

34. UNITED PAN-EUROPE COMMUNICATIONS (UPC)

34.1 COMPANY INFORMATION

Exhibit 69 – UPC at a glance

| | | |
|--------------------|---|-------|
| Ownership | UnitedGlobalCom | 65.5% |
| CEO | John F Riordan | |
| Year established | 1995 | |
| Revenue 2001 | €1.38 billion | |
| Countries served | Austria, Belgium, Czech Republic, France, Germany, Hungary, Israel, Malta, Netherlands, Norway, Poland, Romania, Slovak Republic, Spain, Portugal, Sweden, United Kingdom | |
| Headquarters | Amsterdam | |
| Employees Dec 2001 | 9,940 | |

(Source: Paul Budde Communication, based on company data)

United Pan-Europe Communications (UPC) is one of the leading broadband communications companies in Europe. Through its broadband networks UPC provides TV, Internet and telephony services to residential customers. Furthermore, UPC offers telephony and data services to business customers and delivers interactive and transactional TV services and pay TV channels to its own and other cable and satellite networks. UPC is active in 17 countries in Europe and in Israel.

UPC completed an IPO in February 1999, and its shares are traded on the Euronext Amsterdam Stock Exchange and NASDAQ. UPC is a consolidated subsidiary of *UnitedGlobalCom, Inc* (see separate report at www.budde.com.au).

34.1.1 Brief company history

UPC was formed, and operated from July 1995 to December 1997, as a 50/50 joint venture between UIH (since renamed UnitedGlobalCom) and Philips. At the formation of the venture, Philips contributed its 95% interest in cable TV systems in Austria, its 100% interest in cable TV systems in France, called Citécâble, in the Netherlands, called KTE and in Germany. UIH contributed its minority interests in cable TV systems in Hungary, Ireland, Israel, Malta, Norway, Spain, Sweden, and its majority interest in the Czech Republic and Portuguese systems. In 1997, UPC and UIH bought out Phillips' holding in UPC.

In February 1999, the group successfully completed a public float on the Amsterdam Stock Exchange and NASDAQ. Later in 1999, UPC launched the broadband operator chello in Europe, initially serving the Netherlands, Norway, France, Belgium and Austria. The same year, Priority Telecom launched its telephony services in the Netherlands.

In June 2000, UnitedGlobalCom, the parent of UPC, and Liberty Media reached a complicated arrangement whereby:

- United transferred to Liberty 38% of its equity and 72% of its voting stock;
- Liberty transferred to UPC 25% of its subsidiary Telewest;
- Liberty transferred to United 15% of Crown Media Holdings, a subsidiary that distributes the Odyssey and Hallmark channels;
- Liberty transferred to United 20% of the Australian movie channel JV, Premium Movie Partnership;
- United's VTR GlobalCom and Liberty's Latin American interests were combined;
- United's interest in UPC increase from 51% to 61%, whilst Liberty's interest remain at 7%.

By mid-2001, UPC had completed its internal reorganisation along residential, wholesale and business lines for broadcasting, Internet and telephony services.

In February 2002, following liquidity problems, UPC signed a Memorandum Of Understanding with UnitedGlobalCom to restructure its balance sheet so that €6 billion of debt and €1.5 billion of convertible preference shares would be converted into new equity held by UPC.

By September 2002, UPC had agreed with its creditors to wipe a large chunk of debt from its balance sheet. Under the deal, UPC bondholders would swap their notes for 32.5% of UPC's share capital, with UnitedGlobalCom getting 65.5% in exchange for its bonds and loans.

See separate reports: *the Netherlands* at www.budde.com.au.

34.1.2 Year 2001 results

Revenues increased by 38% to €1.38 billion. This led to an improved EBITDA of negative €162 million (negative €363 in 2000).

The net loss was €4.42 billion (€1.99 billion in 2000), affected by restructuring and impairment costs of €1.58 billion, loss on the sale of the Polish DTH business of €468 million, and provision of €376 for further loss on investments.

Capital costs were halved to €897 million.

Cash flow was negative €735 million, leaving cash equivalents at the end of the year of €855 million, together with debt of €10.2 billion. The company defaulted on its interest repayments at the end of the year.

