to:

- the deconsolidation of UPC Germany effective August 1, 2002;
- improved operational cost control for UPC Broadband through restructuring activities, other cost cutting initiatives continued improvements in processes and systems and organizational rationalization;
- improved negotiations with major vendors resulting in more favorable contracts; and
- decreased costs at chellomedia due to cost controls, closing of operations in non-profitable countries and renegotiated UPC Broadband agreements.

On a functional currency basis, the movement in VTR's operating expense for the year ended December 31, 2003 compared to the prior year was primarily due to:

- an increase in programming costs as a result of the increase in the number of RGUs and the migration of more video customers to the premium tier; and
- an increase in access charges as a result of the growth in the telephone customer base; offset by
- lower bandwidth costs.

2002 vs. 2001

On a functional currency basis, the movement in UGC Europe's operating expense for the year ended December 31, 2002 compared to the prior year was primarily due to:

- the deconsolidation of DTH operations in Poland;
- cost savings from the closure of the sport channels in the central European region;
- improved operational cost control through restructuring activities continued improvements in processes and systems and organizational rationalization;
- decreased costs at Priority Telecom due to the closure of its international wholesale business and improvements in interconnect sale agreements;
- improved negotiations with major vendors resulting in more favorable contracts; and
- cost savings at chellomedia due to a change in affiliate agreements and the closure of channels.

On a functional currency basis, the movement in VTR's operating expense for the year ended December 31, 2002 compared to the prior year was primarily due to:

- an increase in variable programming costs in the functional currency due to the continued decline of the Chilean peso compared to the U.S. dollar;
- an increase in maintenance costs as a result of the increase in the number of subscribers; and
- an increase in access charges as a result of the growth in the telephone customer base; offset by
- lower bandwidth costs.

Selling, General and Administrative Expense

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe	$ (398,235)	$ (355,615)	$ (543,131)
VTR	(79,213)	(68,282)	(68,052)
Other	(16,362)	(22,352)	(79,560)
Total	$ (493,810)	$ (446,249)	$ (690,743)

Selling, general and administrative expense increased $47.6 million for the year ended December 31, 2003 compared to the prior year, primarily due to the strengthening of the euro against the U.S. dollar. Selling, general and administrative expense decreased $244.5 million for the year ended December 31, 2002 compared to the prior year, primarily due to the Austar United Deconsolidation and operational cost control through restructuring activities and other cost cutting initiatives. The following provides selling, general and administrative expense detail for certain of our operating segments in U.S. dollars and in the local currency of each segment.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe			
Dollars:			
UPC Broadband	$ (327,695)	$ (304,349)	$ (402,237)
chellomedia	(80,112)	(63,726)	(151,587)
Intercompany eliminations	9,572	12,460	10,693
Total	$ (398,235)	$ (355,615)	$ (543,131)
Euros:			
UPC Broadband	€ (289,724)	€ (322,895)	€ (449,974)
chellomedia	(70,830)	(67,609)	(169,577)
Intercompany eliminations	8,463	13,219	11,962
Total	€ (352,091)	€ (377,285)	€ (607,589)
VTR			
Dollars:			
Broadband	$ (79,213)	$ (68,282)	$ (68,052)
Chilean Pesos:			
Broadband	CP (54,271,048)	CP (47,016,022)	CP (43,103,072)

2003 vs. 2002

On a functional currency basis, the movement in UGC Europe's selling, general and administrative expense for the year ended December 31, 2003 compared to the prior year was primarily due to:

- a decrease in UPC Broadband's expenses due to improved operational cost control through restructuring activities, other cost cutting initiatives and the deconsolidation of UPC Germany effective August 1, 2002; offset by
- increased marketing and promotion costs for chellomedia.

On a functional currency basis, the movement in VTR's selling, general and administrative expense for the year ended December 31, 2003 compared to the prior year was primarily due to:

- growth in RGUs; and
- an increase in commissions and marketing expense due to increased competition; offset by
- lower bad debt provisions as a result of lower churn and improved customer relationships from bundling.

2002 vs. 2001

On a functional currency basis, the movement in UGC Europe's selling, general and administrative expense for the year ended December 31, 2002 compared to the prior year was primarily due to:

- the deconsolidation of DTH operations in Poland;
- cost savings from the closure of the sport channels in the central European region;
- the closure of our international wholesale voice and data business in Europe; and
- improved operational cost control.

On a functional currency basis, the movement in VTR's selling, general and administrative expense for the year ended December 31, 2002 compared to the prior year was primarily due to:

- growth in RGUs;
- an increase in commissions and marketing expense due to increased competition; offset by
- lower bad debt provisions as a result of lower churn and improved customer relationships from bundling.

Adjusted EBITDA

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
UGC Europe	$ 573,048	$ 270,666	$ (145,055)
VTR	69,951	41,959	26,860
Other	(14,117)	(16,251)	(73,048)
Total	$ 628,882	$ 296,374	$ (191,243)

Use of Adjusted EBITDA

Adjusted EBITDA is the primary measure used by our chief operating decision makers to evaluate segment-operating performance and to decide how to allocate resources to segments. "EBITDA" is an acronym for earnings before interest, taxes, depreciation and amortization. As we use the term, Adjusted EBITDA further removes the effects of cumulative effects of accounting changes, share in results of affiliates, minority interests in subsidiaries, reorganization expense, other income and expense, provision for loss on investments, gain (loss) on sale of investments in affiliates, gain on extinguishment of debt, foreign currency exchange gain (loss), impairment and restructuring charges, certain litigation expenses and stock-based compensation. We believe Adjusted EBITDA is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe Adjusted EBITDA is a meaningful measure and is superior to other available generally accepted accounting principles ("GAAP") measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within Adjusted EBITDA distorts their ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of Adjusted EBITDA is important because analysts and other investors use it to compare our performance to other companies in our industry. We reconcile the total of the reportable segments' Adjusted EBITDA to our consolidated net income as presented in the accompanying consolidated statements of operations, because we believe consolidated net income is the most directly comparable financial measure to total segment operating performance. Investors should view Adjusted EBITDA as a supplement to, and not a substitute for, other GAAP measures of income as a measure of operating performance. As discussed above, Adjusted EBITDA excludes, among other items, frequently occurring impairment, restructuring and other charges that would be included in GAAP measures of operating performance. Please refer to our segment information in the accompanying footnotes to our audited consolidated financial statements for a reconciliation of total segment Adjusted EBITDA to consolidated net income.

The following provides Adjusted EBITDA detail for certain of our operating segments in U.S. dollars and in the local currency of each segment:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 267,075	$ 119,329	$ 40,913
Austria	98,278	64,662	40,583
Belgium	12,306	8,340	4,367
Czech Republic	24,657	9,241	9,048
Norway	27,913	17,035	5,337
Hungary	63,357	41,487	26,555
France	13,920	(10,446)	(25,678)
Poland	24,886	15,794	(8,633)
Sweden	31,827	15,904	6,993
Slovak Republic	10,618	4,940	2,802
Romania	7,545	6,044	3,165
Other	386	535	1,434
Total	582,768	292,865	106,886
Germany	–	12,562	22,197
Corporate and other	(46,091)	(25,727)	(93,781)
Total	536,677	279,700	35,302
chellomedia			
Priority Telecom	14,530	(3,809)	(79,758)
Media	22,874	(4,851)	(100,599)
Investments	(1,033)	(374)	–
Total	36,371	(9,034)	(180,357)
Total	573,048	270,666	(145,055)
Latin America:			
Broadband			
Chile	69,951	41,959	26,860
Other	8	(3,475)	(4,016)
Total	69,959	38,484	22,844
Other	(14,125)	(12,776)	(69,032)
Total	$ 628,882	$ 296,374	$ (191,243)

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Europe:			
UPC Broadband			
The Netherlands	€ 235,184	€ 125,202	€ 45,822
Austria	86,543	67,845	45,453
Belgium	10,837	8,751	4,891
Czech Republic	21,713	9,696	10,134
Norway	24,580	17,873	5,977
Hungary	55,792	43,529	29,742
France	12,258	(10,960)	(28,759)
Poland	21,914	16,571	(9,669)
Sweden	28,027	16,687	7,832
Slovak Republic	9,350	5,183	3,138
Romania	6,644	6,342	3,545
Other	340	561	1,606
Total	513,182	307,280	119,712
Germany	–	13,180	24,861
Corporate and other	(40,588)	(26,994)	(104,359)
Total	472,594	293,466	40,214
chellomedia			
Priority Telecom	12,795	(3,996)	(89,329)
Media	20,143	(5,090)	(112,671)
Investments	(910)	(392)	–
Total	32,028	(9,478)	(202,000)
Total	€ 504,622	€ 283,988	€ (161,786)
Latin America:			
Broadband			
Chile	CP 47,800,996	CP 29,025,999	CP 17,320,264

2003 vs. 2002 and 2002 vs. 2001

Please refer to our discussion of revenue, operating expense and selling, general and administative expense above.

Depreciation and Amortization

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
UGC Europe	$ (738,224)	$ (671,757)	$ (981,895)
VTR	(66,928)	(54,458)	(54,027)
Other	(3,511)	(3,786)	(111,254)
Total	$ (808,663)	$ (730,001)	$ (1,147,176)

Depreciation and amortization expense increased for the year ended December 31, 2003 compared to the prior year, primarily due to strengthening of the euro against the U.S. dollar. On a functional currency basis, depreciation and amortization decreased due to an overall reduction in capital expenditures and impairments of long-lived assets that have reduced our asset basis. Depreciation and amortization expense decreased for the year ended December 31, 2002 compared to the prior year, primarily due to the cessation of amortization of goodwill effective January 1, 2002, in accordance with Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets* ("SFAS 142"), and the Austar United Deconsolidation.

Impairment of Long-Lived Assets

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UPC Broadband	$ (402,239)	$ (75,305)	$ (682,633)
Priority Telecom	–	(359,237)	(418,413)
Swiss wireless license	–	–	(91,260)
Microsoft contract acquisition rights	–	–	(59,831)
Other	–	(1,611)	(68,805)
Total	$ (402,239)	$ (436,153)	$ (1,320,942)

2003

During the fourth quarter of 2003, various events took place that indicated the long-lived assets in our French asset group were potentially impaired: 1) We entered into preliminary discussions regarding the merger of our French assets into a new company, which indicated a potential decline in the fair value of these assets; 2) We made downward revisions to the revenue and Adjusted EBITDA projections for France in our long-range plan, due to actual results continuing to fall short of expectations; and 3) We performed a fair value analysis of all the assets of UGC Europe in connection with the UGC Europe Exchange Offer that confirmed a decrease in fair value for our French assets. As a result of these indicators, we determined a triggering event had occurred in the fourth quarter of 2003. We performed a cash flow analysis, which indicated the carrying amount of our long-lived assets in France exceeded the sum of the undiscounted cash flows expected to result from the use of these assets. Accordingly, we performed a discounted cash flow analysis (supported by the independent valuation from the UGC Europe Exchange Offer), and recorded an impairment of $393.3 million for the difference between the fair value and the carrying amount of these long-lived assets. We also recorded a total of $8.9 million for other impairments in 2003.

2002

Based on our annual impairment test as of December 31, 2002 in accordance with SFAS 142, we recorded an impairment charge of $344.8 million and $18.0 million on goodwill related to Priority Telecom and UPC Romania, respectively. In addition, we wrote off other tangible assets in The Netherlands, Norway, France, Poland, Slovak Republic, Czech Republic and Priority Telecom amounting to $73.4 million for the year ended December 31, 2002.

2001

Due to the lack of financial resources to fully develop the triple play in Germany, and due to our inability to find a partner to help implement this strategy, the long range plans of UPC Germany were revised in 2001 to provide for a "care and maintenance" program, meaning that the business plan would be primarily focused on current customers and product offerings instead of a planned roll out of new service offerings. As a result of this revised business plan, we determined that a triggering event had occurred with respect to this investment in the fourth quarter of 2001, as defined in Statement of Financial Accounting Standards No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* ("SFAS 121"). After analyzing the projected undiscounted free cash flows (without interest), an impairment charge was deemed necessary. The amount of the charge was determined by evaluating the estimated fair value of our investment in UPC Germany using a discounted cash flow approach, resulting in an impairment charge of $682.6 million for the year ended December 31, 2001.

During the second quarter of 2001, we identified indicators of possible impairment of long-lived assets, principally indefeasible rights of use and related goodwill within our subsidiary Priority Telecom. Such indicators included significant declines in the market value of publicly traded telecommunications providers and a change, subsequent to the acquisition of Cignal, in the way that certain assets from the Cignal acquisition were being used within Priority Telecom. We revised our strategic plans for using these assets because of reduced levels of private equity funding activity for these businesses and our decision to complete a public listing of Priority Telecom in the second half of 2001. The changes in strategic plans included a decision to phase out the legacy international wholesale voice operations of Cignal. When we and Priority Telecom reached agreement to acquire Cignal in the second quarter of 2000, the companies originally intended to continue the international wholesale voice operations of Cignal for the foreseeable future. This original plan for the international wholesale voice operations was considered in the determination of the consideration paid for Cignal. In 2001, using the strategic plan prepared in connection with the public listing of Priority Telecom, an impairment assessment test and measurement in accordance with SFAS 121 was completed, resulting in a write down of tangible assets, related goodwill and other impairment charges of $418.4 million for the year ended December 31, 2001.

In 2000 we acquired a license to operate a wireless telecommunications system in Switzerland. During the fourth quarter of 2001, in connection with our overall strategic review, we determined that we were not in a position to develop this asset as a result of both funding constraints and a change in strategic focus away from the wireless business, resulting in a write down of the value of this asset to nil and a charge of $91.3 million for the year ended December 31, 2001.

As a result of issuing warrants to acquire common stock of UPC during 1999 and 2000, we recorded €150.2 million in contract acquisition rights. These rights were being amortized over the three-year term of an interim technology agreement. During the fourth quarter of 2001, this interim technology agreement was terminated, and the remaining unamortized contract acquisition rights totaling $59.8 million were written off.

Interest Expense

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe	$ (303,520)	$ (629,599)	$ (822,205)
VTR	(11,624)	(16,978)	(20,192)
Other	(11,988)	(33,524)	(228,433)
Total	$ (327,132)	$ (680,101)	$ (1,070,830)

Interest expense decreased for the year ended December 31, 2003 compared to the prior year, primarily due to the cessation of accretion of interest on UPC's senior discount notes on December 3, 2002 as a result of UPC's bankruptcy filing. Interest expense decreased during the year ended December 31, 2002 compared to the prior year due to the acquisition of the Old UGC senior notes, UPC's exchangeable loan and UPC bonds in connection with our merger transaction with Liberty on January 30, 2002 (which were extinguished on that date for consolidated financial reporting purposes), as well as the deconsolidation of UAP and Austar United effective November 15, 2001. Additional details of interest expense are as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Cash Pay:			
UGC Europe bank facilities	$ (254,900)	$ (244,785)	$ (256,912)
UPC senior notes	–	(177,958)	(254,103)
Old UGC senior notes	(2,375)	–	–
VTR bank facility	(9,373)	(12,917)	(16,284)
Other	(9,751)	(10,194)	(51,144)
	(276,399)	(445,854)	(578,443)
Non Cash:			
UPC and UPC Polska senior discount notes accretion	(29,151)	(193,509)	(247,234)
Old UGC senior notes accretion	(314)	(13,274)	(147,090)
Amortization of deferred financing costs	(21,268)	(23,072)	(39,879)
Other	–	(4,392)	(58,184)
	(50,733)	(234,247)	(492,387)
Total	$ (327,132)	$ (680,101)	$ (1,070,830)

Foreign Currency Exchange Gain (Loss)

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe	$ 75,768	$ 722,013	$ (37,906)
VTR	30,666	(45,425)	(69,395)
Other	15,178	63,206	(40,891)
Total	$ 121,612	$ 739,794	$ (148,192)

Foreign currency exchange movements are primarily due to UGC Europe's U.S. dollar-denominated debt and VTR's U.S. dollar-denominated bank facility. The euro strengthened less for the year ended December 31, 2003 (from .9545 as of December 31, 2002 to .9217 as of September 3, 2003, immediately prior to the extinguishment of most of this debt in UPC's restructuring) compared to the prior year (from 1.1189 as of December 31, 2001 to .9545 as of December 31, 2002). The Chilean peso strengthened for the year ended December 31, 2003 (from 719 as of December 31, 2002 to 594 as of December 31, 2003) compared to a weakening peso for the same period in the prior year (from 655 as of December 31, 2001 to 719 as of December 31, 2002). Foreign currency exchange gain increased $888.0 million for the year ended December 31, 2002. This gain resulted primarily from UPC's dollar-denominated debt, as the euro strengthened 14.7% against the dollar from period to period.

Gain on Extinguishment of Debt

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UPC Reorganization	$ 2,109,596	$ –	$ –
UGC	–	1,757,289	3,447
Other UPC	74,401	451,493	–
Total	$ 2,183,997	$ 2,208,782	$ 3,447

UPC Reorganization

In September 2003, as a result of the consummation of UPC's plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and insolvency proceedings under Dutch law, UGC Europe acquired all of the stock of, and became the successor issuer to, UPC. We became the holder of approximately 67% of UGC Europe's common stock in exchange for the equity and debt of UPC that we owned before the reorganization. UPC's other bondholders and third-party holders of UPC's ordinary shares and preference shares exchanged their securities for approximately 33% of UGC Europe's common stock. We accounted for this restructuring as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we have consolidated the financial position and results of operations of UGC Europe as if the reorganization had been consummated at inception. We previously recognized a gain on the effective retirement of UPC's senior notes, senior discount notes and UPC's exchangeable loan held by us when those securities were acquired directly and indirectly by us in connection with our merger transaction with Liberty in January 2002. The issuance of common stock by UGC Europe to third-party holders of the remaining UPC senior notes and senior discount notes was recorded at fair value. This fair value was significantly less than the accreted value of such debt securities as reflected in our historical consolidated financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of $2.1 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt over the fair value of UGC Europe common stock issued.

Other

On October 30, 2002, the First International Bank of Israel, or "FiBI", and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003, resulting in a gain of $74.4 million from the extinguishment of this obligation.

In January 2002, as part of our recapitalization, we purchased at fair value certain debt securities of our subsidiaries, including UPC's bonds, UPC's exchangeable loan and Old UGC senior notes (directly from Liberty and indirectly through the purchase of Liberty's interest in IDT United). The estimated fair value of these financial assets (with the exception of the UPC exchangeable loan) was significantly less than the accreted value of those debt securities as reflected in our historical financial statements. For consolidated financial reporting purposes, we recognized a gain of $1.757 billion from the effective retirement of such debt outstanding at that time equal to the excess of the then accreted value of such debt over our cost.

In January 2002, UPC recognized a gain of $109.2 million from the restructuring and cancellation of capital lease obligations associated with excess capacity of certain Priority Telecom vendor contracts.

In June 2002, UPC recognized a gain of $342.3 million from the delivery by certain banks of $399.2 million in aggregate principal amount of UPC's senior notes and senior discount notes as settlement of certain interest rate/cross currency derivative contracts between the banks and UPC.

Gain (Loss) on Sale of Investments in Affiliates

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UAP transaction	$ 284,702	$ –	$ –
UPC Germany transaction	–	147,925	–
UPC Polska transaction and other	(5,260)	(30,663)	(416,803)
Total	$ 279,442	$ 117,262	$ (416,803)

On March 29, 2002, our indirect 50% owned affiliate, United Australia/Pacific, Inc. ("UAP"), filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. On March 18, 2003, the U.S. Bankruptcy Court entered an order confirming UAP's plan of reorganization (the "UAP Plan"). The UAP Plan became effective in April 2003, and the UAP bankruptcy proceeding was completed in June 2003. In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. ("CHAMP"), acquired UAP's indirect approximate 63% interest in United Austar, Inc. ("UAI"), which owned approximately 81% of Austar United. The purchase price for UAP's indirect interest in UAI was $34.5 million in cash, which was distributed to the holders of UAP's senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of UAP's gain from the sale of its 63% interest in UAI ($26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes ($258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of $284.7 million associated with the sale of our indirect approximate 50% interest in UAP that occurred on November 15, 2001.

We consolidated the financial results of UPC Germany prior to August 2002, as we held an indirect approximate 51% majority voting equity interest. At the end of July 2002, our ownership interest in UPC Germany was reduced from approximately 51% to approximately 29% as a result of a pre-existing call right held by the minority shareholder, which became exercisable in February 2002 as a result of certain events of default under several of our debt agreements. For accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective August 1, 2002 and recognition of a gain from the reversal of the net negative investment in UPC Germany of €150.3 ($147.9) million.

