Austar United Communications Limited

Consolidated Financial Statements as at 31 March 2003
A $'000

	Three Months Ended				Three Months Ended			
	Mar-03	**Mar-02**	**Change**	**%Change**	**Mar-03**	**Dec-02**	**Change**	**%Change**
Statement of Financial Performance								
Total Service and Other Revenue	**79,743**	**84,785**	**(5,042)**	**(6)%**	**79,743**	**79,442**	**301**	**0%**
Programming and Communications Expenses	(40,758)	(50,582)	9,824	19%	(40,758)	(40,054)	(704)	(2)%
Gross Margin	**38,985**	**34,203**	**4,782**	**14%**	**38,985**	**39,388**	**(403)**	**(1)%**
Operating Expenses	(17,330)	(24,669)	7,339	30%	(17,330)	(16,984)	(346)	(2)%
General and Administrative Expense	(8,009)	(9,393)	1,384	15%	(8,009)	(8,307)	298	4%
Management Fees	(1,007)	(1,151)	144	13%	(1,007)	(1,078)	71	7%
Earnings/(Operating Loss) before interest, taxation depreciation and amortisation	**12,639**	**(1,010)**	**13,649**	**NM**	**12,639**	**13,019**	**(380)**	**(3)%**
Depreciation	(11,385)	(34,463)	23,078	67%	(11,385)	(12,330)	945	8%
Other Amortisation	(2,500)	(2,629)	129	5%	(2,500)	(2,518)	18	1%
Operating Profit/(Loss) before interest and taxation	**(1,246)**	**(38,102)**	**36,856**	**97%**	**(1,246)**	**(1,829)**	**583**	**32%**
Interest Expense, net	(6,815)	(7,744)	929	12%	(6,815)	(13,214)	6,399	48%
Significant items	24,000	0	24,000	NM	24,000	(913)	24,913	NM
Operating Profit/(Loss) before taxation	**15,939**	**(45,846)**	**61,785**	**NM**	**15,939**	**(15,956)**	**31,895**	**NM**
Income tax (expense) / benefit	0	0	0	NM	0	0	0	NM
Operating Profit/(Loss) after income tax	**15,939**	**(45,846)**	**61,785**	**NM**	**15,939**	**(15,956)**	**31,895**	**NM**
Share of Associate Profits/(Losses)	975	(74)	1,049	NM	975	530	445	84%
Outside Equity Interest	0	1,280	(1,280)	(100)%	0	0	0	0%
Operating Profit/(Loss)	**16,914**	**(44,640)**	**61,554**	**NM**	**16,914**	**(15,426)**	**32,340**	**NM**

Other Data	Three Months Ended				Three Months Ended			
	Mar-03	**Mar-02**	**Change**	**%Change**	**Mar-03**	**Dec-02**	**Change**	**%Change**
Capital Expenditure	9,624	12,946	(3,322)	26%	9,624	8,658	966	(11)%

Summarised Statement of Financial Position	As at:			
	Mar-03	**Dec-02**	**Change**	**%Change**
Cash	30,937	32,500	(1,563)	(4.8%)
Property, Plant and Equipment	60,892	62,370	(1,478)	(2.4%)
Investment in Associates	36,952	38,191	(1,239)	(3.2%)
Total Assets	296,780	276,719	20,061	7.2%
Short-term debt	31,896	413,918	(382,022)	(92.3%)
Long-term debt	370,009	7,447	362,562	NM
Net asset deficiency	(223,661)	(240,576)	16,915	7.0%