Table 135 – Revenue – 1997-2001

| Year end December | Revenue (million) |
|-------------------|-------------------|
| 1997 | NLG 337 |
| 1998 | €185 |
| 1999 | €448 |
| 2000 | €1,001 |
| 2001 | €1,380 |

(Source: Paul Budde Communication based on company data.)

Table 136 – Revenue by segment – 2001

| Segment | Proportion | Annual change |
|------------------|------------|---------------|
| Cable TV | 46% | +19% |
| Telephony | 11% | +113% |
| Internet | 11% | +52% |
| DTH | 5% | +45% |
| Programming | 5% | +32% |
| Priority Telecom | 14% | +160% |
| UPC Media | 5% | +102% |
| Other | 3% | n/a |

(Source: Paul Budde Communication, based on company data)

34.1.3 Subsidiaries

UPC has grown since 1995 by gradually acquiring cable TV networks and operators across Europe, including Internet service providers, content providers and telephony service providers. By 2001, it had some 32 important subsidiaries.

Exhibit 70 – UPC subsidiaries in 2001

| Country | Subsidiary | Ownership Percentage |
|--------------------------|---|-----------------------------|
| UPC Distribution: | | |
| Austria | Telekabel Group | 95.0 |
| Belgium | UPC Belgium (formerly Radio Public) | 100.0 |
| Czech Republic | KabelNet | 100.0 |
| Czech Republic | Kabel Plus | 99.9 |
| France | UPC France | 92.0 |
| Germany | <ul style="list-style-type: none"> • EWT/TSS Group • PrimaCom AG | 51.0 25.0 |
| Hungary | <ul style="list-style-type: none"> • UPC Magyarország (formerly Telekabel Hungary) • Monor Communications Group | 100.0 98.9 |
| Netherlands | <ul style="list-style-type: none"> • UPC Nederland (formerly United Telekabel Holding NV) • Alkmaar | 100.0 100% |
| Norway | UPC Norge AS | 100.0 |
| Sweden | UPC Sweden (formerly Stjärn Tvnetet) | 100.0 |
| Slovak Republic | <ul style="list-style-type: none"> • Trnavatel • Kabeltel • UPC Slovensko | 95.0 100.0 100.0 |
| Romania | <ul style="list-style-type: none"> • Eurosat • AST Romania | 51.0 70.0 |
| Poland | <ul style="list-style-type: none"> • UPC Polska (formerly @Entertainment) • TKP | 100.0 25% |
| UPC Media: | | |
| Pan European | cello broadband | 100% |
| Ireland | Tara Television | 80.0 |
| Spain | Iberian Programming Services | 50.0 |
| United Kingdom | Xtra Music | 50.0 |
| Netherlands | UPC Programming | 100.0 |
| Czech/Slovak/Hungary | UPC Direct Programming | 100.0 |
| Poland | Wizja TV | 100.0 |
| Other: | | |
| Priority | <ul style="list-style-type: none"> • Priority Telecom • Priority Wireless | 79.1 100.0 |
| Israel | Tevel Israel International Communications | 46.6 |
| Malta | Melita Cable TV | 50.0 |

(Source: Paul Budde Communication based on company information.)

34.2 COMPANY ANALYSIS – JULY 2002

34.2.1 Acquisition boom and bust into debt

Like many of its peers, UPC jumped on the dot com booming bandwagon only to fall when it crashed. In the 1999-2000 period, the cable TV company was lured by the triple-play of voice-Internet-cable TV services into acquiring a range of European cable TV assets at booming prices. These acquisitions led to debt levels of over €10 billion in 2001. By mid-2002, this had fallen to €5.4 billion.

The cable TV network assets were acquired across the continent in a bid to become the largest cable TV company in Europe. UPC succeeded in this, at least in the number of subscribers, but in doing so it had accumulated many extensive, and widely spread apart, cable TV networks in need of expensive integration and digital upgrades to truly exploit the Voice-Internet-TV triple play. The expense of acquisition, integration and upgrades simple could not be met by any organic growth in subscribers or ARPUs.