In December 2001, UPC and Canal+ merged their respective Polish DTH satellite television platforms, as well as the Canal+ Polska premium channel, to form a common Polish DTH platform. UPC Polska contributed its Polish and United Kingdom DTH assets to a Polish subsidiary of Canal+, "TKP". In return, UPC Polska received a 25% ownership interest in TKP and €150.0 ($134.1) million in cash. UPC Polska's investment in TKP was recorded at fair value as of the date of the transaction, resulting in a loss of $416.9 million upon consummation of the merger.

Income Tax (Expense) Benefit

Income tax expense was greater in 2002 than 2003, primarily due to the non-recurrence in 2003 of deferred income tax of $110.6 million as a result of our merger transaction with Liberty on January 30, 2002. Income tax expense was greater in 2002 than 2001 due to this transaction, as well as interest income generated from the UPC exchangeable loan and UPC bonds held by us and the Old UGC senior notes held by IDT United, in each case acquired on January 30, 2002.

Minority Interests in Subsidiaries

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Minority interest share of UGC Europe net loss	$ 181,046	$ –	$ –
Accrual of dividends on UPC convertible preference shares	–	(97,083)	(89,202)
Minority interest share of UPC net loss	–	–	54,050
Other	2,136	29,980	531,667
Total	$ 183,182	$ (67,103)	$ 496,515

The minority interests' share of income (losses) increased $250.0 million during the year ended December 31, 2003 compared to the prior year, primarily due to the minority interests' share of UGC Europe's net loss from September 3, 2003 to December 18, 2003, as basis was re-established subsequent to UPC's reorganization, in addition to the cessation of accrued dividends on UPC's convertible preference shares effective with its bankruptcy filing in December 2002. The minority interests' share of losses decreased $563.6 million during the year ended December 31, 2002 compared to the prior period, primarily due to the significant reduction of the minority interests' basis in the common equity of UPC Germany in late 2001, as well as the Austar United Deconsolidation.

Share in Results of Affiliates

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UAP	$ 284,702	$ (38,922)	$ (217,356)
UPC's affiliates	7,961	(29,841)	(167,103)
Other	1,801	(3,379)	(1,982)
Total	$ 294,464	$ (72,142)	$ (386,441)

Upon consummation of UAP's reorganization plan in April 2003, we recognized our proportionate share of UAP's gain from the sale of its 63% interest in UAI ($26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes ($258.4 million). Losses from recording our share in results of affiliates decreased for the year ended December 31, 2002 compared to the prior year, primarily as a result of the basis in most of UPC's investments reduced to nil under the equity method of accounting, offset by recording our share of UAP's losses through March 29, 2002 totaling $38.9 million.

Cumulative Effect of Change in Accounting Principle

We adopted SFAS 142 effective January 1, 2002. SFAS 142 required a transitional impairment assessment of goodwill as of January 1, 2002, in two steps. Under step one, the fair value of each of our reporting units was compared with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, goodwill of the reporting unit was considered not impaired. If the carrying amount of a reporting unit exceeded its fair value, the second step of the goodwill impairment test was performed to measure the amount of impairment loss. We completed step one in June 2002, and concluded the carrying value of certain reporting units as of January 1, 2002 exceeded fair value. The completion of step two resulted in an impairment adjustment of $1.34 billion, and is reflected as a cumulative effect of a change in accounting principle in the consolidated statement of operations, effective January 1, 2002, in accordance with SFAS 142.

Liquidity and Capital Resources

We have financed our acquisitions and our video, voice and Internet access businesses in the two main regions of the world in which we operate primarily through operating cash flow and public and private debt and equity offerings, both at the UGC level and at the subsidiary level. We believe that we will be able to meet our current and long-term liquidity and capital requirements through our existing cash, operating cash flow and available borrowings under our existing credit facilities. To the extent we plan to grow our business through acquisitions, we will need additional sources of cash, most likely to come from the capital markets in the form of debt, equity or a combination of both.

Statements of Cash Flows

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Net cash flows from operating activities	$ 392,092	$ (293,608)	$ (671,143)
Net cash flows from investing activities	(301,354)	(257,263)	(881,367)
Net cash flows from financing activities	(211,224)	5,222	645,434
Effect of exchange rates on cash	20,662	35,694	(49,612)
Decrease in cash and cash equivalents	(99,824)	(509,955)	(956,688)
Cash and cash equivalents, beginning of year	410,185	920,140	1,876,828
Cash and cash equivalents, end of year	$ 310,361	$ 410,185	$ 920,140

As of December 31, 2003, we had $310.4 million in unrestricted consolidated cash and cash equivalents. In February 2004 we completed a fully subscribed rights offering to our stockholders, resulting in gross proceeds of $1.02 billion. We expect to use a large portion of this cash for the Noos acquisition, approximately 10% of this cash to repay a portion of the UPC Distribution Bank Facility and the remainder for future acquisitions and general corporate purposes.

Cash provided by operations has increased in each of the last three years and in 2003 became our primary source of cash, as we continued to increase service rates, lower our costs and increase penetration of higher-margin services. We used this cash and existing cash on hand at the beginning of 2003 to fund capital expenditures of $333.1 million and repay debt of $233.5 million during 2003. In prior years we had negative cash flows from operations, and had to use existing cash on hand, availability under our debt facilities and proceeds from the issuance of our common stock to fund capital expenditures of $335.2 million and $996.4 million in 2002 and 2001, respectively.

We continue to focus on increasing penetration of services in our existing upgraded footprint and efficient deployment of capital, aimed at services that result in positive net cash flows. In addition to our broadband network infrastructure in Europe and Latin America, development of businesses such as chello broadband, Priority Telecom, our digital distribution platform and DTH requires capital expenditures for construction and development of our distribution and programming facilities, including our origination facility, network operating center, and related support systems and equipment. Customer premise equipment costs decreased in 2003 and are expected to decrease further in 2004 through negotiations and as market rates for such equipment continue to fall. In addition, tighter field controls have been implemented leading to higher rates of CPE retrieval. We expect our existing network to largely cope with anticipated increases in traffic, although some costs may be incurred to support expansion of services. We plan to limit new-build expenditures primarily to those areas where essential franchise commitments require investment and to limit additional upgrade investment until such a time that existing upgraded areas are fully serviced. Future capital expenditures will also depend on some factors beyond our control, including competition, changes in technology and the timing and rate of deployment of new services.

Cash Commitments

We have summarized our contractual obligations as of December 31, 2003, and the effect such obligations are expected to have on our liquidity and cash flow in future periods, in the table below. We have also summarized these obligations on a pro forma basis, considering completed and/or contemplated refinancings and restructurings of our debt.

	Expected payment as of December 31,						
Actual	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
				(In thousands)			
Variable rate UPC Distribution Bank Facility	$ 234,468	$ 666,483	$ 960,621	$ 666,483	$ 808,369	$ 362,162	$ 3,698,586
Fixed rate Old UGC senior notes	24,627	–	–	–	–	–	24,627
Fixed rate UPC Polska notes	317,372	–	–	–	–	–	317,372
Fixed rate Notes payable to Liberty	102,728	–	–	–	–	–	102,728
Variable rate VTR Bank Facility	43,683	43,050	36,267	–	–	–	123,000
Capital lease obligations	3,073	4,222	3,641	3,952	4,299	45,655	64,842
Other debt	10,052	5,148	1,577	1,269	755	1,949	20,750
Total debt	736,003	718,903	1,002,106	671,704	813,423	409,766	4,351,905
Operating leases	60,501	39,376	32,020	26,109	21,511	42,092	221,609
Programming commitments	75,152	34,853	4,587	2,328	2,328	19,217	138,465
Other commitments	75,002	26,011	20,731	14,867	9,950	34,388	180,949
Total commitments	210,655	100,240	57,338	43,304	33,789	95,697	541,023
Total debt and commitments	$ 946,658	$ 819,143	$ 1,059,444	$ 715,008	$ 847,212	$ 505,463	$ 4,892,928

	Expected payment as of December 31,						
Pro Forma	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
				(In thousands)			
Variable rate UPC Distribution Bank Facility(1)	$ 234,468	$ 170,125	$ 243,659	$ 666,483	$ 808,369	$ 1,575,482	$ 3,698,586
Fixed rate Old UGC senior notes(2)	–	–	–	–	24,627	–	24,627
Fixed rate UPC Polska notes(3)	–	–	–	100,000	–	–	100,000
Fixed rate Notes payable to Liberty(4)	–	–	–	–	–	–	–
Variable rate VTR Bank Facility(5)	43,683	43,050	36,267	–	–	–	123,000
Capital lease obligations	3,073	4,222	3,641	3,952	4,299	45,655	64,842
Other debt	10,052	5,148	1,577	1,269	755	1,949	20,750
Total debt	291,276	222,545	285,144	771,704	838,050	1,623,086	4,031,805
Operating leases(6)	60,501	39,376	32,020	26,109	21,511	42,092	221,609
Programming commitments	75,152	34,853	4,587	2,328	2,328	19,217	138,465
Other commitments(7)	75,002	26,011	20,731	14,867	9,950	34,388	180,949
Total commitments	210,655	100,240	57,338	43,304	33,789	95,697	541,023
Total debt and commitments	$ 501,931	$ 322,785	$ 342,482	$ 815,008	$ 871,839	$ 1,718,783	$ 4,572,828

(1) In January 2004, this facility was amended to permit for the draw down of up to €1.072 billion under a new facility ("Facility D"), the proceeds of which will be used to fund scheduled amortization payments under Facility B. The following table provides detail of the UPC Distribution Bank Facility:

Tranche	Currency/Tranche Amount Euros	Currency/Tranche Amount US dollars	Amount Outstanding December 31, 2003 Euros	Amount Outstanding December 31, 2003 US dollars	Interest Rate	Description	Payment Begins	Final Maturity
	(In thousands)							
Facility A(a)(b)(c)	€ 666,750	$ 840,529	€ 230,000	$ 289,946	EURIBOR + 2.25% - 4.0%	Revolving credit	June-06	June-08
Facility B(a)(b)	2,333,250	2,941,380	2,333,250	2,941,380	EURIBOR + 2.25% - 4.0%	Term loan	June-04	June-08
Facility C1(a)	95,000	119,760	95,000	119,760	EURIBOR + 5.5%	Term loan	June-04	March-09
Facility C2(a)	405,000	347,500	275,654	347,500	LIBOR + 5.5%	Term loan	June-04	March-09
Total			€ 2,933,904	$ 3,698,586				

(a) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.

(b) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.

(c) The availability under Facility A of €436.8 ($550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.

In 2003, the average interest rate on the entire facility was 6.8%. In addition to Tranche D, we plan to use existing cash, operating cash flow and proceeds from our rights offering in February 2004 to meet our commitments under this facility.

(2) The Old UGC Senior Notes began to accrue interest on a cash-pay basis on February 15, 2003, with the first payment due August 15, 2003. Old UGC did not make this interest payment. Because this failure to pay continued for a period of more than 30 days, an event of default exists under the terms of the Old UGC Senior Notes indenture. On November 24, 2003, Old UGC, which principally owns our interests in Latin America and Australia, reached an agreement with IDT United, the unaffiliated stockholders of IDT United and us on terms for the restructuring of the Old UGC senior notes. The outstanding principal balance of the Old UGC Senior Notes is $1.262 billion. IDT United, third parties and we hold $599.2 million, $24.6 million and $638.0 million, respectively, of the Old UGC Senior Notes. We expect that the proposal, if implemented, would result in the acquisition by Old UGC of the Old UGC Senior Notes held by IDT United and us for Old UGC common stock. Subject to consummation of such acquisition, we expect to acquire the third-party interests in IDT United, in which case Old UGC would continue to be wholly owned by us. Consistent with the restructuring agreement, on January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. These senior notes bear interest at 10.75% per annum, and are due February 15, 2008.

(3) On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska's Chapter 11 plan of reorganization, which was consummated and became effective on February 18, 2004. In accordance with UPC Polska's plan of reorganization, third-party note holders received a total of $80.0 million in cash, $100.0 million in new 9.0% UPC Polska notes due 2007, and approximately 2.0 million shares of our Class A common stock in exchange for the cancellation of their claims. A subsidiary of UGC Europe received $15.0 million in cash and 100% of the newly issued membership interests denominated as stock of the reorganized company in exchange for the cancellation of their claims.

(4) In January 2004, we issued approximately 18.3 million shares of our Class A common stock to Liberty in exchange for cancellation of these notes and $36.3 million in cash.

(5) The VTR Bank Facility bears interest at LIBOR + 5.5%. In 2003, the average rate on this facility was 7.1%. We plan to use existing cash and operating cash flow to meet our commitments under this facility.

(6) Primarily license fees, satellite transponder capacity and various equipment leases.

(7) Primarily equipment purchase commitments such as set-top boxes.

Market Risk Management

Investment Portfolio

We invest our cash in liquid instruments, which meet high credit quality standards and generally have maturities at the date of purchase of less than three months. These investments are subject to interest rate risk and foreign exchange fluctuations (with respect to amounts invested in currencies outside the United States). Additionally, we hold certain investments in marketable debt and equity securities that are subject to stock price fluctuations.

Credit Risk

We monitor the financial risk of our trade counter parties. Subject to a materiality test, new vendors go through a credit check before a contract is awarded. Periodic financial analysis is made of a group of vendors that provide material proprietary services or products. As of December 31, 2003, we believe our portfolio of these vendors as a whole meets our internal criteria for acceptability.

Equity Prices

We are exposed to equity price fluctuations related to our investments in equity securities. Investments in publicly traded securities at December 31, 2003 included the following:

	Number of Shares	Fair Value December 31, 2003
		(In thousands)
SBS	6,000,000	$ 195,600
Austar United	446,040,358	$ 137,688
Sorrento	1,566,539	$ 4,637
PrimaCom	4,948,039	$ 2,375

Impact of Foreign Currency Rate Changes

We are exposed to foreign exchange rate fluctuations related to our operating subsidiaries' monetary assets and liabilities and the financial results of foreign subsidiaries when their respective financial statements are translated into U.S. dollars during consolidation. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at period-end exchange rates and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity (deficit). Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. Certain items such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) and certain other charges are denominated in a currency other than the respective company's functional currency, which results in foreign exchange gains and losses recorded in the consolidated statement of operations. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The functional currency of UGC Europe and VTR is the euro and Chilean peso, respectively.

The relationship between these foreign currencies and the U.S. dollar, which is our reporting currency, is shown below, per one U.S. dollar:

	Spot Rate	
	Euro	Chilean Peso
December 31, 2003	0.79325	593.80
December 31, 2002	0.9545	718.61
December 31, 2001	1.1189	654.79
% Strengthening (Devaluation) December 31, 2002 to December 31, 2003	16.9%	17.4%
% Strengthening (Devaluation) December 31, 2001 to December 31, 2002	14.7%	(9.7%)

	Average Rate	
	Euro	Chilean Peso
December 31, 2003	0.8806	686.04
December 31, 2002	1.0492	689.54
December 31, 2001	1.1200	635.06
% Strengthening (Devaluation) December 31, 2002 to December 31, 2003	16.1%	0.5%
% Strengthening (Devaluation) December 31, 2001 to December 31, 2002	6.3%	(8.6%)

The table below presents the impact of foreign currency fluctuations on our revenue and Adjusted EBITDA:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UGC Europe:			
Revenue	$ 1,653,897	$ 1,319,741	$ 1,233,188
Adjusted EBITDA	$ 573,048	$ 270,666	$ (145,055)
Revenue based on prior year exchange rates(1)	$ 1,392,026	$ 1,246,479	
Adjusted EBITDA based on prior year exchange rates(1)	$ 480,959	$ 253,561	
Revenue impact(2)	$ 261,871	$ 73,262	
Adjusted EBITDA impact(2)	$ 92,089	$ 17,105	
VTR:			
Revenue	$ 229,835	$ 186,426	$ 166,590
Adjusted EBITDA	$ 69,951	$ 41,959	$ 26,860
Revenue based on prior year exchange rates(1)	$ 228,668	$ 202,417	
Adjusted EBITDA based on prior year exchange rates(1)	$ 69,323	$ 45,706	
Revenue impact(2)	$ 1,167	$ (15,991)	
Adjusted EBITDA impact(2)	$ 628	$ (3,747)	

(1) Represents the current period functional currency amounts translated at the average exchange rates for the same period in the prior year.

(2) Represents the difference between the current period U.S. dollar reported amount translated at the current period average exchange rate, and the current period U.S. dollar reported amount translated at the average exchange rate for the same period in the prior year. Amounts give effect to the impact of the difference in average exchange rates on the current period reported amounts.

The table below presents the foreign currency translation adjustments arising from translating our foreign subsidiaries' assets and liabilities into U.S. dollars for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Foreign currency translation adjustments	$ 61,440	$ (864,104)	$ 11,157

Certain of our operating companies have notes payable which are denominated in a currency other than their own functional currency as follows:

	December 31, 2003	December 31, 2002
	(In thousands)	
U.S. Dollar Denominated Facilities:		
UPC senior notes and senior discount notes	$ –	$ 2,400,035
UPC Distribution Bank Facility	347,500	347,500
UPC Polska and PCI notes	317,372	391,619
VTR Bank Facility	123,000	144,000
	$ 787,872	$ 3,283,154

Interest Rate Sensitivity

We are exposed to the risk of fluctuations in interest rates, primarily through our EURIBOR and LIBOR-indexed credit facilities. We maintain a mix of fixed and variable rate debt and enter into various derivative transactions pursuant to our policies to manage exposure to movements in interest rates. We monitor our interest rate risk exposures using techniques including market value and sensitivity analyses. We manage the credit risks associated with our derivative financial instruments through the evaluation and monitoring of the creditworthiness of the counterparties. Although the counterparties may expose us to losses in the event of nonperformance, we do not expect such losses, if any, to be significant. We use interest rate exchange agreements to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. We use interest rate cap agreements to lock in a maximum interest rate should variable rates rise, but enable us to otherwise pay lower market rates.

Derivative Instruments

During the first quarter of 2003, we purchased an interest rate cap on the euro denominated UPC Distribution Bank Facility for 2003 and 2004. As a result, the net rate (without the applicable margin) is capped at 3.0% on a notional amount of €2.7 billion. In June 2003, we entered into a cross currency and interest rate swap pursuant to which a $347.5 million obligation under the UPC Distribution Bank Facility was swapped at an average rate of 1.113 euros per U.S. dollar until July 2005. The changes in fair value of these swaps are recorded through other income in the consolidated statement of operations. The fair value of these derivative contracts as of December 31, 2003 was $45.6 million (liability).

Inflation and Foreign Investment Risk

Certain of our operating companies operate in countries where the rate of inflation is extremely high relative to that in the United States. While our affiliated companies attempt to increase their subscription rates to offset increases in operating costs, there is no assurance that they will be able to do so. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on reported earnings. We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs, the effects of which to date have not been material.

Our foreign operating companies are all directly affected by their respective countries' government, economic, fiscal and monetary policies and other political factors. We believe that our operating companies' financial conditions and results of operations have not been materially adversely affected by these factors.

Critical Accounting Policies, Judgments and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements required us to make estimates and assumptions that affected the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those policies that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. For a detailed discussion on the application of these and other accounting policies, see the notes to our consolidated financial statements included elsewhere herein.

We believe our judgments and related estimates associated with the impairment testing of our long-lived tangible and intangible assets, the valuation of our acquisition related assets and liabilities, the valuation of our subscriber receivables and the valuation of our deferred tax assets to be critical in the preparation of our consolidated financial statements. These accounting estimates or assumptions are critical because of the levels of judgment necessary to account for matters that are inherently uncertain or highly susceptible to change.

Impairment of Goodwill and Intangible Assets

We test goodwill and other indefinite-lived intangible assets for impairment on an annual basis. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. Other indefinite-lived intangible assets are tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. Future adverse changes in market conditions or poor operating results of the related business may indicate an inability to recover the carrying value of the assets, thereby possibly requiring a future impairment charge.

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets we intend to use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets. We principally use the discounted cash flow method to estimate the fair value of long-lived assets. Future adverse changes in market conditions or poor operating results of the related business may indicate an inability to recover the carrying value of the assets, thereby possibly requiring a future impairment charge.

Fair Value of Acquisition Related Assets and Liabilities

We allocate the purchase price of acquired companies or acquisitions of non-controlling equity (minority) interests of a subsidiary to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. In determining fair value, management is required to make estimates and assumptions that affect the recorded amounts. To assist in this process, third party valuation specialists are engaged to value certain of these assets and liabilities. Estimates used in valuing acquired assets and liabilities include, but are not limited to, expected future cash flows, market comparables and appropriate discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

The assets and liabilities related to the acquisition of the minority interest in UGC Europe in December 2003 that required significant judgment in estimating fair value included property, plant and equipment, investments, licenses, customer relationships, trademarks, unfavorable leases, contracts, and commitments, and other legal performance obligations. Our estimates associated with the accounting for the UGC Europe acquisition may change as final reports from valuation specialists are obtained and additional information becomes available regarding these assets and liabilities. Any changes in the amounts assigned to these acquisition related assets and liabilities may affect operating results, or gains or losses upon the disposition of assets acquired, in future periods.