Austar United Communications Limited

Consolidated Financial Statements as at 31 March 2003

Excluding TVSN (I)
A $'000

	Three Months Ended				Three Months Ended			
	Mar-03	**Mar-02**	**Change**	**%Change**	**Mar-03**	**Dec-02**	**Change**	**%Change**
Statement of Financial Performance								
Total Service and Other Revenue	**79,743**	**78,644**	**1,099**	**1%**	**79,743**	**79,442**	**301**	**0%**
Programming and Communications Expenses	(40,758)	(46,599)	5,841	13%	(40,758)	(40,054)	(704)	(2)%
Gross Margin	**38,985**	**32,045**	**6,940**	**22%**	**38,985**	**39,388**	**(403)**	**(1)%**
Operating Expenses	(17,330)	(21,669)	4,339	20%	(17,330)	(16,984)	(346)	(2)%
General and Administrative Expense	(8,009)	(8,260)	251	3%	(8,009)	(8,307)	298	4%
Management Fees	(1,007)	(1,151)	144	13%	(1,007)	(1,078)	71	7%
Earnings/(Operating Loss) before interest, taxation depreciation and amortisation	**12,639**	**965**	**11,674**	**NM**	**12,639**	**13,019**	**(380)**	**(3)%**
Depreciation	(11,385)	(34,463)	23,078	67%	(11,385)	(12,330)	945	8%
Other Amortisation	(2,500)	(2,629)	129	5%	(2,500)	(2,518)	18	1%
Operating Profit/(Loss) before interest and taxation	**(1,246)**	**(36,127)**	**34,881**	**97%**	**(1,246)**	**(1,829)**	**583**	**32%**
Interest Expense, net	(6,815)	(7,685)	870	11%	(6,815)	(13,214)	6,399	48%
Significant items	24,000	0	24,000	NM	24,000	(913)	24,913	NM
Operating Profit/(Loss)before taxation	**15,939**	**(43,812)**	**59,751**	**NM**	**15,939**	**(15,956)**	**31,895**	**NM**
Income tax (expense) / benefit	0	0	0	NM	0	0	0	NM
Operating Profit/(Loss) after income tax	**15,939**	**(43,812)**	**59,751**	**NM**	**15,939**	**(15,956)**	**31,895**	**NM**
Share of Associate Profits/(Losses)	975	(828)	1,803	NM	975	530	445	84%
Outside Equity Interest	0	0	0	#DIV/0!	0	0	0	0%
Operating Profit/(Loss)	**16,914**	**(44,640)**	**61,554**	**NM**	**16,914**	**(15,426)**	**32,340**	**NM**

Other Data	Three Months Ended				Three Months Ended			
	Mar-03	**Mar-02**	**Change**	**%Change**	**Mar-03**	**Dec-02**	**Change**	**%Change**
Capital Expenditure	9,624	12,946	(3,322)	26%	9,624	8,658	966	(11)%

Summarised Statement of Financial Position	As at:			
	Mar-03	**Dec-02**	**Change**	**%Change**
Cash	30,937	32,500	(1,563)	(4.8%)
Property, Plant and Equipment	60,892	62,370	(1,478)	(2.4%)
Investment in Associates	36,952	38,191	(1,239)	(3.2%)
Total Assets	296,780	276,719	20,061	7.2%
Short-term debt	31,896	413,918	(382,022)	(92.3%)
Long-term debt	370,009	7,447	362,562	NM
Net asset deficiency	(223,661)	(240,576)	16,915	7.0%

(I) The results for TVSN for the three months ended 31 March 2002 have been deconsolidated from those of the Company.

Austar United Communications Limited

Selected Financial Data for Primary Operating Companies as at 31 March 2003

	Twelve Months Ended				Three Months Ended			
	Mar-03	Mar-02	Change	%Change	Mar-03	Dec-02	Change	%Change
Pay TV / iTV								
Total Revenue - $ 000's	72,258	71,448	810	1.1%	72,258	71,455	803	1.1%
Gross Margin - $ 000's	35,342	27,547	7,795	28.3%	35,342	33,019	2,323	7.0%
- %	48.91%	38.56%	10.35%	26.8%	48.91%	46.21%	2.70%	5.8%
Subscribers	406,545	429,233	(22,688)	(5.3)%	406,545	402,739	3,806	0.9%
Penetration per ending subscribers - %	19.52%	20.61%	(1.09)%	(5.3)%	19.52%	19.33%	0.19%	1.0%
Avg Monthly revenue per avg RGU	$ 53.83	$ 52.55	$ 1.28	2.4%	$ 53.83	$ 54.11	$(0.28)	(0.5)%
Churn %	1.98%	2.78%	(0.80)%	28.8%	1.98%	2.34%	(0.36)%	15.4%

AUSTAR UNITED COMMUNICATIONS LIMITED

Management Discussion and Analysis of the Results of Operations

Overview

Austar United Communications Limited ("the Company" or "AUC") is a leading provider of pay television, data services and telecommunication services in Australia.

Basis of preparation of the Consolidated Financial Information

The Statement of Financial Position as at 31 March 2003 and the Statement of Financial Performance for the three month period then ended includes the Company's 100% interest in Austar Entertainment (collectively CTV and STV Pty Limited and their controlled entities and Austar Entertainment Pty Limited) and Austar United Broadband Pty Limited ("AUB") (100%). Also included in the results for this period are the Company's interests in XYZ Entertainment Pty Limited ("XYZ") (50%).