34.2.2 Interim turmoil

With this predicament, the company struggled financially with the dot com bust in the latter half of 2000, and continued to struggle into 2002.

Part of its triple play strategy led to a deal with Microsoft for the supply of digital TV set-top boxes in 1999. This led to a public brawl over delayed deployment in mid-2000, with UPC eventually switching to Liberate Technologies equipment in November 2000. The bad blood was never cleaned, and Microsoft sold its 6.3% stake in UPC in February 2002.

In March 2002, UPC lost a legal dispute with the Netherlands regulator and was forced to give access to content to Canal Plus for free, missing out on €2 million. The Dutch regulator backdated the waiver of transmission fees to 2000.

UPC also defaulted on interest payments on its debt in early 2002, and was expelled from the Dutch stock exchange after its debt levels exceeded its total assets. It was also expelled from the US NASDAQ in May 2002.

Throughout the first half of 2002, UPC negotiated to restructure its debt arrangements, most of which was owed to United GlobalCom (UGC), also its chief shareholder.

34.2.3 Restructure approved

UPC's major share and debt holder United GlobalCom and an UPC bond holder committee announced an agreement in principle on a debt restructuring plan in July 2002, with an extension of debt repayment to September 2002 pending final agreement. The proposed agreement swapped UPC's debts of €5.39 billion (US\$5.4 billion) for new equity of a new holding company.

Key elements of the agreement included:

- UGC will get 65.5% of the equity of the new holding company in exchange for €2.49 billion (US\$2.5 billion) in UPC debts;
- Third party bondholders will receive 32.5% of the new holding company for their €2.89 billion (US\$2.9 billion) in bonds;
- 2% of equity will be available for current share holders, including UGC.

34.2.4 And underway

In September 2002, UPC announced that it, United GlobalCom, the members of the Bondholder Committee and New UPC, Inc, a newly-formed US company that will become the holding company for UPC, had entered into a restructuring agreement. The deal saw UPC debts converted to equity in the New UPC holding company, and UPC will become a substantially or wholly owned subsidiary of New UPC.

The restructuring was started in December 2002 when UPC filed for Chapter 11 proceeding in the US and a voluntary moratorium proceeding in the Netherlands. During the proceedings, UPC expects to have sufficient resources to fund its operations through to positive free cash flow, a point from which UPC will be able to fund itself. UPC was expected to emerge from this restructuring by the end of March 2003. UGC was expected to increase its stake from 53% to 66% in UPC in the process.

34.3 OPERATIONS

During 2000, UPC restructured its operations with all broadcasting, telephony and Internet services being reorganised along residential, wholesale and business lines. UPC's three principal divisions are split as follows:

- UPC Distribution – the residential business delivering TV services, Internet and telephony. These services are provided as a ‘triple-play’ bundle of TV, Internet and telephony services via the same cable;
- UPC Media – comprising the converging businesses of chello and programming which wholesale their products and services to UPC and other third parties;
- Priority Telecom – the division targeting the business market with a full range of telephony, Internet, data, hosting and broadband services.

Table 137 – UPC cable operating statistics – 1998-2001

| Year | (million) | | |
|------|--------------------|----------------------|-------------------------|
| | Total homes passed | Two-way homes passed | Basic cable subscribers |
| 1998 | 3.28 | 1.18 | 2.38 |
| 1999 | 8.21 | 2.76 | 5.32 |
| 2000 | 10.74 | 4.41 | 7.12 |
| 2001 | 10.96 | 5.21 | 7.21 |

(Source: Paul Budde Communication based on company data.)

Table 138 – UPC new service operating statistics – 1998-2001

| Year | (thousands) | | | | |
|------|----------------------|-----------------------|-----------------|---------------|---------|
| | Internet subscribers | Telephony subscribers | Telephony lines | DTH satellite | Digital |
| 1998 | 16 | 39 | 41 | n/a | n/a |
| 1999 | 122 | 211 | 232 | 254 | n/a |
| 2000 | 349 | 423 | 481 | 474 | 24 |
| 2001 | 524 | 454 | 506 | 773 | 78 |

(Source: Paul Budde Communication based on company data.)