Subscriber Receivables

In evaluating the collectibility of our subscriber receivables, we assess a number of factors including the ability of specific customers to meet their financial obligations to us, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assessments, we record valuation allowances for bad debt to reduce the related receivables to the amount we ultimately expect to collect from our customers. If circumstances related to specific customers change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our subscriber receivables could be further reduced from the levels provided for in the consolidated financial statements.

Income Taxes

We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact. We record valuation allowances on deferred tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position. Establishing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. Actual performance versus these estimates could have a material effect on the realization of tax benefits as reported in our results of operations. Our assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

Cautionary Factors Concerning Forward-Looking Statements

We caution you that the discussion herein contains, in addition to historical information, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on management's beliefs, as well as on assumptions made by and information currently available to management. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from what we say or imply with such forward-looking statements. All statements other than statements of historical fact included herein may constitute forward-looking statements. In addition, when we use the words "may", "will", "expects", "intends", "estimates", "anticipates", "believes", "plans", "seeks" or "continues" or the negative thereof or similar expressions herein, we intend to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, including, but not limited to, national and international economic and market conditions, competitive activities or other business conditions, customer reception of our existing and future services and other issues discussed above in "Overview". These forward-looking statements may include, among other things, statements concerning our plans, objectives and future economic prospects, potential restructuring of our subsidiaries' capital structure, expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. You should be aware that the video, voice and Internet access services industries are changing rapidly, and, therefore, the forward-looking statements and statements of expectations, plans and intent herein are subject to a greater degree of risk than similar statements regarding certain other industries.

Although we believe that our expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of our business and operations, we cannot assure you that our actual results, performance or achievements will not differ materially from any future results, performance or achievements expressed or implied from such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, among other things, changes in television viewing preferences and habits by our subscribers and potential subscribers and their acceptance of new technology, programming alternatives and new video services that we may offer. They also include our subscribers' acceptance of our newer digital video, telephone and Internet access services, our ability to manage and grow our newer digital video, telephone and Internet access services, our ability to secure adequate capital to fund other system growth and development and planned acquisitions, our ability to successfully close proposed transactions and restructurings, risks inherent in investment and operations in foreign countries, changes in government regulation and changes in the nature of key strategic relationships with joint venture partners. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by our discussion of these factors. Other than as may be required by applicable law, we undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances. We caution you, however, that this list of risk factors and other cautionary language contained herein may not be exhaustive.

Selected Quarterly Financial Data

The following table presents selected unaudited operating results for each of the last eight quarters through December 31, 2003. We believe that all necessary adjustments have been included in the amounts stated to present fairly the quarterly results when read in conjunction with our consolidated financial statements and related notes included elsewhere herein. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods.

	Three Months Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(In thousands, except share and per share amounts)			
Revenue	$ 436,042	$ 465,109	$ 474,515	$ 515,864
Operating loss	$ (78,758)	$ (77,235)	$ (34,438)	$ (465,583)
Net income (loss)	$ 16,939	$ 622,014	$ 1,737,109	$ (380,694)
Earnings per share:				
Basic net income (loss) per share	$ 1.52	$ 3.45	$ 4.19	$ (0.81)
Diluted net income (loss) per share	$ 1.52	$ 3.45	$ 4.18	$ (0.80)
Weighted average number of common shares outstanding:				
Basic	413,960,762	415,662,878	415,918,032	472,086,748
Diluted	413,963,783	415,684,268	417,475,117	475,530,797

	Three Months Ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
	(In thousands, except share and per share amounts)			
Revenue	$ 349,040	$ 379,732	$ 384,736	$ 401,513
Operating loss	$ (122,647)	$ (130,166)	$ (123,195)	$ (523,274)
Net income (loss) before cumulative effect of change in accounting principle	$ 1,112,575	$ 569,570	$ (275,214)	$ (418,663)
Net income (loss)	$ (232,147)	$ 569,570	$ (275,214)	$ (418,663)
Earnings per share:				
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 3.50	$ 1.37	$ (0.67)	$ (1.01)
Basic net income (loss) per share	$ (0.74)	$ 1.37	$ (0.67)	$ (1.01)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 3.43	$ 1.37	$ (0.67)	$ (1.01)
Diluted net income (loss) per share	$ (0.72)	$ 1.37	$ (0.67)	$ (1.01)
Weighted average number of common shares outstanding:				
Basic	317,075,487	415,010,285	413,450,776	413,486,364
Diluted	324,419,204	415,058,142	413,450,776	413,486,364

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Our former independent public accountants, Arthur Andersen, LLP ("Arthur Andersen"), were indicted by the United States Department of Justice on federal obstruction of justice charges in early 2002, and ceased performing audits of public companies. The opinion of Arthur Andersen included in this annual report on Form 10-K covers our financial statements for the year ended December 31, 2001. The opinion is a copy of the audit report previously issued by Arthur Andersen in connection with our annual report on Form 10-K for the year ended December 31, 2001, as amended in connection with Amendment No. 1 to our Form S-1 Registration Statement filed on June 6, 2002. Arthur Andersen has not reissued such report.

As previously reported on Form 8-K dated July 11, 2002, our Board of Directors dismissed Arthur Andersen as our independent auditor, and engaged KPMG LLP as our independent auditor for the fiscal year ended December 31, 2002.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Co-Chief Financial Officers, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. In designing and evaluating the disclosure controls and procedures, we and our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is necessarily required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the required evaluation, our Chief Executive Officer and Co-Chief Financial Officers have concluded that our disclosure controls and procedures are effective in providing reasonable assurance of achieving the desired control objectives.

(b) Changes in Internal Controls

There have been no changes in our internal controls over financial reporting identified in connection with the evaluation described above that occurred during the fourth fiscal quarter covered by this annual report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Independent Auditors' Report

The Board of Directors
UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the revision described in Note 7 to the 2003 consolidated financial statements, in their report dated April 12, 2002 (except with respect to the matter discussed in Note 23 to those consolidated financial statements, as to which the date was May 14, 2002). Such report included an explanatory paragraph indicating substantial doubt about the Company's ability to continue as a going concern.

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

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets and in 2003, changed its method of accounting for gains and losses on the early extinguishments of debt.

As discussed above, the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. As described in Note 6, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 in Note 6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries other than with respect to such disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

KPMG LLP

Denver, Colorado
March 8, 2004

The following is a copy of the Report of Independent Public Accountants previously issued by Arthur Andersen LLP in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as amended in connection with Amendment No. 1 to the Company's Form S-1 Registration Statement filed on June 6, 2002. The report of Andersen is included in this Annual Report on Form 10-K pursuant to Rule 2-02(e) of Regulation S-X. This Audit Report has not been reissued by Arthur Andersen LLP. The information previously contained in Note 23 to those consolidated financial statements is provided in Note 4 to our 2003 consolidated financial statements. The information previously contained in Note 2 to those consolidated financial statements is not included in our 2003 consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation f/k/a New UnitedGlobalCom, Inc. – see Note 23) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 3 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, is currently in default under certain of its significant bank credit facilities, senior notes and senior discount note agreements, which has resulted in a significant net working capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

ARTHUR ANDERSEN LLP

Denver, Colorado
April 12, 2002 (except with respect
to the matter discussed in Note 23,
as to which the date is May 14, 2002)

UnitedGlobalCom, Inc.
Consolidated Balance Sheets
(In thousands, except par value and number of shares)

	December 31, 2003	December 31, 2002
Assets		
Current assets		
Cash and cash equivalents	$ 310,361	$ 410,185
Restricted cash	25,052	48,219
Marketable equity securities and other investments	208,459	45,854
Subscriber receivables, net of allowance for doubtful accounts of $51,109 and $71,485, respectively	140,075	136,796
Related party receivables	1,730	15,402
Other receivables	63,427	50,759
Deferred financing costs, net	2,730	62,996
Other current assets, net	76,812	95,340
Total current assets	828,646	865,551
Long-term assets		
Property, plant and equipment, net	3,342,743	3,640,211
Goodwill	2,519,831	1,250,333
Intangible assets, net	252,236	13,776
Other assets, net	156,215	161,723
Total assets	$ 7,099,671	$ 5,931,594
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Not subject to compromise:		
Accounts payable	$ 224,092	$ 190,710
Accounts payable, related party	1,448	1,704
Accrued liabilities	405,546	328,927
Subscriber prepayments and deposits	141,108	127,553
Short-term debt	–	205,145
Notes payable, related party	102,728	102,728
Current portion of long-term debt	310,804	3,366,235
Other current liabilities	82,149	16,448
Total current liabilities not subject to compromise	1,267,875	4,339,450
Subject to compromise:		
Accounts payable and accrued liabilities	14,445	271,250
Short-term debt	5,099	–
Current portion of long-term debt	317,372	2,812,988
Total current liabilities subject to compromise	336,916	3,084,238
Long-term liabilities		
Not subject to compromise:		
Long-term debt	3,615,902	472,671
Net negative investment in deconsolidated subsidiaries	–	644,471
Deferred taxes	124,232	107,596
Other long-term liabilities	259,493	165,896
Total long-term liabilities not subject to compromise	3,999,627	1,390,634
Guarantees, commitments and contingencies (Note 13)		
Minority interests in subsidiaries	22,761	1,402,146
Stockholders' equity (deficit)		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, nil shares issued and outstanding	–	–
Class A common stock, $0.01 par value, 1,000,000,000 shares authorized, 287,350,970 and 110,392,692 shares issued, respectively	2,873	1,104
Class B common stock, $0.01 par value, 1,000,000,000 shares authorized, 8,870,332 shares issued	89	89
Class C common stock, $0.01 par value, 400,000,000 shares authorized, 303,123,542 shares issued and outstanding	3,031	3,031
Additional paid-in capital	5,852,896	3,683,644
Deferred compensation	–	(28,473)
Treasury stock, at cost	(70,495)	(34,162)
Accumulated deficit	(3,372,737)	(6,797,762)
Accumulated other comprehensive income (loss)	(943,165)	(1,112,345)
Total stockholders' equity (deficit)	1,472,492	(4,284,874)
Total liabilities and stockholders' equity (deficit)	$ 7,099,671	$ 5,931,594

The accompanying notes are an integral part of these consolidated financial statements.

UnitedGlobalCom, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except per share data)

	Year Ended December 31,		
	2003	2002	2001
Statements of Operations			
Revenue	$ 1,891,530	$ 1,515,021	$ 1,561,894
Operating expense	(768,838)	(772,398)	(1,062,394)
Selling, general and administrative expense	(493,810)	(446,249)	(690,743)
Depreciation and amortization – Operating expense	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets – Operating expense	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other – Operating expense	(35,970)	(1,274)	(204,127)
Stock-based compensation – Selling, general and administrative expense	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest income, including related party income of $985, $2,722 and $35,336, respectively	13,054	38,315	104,696
Interest expense, including related party expense of $8,218, $24,805 and $58,834, respectively	(327,132)	(680,101)	(1,070,830)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Provision for loss on investments	–	(27,083)	(342,419)
Other (expense) income, net	(14,884)	(93,749)	76,907
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Reorganization expense, net	(32,009)	(75,243)	–
Income tax (expense) benefit, net	(50,344)	(201,182)	40,661
Minority interests in subsidiaries, net	183,182	(67,103)	496,515
Share in results of affiliates, net	294,464	(72,142)	(386,441)
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Earnings per share (Note 20):			
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	–	(3.13)	0.18
Basic net income (loss) per share	$ 7.41	$ (0.84)	$ (41.29)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	–	(3.12)	0.18
Diluted net income (loss) per share	$ 7.41	$ (0.83)	$ (41.29)
Statements of Comprehensive Income			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	61,440	(864,104)	11,157
Change in fair value of derivative assets	10,616	13,443	(24,059)
Change in unrealized gain on available-for-sale securities	97,318	4,029	37,526
Other	(194)	(77)	271
Comprehensive income (loss)	$ 2,164,548	$ (1,203,163)	$ (4,469,814)

The accompanying notes are an integral part of these consolidated financial statements.

UnitedGlobalCom, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except number of shares)

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Deferred Compensation	Class A Treasury Stock		Class B Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount	Shares	Amount			
December 31, 2002	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (34,162)	-	$ -	$ (6,797,762)	$ (1,112,345)	$ (4,284,874)
Issuance of Class A common stock for subsidiary preference shares	2,155,905	21	-	-	-	-	6,082	-	-	-	-	-	1,423,102	-	1,429,205
Issuance of Class A common stock in connection with stock option plans	311,454	3	-	-	-	-	1,351	-	-	-	-	-	-	-	1,354
Issuance of Class A common stock in connection with 401(k) plan	58,272	1	-	-	-	-	258	-	-	-	-	-	-	-	259
Issuance of common stock by UGC Europe for debt and other liabilities	-	-	-	-	-	-	966,362	-	-	-	-	-	-	-	966,362
Equity transactions of subsidiaries	-	-	-	-	-	-	(129,904)	1,896	-	-	-	-	6,555	-	(121,453)
Amortization of deferred compensation	-	-	-	-	-	-	-	26,577	-	-	-	-	-	-	26,577
Receipt of common stock in satisfaction of executive loans	-	-	-	-	-	-	-	-	188,792	-	672,316	-	-	-	-
Issuance of Class A common stock in connection with the UGC Europe exchange offer	174,432,647	1,744	-	-	-	-	1,325,103	-	4,780,611	(36,333)	-	-	-	-	1,290,514
Net income	-	-	-	-	-	-	-	-	-	-	-	-	1,995,368	-	1,995,368
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	61,440	61,440
Change in fair value of derivative assets	-	-	-	-	-	-	-	-	-	-	-	-	-	10,616	10,616
Unrealized gain (loss) on available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	97,318	97,318
Amortization of cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-	-	-	(194)	(194)
December 31, 2003	287,350,970	$ 2,873	8,870,332	$ 89	303,123,542	$ 3,031	$ 5,852,896	$ -	12,373,643	$ (70,495)	672,316	$ -	$ (3,372,737)	$ (943,165)	$ 1,472,492

Accumulated Other Comprehensive Income (Loss)

	December 31,	
	2003	2002
	(In thousands)	
Foreign currency translation adjustments	$ (1,057,074)	$ (1,118,514)
Fair value of derivative assets	-	(10,616)
Other	113,909	16,785
Total	$ (943,165)	$ (1,112,345)

The accompanying notes are an integral part of these consolidated financial statements.

UnitedGlobalCom, Inc.

Consolidated Statements of Stockholders' Equity (Deficit) (continued)

(In thousands, except number of shares)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount			
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	-	$ -	$ 1,537,944	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,290)	$ (265,636)	$(4,555,480)
Accrual of dividends on Series B, C and D convertible preferred stock	-	-	-	-	-	-	-	-	-	-	(156)	-	-	-	(4,018)	-	(4,174)
Merger/reorganization transaction	(425,000)	(425,000)	(287,500)	(287,500)	11,628,674	116	(10,156,802)	(101)	21,835,384	218	770,448	-	(35,708)	923	-	-	59,104
Issuance of Class C common stock for financial assets	-	-	-	-	-	-	-	-	281,288,158	2,813	1,396,469	-	-	-	-	-	1,399,282
Issuance of Class A common stock in exchange for remaining interest in Old UGC	-	-	-	-	600,000	6	-	-	-	-	(6)	-	-	-	-	-	-
Issuance of Class A common stock in connection with 401(k) plan	-	-	-	-	121,813	1	-	-	-	-	340	-	-	-	-	-	341
Equity transactions of subsidiaries and other	-	-	-	-	-	-	-	-	-	-	(21,395)	12,794	-	-	-	-	(8,601)
Amortization of deferred compensation	-	-	-	-	-	-	-	-	-	-	-	32,918	-	-	-	-	32,918
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	1,835,000	(5,101)	-	-	(5,101)
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(356,454)	-	(356,454)
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(864,104)	(864,104)
Change in fair value of derivative assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,443	13,443
Change in unrealized gain on available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,029	4,029
Amortization of cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(77)	(77)
Balances, December 31, 2002	-	$ -	-	$ -	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (34,162)	$ (6,797,762)	$ (1,112,345)	$(4,284,874)

The accompanying notes are an integral part of these consolidated financial statements.

UnitedGlobalCom, Inc.
Consolidated Statements of Stockholders' Equity (Deficit) (continued)
(In thousands, except number of shares)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount			
Balances, December 31, 2000	425,000	$ 425,000	287,500	$ 287,500	83,820,633	$ 838	19,221,940	$ 192	$ 1,531,593	$ (117,136)	5,604,948	$ (29,984)	$ (1,892,706)	$ (290,531)	$ (85,234)
Exchange of Class B common stock for Class A common stock	–	–	–	–	194,806	2	(194,806)	(2)	–	–	–	–	–	–	–
Issuance of Class A common stock in connection with stock option plans and 401(k) plan	–	–	–	–	76,504	1	–	–	386	–	–	–	–	–	387
Issuance of Class A common stock for cash	–	–	–	–	11,991,018	120	–	–	19,905	–	–	–	–	–	20,025
Accrual of dividends on Series B, C and D convertible preferred stock	–	14,875	–	10,063	–	–	–	–	(1,873)	–	–	–	(49,875)	–	(26,810)
Issuance of Class A common stock in lieu of cash dividends on Series C and D convertible preferred stock	–	(14,875)	–	(10,063)	1,959,244	20	–	–	24,918	–	–	–	–	–	–
Equity transactions of subsidiaries and others	–	–	–	–	–	–	–	–	(29,122)	22,159	–	–	–	–	(6,963)
Amortization of deferred compensation	–	–	–	–	–	–	–	–	(1,292)	20,792	–	–	–	–	19,500
Loans to related parties, collateralized with common shares and options	–	–	–	–	–	–	–	–	(6,571)	–	–	–	–	–	(6,571)
Net loss	–	–	–	–	–	–	–	–	–	–	–	–	(4,494,709)	–	(4,494,709)
Foreign currency translation adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	11,157	11,157
Change in fair value of derivative assets	–	–	–	–	–	–	–	–	–	–	–	–	–	(24,059)	(24,059)
Unrealized gain (loss) on available-for-sale securities	–	–	–	–	–	–	–	–	–	–	–	–	–	37,526	37,526
Cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	523	523
Amortization of cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	(252)	(252)
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	$ 1,537,944	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,290)	$ (265,636)	$ (4,555,480)

The accompanying notes are an integral part of these consolidated financial statements.