The consolidated financial information has been prepared on a going concern basis and consistent with the accounting policies described in the financial report as at 31 December 2002. As at 31 March 2003 the Company has a deficiency in total equity of $223,661,000. The ability of the Company to continue as a going concern and to rectify the deficiency in total equity is dependent on the Company being able to generate the cash flows it requires enabling it to realise its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial report.

As a result of various restructuring initiatives completed during 2002 and with cash on hand and on deposit as at 31 March 2003 of $30,937,000 together with the proceeds from the forthcoming and fully underwritten rights issue, proceeds from the sale of TelstraClear, and a reduction in debt, the Directors believe that the Company is now well positioned for growth in 2003. Accordingly, the Directors believe that the preparation of the financial information on a going concern basis is appropriate.

Statement of Financial Performance

Three months ended 31 March 2003 compared to three months ended 31 March 2002

The Company's service and other revenue for the three months ended 31 March 2003 was $79.7 million (three months ended 31 March 2002: $84.8 million, including $6.1 million of revenue from TVSN), a decrease of $5.1 million. Other than for the effect of deconsolidating the revenue of TVSN, revenue from the Pay TV/iTV service in the period ended 31 March 2003 remained relatively consistent with revenue earned in the same period in the prior year.

The Company incurred programming and communications costs of $40.8 million for the three months ended 31 March 2003 (three months ended 31 March 2002: $50.6 million, including $4.0 million of cost of sales from TVSN), a decrease of $9.8 million, or 19%. This decrease is a result of the following factors:

- A decrease in programming costs of $6.2 million for the Pay TV / iTV service as a result of:
  (i) a decrease in costs due to the renegotiation of the programming rates for certain content provided by XYZ;
  (ii) a decrease in the comparative cost of United States dollar denominated content as a result of the improvement in the Australian dollar relative to the US dollar; and
  (iii) a decrease in the average number of subscribers as compared to the same period in the prior year; and
- A decrease in merchandise costs of sales of $4.0 million as a consequence of no longer consolidating the results of TVSN.

Gross margin after programming and communication costs was $39.0 million for the three months ended 31 March 2003 (three months ended 31 March 2002: $34.2 million).

Operating expenses decreased $7.4 million, or 30% from $24.7 million for the three months ended 31 March 2002 to $17.3 million for the three months ended 31 March 2003. This decrease is primarily a consequence of no longer consolidating the results of TVSN.

General and administrative costs decreased by $1.4 million, or 15% from $9.4 million for the three months ended 31 March 2002 to $8.0 million for the three months ended 31 March 2003. This improvement is primarily a result of no longer consolidating the general and administrative expenses of TVSN.

The Company recorded earnings before interest, taxation, depreciation and amortisation ("EBITDA") of $12.6 million for the three months ended 31 March 2003 (three months ended 31 March 2002: $1.0 million loss, including a loss of $2.0 million loss from TVSN), an increase of $13.6 million.

Depreciation expense for the three months ended 31 March 2003 was $11.4 million (three months ended 31 March 2002: $34.5 million), a decrease of $23.1 million. This reduction in the expense is primarily due to the lower net carrying value of property, plant and equipment. Other amortisation reduced nominally to $2.5 million for the three months ended 31 March 2002 (three months ended 31 March 2003: $2.6 million).

The Company incurred an operating loss before interest and tax ("EBIT") of $1.2 million for the three months ended 31 March 2003 (three months ended 31 March 2002: $38.1 million), a decrease in the loss of $36.9 million, or 97%.

Interest expense, net of interest income, was $6.8 million for the three months ended 31 March 2003 (three months ended 31 March 2002: $7.7 million), a decrease of $0.9 million. The decrease in the interest expense is primarily a result of a decrease in interest income of $0.5 million as a result of a decrease in cash on deposit as compared to the same period in the prior year.

Included in Significant Items for the period ended 31 March 2003 is a net gain on sale of $24 million as a result of the disposal of the Company's interests in TelstraClear Limited ("TCL") and The Weather Channel ("TWC").