Table 139 – Subscribers by country and service – December 2001

| Country | (thousands) | | | |
|-----------------|-------------|----------|-----------|---------|
| | Cable TV | Internet | Telephone | Digital |
| Austria | 499 | 141 | 139 | 4 |
| Belgium | 123 | 21 | n/a | n/a |
| Czech Republic | 330 | 6 | 3 | n/a |
| France | 433 | 22 | 56 | 10 |
| Germany | 591 | 0.4 | 0.1 | n/a |
| Hungary | 664 | 14 | 67 | n/a |
| Israel | 419 | n/a | n/a | n/a |
| Malta | 93 | n/a | n/a | n/a |
| Netherlands | 2,342 | 238 | 168 | 50 |
| Norway | 335 | 25 | 21 | 10 |
| Poland | 1,010 | 9 | n/a | n/a |
| Romania | 316 | n/a | n/a | n/a |
| Slovak Republic | 304 | n/a | n/a | n/a |
| Sweden | 205 | 48 | n/a | 5 |

(Source: Paul Budde Communication, based on company data)

34.3.1 UPC Distribution

UPC Distribution, the largest division of UPC, delivers three services to residential customers: TV (Basic Cable and Digital), Internet and telephony, together the Triple Play offering of voice, video and data.

Basic cable is the traditional analogue TV service of UPC. UPC is building on strong growth in its 'New Services' which include digital TV (via cable and Direct-To-Home-satellite), Internet and telephony.

34.3.1.1 Broadcasting

UPC offers basic cable services in 13 European countries and Israel. In addition, UPC launched its digital cable TV service with the introduction of the Set Top Computer in Amsterdam in October 2000. The first generation Set Top Computers (STCs) deliver high-quality digital TV, Near-Video-On-Demand (NVOD) and an Electronic Program Guide. Subsequent remote software upgrades will add e-mail, video-on-demand (VOD), Internet and interactive services on the TV. The content (transactional TV services, pay TV channels and interactive services) will be provided by several companies, including UPC Media. The digital service will also be introduced in Austria and other countries in the near future.

Since 1999, the company has increased its French cable TV presence and is a major player in 2001. For more information about the French market, see separate report: *France - Broadcasting Market* at www.budde.com.au.

34.3.1.2 Internet

UPC offers Internet access and portal services to residential customers. This service is called chello and offers fast Internet access for a fixed price per month and the availability of being online day and night. The service is delivered through a cable modem to the PC. In the future the Internet service can also be delivered via the Set Top Computer on the TV.

UPC offers residential Internet services in nine countries: Austria, Belgium, France, Hungary, Norway, Sweden, The Netherlands, Poland and the Czech Republic.

34.3.1.3 Telephony

UPC offers cable telephony services, in competition with traditional telephony services from incumbent's networks. UPC offers a full range of telephony services, including caller ID, call waiting, call forwarding and blocking and three-way calling. These services are delivered through a telephone cable modem. In the future, it is anticipated that cable telephone services will migrate to Voice over Internet Protocol (VoIP) technology. This will allow UPC to reduce costs, increase quality and provide more advanced services.

UPC offers residential telephony services in six countries: Austria, Czech Republic, France, Hungary, Norway and The Netherlands.

34.3.1.4 Satellite

Direct-to-home (DTH) satellite broadcasting delivers digital services via satellite, primarily to areas without cable networks. UPC has a DTH platform -UPC Direct- in the Central European Region (Poland, Hungary and the Czech and Slovak Republics).

34.3.2 UPC Media

UPC Media was established to combine UPC's Internet access and content group, *chello Broadband* (see separate report at www.budde.com.au for activities prior to December 2001), with its programming business. UPC Media manages four main business units: Internet access, interactive services, transactional TV, and pay TV.

34.3.2.1 Internet access

chello Broadband is a European provider of broadband Internet access.

34.3.2.2 Interactive services

This unit deploys key products to support UPC's digital roll-out across Europe, including interactive/enhanced TV, interactive services, e-commerce, entertainment and the existing broadband portal services.

34.3.2.3 Transactional TV

This includes NVOD and Video-on-Demand (VOD) services for delivery on UPC and non-UPC systems. The NVOD product is already deployed in the Netherlands.