UnitedGlobalCom, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2003	2002	2001
Cash Flows from Operating Activities			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Stock-based compensation	38,024	28,228	8,818
Depreciation and amortization	808,663	730,001	1,147,176
Impairment of long-lived assets	402,239	437,427	1,525,069
Accretion of interest on senior notes and amortization of deferred financing costs	50,733	234,247	492,387
Unrealized foreign exchange (gains) losses, net	(84,258)	(745,169)	125,722
Loss on derivative securities	12,508	115,458	–
Gain on extinguishment of debt	(2,183,997)	(2,208,782)	3,447
(Gain) loss on sale of investments in affiliates and other assets, net	(279,442)	(117,262)	416,803
Provision for loss on investments	–	27,083	342,419
Reorganization expenses, net	32,009	75,243	–
Deferred tax provision	(18,161)	104,068	(43,167)
Minority interests in subsidiaries, net	(183,182)	67,103	(496,515)
Share in results of affiliates, net	(294,464)	72,142	386,441
Cumulative effect of change in accounting principle	–	1,344,722	(20,056)
Change in assets and liabilities:			
Change in receivables, net	49,238	42,175	68,137
Change in other assets	(8,368)	4,628	2,489
Change in accounts payable, accrued liabilities and other	55,182	(148,466)	(135,604)
Net cash flows from operating activities	392,092	(293,608)	(671,143)
Cash Flows from Investing Activities			
Purchase of short-term liquid investments	(1,000)	(117,221)	(1,691,751)
Proceeds from sale of short-term liquid investments	45,561	152,405	1,907,171
Restricted cash released (deposited), net	24,825	40,357	(74,996)
Investments in affiliates and other investments	(20,931)	(2,590)	(60,654)
Proceeds from sale of investments in affiliated companies	45,447	–	120,416
New acquisitions, net of cash acquired	(2,150)	(22,617)	(39,950)
Capital expenditures	(333,124)	(335,192)	(996,411)
Purchase of interest rate caps	(9,750)	–	–
Settlement of interest rate caps	(58,038)	–	–
Other	7,806	27,595	(45,192)
Net cash flows from investing activities	(301,354)	(257,263)	(881,367)
Cash Flows from Financing Activities			
Issuance of common stock	1,354	200,006	24,054
Proceeds from notes payable to shareholder	–	102,728	–
Proceeds from short-term and long-term borrowings	23,161	42,742	1,673,981
Retirement of existing senior notes	–	(231,630)	(261,309)
Financing costs	(2,233)	(18,293)	(17,771)
Repayments of short-term and long-term borrowings	(233,506)	(90,331)	(766,950)
Other	–	–	(6,571)
Net cash flows from financing activities	(211,224)	5,222	645,434
Effects of Exchange Rates on Cash	20,662	35,694	(49,612)
Decrease in Cash and Cash Equivalents	(99,824)	(509,955)	(956,688)
Cash and Cash Equivalents, Beginning of Year	410,185	920,140	1,876,828
Cash and Cash Equivalents, End of Year	$ 310,361	$ 410,185	$ 920,140
Supplemental Cash Flow Disclosure			
Cash paid for reorganization expenses	$ 27,084	$ 33,488	$ –
Cash paid for interest	$ 185,591	$ 304,274	$ 519,221
Cash paid for income taxes	$ 1,947	$ 14,260	$ –
Non-Cash Investing and Financing Activities			
Issuance of subsidiary common stock for financial assets	$ 966,362	$ –	$ –
Issuance of common stock for acquisitions	$ 1,326,847	$ 1,206,441	$ –

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Nature of Operations

UnitedGlobalCom, Inc. (together with its subsidiaries the "Company", "UGC", "we", "us", "our" or similar terms) was formed in February 2001 as part of a series of planned transactions with Old UGC, Inc. ("Old UGC", formerly known as UGC Holdings, Inc., now our wholly owned subsidiary) and Liberty Media Corporation (together with its subsidiaries and affiliates "Liberty"), which restructured and recapitalized our business. We are an international broadband communications provider of video, voice and Internet services with operations in 15 countries outside the United States. UGC Europe, Inc. (together with its subsidiaries "UGC Europe"), our largest consolidated operation, is a pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. UGC Europe's operations are currently organized into two principal divisions – UPC Broadband and chellomedia. UPC Broadband delivers video, high-speed Internet access and telephone services to residential customers. chellomedia provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates our digital media center and operates a competitive local exchange carrier business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Our primary Latin American operation, VTR GlobalCom S.A. ("VTR"), provides multi-channel television, high-speed Internet access and residential telephone services in Chile. We also have an approximate 19% interest in SBS Broadcasting S.A. ("SBS"), a European commercial television and radio broadcasting company, and an approximate 34% interest in Austar United Communications Ltd. ("Austar United"), a pay-TV provider in Australia.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP")requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, deferred tax valuation allowances, loss contingencies, fair values of financial instruments, asset impairments, useful lives of property, plant and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which we are the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents, Restricted Cash, Marketable Equity Securities and Other Investments

Cash and cash equivalents include cash and highly liquid investments with original maturities of less than three months. Restricted cash includes cash held as collateral for letters of credit and other loans, and is classified based on the expected expiration of such facilities. Cash held in escrow and restricted to a specific use is classified based on the expected timing of such disbursement. Marketable equity securities and other investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

Marketable equity securities and other investments are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these marketable equity securities and other investments are reported as a separate component of stockholders' equity. Declines in the fair value of marketable equity securities and other investments that are other than temporary are recognized in the statement of operations, thus establishing a new cost basis for such investment. These marketable equity securities and other investments are evaluated on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the historical volatility of the price of each security and any market and company specific factors related to each security. Declines in the fair value of investments below cost basis for a period of less than six months are considered to be temporary. Declines in the fair value of investments for a period of six to nine months are evaluated on a case-by-case basis to determine whether any company or market-specific factors exist that would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for greater than nine months are considered other than temporary and are recorded as charges to the statement of operations, absent specific factors to the contrary.

We estimate fair value amounts using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. Generally, upon disconnection of a subscriber, the account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer pursued. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, replacements and improvements that extend asset lives are capitalized and costs for normal repair and maintenance are charged to expense as incurred. Costs associated with the construction of cable networks, transmission and distribution facilities are capitalized (including capital leases). Depreciation is calculated using the straight-line method over the economic useful life of the asset. Costs associated with new cable, telephone and Internet access subscriber installations are capitalized and depreciated over the average expected subscriber life. Subscriber installation costs include direct labor, materials (such as cabling, wiring, wall plates and fittings) and related overhead (such as indirect labor, logistics and inventory handling).

The economic lives of property, plant and equipment at acquisition are as follows:

Customer premise equipment	4-10 years
Commercial	3-20 years
Scaleable infrastructure	3-20 years
Line extensions	5-20 years
Upgrade/rebuild	3-20 years
Support capital	1-33 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets we intend to use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets.

Goodwill and Other Intangible Assets

Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Other intangible assets consist principally of customer relationships, trademarks and computer software. Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. We adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), effective January 1, 2002. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is performed on a reporting unit level on an annual basis. Goodwill and other indefinite-lived intangible assets are tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Investments in Affiliates, Accounted for under the Equity Method

For those investments in unconsolidated subsidiaries and companies in which our voting interest is 20% to 50%, our investments are held through a combination of voting common stock, preferred stock, debentures or convertible debt and we exert significant influence through Board representation and management authority, the equity method of accounting is used. The cost method of accounting is used for our investments in affiliates in which our ownership interest is less than 20% and where we do not exert significant influence. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize our proportionate share of net earnings or losses of the affiliate, limited to the extent of our investment in and advances to the affiliate, including any debt guarantees or other contractual funding commitments. We evaluate our investments in publicly traded securities accounted for under the equity method periodically for impairment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. A decline in value of an investment which is other than temporary is recognized as a realized loss, establishing a new carrying amount for the investment. Factors considered in making this evaluation include the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, including cash flows of the investee and any specific events which may influence the operations of the issuer, and our intent and ability to retain our investments for a period of time sufficient to allow for any anticipated recovery in market value.

Derivative Financial Instruments

We use derivative financial instruments from time to time to manage exposure to movements in foreign currency exchange rates and interest rates. We account for derivative financial instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, ("SFAS 133"), which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the statement of operations, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivative financial instruments designated and that qualify as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are recorded as a component of other comprehensive income or loss in stockholders' equity until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. The change in fair value of the hedged item is recorded as an adjustment to its carrying value on the balance sheet. For derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings.

Subscriber Prepayments and Deposits

Payments received in advance for distribution services are deferred and recognized as revenue when the associated services are provided. Deposits are recorded as a liability upon receipt and refunded to the subscriber upon disconnection.

Cable Network Revenue and Related Costs

We recognize revenue from the provision of video, telephone and Internet access services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to these services over our cable network is recognized as revenue in the period in which the installation occurs, to the extent these fees are equal to or less than direct selling costs, which are expensed. To the extent installation revenue exceeds direct selling costs, the excess fees are deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Other Revenue and Related Costs

We recognize revenue from the provision of direct-to-home satellite services, or "DTH", telephone and data services to business customers outside of our cable network in the period the related services are provided. Installation revenue (including reconnect fees) related to these services outside of our cable network is deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of subscriber receivables. Concentration of credit risk with respect to subscriber receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

Stock-Based Compensation

We account for our stock-based compensation plans and the stock-based compensation plans of our subsidiaries using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). We have provided pro forma disclosures of net income (loss) under the fair value method of accounting for these plans, as prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure and Amendment of SFAS No. 123* ("SFAS 148"), as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share amounts)		
Net income (loss), as reported	$ 1,995,368	$ (356,454)	$ (4,494,709)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects(1)	29,242	28,228	8,818
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(57,101)	(102,837)	(98,638)
Pro forma net income (loss)	$ 1,967,509	$ (431,063)	$ (4,584,529)
Basic net income (loss) per common share:			
As reported	$ 7.41	$ (0.84)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)
Diluted net income (loss) per common share:			
As reported	$ 7.41	$ (0.83)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)

(1) Not including SARs. Compensation expense for SARs is the same under APB 25 and SFAS 123.

Stock-based compensation is recorded as a result of applying variable-plan accounting to stock appreciation rights ("SARs") granted to employees and vesting of certain of our fixed stock-based compensation plans. Under variable-plan accounting, compensation expense (credit) is recognized at each financial statement date for vested SARs based on the difference between the grant price and the estimated fair value of our Class A common stock, until the SARs are exercised or expire, or until the fair value is less than the original grant price. Under fixed-plan accounting, deferred compensation is recorded for the excess of fair value over the exercise price of such options at the date of grant. This deferred compensation is then recognized in the statement of operations ratably over the vesting period of the options.

Income Taxes

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if we believe it more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax liabilities related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future.

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share is determined by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during each period. Net income (loss) attributable to common stockholders includes the accrual of dividends on convertible preferred stock which is charged directly to additional paid-in capital and/or accumulated deficit. Diluted net income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive.

Foreign Operations and Foreign Currency Exchange Rate Risk

Our consolidated financial statements are prepared in U.S. dollars. Almost all of our operations are conducted in a currency other than the U.S. dollar. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at period-end exchange rates and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity (deficit). Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line below cash flows from financing activities. Certain items such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) and certain other charges are denominated in a currency other than the respective company's functional currency, which results in foreign exchange gains and losses recorded in the consolidated statement of operations. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. We adopted SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Among other things, SFAS 145 required us to reclassify gains and losses associated with the extinguishment of debt (including the related tax effects) from extraordinary classification to other income in the accompanying consolidated statements of operations.

3. Acquisitions, Dispositions and Other

2003

Acquisition of UPC Preference Shares

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 1,165,352 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $610.9 million was recognized from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of these preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

On April 4, 2003, we issued 879,041 shares of our Class A common stock in a private transaction pursuant to a transaction agreement dated March 31, 2003, among us, a subsidiary of ours, Motorola Inc. and Motorola UPC Holdings, Inc. In consideration for the 879,041 shares of our Class A common stock, we acquired 3,500 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 1,669,457 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On April 14, 2003, we issued 426,360 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated April 8, 2003, between us and Liberty International B-L LLC. In consideration for the 426,360 shares of our Class A common stock, we acquired 2,122 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 971,118 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $812.2 million was recognized during the second quarter of 2003 from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of the preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

United Pan-Europe Communications N.V. Reorganization

In September 2003, as a result of the consummation of UPC's plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and insolvency proceedings under Dutch law, UGC Europe acquired all of the stock of, and became the successor issuer to, UPC. Prior to UPC's reorganization, we were the majority stockholder and largest single creditor of UPC. We became the holder of approximately 66.6% of UGC Europe's common stock in exchange for the equity and debt of UPC that we owned prior to UPC's reorganization. UPC's other bondholders and third-party holders of UPC's ordinary shares and preference shares exchanged their securities for the remaining 33.4% of UGC Europe's common stock.

We accounted for this restructuring as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we have consolidated the financial position and results of operations of UGC Europe as if the reorganization had been consummated at inception. We previously recognized a gain on the effective retirement of UPC's senior notes, senior discount notes and UPC's exchangeable loan held by us when those securities were acquired directly and indirectly by us in connection with our merger transaction with Liberty in January 2002. The issuance of common stock by UGC Europe to third-party holders of the remaining UPC senior notes and senior discount notes was recorded at fair value. This fair value was significantly less than the accreted value of such debt securities as reflected in our historical consolidated financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of $2.1 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt ($3.076 billion) over the fair value of UGC Europe common stock issued ($966.4 million).

UGC Europe Exchange Offer and Merger

On December 18, 2003, we completed an exchange offer pursuant to which we offered to exchange 10.3 shares of our Class A common stock for each outstanding share of UGC Europe common stock not owned by us. On December 19, 2003, we effected a short-form merger between UGC Europe and one of our subsidiaries on the same terms offered in the exchange offer. We issued 172,248,306 shares of our Class A common stock to third parties in connection with the exchange offer and merger (including 2,596,270 shares subject to appraisal rights that were withdrawn subsequent to December 31, 2003), as well as 4,780,611 shares to Old UGC to acquire its UGC Europe common stock. We now own all of the outstanding equity securities of UGC Europe.

We valued the exchange offer and merger for accounting purposes at $1.315 billion, based on the issuance of our Class A common stock at the average closing price of such stock for the five days surrounding November 12, 2003, the date we announced the revised and final terms of the exchange offer, and our estimated transaction costs, consisting primarily of dealer-manager, legal and accounting fees, printing costs, other external costs and other purchase consideration directly related to the exchange offer and merger. This total value includes $19.7 million related to the value of shares subject to appraisal rights that were withdrawn in January 2004. This amount is included in other current liabilities in the accompanying consolidated balance sheet.

We accounted for the exchange offer and merger using the purchase method of accounting, in accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"). Under the purchase method of accounting, the total estimated purchase price was allocated to the minority shareholders' proportionate interest in UGC Europe's identifiable tangible and intangible assets and liabilities acquired by us based upon their estimated fair values upon completion of the transaction. Purchase price in excess of the book value of these identifiable tangible and intangible assets and liabilities acquired was allocated as follows (in thousands):

Property, plant and equipment	$ 717
Goodwill	1,005,148
Customer relationships and tradename	243,212
Other assets	10,556
Other liabilities	55,271
Total consideration	$ 1,314,904

The excess purchase price over the net identifiable tangible and intangible assets and liabilities acquired was recorded as goodwill, which is not deductible for tax purposes. This goodwill was attributable to the following:

- Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;
- Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and
- Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe's and our separate corporate functions into a better integrated, unitary corporate organization.

The following unaudited pro forma condensed consolidated operating results give effect to this transaction as if it had been completed as of January 1, 2003 (for 2003 results) and as of January 1, 2002 (for 2002 results). This unaudited pro forma condensed consolidated financial information does not purport to represent what our results of operations would actually have been if this transaction had in fact occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

	Year Ended December 31,	
	2003	2002
	(In thousands, except share and per share amounts)	
Revenue	$ 1,891,530	$ 1,515,021
Income before cumulative effect of change in accounting principle	$ 1,805,225	$ 1,014,908
Net income (loss)	$ 1,805,225	$ (329,814)
Earnings per share:		
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 4.99	$ 1.63
Cumulative effect of change in accounting principle	–	(2.17)
Basic net income (loss) per share	$ 4.99	$ (0.54)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 4.98	$ 1.63
Cumulative effect of change in accounting principle	–	(2.17)
Diluted net income (loss) per share	$ 4.98	$ (0.54)

2002

Merger Transaction

On January 30, 2002, we completed a transaction with Liberty and Old UGC, pursuant to which the following occurred.

Immediately prior to the merger transaction on January 30, 2002:

- Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;
- Certain long-term stockholders of Old UGC (the "Founders") transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and
- Four of the Founders (the "Principal Founders") contributed $3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC's directors.

As a result of the merger transaction:

- Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;
- Each share of Old UGC's Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;
- The shares of Old UGC's Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC's preferred stock would have received had they converted their preferred stock immediately prior to the merger;
- Liberty had the right to elect four of our 12 directors;
- The Founders had the effective voting power to elect eight of our 12 directors; and
- We had the right to elect half of Old UGC's directors and the Principal Founders had the right to elect the other half of Old UGC's directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

- Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of $891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;
- Liberty contributed $200.0 million in cash to us;
- Liberty contributed to us certain UPC bonds (the "United UPC Bonds") and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and
- In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

In December 2001, IDT United, Inc. ("IDT United") commenced a cash tender offer for, and related consent solicitation with respect to, the entire $1.375 billion face amount of senior discount notes of Old UGC (the "Old UGC Senior Notes"). As of the expiration of the tender offer on February 1, 2002, holders of the notes had validly tendered and not withdrawn notes representing approximately $1.350 billion aggregate principal amount at maturity. At the time of the tender offer, Liberty had an equity and debt interest in IDT United. IDT United's sole purpose was to tender for the Old UGC Senior Notes.

Prior to the merger on January 30, 2002, we acquired from Liberty $751.2 million aggregate principal amount at maturity of the Old UGC Senior Notes (which had previously been distributed to Liberty by IDT United in redemption of a portion of Liberty's equity interest and in prepayment of a portion of IDT United's debt to Liberty), as well as all of Liberty's remaining interest in IDT United. The purchase price for the Old UGC Senior Notes and Liberty's interest in IDT United was:

- Our assumption of approximately $304.6 million of indebtedness owed by Liberty to Old UGC; and
- Cash in the amount of approximately $143.9 million.

On January 30, 2002, Liberty loaned us approximately $17.3 million, of which approximately $2.3 million was used to purchase shares of redeemable preferred stock and convertible promissory notes issued by IDT United. Following January 30, 2002, Liberty loaned us an additional approximately $85.4 million. We used the proceeds of these loans to purchase additional shares of redeemable preferred stock and convertible promissory notes issued by IDT United. These notes to Liberty accrued interest at 8.0% annually, compounded and payable quarterly, and were cancelled in January 2004 (see Note 22). Subsequent to these transactions, IDT United held Old UGC Senior Notes with a principal amount at maturity of $599.2 million. Although we only retain a 33.3% common equity interest in IDT United, we consolidate IDT United as a "variable interest entity", as we are the primary beneficiary of an entity that has insufficient equity at risk.

On May 14, 2002, the Principal Founders transferred all of the shares of Old UGC common stock held by them to us in exchange for an aggregate of 600,000 shares of our Class A common stock pursuant to an exchange agreement dated May 14, 2002, among such individuals and us. This exchange agreement superseded the exchange agreement entered into at the time of the merger transaction. As a result of this exchange, Old UGC became our wholly-owned subsidiary, and we were entitled to elect the entire board of directors of Old UGC. This transaction was the final step in the recapitalization of Old UGC.

We accounted for the merger transaction on January 30, 2002 as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we consolidated the financial position and results of operations of Old UGC as if the merger transaction had been consummated at the inception of Old UGC. The purchase of the Old UGC Senior Notes directly from Liberty and the purchase of Liberty's interest in IDT United were recorded at fair value. The issuance of our new shares of Class C common stock to Liberty for cash, the United UPC Bonds and the UPC Exchangeable Loan was recorded at the fair value of our common stock at closing. The estimated fair value of these financial assets (with the exception of the UPC Exchangeable Loan) was significantly less than the accreted value of such debt securities as reflected in Old UGC's historical financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of approximately $1.757 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt over our cost, as follows:

	Fair Value at Acquisition	Book Value	Gain/(Loss)
		(In thousands)	
Old UGC Senior Notes	$ 540,149	$ 1,210,974	$ 670,825
United UPC Bonds	312,831	1,451,519	1,138,688
UPC Exchangeable Loan	891,671	891,671	–
Write-off of deferred financing costs	–	(52,224)	(52,224)
Total gain on extinguishment of debt	$ 1,744,651	$ 3,501,940	$ 1,757,289

We also recorded a deferred income tax provision of $110.6 million related to a portion of the gain on extinguishment of the Old UGC Senior Notes.

Transfer of German Shares

Until July 30, 2002, UPC had a 51% ownership interest in EWT/TSS Group through its 51% owned subsidiary, UPC Germany. Pursuant to the agreement by which UPC acquired EWT/TSS Group, UPC was required to fulfill a contribution obligation no later than March 2003, by contributing certain assets amounting to approximately €358.8 million. If UPC failed to make the contribution by such date or in certain circumstances such as a material default by UPC under its financing agreements, the minority shareholders of UPC Germany could call for 22.3% of the ownership interest in UPC Germany in exchange for the euro equivalent of 1 Deutsche Mark. On March 5, 2002, UPC received the holders' notice of exercise. On July 30, 2002, UPC completed the transfer of 22.3% of UPC Germany to the minority shareholders in return for the cancellation of the contribution obligation. UPC now owns 28.7% of UPC Germany, with the former minority shareholders owning the remaining 71.3%. UPC Germany is governed by a new shareholders agreement. For accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective

August 1, 2002, and recognition of a gain from the reversal of the net negative investment in UPC Germany. Details of the assets and liabilities of UPC Germany as of August 1, 2002 were as follows (in thousands):

Working capital	$ (74,809)
Property, plant and equipment	74,169
Goodwill and other intangible assets	69,912
Long-term liabilities	(84,288)
Minority interest	(142,158)
Gain on reversal of net negative investment	147,925
Net cash deconsolidated	$ (9,249)

Other

In January 2002, we recognized a gain of $109.2 million from the restructuring and cancellation of capital lease obligations associated with excess capacity of certain Priority Telecom vendor contracts.

In June 2002, we recognized a gain of $342.3 million from the delivery by certain banks of $399.2 million in aggregate principal amount of UPC's senior notes and senior discount notes as settlement of certain interest rate and cross currency derivative contracts between the banks and UPC.

2001

In December 2001, UPC and Canal+ Group, the television and film division of Vivendi Universal ("Canal+") merged their respective Polish DTH satellite television platforms, as well as the Canal+ Polska premium channel, to form a common Polish DTH platform. UPC Polska contributed its Polish and United Kingdom DTH assets to Telewizyjna Korporacja Partycypacyjna S.A., a subsidiary of Canal+ ("TKP"), and placed €30.0 million ($26.8 million) cash into an escrow account, which was used to fund TKP with a loan of €30.0 million in January 2002 (the "JV Loan"). In return, UPC Polska received a 25% ownership interest in TKP and €150.0 ($134.1) million in cash. UPC Polska's investment in TKP was recorded at fair value as of the date of the transaction, resulting in a loss of $416.9 million upon consummation of the merger.