On 25 March 2003 the Company received the necessary approvals in relation to the sale of its 41.6% interest in TCL for proceeds of $25.0 million and accordingly recorded a gain, net of incidental costs, on sale in the amount of $24.6 million. On 9 April 2003 the Company received the proceeds from the sale and in accordance with the terms of the Facility 65% of the net proceeds on the disposal of the shares in TCL were used to prepay the Facility.

On 17 April 2003 the Company received approval from the lenders to the Facility to complete the sale of TWC to XYZ, a related entity of the Company, for nominal consideration. The Company incurred a loss on this disposal of approximately $0.6 million in return for larger distribution at a lower cost.

The Company's share of profits from associates for the three months ended 31 March 2003 was $1.0 million (three months ended 31 March 2002: $0.1 million loss). The increase in the profit is primarily due to an improvement in XYZ's results compared to the same period in the prior year, as a result of the industry rationalisation in late 2002.

The Company recorded an operating profit of $16.9 million for the three months ended 31 March 2003 as compared to a loss of $44.6 million for the three months ended 31 March 2002.

Three months ended 31 March 2003 compared to three months ended 31 December 2002

The Company's service and other revenue for the three months ended 31 March 2003 was $79.7 million (three months ended 31 December 2002: $79.4 million). Revenue from the Pay TV/iTV service in the period ended 31 March 2003 remained relatively consistent with revenue earned in the three month period ended 31 December 2002.

Gross margin decreased by $0.4 million, or 1%, from $39.4 million for the three months ended 31 December 2002 to $39.0 million for the three months ended 31 March 2003.

Operating expenses have remained relatively consistent, increasing from $17.0 million for the three months ended 31 December 2002 to $17.3 million for the three months ended 31 March 2003. General and administrative expenses for the three months ended 31 March 2003 have also remained relatively consistent with that of the previous quarter, decreasing by $0.3 million to $8.0 million from $8.3 million.

The Company recorded an operating profit before interest, taxation, depreciation and amortisation ("EBITDA") of $12.6 million (three months ended 31 December 2002: $13.0 million), a decrease of $0.4 million.

Depreciation expense for the three months ended 31 March 2003 was $11.4 million (three months ended 31 December 2002: $12.3 million), a $0.9 million decline or 8%. Other amortisation expense of $2.5 million was relatively consistent with that of the previous quarter.

The Company incurred an operating loss before interest, income taxes and significant items ("EBIT") of $1.2 million for the three month period ended 31 March 2003 as compared to a loss of $1.8 million for the three months ended 31 December 2002.

Interest expense, net of interest income, was $6.8 million for the three month period ended 31 March 2003 (three months ended 31 December 2002: net interest expense of $13.2 million), a decrease in net interest expense of $6.4 million. The decrease in net interest expense is primarily a result of:

- A decrease in interest expense of $4.4 million as a result of receiving a waiver in relation to a breach of a covenant to the Facility; and
- A decrease in interest accrued on payables to UGC.

As noted above, included in Significant Items in the period ended 31 March 2003 is a net gain on 24.0 million in relation to the disposal of the Company's interests in TCL and TWC.

The Company's share of profits from associates for the three months ended 31 March 2003 was $1.0 million (three months ended 31 December 2002: $0.5 million). The increase in the profit reflects the improvement in XYZ's results.

For the three months ended 31 March 2003 the Company recorded a profit of $16.9 million (three months ended 31 December 2002: $15.4 million loss).

Financing facilities and events subsequent to balance date

As at 31 March 2003 the Company had cash at hand and on deposit of $30.9 million, a decrease of $1.6 million from $32.5 million at 31 December 2002. The Company reported net operating cash flows of $6.2 million and a net outflow from investing activities of $7.0 million.

The Company and the majority of its controlled entities are party to the Austar Entertainment $400 million Senior Secured Amortising Term Facility ("the Facility"). On 17 April 2003 the Company received a waiver in relation to a breach of a Minimum Pay TV Subscriber covenant as at 30 September 2002 and 31 December 2002. In addition to receiving the waiver the Company also received:

- Approval for the amendment of certain terms and conditions to the Facility as requested;
- Approval for AUC to enter into a series of transactions including a fully underwritten Rights Offering in the amount of $63.5 million; and
- Approval for the United Contingent Cash Account in the amount of $31.4 million provided by a controlled entity of UGC to be withdrawn.

As a result of receiving these approvals and in conjunction with the sale of the Company's interest in TCL the Company will prepay a minimum of $30.3 million of the Facility and the amount of the Facility will be reduced accordingly.