34.3.2.4 Pay TV

UPCtv creates and distributes eight thematic channels with brands such as Extreme Sports, Avante and Innergy. In addition, it holds investment stakes in a number of third-party branded channels and programming ventures, including a 50% interest in IPS which produces five channels in partnership with Disney for the Spanish and Portuguese markets and a 50% interest in MTV Networks Polska. Total aggregate channel subscribers number over 20 million with over 14 million coming from non-UPC systems.

In October 2000, UPC Media finished the construction of its Digital Media Centre (DMC) in Amsterdam. This fully digital centre distributes a rapidly growing stock of content - programs and multimedia applications - to cable head-ends serving millions of customers across Europe.

UPC Media also oversees a 23.5% UPC interest in SBS, a leading pan-European Free-to-Air (FTA) broadcast network.

34.3.2.5 Priority Telecom

Priority Telecom is a leading European provider of broadband data, hosting, Internet and voice solutions to small, medium and large sized business customers as well as Internet Service Providers (ISP's) and alternative carriers. With over 6,000 customers directly connected to its network, Priority Telecom is one of the leading facilities-based Competitive Local Exchange Carriers (CLECs) in Europe. Priority Telecom organises its business in five regions: the Benelux, Central Europe, Western Europe, Americas and Asia.

Priority Telecom offers the following services:

- Broadband Office Solutions is a full services package providing Small to Medium Sized Enterprises (SMEs) with the communication tools usually reserved for large corporations. Products within the Broadband Office Solutions Portfolio include - Voice services, Shared Web hosting, Broadband Office Internet and Customer Contact services.
- Corporate Office Solutions is a portfolio of products and services designed to help optimise communications for large corporations. Products include - ISDN 30, Corporate Internet Access, Leased Line Service, Ethernet Leased Line, InterLAN, Custom Data and Application Service Providers (ASP) services.
- Network Solutions provide end-to-end broadband IP and data services to operators and ISPs looking to expand their networks, enter new markets or enhance their Internet reach. Flexible, scalable and cost effective network solutions are designed to support the demanding and constantly changing requirements for local, national and international applications. Its products include - ATM Data Connect, Broadband Leased Line, Private IP, Internet Gateway Exchange, Local Leased Line and Co-location Service.

Priority Telecom is one of the few networks services providers to offer local access (last mile connectivity) in major European business centres.

34.4 OTHER DEVELOPMENTS

34.4.1 Year 2002

February

- UPC and UnitedGlobalCom agreed to convert €6 billion in debt and €1.5 billion in preference shares to equity.

March

- UPC reached agreement with its bankers for a waiver of interest payments on €4 billion of debt until June 2002. In line with this agreement, UPC did not pay its interest dues in May.

April

- Financial results delayed.

May

- Expelled from NASDAQ.

July

- Financial restructure approved with United GlobalCom.

34.5 CONTACT DETAILS

United Pan-Europe Communications
 Frederik Roeskestraat 123
 1076 EE AMSTERDAM
 THE NETHERLANDS

Tel: +31 20 778 9860
 Fax: +31 20 778 9861
 Website: www.upccorp.com

35. VIRGIN

35.1 COMPANY INFORMATION

Exhibit 71 – Virgin at a glance

| | |
|--------------|---------------------|
| Shareholders | Private |
| CEO | Sir Richard Branson |
| Revenue 2000 | US\$5.2 billion |
| Headquarters | London |
| Employees | 30,000 |

(Source: Paul Budde Communication, based on company data)

Virgin - the third most recognised brand in Britain – began as a student magazine and mail order service in the 1970s, and by 2000 the name is becoming a global brand with businesses across a wide range of sectors, including music, travel, finance, transport, soft drinks, wines, publishing and telecommunications. The group’s telecommunication ventures are Virgin Mobile and Virgin.net.

35.2 VIRGIN MOBILE

Virgin Mobile is a 50:50 joint venture company between the Virgin Group and Deutsche Telekom’s One 2 One, and is the UK’s first Mobile Virtual Network Operators (MVNO). Since its launch in November 1999, it has attracted over 1 million customers, making it one of the fastest growing mobile phone companies in the world.