4. Marketable Equity Securities and Other Investments

	December 31, 2003		December 31, 2002	
	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
	(In thousands)		(In thousands)	
SBS common stock	$ 195,600	$ 105,790	$ –	$ –
Other equity securities	10,725	6,098	–	–
Corporate bonds and other	2,134	856	45,854	14
Total	$ 208,459	$ 112,744	$ 45,854	$ 14

We recorded an aggregate charge to earnings for other than temporary declines in the fair value of certain of our investments of approximately nil, $2.0 million and nil for the years ended December 31, 2003, 2002 and 2001, respectively.

We own 6.0 million shares of SBS. Historically, our common share ownership interest in SBS was accounted for under the equity method of accounting, as we were able to exert significant influence. On December 19, 2003, SBS redeemed certain of its outstanding debt and as a result issued new common shares to the note holders which reduced our ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

5. Property, Plant and Equipment

	December 31, 2002	Additions	Disposals	Impairments(1)	UGC Europe Exchange Offer(2)	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Customer premises equipment	$ 1,003,950	$ 95,834	$ (2,459)	$ (89,971)	$ 20,936	$ 201,941	$ 1,230,231
Commercial	5,670	–	–	–	–	235	5,905
Scaleable infrastructure	637,171	44,177	–	(23,806)	(8,973)	138,000	786,569
Line extensions	2,055,614	66,216	–	(302,280)	(3,806)	373,306	2,189,050
Upgrade/rebuild	846,406	30,287	–	(4,854)	(5,653)	151,127	1,017,313
Support capital	696,362	70,972	(473)	(30,874)	4,824	127,250	868,061
Priority Telecom(3)	306,233	17,074	–	(415)	(5,357)	43,521	361,056
UPC Media	83,598	5,833	–	(6,438)	(1,254)	16,447	98,186
Total	5,635,004	330,393	(2,932)	(458,638)	717	1,051,827	6,556,371
Accumulated depreciation	(1,994,793)	(804,937)	2,123	64,788	–	(480,809)	(3,213,628)
Net property, plant and equipment	$ 3,640,211	$ (474,544)	$ (809)	$ (393,850)	$ 717	$ 571,018	$ 3,342,743

(1) See Note 17.

(2) See Note 3.

(3) Consists primarily of network infrastructure and equipment.

6. Goodwill

The change in the carrying amount of goodwill by operating segment for the year ended December 31, 2003 is as follows:

	December 31, 2002	Acquisitions	UGC Europe Exchange Offer(1)	Foreign Currency Translation Adjustments	December 31, 2003
			(In thousands)		
Europe:					
Austria	$ 140,349	$ 383	$ 167,209	$ 31,640	$ 339,581
Belgium	14,284	–	24,467	1,747	40,498
Czech Republic	–	–	67,138	1,240	68,378
Hungary	73,878	229	142,809	11,723	228,639
The Netherlands	705,833	–	256,415	149,310	1,111,558
Norway	9,017	–	28,553	930	38,500
Poland	–	–	36,368	672	37,040
Romania	20,138	–	2,698	324	23,160
Slovak Republic	3,353	–	22,644	1,133	27,130
Sweden	142,771	–	30,823	31,270	204,864
chellomedia	–	–	122,304	2,258	124,562
UGC Europe, Inc.	–	–	103,720	1,915	105,635
Total	1,109,623	612	1,005,148	234,162	2,349,545
Latin America:					
Chile	140,710	–	–	29,576	170,286
Total	$ 1,250,333	$ 612	$ 1,005,148	$ 263,738	$ 2,519,831

(1) See Note 3.

We adopted SFAS 142 effective January 1, 2002. SFAS 142 required a transitional impairment assessment of goodwill as of January 1, 2002, in two steps. Under step one, the fair value of each of our reporting units was compared with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, goodwill of the reporting unit was considered not impaired. If the carrying amount of a reporting unit exceeded its fair value, the second step of the goodwill impairment test was performed to measure the amount of impairment loss. We completed step one in June 2002, and concluded the carrying value of certain reporting units as of January 1, 2002 exceeded fair value. The completion of step two resulted in an impairment adjustment of $1.34 billion. This amount has been reflected as a cumulative effect of a change in accounting principle in the consolidated statement of operations, effective January 1, 2002, in accordance with SFAS 142. We also recorded impairment charges totaling $362.8 million based on our annual impairment test effective December 31, 2002.

Pro Forma Information

Prior to January 1, 2002, goodwill and excess basis on equity method investments was generally amortized over 15 years. The following presents the pro forma effect on net loss for the year ended December 31, 2001, from the reduction of amortization expense on goodwill and the reduction of amortization of excess basis on equity method investments, as a result of the adoption of SFAS 142 (in thousands, except per share amounts):

	Year Ended December 31, 2001
Net loss as reported	$ (4,494,709)
Goodwill amortization	
UPC and subsidiaries	379,449
VTR	11,310
Austar United and subsidiaries	12,765
Other	2,881
Amortization of excess basis on equity investments	
UPC affiliates	35,940
Austar United affiliates	2,823
Other	2,027
Adjusted net loss	$ (4,047,514)
Basic and diluted net loss per common share as reported	$ (41.29)
Goodwill amortization	
UPC and subsidiaries	3.45
VTR	0.10
Austar United and subsidiaries	0.12
Other	0.03
Amortization of excess basis on equity investments	
UPC affiliates	0.33
Austar United affiliates	0.03
Other	0.02
Adjusted basic and diluted net loss per common share	$ (37.21)

7. Intangible Assets

Other intangible assets consist primarily of customer relationships, tradename, licenses and capitalized software. Customer relationships are amortized over the expected lives of our customers. The weighted-average amortization period of the customer relationship intangible is approximately 7.5 years. Tradename is an indefinite-lived intangible asset that is not subject to amortization. The following tables present certain information for other intangible assets. Actual amounts of amortization expense may differ from estimated amounts due to additional acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

	December 31, 2002	Additions	Impairments(1)	Disposals	UGC Europe Exchange Offer	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Intangible assets with definite lives:							
Customer relationships	$ –	$ –	$ –	$ –	$ 220,290	$ 4,068	$ 224,358
License fees	25,075	1,489	(13,871)	(3,815)	–	2,870	11,748
Other	10,493	233	–	(4,132)	–	1,925	8,519
Intangible assets with indefinite lives:							
Tradename	–	–	–	–	22,922	424	23,346
Total	35,568	1,722	(13,871)	(7,947)	243,212	9,287	267,971
Accumulated amortization	(21,792)	(3,726)	5,482	7,537	–	(3,236)	(15,735)
Net intangible assets	$ 13,776	$ (2,004)	$ (8,389)	$ (410)	$ 243,212	$ 6,051	$ 252,236

(1) See Note 17.

	Year ended December 31, 2003	2002	2001
		(In thousands)	
Amortization expense	$ 3,726	$ 16,632	$ 19,136

	Year Ended December 31, 2004	2005	2006	2007	2008	Thereafter
			(In thousands)			
Estimated amortization expense	$ 33,043	$ 31,816	$ 30,515	$ 30,515	$ 30,515	$ 72,486

8. Long-Term Debt

	December 31, 2003	December 31, 2002
	(In thousands)	
UPC Distribution Bank Facility	$ 3,698,586	$ 3,289,826
UPC Polska notes	317,372	377,110
VTR Bank Facility	123,000	—
Old UGC Senior Notes	24,627	24,313
Other	80,493	133,148
PCI notes	–	14,509
UPC July 1999 senior notes(1)	–	1,079,062
UPC January 2000 senior notes(1)	–	1,075,468
UPC October 1999 senior notes(1)	–	658,458
Total	4,244,078	6,651,894
Current portion	(628,176)	(6,179,223)
Long-term portion	$ 3,615,902	$ 472,671

(1) These senior notes and senior discount notes were converted into common stock of UGC Europe in connection with UPC's reorganization.

UPC Distribution Bank Facility

The UPC Distribution Bank Facility is guaranteed by UPC's majority owned cable operating companies, excluding Poland, and is senior to other long-term debt obligations of UPC. The UPC Distribution Bank Facility credit agreement contains certain financial covenants and restrictions on UPC's subsidiaries regarding payment of dividends, ability to incur indebtedness, dispose of assets, and merge and enter into affiliate transactions.

The following table provides detail of the UPC Distribution Bank Facility:

Tranche	Currency/Tranche Amount Euros	Currency/Tranche Amount US dollars	Amount Outstanding December 31, 2003 Euros	Amount Outstanding December 31, 2003 US dollars	Interest Rate(4)	Description	Payment Begins	Final Maturity
	(In thousands)							
Facility A(1)(2)(3)	€ 666,750	$ 840,529	€ 230,000	$ 289,946	EURIBOR +2.25% – 4.0%	Revolving credit	June-06	June-08
Facility B(1)(2)	2,333,250	2,941,380	2,333,250	2,941,380	EURIBOR +2.25% – 4.0%	Term loan	June-04	June-08
Facility C1(1)	95,000	119,760	95,000	119,760	EURIBOR +5.5%	Term loan	June-04	March-09
Facility C2(1)	405,000	347,500	275,654	347,500	LIBOR +5.5%	Term loan	June-04	March-09
Total			€2,933,904	$3,698,586				

(1) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.
(2) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.
(3) The availability under Facility A of €436.8 ($550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.
(4) As of December 31, 2003, six month EURIBOR and LIBOR rates were 2.2% and 1.2%, respectively.

In January 2004, the UPC Distribution Bank Facility was amended to:

- Permit indebtedness under a new facility ("Facility D"). The new facility has substantially the same terms as the existing facility and consists of five different tranches totaling €1.072 billion. The proceeds of Facility D are limited in use to fund the scheduled payments of Facility B under the existing facility between December 2004 and December 2006;
- Increase and extend the maximum permitted ratios of senior debt to annualized EBITDA (as defined in the bank facility) and lower and extend the minimum required ratios of EBITDA to senior interest and EBITDA to senior debt service;

- Include a total debt to annualized EBITDA ratio and EBITDA to total cash interest ratio;
- Include a mandatory prepayment from proceeds of debt issuance and net equity proceeds received by UGC Europe; and
- Permit acquisitions depending on certain leverage ratios and other restrictions.

UPC Polska Notes

On July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska's Chapter 11 plan of reorganization, which was consummated and became effective on February 18, 2004, when UPC Polska emerged from the Chapter 11 proceedings. In accordance with UPC Polska's plan of reorganization, third-party note holders received a total of $80.0 million in cash, $100.0 million in new 9.0% UPC Polska notes due 2007, and approximately 2.0 million shares of our Class A common stock in exchange for the cancellation of their claims. Two subsidiaries of UGC Europe, UPC Telecom B.V. and Belmarken Holding B.V., received $15.0 million in cash and 100% of the newly issued membership interests denominated as stock of the reorganized company in exchange for the cancellation of their claims.

VTR Bank Facility

In May 2003, VTR and VTR's senior lenders amended and restated VTR's existing senior secured credit facility. Principal payments are payable during the term of the facility on a quarterly basis beginning March 31, 2004, with final maturity on December 31, 2006. The VTR Bank Facility bears interest at LIBOR plus 5.50% (subject to adjustment under certain conditions) and is collateralized by tangible and intangible assets pledged by VTR and certain of its operating subsidiaries, as set forth in the credit agreement. The VTR Bank Facility is senior to other long-term debt obligations of VTR. The VTR Bank Facility credit agreement establishes certain covenants with respect to financial statements, existence of lawsuits, insurance, prohibition of material changes, limits to taxes, indebtedness, restriction of payments, capital expenditures, compliance ratios, governmental approvals, coverage agreements, lines of business, transactions with related parties, certain obligations with subsidiaries and collateral issues.

Old UGC Senior Notes

The Old UGC Senior Notes accreted to an aggregate principal amount of $1.375 billion on February 15, 2003, at which time cash interest began to accrue. Commencing August 15, 2003, cash interest on the Old UGC Senior Notes is payable on February 15 and August 15 of each year until maturity at a rate of 10.75% per annum. The Old UGC Senior Notes mature on February 15, 2008. As of December 31, 2003, the following entities held the Old UGC Senior Notes:

	Principal Amount at Maturity
	(In thousands)
UGC	$ 638,008(1)
IDT United	599,173(1)
Third parties	24,627
Total	$ 1,261,808

(1) Eliminated in consolidation.

The Old UGC Senior Notes began to accrue interest on a cash-pay basis on February 15, 2003, with the first payment due August 15, 2003. Old UGC did not make this interest payment. Because this failure to pay continued for a period of more than 30 days, an event of default exists under the terms of the Old UGC Senior Notes indenture. On November 24, 2003, Old UGC, which principally owns our interests in Latin America and Australia, reached an agreement with us, IDT United (in which we have a 94% fully diluted interest and a 33% common equity interest) and the unaffiliated stockholders of IDT United on terms for the restructuring of the Old UGC Senior Notes. Consistent with the restructuring agreement, on January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. The agreement and related transactions, if implemented, would result in the acquisition by Old UGC of the Old UGC Notes held by us (following cancellation of offsetting obligations) and IDT United for common stock of Old UGC. Old UGC Senior Notes held by third parties would either be left outstanding (after cure and reinstatement) or acquired for our Class A Common Stock (or, at our election, for cash). Subject to consummation of the transactions contemplated by the agreement, we expect to acquire the interests of the unaffiliated stockholders in IDT United for our Class A Common Stock and/or cash, at our election, in which case Old UGC would continue to be wholly owned by us. The value of any Class A Common Stock to be issued by us in these transactions is not expected to exceed $45 million. A claim was filed in the Chapter 11 proceeding by Excite@Home. See Note 13.

Long-Term Debt Maturities

The maturities of our long-term debt are as follows (in thousands):

Year Ended December 31, 2004	$ 628,176
Year Ended December 31, 2005	718,903
Year Ended December 31, 2006	1,002,106
Year Ended December 31, 2007	671,704
Year Ended December 31, 2008	813,423
Thereafter	409,766
Total	$ 4,244,078

9. Fair Value of Financial Instruments

	December 31, 2003		December 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
UPC Distribution Bank Facility	$ 3,698,586	$ 3,698,586(1)	$ 3,289,826	$ 3,289,826(2)
UPC Polska Notes	317,372	194,500(3)	377,110	99,133(4)
VTR Bank Facility	123,000	123,000(5)	144,000	144,000(5)
Note payable to Liberty	102,728	102,728(6)	102,728	102,728(6)
Old UGC Senior Notes	24,627	20,687(7)	24,313	8,619(4)
UPC July 1999 Senior Notes	–	–	1,079,062	64,687(4)
UPC October 1999 Senior Notes	–	–	658,458	41,146(4)
UPC January 2000 Senior Notes	–	–	1,075,468	68,152(4)
UPC FiBI Loan	–	–	57,033	– (8)
Other	85,592	85,592(9)	151,769	151,769(9)
Total	$ 4,351,905	$ 4,225,093	$ 6,959,767	$ 3,970,060

(1) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) Moody's Investor Service rated the facility at B+; and c) the credit agreement was amended in January 2004 to add a new €1.072 billion tranche on similar credit terms as the previous facility.

(2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount); b) the reorganization plan of UPC assumed, in liquidation, that the lenders of the facility would be paid back 100%, based on seniority in liquidation (i.e., the assets of UPC Distribution were sufficient to repay the facility in a liquidation scenario); c) certain lenders under the facility confirmed to us they did not mark down the facility on their books; and d) when the facility was amended in connection with the restructuring agreement on September 30, 2002, the revised terms included increased fees and margin (credit spread), resetting the terms of this variable-rate facility to market.

(3) Fair value represents the consideration UPC Polska note holders received from the consummation of UPC Polska's second amended Chapter 11 plan of reorganization.

(4) Fair value is based on quoted market prices.

(5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR's results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.

(6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.

(7) Fair value is based on an independent valuation analysis.

(8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel ("FiBI") and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.

(9) Fair value approximates carrying value.

The carrying value of cash and cash equivalents, subscriber receivables, other receivables, other current assets, accounts payable, accrued liabilities and subscriber prepayments and deposits approximates fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices at the reporting date.

10. Derivative Instruments

We had a cross currency swap related to the UPC Distribution Bank Facility where a $347.5 million notional amount was swapped at an average rate of 0.852 euros per U.S. dollar until November 29, 2002. On November 29, 2002, the swap was settled for €64.6 million. We also had an interest rate swap related to the UPC Distribution Bank Facility where a notional amount of €1.725 billion was fixed at 4.55% for the EURIBOR portion of the interest calculation through April 15, 2003. This swap qualified as an accounting cash flow hedge, accordingly, the changes in fair value of this instrument were recorded through other comprehensive income (loss) in the consolidated statement of stockholders' equity (deficit). This swap expired April 15, 2003. During the first quarter of 2003, we purchased an interest rate cap on the euro denominated UPC Distribution Bank Facility for 2003 and 2004. As a result, the net rate (without the applicable margin) is capped at 3.0% on a notional amount of €2.7 billion. The changes in fair value of these interest caps are recorded through other income in the consolidated statement of operations. In June 2003, we entered into a cross currency and interest rate swap pursuant to which a $347.5 million obligation under the UPC Distribution Bank Facility was swapped at an average rate of 1.113 euros per U.S. dollar until July 2005. The changes in fair value of these interest swaps are recorded through other income in the consolidated statement of operations. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of $56.3 million, $130.1 million and $105.8 million, respectively, in connection with the change in fair value of these derivative instruments. The fair value of these derivative contracts as of December 31, 2003 was $45.6 million (liability).

Certain of our operating companies' programming contracts are denominated in currencies that are not the functional currency or local currency of that operating company, nor that of the counter party. As a result, these contracts contain embedded foreign exchange derivatives that require separate accounting. We report these derivatives at fair value, with changes in fair value recognized in earnings.

11. Bankruptcy Proceedings

In September 2002, we and other creditors of UPC reached a binding agreement on a recapitalization and reorganization plan for UPC. In order to effect the restructuring, on December 3, 2002, UPC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated December 3, 2002. On that date, UPC also commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law and filed a proposed plan of compulsory composition with the Amsterdam Court under the Dutch bankruptcy code. The U.S. Bankruptcy Court confirmed the reorganization plan on February 20, 2003. The Dutch Bankruptcy Court ratified the plan of compulsory composition on March 13, 2003. Following appeals in the Dutch proceedings, the reorganization was completed as provided for in the pre-negotiated plan of reorganization in September 2003.

On June 19, 2003, UPC Polska executed a binding agreement with some of its creditors to restructure its balance sheet. In order to effect the restructuring, on July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated July 8, 2003. On October 27, 2003, UPC Polska filed a first amended plan of reorganization with the U.S. Bankruptcy Court. On December 17, 2003, UPC Polska entered into a "Stipulation and Order with Respect to Consensual Plan of Reorganization" which terminated the restructuring agreement. Pursuant to the Stipulation, UPC filed a second amended plan of reorganization with the U.S. Bankruptcy Court, which was consummated and became effective on February 18, 2004.

In connection with their bankruptcy proceedings, UPC and UPC Polska are required to prepare their consolidated financial statements in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"), issued by the American Institute of Certified Public Accountants. In accordance with SOP 90-7, all of UPC's and UPC Polska's pre-petition liabilities that were subject to compromise under their plans of reorganization are segregated in their consolidated balance sheet as liabilities and convertible preferred stock subject to compromise. These liabilities were recorded at the amounts expected to be allowed as claims in the bankruptcy proceedings rather than at the estimated amounts for which those allowed claims might be settled as a result of the approval of the plans of reorganization. Since we consolidate UPC and UPC Polska, financial information with respect to UPC and UPC Polska included in our accompanying consolidated financial statements has been prepared in accordance with SOP 90-7. The following presents condensed financial information for UPC Polska and UPC in accordance with SOP 90-7:

	UPC Polska	UPC
	December 31,	
	2003	2002
	(In thousands)	
Balance Sheet		
Assets		
Current assets	$ 240,131	$ 54,650
Long-term assets	–	328,422
Total assets	$ 240,131	$ 383,072
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Not subject to compromise:		
Accounts payable, accrued liabilities, debt and other	$ 10,794	$ 631
Total current liabilities not subject to compromise	10,794	631
Subject to compromise:		
Accounts payable	14,445	38,647
Short-term debt	6,000	–
Accrued liabilities	–	232,603
Intercompany payable(1)	4,668	135,652
Current portion of long-term debt(1)	456,992	2,812,954
Debt(1)	481,737	1,533,707
Total current liabilities subject to compromise	963,842	4,753,563
Long-term liabilities not subject to compromise	–	725,008
Convertible preferred stock subject to compromise(2)	–	1,744,043
Stockholders' equity (deficit)	(734,505)	(6,840,173)
Total liabilities and stockholders' equity (deficit)	$ 240,131	$ 383,072

(1) Certain amounts are eliminated in consolidation.
(2) 99.6% is eliminated in consolidation.

	UPC Polska 2003(1)	UPC 2002(2)
	(In thousands)	
Statement of Operations		
Revenue	$ –	$ 19,037
Expense	–	(42,696)
Depreciation and amortization	–	(16,562)
Impairment and restructuring charges	(6,000)	(1,218)
Operating income (loss)	(6,000)	(41,439)
Share in results of affiliates and other expense, net	(6,669)	(1,870,430)
Net income (loss)	$ (12,669)	$ (1,911,869)

(1) For the period from July 7, 2003 (the petition date) to December 31, 2003.
(2) For the year ended December 31, 2002.

The following presents certain other disclosures required by SOP 90-7 for UPC Polska and UPC:

	2003	2002
	(In thousands)	
Interest expense on liabilities subject to compromise(1)	$ 55,270	$ –
Contractual interest expense on liabilities subject to compromise	$ 106,858	$ 709,571
Reorganization expense:		
Professional fees	$ 43,248	$ 37,898
Adjustment of debt to expected allowed amounts	(19,239)	–
Write-off of deferred finance costs	–	36,203
Other	8,000	1,142
Total reorganization expense	$ 32,009	$ 75,243

(1) In accordance with SOP 90-7, interest expense on liabilities subject to compromise is reported in the accompanying consolidated statement of operations only to the extent that it will be paid during the bankruptcy proceedings or to the extent it is considered an allowed claim.

12. Net Negative Investment in Deconsolidated Subsidiaries

On November 15, 2001, we transferred an approximate 50% interest in United Australia/Pacific, Inc. ("UAP") to an independent third party for nominal consideration. As a result, we deconsolidated UAP effective November 15, 2001. On March 29, 2002, UAP filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. On March 18, 2003, the U.S. Bankruptcy Court entered an order confirming UAP's plan of reorganization (the "UAP Plan"). The UAP Plan became effective in April 2003, and the UAP bankruptcy proceeding was completed in June 2003.

In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. ("CHAMP") acquired UAP's indirect approximate 63.2% interest in United Austar, Inc. ("UAI"), which owned approximately 80.7% of Austar United. The purchase price for UAP's indirect interest in UAI was $34.5 million in cash, which was distributed to the holders of UAP's senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of UAP's gain from the sale of its 63.2% interest in UAI ($26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes ($258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of $284.7 million associated with the sale of our indirect approximate 49.99% interest in UAP that occurred on November 15, 2001.

13. Guarantees, Commitments and Contingencies

Guarantees

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification guarantees typically extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and the likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

In connection with the acquisition of UPC's ordinary shares held by Philips Electronics N.V. ("Philips") on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria ("Vienna Obligations"), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence.

Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders' costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

We sub-lease transponder capacity to a third party and all guaranteed performance criteria is matched with the guaranteed performance criteria we receive from the lease transponder provider. We have third party contracts for the distribution of channels from our digital media center in Amsterdam that require us to perform according to industry standard practice, with penalties attached should performance drop below the agreed-upon criteria. Additionally, our interactive services group in Europe has third party contracts for the delivery of interactive content with certain performance criteria guarantees.

Commitments

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense under these lease agreements totaled

$69.9 million, $48.5 million and $63.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

	Capital Leases	Operating Leases
Year ended December 31, 2004	$ 7,791	$ 60,501
Year ended December 31, 2005	8,790	39,376
Year ended December 31, 2006	7,887	32,020
Year ended December 31, 2007	7,899	26,109
Year ended December 31, 2008	7,917	21,511
Thereafter	61,826	42,092
Total minimum payments	$ 102,110	$ 221,609
Less amount representing interest and executory costs	(37,268)	
Net lease payments	64,842	
Lease obligations due within one year	(3,073)	
Long-term lease obligations	$ 61,769	

As of December 31, 2003, we have a commitment to purchase 265,000 set-top computers over the next two years. We expect to finance these purchases from existing unrestricted cash balances and future operating cash flow.

We have certain franchise obligations under which we must meet performance requirements to construct networks under certain circumstances. Non-performance of these obligations could result in penalties being levied against us. We continue to meet our obligations so as not to incur such penalties. In the ordinary course of business, we provide customers with certain performance guarantees. For example, should a service outage occur in excess of a certain period of time, we would compensate those customers for the outage. Historically, we have not made any significant payments under any of these indemnifications or guarantees. In certain cases, due to the nature of the agreement, we have not been able to estimate our maximum potential loss or the maximum potential loss has not been specified.

Contingencies

The following is a description of certain legal proceedings to which we or one of our subsidiaries is a party. From time to time we may become involved in litigation relating to claims arising out of our operations in the normal course of business. In our opinion, the ultimate resolution of these legal proceedings would not likely have a material adverse effect on our business, results of operations, financial condition or liquidity.

Cignal

On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications ("Cignal") filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200.0 million alleging that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful consummation of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders' claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering.

Excite@Home

In 2000, certain of our subsidiaries, including UPC, pursued a transaction with Excite@Home, which if completed, would have merged UPC's chello broadband subsidiary with Excite@Home's international broadband operations to form a European Internet business. The transaction was not completed, and discussions between the parties ended in late 2000. On November 3, 2003, we received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors' Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation, Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleges breach of contract and fiduciary duty by UGC and Old UGC. The action has been stayed as to Old UGC by the Bankruptcy Court in the Old UGC bankruptcy proceeding. The plaintiff has filed a claim in the bankruptcy proceedings of approximately $2.2 billion. We deny the material allegations and intend to defend the litigation vigorously.

HBO

UPC Polska was involved in a dispute with HBO Communications (UK) Ltd., Polska Programming B.V. and HBO Poland Partners (collectively "HBO") concerning its cable carriage agreement and its D-DTH carriage agreement for the HBO premium movie channel. In February 2004, the matter was settled and UPC Polska paid $6.0 million to HBO.

ICH

On July 4, 2001, ICH, InterComm France CVOHA ("ICF I"), InterComm France II CVOHA ("ICF II"), and Reflex Participations ("Reflex," collectively with ICF I and ICF II, the "ICF Party") served a demand for arbitration on UPC, Old UGC, and its subsidiaries, Belmarken Holding B.V. ("Belmarken") and UPC France Holding B.V. The claimants allege breaches of obligations allegedly owed by UPC in connection with the ICF Party's position as a minority shareholder in Médiaréseaux S.A. In February 2004, the parties entered into a settlement agreement pursuant to which UPC purchased the shares owned by the ICF Party in Médiaréseaux S.A. for consideration of 1,800,000 shares of our Class A common stock.

Movieco

On December 3, 2002, Europe Movieco Partners Limited ("Movieco") filed a request for arbitration (the "Request") against UPC with the International Court of Arbitration of the International Chamber of Commerce. The Request contains claims that are based on a cable affiliation agreement entered into between the parties on December 21, 1999 (the "CAA"). The arbitral proceedings were suspended from December 17, 2002 to March 18, 2003. They have subsequently been reactivated and directions have been given by the Arbitral Tribunal. In the proceedings, Movieco claims (i) unpaid license fees due under the CAA, plus interest, (ii) an order for specific performance of the CAA or, in the alternative, damages for breach of that agreement, and (iii) legal and arbitration costs plus interest. Of the unpaid license fees, approximately $11.0 million had been accrued prior to UPC commencing insolvency proceedings in the Netherlands on December 3, 2002 (the "Pre-Petition Claim"). Movieco made a claim in the Dutch insolvency proceedings for the Pre-Petition Claim and shares of the appropriate value were delivered to Movieco in December 2003. UPC filed a counterclaim in the arbitral proceeding, stating that the CAA is null and void because it breaches Article 81 of the EC Treaty. UPC also relies on the Order of the Southern District of New York dated January 7, 2003 in which the New York Court ordered that the rejection of the CAA was approved effective March 1, 2003, and that UPC shall have no further liability under the CAA.

Philips

On October 22, 2002, Philips Digital Networks B.V. ("Philips") commenced legal proceedings against UPC, UPC Nederland B.V. and UPC Distribution (together the "UPC Defendants") alleging failure to perform by the UPC Defendants under a Set Top Computer Supply Agreement between the parties dated November 19, 2001, as amended (the "STC Agreement"). The action was commenced by Philips following a termination of the STC Agreement by the UPC Defendants as a consequence of Philips' failure to deliver STCs conforming to the material technical specifications required by the terms of the STC Agreement. The parties have entered into a settlement agreement conditioned upon UPC Defendants entering into a purchase agreement for STCs by June 30, 2004.

UGC Europe Exchange Offer

On October 8, 2003, an action was filed in the Court of Chancery of the State of Delaware in New Castle County, in which the plaintiff named as defendants UGC Europe, UGC and certain of our directors. The complaint purports to assert claims on behalf of all public shareholders of UGC Europe. On October 21, 2003, the plaintiff filed an amended complaint in the Delaware Court of Chancery. The complaint alleges that UGC Europe and the defendant directors have breached their fiduciary duties to the public shareholders of UGC Europe in connection with an offer by UGC to exchange shares of its common stock for outstanding common stock of UGC Europe. Among the remedies demanded, the complaint seeks to enjoin the exchange offer and obtain declaratory relief, unspecified damages and rescission. On November 12, 2003, we and the plaintiff, through respective counsel, entered into a memorandum of understanding agreeing to settle the litigation and to pay up to $975,000 in attorney fees, subject to court approval of the settlement.

14. Minority Interests in Subsidiaries

	December 31, 2003	December 31, 2002
	(In thousands)	
UPC convertible preference shares held by third parties(1)	$ –	$ 1,094,668
UPC convertible preference shares held by Liberty(2)	–	297,753
IDT United	20,858	7,986
Other	1,903	1,739
Total	$ 22,761	$ 1,402,146

(1) We acquired 99.4% of these convertible preference shares in February and April 2003. The remainder was exchanged for UGC Europe common stock in connection with UPC's restructuring.
(2) Acquired by us in April 2003.

The minority interests' share of results of operations is as follows:

	Year Ended December 31, 2003	2002	2001
	(In thousands)		
Minority interest share of UGC Europe net loss	$ 181,046	$ –	$ –
Accrual of dividends on UPC's convertible preference shares held by third parties	–	(78,355)	(70,089)
Accrual of dividends on UPC's convertible preference shares held by Liberty	–	(18,728)	(19,113)
Minority interest share of UPC net loss	–	–	54,050
Subsidiaries of UGC Europe	(91)	28,080	484,780
Other	2,227	1,900	46,887
Total	$ 183,182	$ (67,103)	$ 496,515

15. Stockholders' Equity (Deficit)

Description of Capital Stock

Our authorized capital stock currently consists of:

- 1,000,000,000 shares of Class A common stock;
- 1,000,000,000 shares of Class B common stock;
- 400,000,000 shares of Class C common stock; and
- 10,000,000 shares of preferred stock, all $0.01 par value per share.

Common Stock

Our Class A common stock, Class B common stock and Class C common stock have identical economic rights. They do, however, differ in the following respects:

- Each share of Class A common stock, Class B common stock and Class C common stock entitles the holders thereof to one, ten and ten votes, respectively, on each matter to be voted on by our stockholders, excluding, until our next annual meeting of stockholders, the election of directors, at which time the holders of Class A common stock, Class B common stock and Class C common stock will vote together as a single class on each matter to be voted on by our stockholders, including the election of directors; and
- Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock at any time. Each share of Class C common stock is convertible, at the option of the holder, into one share of Class A common stock or Class B common stock at any time.

Holders of our Class A, Class B and Class C common stock are entitled to receive any dividends that are declared by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our

Class A, Class B and Class C common stock will be entitled to share in all assets available for distribution to holders of common stock. Holders of our Class A, Class B and Class C common stock have no preemptive right under our certificate of incorporation. Our certificate of incorporation provides that if there is any dividend, subdivision, combination or reclassification of any class of common stock, a proportionate dividend, subdivision, combination or reclassification of one other class of common stock will be made at the same time.

Preferred Stock

We are authorized to issue 10 million shares of preferred stock. Our board of directors is authorized, without any further action by the stockholders, to determine the following for any unissued series of preferred stock:

- voting rights;
- dividend rights;
- dividend rates;
- liquidation preferences;
- redemption provisions;
- sinking fund terms;
- conversion or exchange rights;
- the number of shares in the series; and
- other rights, preferences, privileges and restrictions.

In addition, the preferred stock could have other rights, including economic rights senior to common stock, so that the issuance of the preferred stock could adversely affect the market value of common stock. The issuance of preferred stock may also have the effect of delaying, deferring or preventing a change in control of us without any action by the stockholders.

UGC Equity Incentive Plan

On August 19, 2003, our Board of Directors adopted an Equity Incentive Plan (the "Incentive Plan") effective September 1, 2003. Our stockholders approved the Incentive Plan on September 30, 2003. After such stockholder approval of the Incentive Plan, the Board of Directors recommended certain changes to the Incentive Plan that give us the ability to issue stock appreciation rights with a grant price at, above, or less than the fair market value of our common stock on the date the stock appreciation right is granted. Those changes, along with certain other technical changes, were incorporated into an amended UGC Equity Incentive Plan (the "Amended Incentive Plan"), which was approved by our stockholders on December 17, 2003. The Board of Directors have reserved 39,000,000 shares of common stock, plus an additional number of shares on January 1 of each year equal to 1% of the aggregate shares of Class A and Class B common stock outstanding, for the Amended Incentive Plan. No more than 5,000,000 shares of Class A or Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the Amended Incentive Plan as Class B common stock. The Amended Incentive Plan permits the grant of the following awards (the "Awards"): stock options ("Options"), restricted stock awards ("Restricted Stock"), SARs, stock bonuses ("Stock Bonuses"), stock units ("Stock Units") and other grants of stock. Our employees, consultants and non-employee directors and affiliated entities designated by the Board of Directors are entitled to receive any Awards under the Amended Incentive Plan, provided, however, that only non-qualified Options may be granted to non-employee directors. In accordance with the provisions of the Plan, our compensation committee (the "Committee") has the discretion to: select participants from among eligible employees and eligible consultants; determine the Awards to be made; determine the number of Stock Units, SARs or shares of stock to be issued and the time at which such Awards are to be made; fix the option price, period and manner in which an Option becomes exercisable; establish the duration and nature of Restricted Stock Award restrictions; establish the terms and conditions applicable to Stock Bonuses and Stock Units; and establish such other terms and requirements of the various compensation incentives under the Amended Incentive Plan as the Committee may deem necessary or desirable and consistent with the terms of the Amended Incentive Plan. The Committee may, under certain circumstances, delegate to our officers the authority to grant Awards to specified groups of employees and consultants. The Board has the sole authority to grant Options under the Amended Incentive Plan to non-employee directors. The maximum term of Options granted under the Amended Incentive Plan is ten years. The Committee shall determine, at the time of the award of SARs, the time period during which the SARs may be exercised and other terms that shall apply to the SARs. The Amended Incentive Plan terminates August 31, 2013.

A summary of activity for the Amended Incentive Plan is as follows:

	Number of SARs	Weighted-Average Base Price
Outstanding at beginning of year	–	$ –
Granted during the year	32,165,550	$ 4.69
Cancelled during the year	(78,280)	$ 4.59
Exercised during the year	–	$ –
Outstanding at end of year	32,087,270	$ 4.69
Exercisable at end of year	–	$ –

The weighted-average fair values and weighted average base prices of SARs granted under the Amended Incentive Plan are as follows:

Base Price	Number	Fair Value	Base Price
Less than market price(1)	15,081,775	$ 5.44	$ 3.74
Equal to market price(2)	15,081,775	$ 6.88	$ 5.44
Equal to market price	2,002,000	$ 4.91	$ 6.13
Greater than market price	–	$ –	$ –
Total(3)	32,165,550	$ 4.33	$ 4.69

(1) We originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will receive only the difference between the base price and the lesser of $5.44 or the fair market value of our Class A common stock on the date of exercise.

(2) We originally granted these SARs at fair market value on date of grant. As a result of the UGC Europe Exchange Offer and merger transaction in December 2003, we substituted UGC SARs for UGC Europe SARs.

(3) All the SARs granted during Fiscal 2003 vest in five equal annual increments. Vesting of the SARs granted would be accelerated upon a change of control of UGC as defined in the Amended Incentive Plan. The table does not reflect the adjustment to the base prices on all outstanding SARs in January 2004. As a result of the dilution caused by our subscription rights offering that closed in February 2004, all base prices have since been reduced by $0.87.

The following summarizes information about SARs outstanding and exercisable at December 31, 2003:

	Outstanding			Exercisable	
Base Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Base Price	Number	Weighted-Average Base Price
$3.74	15,042,635	9.97	$ 3.74	–	$ –
$5.44	15,042,635	9.97	$ 5.44	–	$ –
$6.13	1,997,000	9.75	$ 6.13	–	$ –
$7.20	5,000	9.90	$ 7.20	–	$ –
Total	32,087,270	9.95	$ 4.69	–	$ –

The Amended Incentive Plan is accounted for as a variable plan and accordingly, compensation expense is recognized at each financial statement date based on the difference between the grant price and the estimated fair value of our Class A common stock. Compensation expense of $8.8 million was recognized in the statement of operations for the year ended December 31, 2003.

UGC Stock Option Plans

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by us on January 30, 2002 (the "Employee Plan"). The Employee Plan was construed, interpreted and administered by the Committee, consisting of all members of the Board of Directors who were not our employees. The Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of Class A common stock, of which options for up to 3,000,000 shares of Class B common stock were available to be granted in lieu of options for shares of Class A common stock. The Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In general, for grants prior to December 1, 2000, options vested in equal monthly increments over 48 months, and for grants subsequent to December 1, 2000, options vested 12.5% six months from the date of grant and then in equal monthly increments over the next 42 months. Vesting would be accelerated upon a change of control of us as defined in the Employee Plan. At December 31, 2003, employees had options to purchase an aggregate of 10,745,692 shares of Class A common stock outstanding under The Employee Plan and options to purchase an aggregate of 3,000,000 shares of Class B common stock. The Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made.

Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by us on January 30, 2002 (the "1993 Director Plan"). The 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of our Class A common stock to each member of the Board of Directors who was not also an employee of ours (a "non-employee director") on June 1, 1993, and to each person who was newly elected to the Board of Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by us on January 30, 2002 (the "1998 Director Plan", and together with the 1993 Director Plan, the "Director Plans"). Options under the 1998 Director Plan were granted at the discretion of our Board of Directors. The maximum term of options granted under the Director Plans was ten years. Under the 1993 Director Plan, options vested 25.0% on the first anniversary of the date of grant and then evenly over the next 36-month period. Under the 1998 Director Plan, options vested in equal monthly increments over the four-year period following the date of grant. Vesting under the Director Plans would be accelerated upon a change in control of us as defined in the respective Director Plans. Effective March 14, 2003, the Board of Directors terminated the 1993 Director Plan. At the time of termination, we had granted options for an aggregate of 860,000 shares of Class A common stock, of which 271,667 shares have been cancelled. Options outstanding prior to the date of termination continue to be recognized, but no new grants of options will be made.

Pro forma information regarding net income (loss) and net income (loss) per share is required to be determined as if we had accounted for our Employee Plan's and Director Plans' options granted on or after March 1, 1995 under the fair value method prescribed by SFAS 123. The fair value of options granted for the years ended December 31, 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,		
	2003	2002	2001
Risk-free interest rate	3.40%	4.62%	4.78%
Expected lives	6 years	6 years	6 years
Expected volatility	100%	100%	95.13%
Expected dividend yield	0%	0%	0%

Based on the above assumptions, the total fair value of options granted was nil, $47.6 million and $5.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of stock option activity for the Employee Plan is as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	16,964,230	$ 7.88	5,141,807	$ 16.16	4,770,216	$ 16.95
Granted during the year	–	$ –	11,970,000	$ 4.43	543,107	$ 10.08
Cancelled during the year	(3,067,084)	$ 5.90	(147,577)	$ 16.66	(157,741)	$ 20.12
Exercised during the year	(151,454)	$ 3.92	–	$ –	(13,775)	$ 5.30
Outstanding at end of year	13,745,692	$ 8.36	16,964,230	$ 7.88	5,141,807	$ 16.16
Exercisable at end of year	8,977,124	$ 9.91	7,371,369	$ 10.28	3,125,596	$ 13.70

A summary of stock option activity for the Director Plans is as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	1,080,000	$ 10.52	1,110,416	$ 11.24	630,000	$ 18.13
Granted during the year	–	$ –	200,000	$ 5.00	500,000	$ 5.00
Cancelled during the year	–	$ –	(230,416)	$ 9.20	(19,584)	$ 73.45
Exercised during the year	(160,000)	$ 4.75	–	$ –	–	$ –
Outstanding at end of year	920,000	$ 11.53	1,080,000	$ 10.52	1,110,416	$ 11.24
Exercisable at end of year	702,290	$ 13.48	569,999	$ 12.81	487,290	$ 12.99

The combined weighted-average fair values and weighted-average exercise prices of options granted under the Employee Plan and the Director Plans are as follows:

	Year Ended December 31,					
	2002			2001		
Exercise Price	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price
Less than market price	2,900,000	$ 4.53	$ 2.64	3,149	$ 9.65	$ 5.96
Equal to market price	–	$ –	$ –	100,000	$ 13.71	$ 17.38
Greater than market price	9,270,000	$ 3.71	$ 5.00	939,958	$ 4.10	$ 6.62
Total	12,170,000	$ 3.91	$ 4.44	1,043,107	$ 5.03	$ 7.64

The following table summarizes information about employee and director stock options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	**Number**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**	**Number**	**Weighted-Average Exercise Price**
$4.16 – $ 4.75	407,000	3.75	$ 4.29	407,000	$ 4.29
$5.00 – $ 5.00	10,977,808	8.09	$ 5.00	6,203,710	$ 5.00
$5.11 – $ 7.13	996,182	3.89	$ 5.75	974,677	$ 5.77
$7.75 – $86.50	2,284,702	5.84	$ 27.66	2,094,027	$ 28.68
Total	14,665,692	7.33	$ 8.56	9,679,414	$ 10.17

UPC Stock Option Plans

UPC adopted a stock option plan on June 13, 1996, as amended (the "UPC Plan"), for certain of its employees and those of its subsidiaries. Options under the UPC Plan were granted at fair market value at the time of the grant, unless determined otherwise by UPC's Supervisory Board. The maximum term that the options were exerciseable was five years from the date of the grant. In order to introduce the element of "vesting" of the options, the UPC Plan provided that even though the options were exercisable upon grant, the options were subject to repurchase rights reduced by equal monthly amounts over a vesting period of 36 months for options granted in 1996 and 48 months for all other options. Upon termination of an employee (except in the case of death, disability or the like), all unvested options previously exercised were resold to UPC at the exercise price and all vested options were exercised within 30 days of the termination date. UPC's Supervisory Board was allowed to alter these vesting schedules at its discretion. The UPC Plan also contained anti-dilution protection and provided that, in the case of a change of control, the acquiring company had the right to require UPC to acquire all of the options outstanding at the per share value determined in the transaction giving rise to the change of control. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled.

Pro forma information regarding net income (loss) and net income (loss) per share is presented below as if UPC had accounted for the UPC Plan under the fair value method of SFAS 123. The fair value of options granted for the years ended December 31, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,	
	2002	**2001**
Risk-free interest rate	3.16%	4.15%
Expected lives	5 years	5 years
Expected volatility	118.33%	112.19%
Expected dividend yield	0%	0%

Based on the above assumptions, the total fair value of options granted was approximately $0.1 million and $140.5 million for the years ended December 31, 2002 and 2001, respectively.

The UPC Plan was accounted for as a variable plan prior to UPC's initial public offering in February 1999. Accordingly, compensation expense was recognized at each financial statement date based on the difference between the grant price and the estimated fair value of UPC's common stock. Thereafter, the UPC Plan was accounted for as a fixed plan. Compensation expense of $29.2 million, $31.9 million and $30.6 million was recognized in the statement of operations for the years ended December 31, 2003, 2002 and 2001, respectively.

In March 1998, UPC adopted a phantom stock option plan (the "UPC Phantom Plan") which permitted the grant of phantom stock rights in up to 7,200,000 shares of UPC's common stock. The UPC Phantom Plan gave the employee the right to receive payment equal to the difference between the fair value of a share of UPC common stock and the option base price for the portion of the rights vested. The rights were granted at fair value at the time of grant, and generally vested in equal monthly increments over the four-year period following the effective date of grant and were exerciseable for ten years following the effective date of grant. UPC had the option of payment in (i) cash, (ii) freely tradable shares of our Class A common stock or (iii) freely tradable shares of UPC's common stock. The UPC Phantom Plan contained anti-dilution protection and provided that, in certain cases of a change of control, all phantom options outstanding become fully exercisable. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled. The UPC Phantom Plan was accounted for as a variable plan in accordance with its terms, resulting in compensation expense for the difference between the grant price and the fair market value at each financial statement date. Compensation expense (credit) of nil and $(22.8) million was recognized in the statement of operations for the years ended December 31, 2002 and 2001, respectively.

16. Segment Information

Our European operations are currently organized into two principal divisions–UPC Broadband and chellomedia. UPC Broadband provides video services, telephone services and high-speed Internet access services to residential customers, and manages its business by country. chellomedia provides broadband Internet and interactive digital products and services, operates a competitive local exchange carrier business providing telephone and data network solutions to the business market (Priority Telecom) and holds certain investments. In Latin America we also have a Broadband division that provides video services, telephone services and high-speed Internet access services to residential and business customers, and manages its business by country. We evaluate performance and allocate resources based on the results of these segments. The key operating performance criteria used in this evaluation include revenue and "Adjusted EBITDA". Adjusted EBITDA is the primary measure used by our chief operating decision makers to evaluate segment-operating performance and to decide how to allocate resources to segments. "EBITDA" is an acronym for earnings before interest, taxes, depreciation and amortization. As we use the term, Adjusted EBITDA further removes the effects of cumulative effects of accounting changes, share in results of affiliates, minority interests in subsidiaries, reorganization expense, other income and expense, provision for loss on investments, gain (loss) on sale of investments in affiliates, gain on extinguishment of debt, foreign currency exchange gain (loss), impairment and restructuring charges, certain litigation expenses and stock-based compensation. We believe Adjusted EBITDA is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe Adjusted EBITDA is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within Adjusted EBITDA distorts their ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of Adjusted EBITDA is important because analysts and other investors use it to compare our performance to other companies in our industry. We reconcile the total of the reportable segments' Adjusted EBITDA to our consolidated net income as presented in the accompanying consolidated statements of operations, because we believe consolidated net income is the most directly comparable financial measure to total segment operating performance. Investors should view Adjusted EBITDA as a supplement to, and not a substitute for, other GAAP measures of income as a measure of operating performance. As discussed above, Adjusted EBITDA excludes, among other items, frequently occurring impairment, restructuring and other charges that would be included in GAAP measures of operating performance.

Revenue

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 592,223	$ 459,044	$ 365,988
Austria	260,162	198,189	163,073
Belgium	31,586	24,646	22,318
Czech Republic	63,348	44,337	38,588
Norway	95,284	76,430	59,707
Hungary	165,450	124,046	93,206
France	113,946	92,441	83,811
Poland	85,356	76,090	132,669
Sweden	75,057	52,560	40,493
Slovak Republic	25,467	18,852	17,607
Romania	20,189	16,119	12,710
Total	1,528,068	1,182,754	1,030,170
Germany	–	28,069	45,848
Corporate and other (1)	32,563	35,139	51,762
Total	1,560,631	1,245,962	1,127,780
chellomedia			
Priority Telecom (1)	121,330	112,637	206,149
Media (1)	98,463	69,372	75,676
Investments	528	465	–
Total	220,321	182,474	281,825
Intercompany Eliminations	(127,055)	(108,695)	(176,417)
Total	1,653,897	1,319,741	1,233,188
Latin America:			
Broadband			
Chile	229,835	186,426	166,590
Brazil, Peru, Uruguay	7,798	7,054	6,044
Total	237,633	193,480	172,634
Australia			
Broadband	–	–	145,423
Content	–	–	9,973
Other	–	–	235
Total	–	–	155,631
Corporate and other (United States)	–	1,800	441
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

(1) Primarily The Netherlands.

Adjusted EBITDA

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 267,075	$ 119,329	$ 40,913
Austria	98,278	64,662	40,583
Belgium	12,306	8,340	4,367
Czech Republic	24,657	9,241	9,048
Norway	27,913	17,035	5,337
Hungary	63,357	41,487	26,555
France	13,920	(10,446)	(25,678)
Poland	24,886	15,794	(8,633)
Sweden	31,827	15,904	6,993
Slovak Republic	10,618	4,940	2,802
Romania	7,545	6,044	3,165
Other	386	535	1,434
Total	582,768	292,865	106,886
Germany	–	12,562	22,197
Corporate and other (1)	(46,091)	(25,727)	(93,781)
Total	536,677	279,700	35,302
chellomedia			
Priority Telecom (1)	14,530	(3,809)	(79,758)
Media (1)	22,874	(4,851)	(100,599)
Investments	(1,033)	(374)	–
Total	36,371	(9,034)	(180,357)
Total	573,048	270,666	(145,055)
Latin America:			
Broadband			
Chile	69,951	41,959	26,860
Brazil, Peru, Uruguay	8	(3,475)	(4,016)
Total	69,959	38,484	22,844
Australia			
Broadband	–	–	(32,338)
Content	–	–	(6,849)
Other	–	(282)	(832)
Total	–	(282)	(40,019)
Corporate and other (United States)	(14,125)	(12,494)	(29,013)
Total	$ 628,882	$ 296,374	$ (191,243)

(1) Primarily The Netherlands.

Total segment Adjusted EBITDA reconciles to consolidated net income (loss) as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Total segment Adjusted EBITDA	$ 628,882	$ 296,374	$ (191,243)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other	(35,970)	(1,274)	(204,127)
Stock-based compensation	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest expense, net	(314,078)	(641,786)	(966,134)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Other expense, net	(14,884)	(120,832)	(265,512)
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Other, net	395,293	(415,670)	150,735
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)

	Investments in Affiliates		Long-Lived Assets		Total Assets	
	December 31,		December 31,		December 31,	
	2003	2002	2003	2002	2003	2002
			(In thousands)			
Europe:						
UPC Broadband						
The Netherlands	$ 222	$ 215	$ 1,334,294	$ 1,310,783	$ 2,493,134	$ 1,884,044
Austria	–	–	307,758	282,628	700,209	450,526
Belgium	–	–	22,596	22,395	88,725	44,444
Czech Republic	–	–	117,527	120,863	201,103	127,691
Norway	–	–	219,651	226,981	280,528	249,761
Hungary	1,708	–	249,515	251,120	541,139	343,287
France	–	–	246,307	573,167	274,180	608,650
Poland	15,049	3,277	118,586	124,088	302,216	245,122
Sweden	–	–	94,414	87,339	321,961	237,619
Slovak Republic	–	–	35,697	26,896	67,027	33,428
Romania	–	–	15,235	9,403	42,503	31,078
Total	16,979	3,492	2,761,580	3,035,663	5,312,725	4,255,650
Corporate and other (1)	65,279	112,507	14,154	39,455	374,876	576,568
Total	82,258	115,999	2,775,734	3,075,118	5,687,601	4,832,218
chellomedia						
Priority Telecom (1)	3,232	–	182,491	202,986	241,909	261,301
Media (1)	2,257	4,037	43,578	48,625	232,527	72,554
Total	5,489	4,037	226,069	251,611	474,436	333,855
Total	87,747	120,036	3,001,803	3,326,729	6,162,037	5,166,073
Latin America:						
Broadband						
Chile	–	–	322,606	293,941	602,762	509,376
Brazil, Peru, Uruguay	3,522	33,817	9,584	9,448	18,388	55,381
Total	3,522	33,817	332,190	303,389	621,150	564,757
Corporate and other (United States)	3,969	–	8,750	10,093	316,484	200,764
Total	$ 95,238	$ 153,853	$ 3,342,743	$ 3,640,211	$ 7,099,671	$ 5,931,594

(1) Primarily The Netherlands.

	Depreciation and Amortization			Capital Expenditures		
	Year Ended December 31,			Year Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ (225,638)	$ (230,852)	$ (252,356)	$ (63,451)	$ (97,841)	$ (213,846)
Austria	(85,589)	(71,924)	(68,513)	(43,751)	(38,388)	(92,679)
Belgium	(6,877)	(5,952)	(7,531)	(3,473)	(2,884)	(8,367)
Czech Republic	(18,665)	(16,317)	(24,577)	(12,294)	(4,706)	(26,287)
Norway	(36,765)	(37,288)	(35,918)	(9,714)	(7,050)	(60,562)
Hungary	(39,102)	(34,889)	(35,202)	(23,004)	(16,659)	(31,599)
France	(99,913)	(85,940)	(78,732)	(48,810)	(19,688)	(114,596)
Poland	(28,487)	(28,517)	(126,855)	(8,476)	(4,464)	(35,628)
Sweden	(19,668)	(13,519)	(37,098)	(9,778)	(8,974)	(28,767)
Slovak Republic	(8,939)	(7,478)	(13,124)	(3,848)	(501)	(5,005)
Romania	(2,984)	(2,494)	(1,578)	(5,286)	(4,547)	(3,433)
Total	(572,627)	(535,170)	(681,484)	(231,885)	(205,702)	(620,769)
Germany	–	(9,240)	(107,799)	–	(3,357)	(12,788)
Corporate and other (1)	(86,939)	(61,543)	(74,420)	(35,666)	(6,491)	(47,773)
Total	(659,566)	(605,953)	(863,703)	(267,551)	(215,550)	(681,330)
chellomedia						
Priority Telecom (1)	(60,952)	(45,239)	(80,887)	(16,727)	(30,658)	(69,710)
UPC Media (1)	(17,706)	(20,565)	(37,305)	(5,779)	(6,241)	(50,051)
Total	(78,658)	(65,804)	(118,192)	(22,506)	(36,899)	(119,761)
Total	(738,224)	(671,757)	(981,895)	(290,057)	(252,449)	(801,091)
Latin America:						
Broadband						
Chile	(66,928)	(54,458)	(54,027)	(41,391)	(80,006)	(135,821)
Brazil, Peru, Uruguay	(2,206)	(2,371)	(7,824)	(1,582)	(2,679)	(10,418)
Total	(69,134)	(56,829)	(61,851)	(42,973)	(82,685)	(146,239)
Australia						
Broadband	–	–	(100,489)	–	–	(48,291)
Other	–	–	(1,282)	–	–	–
Total	–	–	(101,771)	–	–	(48,291)
Corporate and other (United States)	(1,305)	(1,415)	(1,659)	(94)	(58)	(790)
Total	$ (808,663)	$ (730,001)	$ (1,147,176)	$ (333,124)	$ (335,192)	$ (996,411)

(1) Primarily The Netherlands.

17. Impairment of Long-Lived Assets

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UPC Broadband	$ (402,239)	$ (75,305)	$ (682,633)
Priority Telecom	–	(359,237)	(418,413)
Swiss wireless license	–	–	(91,260)
Microsoft contract acquisition rights	–	–	(59,831)
Other	–	(1,611)	(68,805)
Total	$ (402,239)	$ (436,153)	$ (1,320,942)

2003

During the fourth quarter of 2003, various events took place that indicated the long-lived assets in our French asset group were potentially impaired: 1) We entered into preliminary discussions regarding the merger of our French assets into a new company, which indicated a potential decline in the fair value of these assets; 2) We made downward revisions to the revenue and Adjusted EBITDA projections for France in our long-range plan, due to actual results continuing to fall short of expectations; and 3) We performed a fair value analysis of all the assets of UGC Europe in connection with the UGC Europe Exchange Offer that confirmed a decrease in fair value of our French assets. As a result, we determined a triggering event had occurred in the fourth quarter of 2003. We performed a cash flow analysis, which indicated the carrying amount of our long-lived assets in France exceeded the sum of the undiscounted cash flows expected to result from the use of these assets. Accordingly, we performed a discounted cash flow analysis (supported by the independent valuation from the UGC Europe Exchange Offer), and recorded an impairment of $384.9 million and $8.4 million for the difference between the fair value and the carrying amount of property, plant and equipment and other long-lived assets, respectively. We also recorded a total of $8.9 million for other impairments in 2003.

2002

Based on our annual impairment test as of December 31, 2002 in accordance with SFAS 142, we recorded an impairment charge of $344.8 million and $18.0 million on goodwill related to Priority Telecom and UPC Romania, respectively. In addition, we wrote off other tangible assets in The Netherlands, Norway, France, Poland, Slovak Republic, Czech Republic and Priority Telecom amounting to $73.4 million for the year ended December 31, 2002.

2001

Due to the lack of financial resources to fully develop the triple play in Germany, and due to our inability to find a partner to help implement this strategy, the long range plans of UPC Germany were revised in 2001 to provide for a "care and maintenance" program, meaning that the business plan would be primarily focused on current customers and product offerings instead of a planned roll out of new service offerings. As a result of this revised business plan, we determined that a triggering event had occurred with respect to this investment in the fourth quarter of 2001, as defined in SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* ("SFAS 121"). After analyzing the projected undiscounted free cash flows (without interest), an impairment charge was deemed necessary. The amount of the charge was determined by evaluating the estimated fair value of our investment in UPC Germany using a discounted cash flow approach, resulting in an impairment charge of $682.6 million for the year ended December 31, 2001.

During the second quarter of 2001, we identified indicators of possible impairment of long-lived assets, principally indefeasible rights of use and related goodwill within our subsidiary Priority Telecom. Such indicators included significant declines in the market value of publicly traded telecommunications providers and a change, subsequent to the acquisition of Cignal, in the way that certain assets from the Cignal acquisition were being used within Priority Telecom. We revised our strategic plans for using these assets because of reduced levels of private equity funding activity for these businesses and our decision to complete a public listing of Priority Telecom in the second half of 2001. The changes in strategic plans included a decision to phase out the legacy international wholesale voice operations of Cignal. When we and Priority Telecom reached agreement to acquire Cignal in the second quarter of 2000, the companies originally intended to continue the international wholesale voice operations of Cignal for the foreseeable future. This original plan for the international wholesale voice operations was considered in the determination of the consideration paid for Cignal. In 2001, using the strategic plan prepared in connection with the public listing of Priority Telecom, an impairment assessment test and measurement in accordance with SFAS 121 was completed, resulting in a write down of tangible assets, related goodwill and other impairment charges of $418.4 million for the year ended December 31, 2001.

In 2000 we acquired a license to operate a wireless telecommunications system in Switzerland. During the fourth quarter of 2001, in connection with our overall strategic review, we determined that we were not in a position to develop this asset as a result of both funding constraints and a change in strategic focus away from the wireless business, resulting in a write down of the value of this asset to nil and a charge of $91.3 million for the year ended December 31, 2001.

As a result of issuing warrants to acquire common stock of UPC during 1999 and 2000, we recorded €150.2 million in contract acquisition rights. These rights were being amortized over the three-year term of an interim technology agreement. During the fourth quarter of 2001, this interim technology agreement was terminated, and the remaining unamortized contract acquisition rights totaling $59.8 million were written off.

18. Restructuring Charges and Other

In 2001, UPC implemented a restructuring plan to both lower operating expenses and strengthen its competitive and financial position. This included eliminating certain employee positions, reducing office space and related overhead expenses, rationalization of certain corporate assets, recognizing losses related to excess capacity under certain contracts and canceling certain programming contracts. The total workforce reduction was effected through attrition, involuntary terminations and reorganization of UPC's operations to permanently eliminate open positions resulting from normal employee attrition. The following table summarizes these costs by type as of December 31, 2003:

	Employee Severence and Termination(2)	Office Closures	Programming and Lease Contract Termination	Asset Disposal Losses and Other	Total
			(In thousands)		
Restructuring charges	$ 46,935	$ 16,304	$ 93,553	$ 47,335	$ 204,127
Cash paid and other releases	(13,497)	(6,386)	(14,814)	(3,294)	(37,991)
Foreign currency translation adjustments	127	38	12,468	(29,537)	(16,904)
Restructuring liability as of December 31, 2001	33,565	9,956	91,207	14,504	149,232
Restructuring charges (credits)	13,675	7,884	(32,035)	11,750	1,274
Cash paid and other releases	(30,944)	(4,622)	(32,231)	(24,449)	(92,246)
Foreign currency translation adjustments	3,133	978	9,920	2,590	16,621
Restructuring liability as of December 31, 2002	19,429	14,196	36,861	4,395	74,881
Restructuring charges (credits)(1)	177	7,506	–	(605)	7,078
Cash paid and other releases	(13,628)	(5,934)	(5,981)	(1,991)	(27,534)
Foreign currency translation adjustments	2,427	1,053	3,519	643	7,642
Restructuring liability as of December 31, 2003	$ 8,405	$ 16,821	$ 34,399	$ 2,442	$ 62,067
Short-term portion	$ 3,682	$ 6,002	$ 3,795	$ 794	$ 14,273
Long-term portion	4,723	10,819	30,604	1,648	47,794
Total	$ 8,405	$ 16,821	$ 34,399	$ 2,442	$ 62,067

(1) Restructuring charges and other in 2003 also includes other litigation settlements totaling $22.2 million and costs incurred by UGC Europe related to the UGC Europe Exchange Offer and merger of $6.7 million.

(2) Included nil and 45 employees scheduled for termination as of December 31, 2003 and 2002, respectively.

19. Income Taxes

The significant components of our consolidated deferred tax assets and liabilities are as follows:

	December 31, 2003	December 31, 2002
	(In thousands)	
Deferred tax assets:		
Tax net operating loss carryforward of consolidated foreign subsidiaries	$ 1,017,895	$ 1,431,785
U.S. tax net operating loss carryforward	9,258	–
Accrued interest expense	20,985	91,036
Investment valuation allowance and other	33,619	22,442
Property, plant and equipment, net	310,657	40,063
Intangible assets, net	20,701	–
Other	48,743	38,213
Total deferred tax assets	1,461,858	1,623,539
Valuation allowance	(1,331,778)	(1,607,089)
Deferred tax assets, net of valuation allowance	130,080	16,450
Deferred tax liabilities:		
Cancellation of debt and other	(110,583)	(110,583)
Intangible assets	(82,679)	(12,056)
Other	(25,937)	(41)
Total deferred tax liabilities	(219,199)	(122,680)
Deferred tax liabilities, net	$ (89,119)	$ (106,230)

The difference between income tax expense (benefit) provided in the accompanying consolidated financial statements and the expected income tax expense (benefit) at statutory rates is reconciled as follows:

	Year Ended December 31, 2003	2002	2001
		(In thousands)	
Expected income tax expense (benefit) at the U.S. statutory rate of 35%	$ 560,026	$ 491,379	$ (1,632,925)
Tax effect of permanent and other differences:			
Change in valuation allowance	(516,810)	173,604	814,612
Gain on sale of investment in affiliate	(133,211)	(51,774)	–
Tax ruling regarding UPC reorganization	107,922	–	–
Enacted tax law changes, case law and rate changes	(92,584)	–	–
Revenue for book not for tax	75,308	–	–
Other	26,122	(11,415)	(5,063)
Financial instruments	15,280	95,178	–
Non-deductible interest accretion	8,680	110,974	81,149
State tax, net of federal benefit	7,193	42,118	(139,965)
International rate differences	(5,857)	58,407	187,027
Non-deductible foreign currency exchange results	(3,595)	(104,598)	–
Non-deductible expenses	1,870	12,024	14,740
Gain on extinguishment of debt	–	(728,754)	(1,310)
Goodwill impairment	–	114,039	559,028
Amortization of goodwill	–	–	84,020
Gain on issuance of common equity securities by subsidiaries	–	–	(1,974)
Total income tax expense (benefit)	$ 50,344	$ 201,182	$ (40,661)

Income tax expense (benefit) consists of:

	Year ended December 31, 2003	2002	2001
	(In thousands)		
Current:			
U.S. Federal	$ 1,008	$ 23,801	$ –
State and local	1,674	4,966	–
Foreign jurisdiction	2,916	5,592	2,506
	5,598	34,359	2,506
Deferred:			
U.S. Federal	$ 61,768	$ 138,746	$ –
State and local	8,519	19,136	–
Foreign jurisdiction	(25,541)	8,941	(43,167)
	44,746	166,823	(43,167)
Income tax expense (benefit)	$ 50,344	$ 201,182	$ (40,661)

The significant components of our foreign tax loss carryforwards are as follows:

Country	Tax Loss Carryforward	Tax Asset	Expiration Date
The Netherlands	$1,293,157	$ 446,139	Indefinite
France	786,516	278,662	Indefinite
Norway	302,860	84,801	2007 – 2012
Chile	273,619	45,147	Indefinite
Austria	226,173	76,899	Indefinite
Hungary	142,158	22,746	2004 – 2009
Poland	88,286	16,774	2004 – 2008
Other	163,602	46,727	Various
Total	$3,276,371	$1,017,895	

Foreign Tax Issues

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be "controlled foreign corporations" ("CFC") under U.S. tax law (the "Code"). In general, a U.S. corporation that is a shareholder in a CFC may be required to include in its income the average adjusted tax basis of any investment in U.S. property held by a wholly or majority owned CFC to the extent that the CFC has positive current or accumulated earnings and profits. This is the case even though the U.S. corporation may not have received any actual cash distributions from the CFC. In addition, certain income earned by most of our foreign subsidiaries during a taxable year when our subsidiaries have positive earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred to as "Subpart F income," generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income. Since we and a majority of our subsidiaries are investors in, or are involved in, foreign businesses, we could have significant amounts of Subpart F income. Although we intend to take reasonable tax planning measures to limit our tax exposure, there can be no assurance we will be able to do so.

In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend. Because we must calculate our foreign tax credit separately for dividends received from certain of our foreign subsidiaries from those of other foreign subsidiaries and because of certain other limitations, our ability to claim a foreign tax credit may be limited. Some of our operating companies are located in countries with which the U.S. does not have income tax treaties. Because we lack treaty protection in these countries, we may be subject to high rates of withholding taxes on distributions and other payments from these operating companies and may be subject to double taxation on our income. Limitations on the ability to claim a foreign tax credit, lack of treaty protection in some countries, and the inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal tax rate on our earnings. Since substantially all of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the U.S., these risks are proportionately greater for us than for companies that generate most of their revenue in the U.S. or in jurisdictions that have these treaties.

We through our subsidiaries maintain a presence in 15 countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the U.S., such as a value added tax system. We have accounted for the effect of foreign taxes based on what we believe is reasonably expected to apply to us and our subsidiaries based on tax laws currently in effect and/or reasonable interpretations of these laws. Because some foreign jurisdictions do not have systems of taxation that are as well established as the system of income taxation used in the U.S. or tax regimes used in other major industrialized countries, it may be difficult to anticipate how foreign jurisdictions will tax our and our subsidiaries' current and future operations.

UPC discharged a substantial amount of debt in connection with its reorganization. Under Dutch tax law, the discharge of UPC's indebtedness in connection with its reorganization would generally constitute taxable income to UPC in the period of discharge. UPC has reached an agreement with the Dutch tax authorities whereby UPC is able to utilize net operating loss carry forwards to offset any Dutch income taxes arising from the discharge of debt in 2003. UPC, together with its "fiscal unity" companies, expects that for the year ended December 31, 2003 it will have sufficient current year and carry forward losses to fully offset any income to be recognized on the discharge of the debt.

20. Earnings Per Share

	Year Ended December 31, 2003	2002	2001
		(In thousands)	
Numerator (Basic):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	–	–
Equity transactions of subsidiaries	6,555	–	–
Accrual of dividends on Series B convertible preferred stock	–	(156)	(1,873)
Accrual of dividends on Series C convertible preferred stock	–	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	–	(1,621)	(20,125)
Basic income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,094	(4,566,513)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Basic net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,628)	$ (4,546,457)
Denominator (Basic):			
Basic weighted-average number of common shares outstanding, before adjustment	418,874,941	390,087,623	99,834,387
Adjustment for rights offering in February 2004	43,149,291	40,183,842	10,284,175
Basic weighted-average number of common shares outstanding	462,024,232	430,271,465	110,118,562
Numerator (Diluted):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	–	–
Equity transactions of subsidiaries	6,555	–	–
Accrual of dividends on Series B convertible preferred stock	–	–	(1,873)
Accrual of dividends on Series C convertible preferred stock	–	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	–	(1,621)	(20,125)
Diluted income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,250	(4,566,513)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Diluted net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,472)	$ (4,546,457)
Denominator (Diluted):			
Basic weighted-average number of common shares outstanding, as adjusted	462,024,232	430,271,465	110,118,562
Incremental shares attributable to the assumed exercise of outstanding stock appreciation rights	109,544	–	–
Incremental shares attributable to the assumed exercise of contingently issuable shares	92,470	–	–
Incremental shares attributable to the assumed exercise of outstanding options (treasury stock method)	220,115	9,701	–
Incremental shares attributable to the assumed conversion of Series B convertible preferred stock	–	224,256	–
Diluted weighted-average number of common shares outstanding	462,446,361	430,505,422	110,118,562

21. Related Party Transactions

Loans to Officers and Directors

In 2000 and 2001, Old UGC made loans through a subsidiary to Michael T. Fries, Mark L. Schneider and John F. Riordan, each of whom at the time was a director or an executive officer of Old UGC. The loans, totaling approximately $16.6 million, accrued interest at 90-day LIBOR plus 2.5% or 3.5%, as determined in accordance with the terms of each note. The purpose of the loans was to enable these individuals to repay margin debt secured by common stock of Old UGC or its subsidiaries without having to liquidate their stock ownership positions in Old UGC or its subsidiaries. Each loan was secured by certain outstanding stock options and phantom stock options issued by Old UGC and its subsidiaries to the borrower, and certain of the loans were also secured by common stock of Old UGC and its subsidiaries held by the borrower. Initially the loans were recourse to the borrower, however, in April 2001, the Old UGC board of directors revised the loans to be non-recourse to the borrower, except to the extent of any pledged collateral. Accordingly, such amounts have been reflected as a reduction of stockholders' equity. The written documentation for these loans provided that they were payable on demand, or, if not paid sooner, on November 22, 2002. On January 22, 2003, we notified Mr. Fries and Mr. Schneider of foreclosure on all of the collateral securing the loans, which loans had an outstanding balance on such date, including interest, of approximately $8.8 million. Our board of directors authorized payment to Mr. Fries and Mr. Schneider a bonus in the aggregate amount of approximately $1.7 million to pay the taxes resulting from the foreclosure and the bonus. On January 6, 2004, we notified Mr. Riordan of foreclosure on all of the collateral securing his loans, which loans had an outstanding balance on such date, including interest, of approximately $10.1 million.

Merger Transaction Loans

When Old UGC issued shares of its Series E preferred stock in connection with the merger transaction with Liberty in January 2002, the Principal Founders delivered full-recourse promissory notes to Old UGC in the aggregate amount of $3.0 million in partial payment of their subscriptions for the Series E preferred stock. The loans evidenced by these promissory notes bear interest at 6.5% per annum and are due and payable on demand on or after January 30, 2003, or on January 30, 2007 if no demand has been made by then. Such amounts have been reflected as a reduction of stockholders' equity, as such transactions are accounted for as variable option awards because the loans do not meet the criteria of recourse loans for accounting purposes.

Mark L. Schneider Transactions

In 1999, chello broadband loaned Mr. Schneider €2,268,901 so that he could acquire certificates evidencing the economic value of stock options granted to Mr. Schneider in 1999 for chello broadband ordinary shares B. This recourse loan, which is due and payable upon the sale of the certificates or the expiration of the stock options, bears no interest. Interest, however, is imputed and the tax payable on the imputed interest is added to the principal amount of the loan. In 2000, Mr. Schneider exercised chello broadband options through the sale of the certificates acquired with the loans proceeds. Of the funds received, €823,824 was withheld for payment of the portion of the loan associated with the options exercised. In addition, chello broadband cancelled the unvested options and related loan amount in May 2003. The outstanding loan balance was €380,197 at December 31, 2003.

Gene W. Schneider Employment Agreement

On January 5, 2004, we entered into a five-year employment agreement with Mr. Gene W. Schneider. Pursuant to the employment agreement, Mr. Schneider shall continue to serve as the non-executive chairman of our Board for so long as requested by our Board, and is subject to a five year non-competition obligation (regardless of when his employment under the employment agreement is terminated). In exchange, Mr. Schneider shall receive an annual base salary of not less than his current base salary, is eligible to participate in all welfare benefit plans or programs covering UGC's senior executives generally, and is entitled to receive certain additional fringe benefits. The employment agreement terminates upon Mr. Schneider's death. We may terminate him for certain disabilities and for cause. Mr. Schneider may terminate the employment agreement for any reason on thirty days notice to UGC. If the employment agreement is terminated for death or disability, we shall make certain payments to Mr. Schneider or his personal representatives, as appropriate, for his annual base salary accrued through the termination date, the amount of any annual base salary that would have accrued from the termination date through the end of the employment period had Mr. Schneider's employment continued through the end of the five year term, and compensation previously deferred by Mr. Schneider, if any, but not paid to him. Certain stock options and other equity-based incentives granted to Mr. Schneider shall remain exercisable until the third anniversary of the termination date (but not beyond the term of the award). Upon Mr. Schneider's election to terminate the employment agreement early, he is entitled to certain payments from us. If the employment agreement is terminated for cause by us, we have no further obligations to Mr. Schneider under the agreement, except with respect to certain compensation accrued through the date of termination and compensation previously deferred, if any, by Mr. Schneider.

Spinhalf Contract

In 2002, a subsidiary of UPC entered into a contract with Spinhalf Ltd for the provision of network services. This company is owned by a family member of John F. Riordan, a former director and former Chief Executive Officer of UPC. Amounts incurred with respect to such contracted services to date are approximately €7.8 million. We terminated the network support contract with Spinhalf during 2003.

Gene W. Schneider Life Insurance

In 2001, Old UGC's board of directors approved a "split-dollar" policy on the lives of Gene W. Schneider and his spouse for $30 million. Old UGC agreed to pay an annual premium of approximately $1.8 million for this policy, which has a roll-out period of approximately 15 years. Old UGC's board of directors believed that this policy was a reasonable addition to Mr. Schneider's compensation package in view of his many years of service to Old UGC. Following the enactment of the Sarbanes-Oxley Act of 2002, no additional premiums have been paid by Old UGC. The policy is being continued by payments made out of the cash surrender value of the policy. In the event the law is subsequently clarified to permit Old UGC to again make the premium payments on the policy, Old UGC will pay the premiums annually until the first to occur of the death of both insureds, the lapse of the roll-out period, or at such time as The Gene W. Schneider Trust (the "2001 Trust") fails to make its contribution to Old UGC for the premiums due on the policy. The 2001 Trust is the sole owner and beneficiary of the policy, but has assigned to Old UGC policy benefits in the amount of premiums paid by Old UGC. The Trust will contribute to Old UGC an amount equal to the annual economic benefit provided by the policy. The trustees of the Trust are the children of Mr. Schneider. Upon termination of the policy, Old UGC will recoup the premiums that it has paid.

Programming Agreements

In the ordinary course of business, we acquire programming from various vendors, including Discovery Communications, Inc. ("Discovery"), Pramer S.C.A. ("Pramer") and Torneos y Competencias, S.A. ("TyC"). Liberty has a 50% equity interest in Discovery and a 40% equity interest in TyC. Pramer is an indirect wholly-owned subsidiary of Liberty. VTR has programming agreements with Discovery, TyC and Pramer. The cost of these agreements with VTR is approximately $4.2 million per year. UGC Europe has programming agreements with Discovery and the cost of these agreements is approximately $9.8 million per year. All of the agreements have a fixed term with maturities ranging from August 2004 to year-end 2006, however, most of the agreements will automatically renew for an additional year unless terminated upon prior notice.

22. Subsequent Events

Liberty Acquisition of Controlling Interest

On January 5, 2004, Liberty acquired approximately 8.2 million shares of Class B common stock from our founding stockholders in exchange for securities of Liberty and cash (the "Founders Transaction"). Upon the completion of this exchange and subsequent acquisitions of our stock, Liberty owns approximately 55% of our common stock, representing approximately 92% of the voting power. Beginning with the next annual meeting of our stockholders, the holders of our Class A, Class B and Class C common stock will vote together as a single class in the election of our directors. Liberty now has the ability to elect our entire board of directors and otherwise to generally control us. The closing of the Founders Transaction resulted in a change of control of us.

Upon closing of the Founders Transaction, our existing standstill agreement with Liberty terminated, except for provisions of that agreement granting Liberty preemptive rights to acquire shares of our Class A common stock. These preemptive rights will survive indefinitely, as modified by an agreement dated November 12, 2003, between Liberty and us. The former standstill agreement restricted the amount of our stock that Liberty could acquire and restricted the way Liberty could vote our stock. On January 5, 2004, Liberty entered into a new standstill agreement with us that generally limits Liberty's ownership of our common stock to 90% or less, unless Liberty makes an offer or effects another transaction to acquire all of our common stock. Except in the case of a short-form merger in which our stockholders are entitled to statutory appraisal rights, such offer or transaction must be at a price at or above a fair value of our shares determined through an appraisal process if a majority of our independent directors has voted against approval or acceptance of such transaction.

Prior to January 5, 2004, we understand that Liberty accounted for its investment in us under the equity method of accounting, as certain voting and standstill agreements entered into between them and the Founders precluded Liberty's ability to control us.

Liberty's acquisition of the Founders' shares on January 5, 2004 caused those voting restrictions to terminate and allows Liberty to fully exercise their voting rights and control us. As a result, Liberty began consolidating us from the date of that transaction. Liberty has elected to push down its investment basis in us (and the related purchase accounting adjustments) as part of its consolidation process. The effects of this pushdown accounting will likely reduce our total assets and stockholders' equity by a material amount and could have a material effect on our statement of operations.

Liberty Exercise of Preemptive Right

Pursuant to the terms of a standstill agreement, if we propose to issue any of our Class A common stock or rights to acquire our Class A common stock, Liberty has the right, but not the obligation, to purchase a portion of such issuance sufficient to maintain its then existing equity percentage in us on terms at least as favorable as those given to any third party purchasers. This preemptive right does not apply to (i) the issuance of our Class A common stock or rights to acquire our Class A common stock in connection with the acquisition of a business from a third party not affiliated with us or any founder that is directly related to the existing business of us and our subsidiaries, (ii) the issuance of options to acquire our Class A common stock to employees pursuant to employee benefit plans approved by our board (such options and all shares issued pursuant thereto not to exceed 10% of our outstanding common stock), (iii) equity securities issued as a dividend on all equity securities or upon a subdivision or combination of all outstanding equity securities, or (iv) equity securities issued upon the exercise of rights outstanding as of the closing of the merger or as to the issuance of which Liberty had the right to exercise preemptive rights. Based on the foregoing provisions, in January 2004, Liberty exercised its preemptive right, based on shares of Class A common stock issued by us in the UGC Europe Exchange Offer. As a result, Liberty acquired approximately 18.3 million shares of our Class A common stock at $7.6929 per share. Liberty paid for the shares through the cancellation of $102.7 million of notes we owed Liberty, the cancellation of $1.7 million of accrued but unpaid interest on those notes and $36.3 million in cash.

Rights Offering

We distributed to our stockholders of record on January 21, 2004, transferable subscription rights to purchase shares of our Class A, Class B and Class C common stock at a per share subscription price of $6.00. The rights offering, which expired on February 12, 2004, was fully subscribed, resulting in gross proceeds to us of approximately $1.0 billion. We issued approximately 83.0 million shares of our Class A common stock, 2.3 million shares of Class B common stock and 84.9 million shares of our Class C common stock in the rights offering.

Directors, Officers & Management

DIRECTORS

Gene W. Schneider
Chairman of the Board

Robert R. Bennett
President & Chief Executive Officer
Liberty Media Corporation,
a media and communications company

John P. Cole, Jr.
Founder of Cole, Raywid & Braverman,
a law firm

John W. Dick
Private Investor

Michael T. Fries
President & Chief Executive Officer

Gary S. Howard
Director of
Liberty Media Corporation,
a media and communications company

John C. Malone
Chairman, President &
Chief Executive Officer
Liberty Media International,
a media and communications company

Mark L. Schneider
Chief Executive Officer
chellomedia division of UGC Europe, Inc.

Paul A. Gould
Managing Director
Allen & Company,
an investment banking firm

David B. Koff
Senior Vice President
Liberty Media International,
a media and communications company

UGC OFFICERS

Michael T. Fries
President & Chief Executive Officer

Frederick G. Westerman III
Co-Chief Financial Officer

Charles H. R. Bracken
Co-Chief Financial Officer

Ellen P. Spangler
Senior Vice President
Business & Legal Affairs

Valerie L. Cover
Co-Principal Accounting Officer

Ruth E. Pirie
Co-Principal Accounting Officer

Ray D. Samuelson
Vice President, Internal Audit

European Officers:

Gene E. Musselman
President & Chief Operating Officer
UPC Broadband division

Sudhir Ispahani
Chief Technology Officer
UGC Europe

Nimrod J. Kovacs
Executive Chairman
UPC Central Europe

Shane O'Neill
Chief Strategy Officer
President, chellomedia division

Mark L. Schneider
Chief Executive Officer
chellomedia division

Anton Tuijten
Vice President &
Deputy General Counsel
UGC Europe

Chile & UGC:

Blas Tomic
Chief Executive Officer
VTR GlobalCom, S.A.

Richard S. L. Abbott
Vice President, Finance
UGC Properties

John Babb
Vice President, Legal Affairs
UGC Properties

James R. Clark
Vice President, Operations
UGC Properties

Phillip C. Colby
Vice President, Engineering
UGC Properties

Mauricio Ramos
Vice President, Business Development
UGC Properties

SHAREHOLDER RELATIONS & INQUIRIES

United's Class A Common Stock trades on the NASDAQ Stock Market under the symbol UCOMA. A copy of the Annual Report to the Securities and Exchange Commission (Form 10-K) may be obtained without charge by writing to:

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