LIBERTY MEDIA CORP /DE/
Form 8-K
September 02, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): SEPTEMBER 2, 2004

LIBERTY MEDIA CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State or Other Jurisdiction of Incorporation)

0-20421	84-1288730
(Commission File Number)	(I.R.S. Employer Identification No.)

12300 LIBERTY BLVD.
ENGLEWOOD, COLORADO 80112
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (720) 875-5400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

( ) Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

( ) Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

( ) Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

( ) Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01. OTHER EVENTS

On July 13, 2004, Telewest Communications plc ("Telewest"), Telewest Global, Inc. and Telewest UK Limited entered into a transfer agreement (the "Transfer Agreement"). The Transfer Agreement provides for the transfer of substantially all of the assets of Telewest (including the

shares in Telewest Communications Networks Limited and its other operating companies, but excluding the shares in Telewest Finance (Jersey) Limited and one share of Telewest Global, Inc's. common stock) to Telewest UK Limited. The asset transfer contemplated by the Transfer Agreement was completed on July 14, 2004. On July 15, 2004, Telewest's financial restructuring (the "Telewest Restructuring") became effective. As a result, all outstanding notes and debentures of Telewest and Telewest Finance (Jersey) Limited have been cancelled. A total of 241,325,000 shares, or 98.5%, of Telewest Global, Inc's. common stock were distributed by an escrow agent to the holders of Telewest's and Telewest Finance (Jersey) Limited's notes and debentures and certain other scheme creditors. The remaining 3,675,000 shares, or 1.5%, of Telewest Global, Inc's. common stock were distributed to Telewest's existing shareholders. As part of the financial restructuring, Telewest Communications Networks Limited, a subsidiary of Telewest until its transfer to Telewest Global, Inc. on July 14, 2004, also completed the amendment of its senior secured credit facility. The amended facility provides for fully committed facilities of Pound Sterling2,030 million.

Telewest's financial statements as of December 31, 2002 and 2001 and for the three years then ended (the "2002 Financial Statements") are included in Liberty Media Corporation's ("Liberty") Annual Report on Form 10-K for the year ended December 31, 2003 pursuant to Rule 3-09 of Regulation S-X as promulgated by the Securities and Exchange Commission, and may be incorporated by reference into certain registration statements filed by Liberty in the future. Accordingly, Telewest is revising its 2002 Financial Statements to include disclosure related to the Telewest Restructuring. The revised financial statements are included herein.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibit

23	Consent of KPMG Audit plc

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: September 2, 2004

LIBERTY MEDIA CORPORATION

By: /s/ Christopher W. Shean

Name: Christopher W. Shean
Title: Senior Vice President and Controller

REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
to the board of directors and shareholders of Telewest Communications plc

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We have audited the accompanying consolidated balance sheets of Telewest Communications plc and subsidiaries (the Group) as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity/(deficit) and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated 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 generally accepted auditing standards in the United Kingdom and the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements on pages 2 to 39 present fairly, in all material respects, the financial position of Telewest Communications plc and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in note 2 to the financial statements, the Group has suffered recurring losses, has a net shareholders deficit and is undergoing financial restructuring and this 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 that might result from the outcome of this uncertainty.

As discussed in note 3 to the consolidated financial statements, the 2002 consolidated financial statements have been restated.

As discussed in note 4 to the consolidated financial statements, the Group adopted SFAS 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets, in 2002.

As discussed in note 4 to the consolidated financial statements, the Group changed its method of accounting for derivative instruments and hedging activities in 2001.

KPMG AUDIT PLC
Chartered Accountants
Registered Auditor
London, England

March 26, 2003, except for note 3, which is as of January 16, 2004.

TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
years ended December 31

	NOTES	(NOTE 2) 2002 RESTATED $ MILLION
REVENUE		
Consumer Sales Division		
Cable television		541
Consumer telephony		797
Internet and other		101
		1,439
Business Sales Division		455
TOTAL CABLE SEGMENT		1,894
Content Segment		171
TOTAL REVENUE		2,065
OPERATING COSTS AND EXPENSES		
Cable programming expenses		206
Cable telephony expenses		351
Content segment expenses		113
Depreciation		797
Impairment of fixed assets		1,353
Cost of sales		2,820
Selling, general and administrative expenses		846
Amortization of goodwill		--
Impairment of goodwill		2,326
		5,992
OPERATING LOSS		(3,927)
OTHER INCOME/(EXPENSE)		

Interest income (including L12 million, L15 million and L15 million in 2002, 2001 and 2000, respectively, from related parties)	22	30
Interest expense (including amortization of debt discount)		(850)
Foreign exchange gains/(losses), net		343
Share of net losses of affiliates and impairment		(190)
Other, net		58
Minority interests in losses of consolidated subsidiaries, net		2
LOSS BEFORE INCOME TAXES		(4,534)
Income tax benefit	17	45
NET LOSS		(4,489)
Basic and diluted loss per ordinary share		$ (1.56)
Weighted average number of ordinary shares outstanding (millions)		2,873

All income is derived from continuing operations.

See accompanying notes to the consolidated financial statements.

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
years ended December 31

	NOTES
ASSETS	
Cash and cash equivalents	
Secured cash deposits restricted for more than one year	21
Trade receivables (net of allowance for doubtful accounts of L12 million and L16 million)	
Other receivables	9
Prepaid expenses	
Total current assets	

	Note
Investment in affiliates, accounted for under the equity method, and related receivables	10
Property and equipment (less accumulated depreciation of L3,196 million and L1,873 million)	11
Goodwill (less accumulated amortization of L2,593 million and L1,148 million)	6
Inventory	14
Other assets (less accumulated amortization and write offs of L76 million and L47 million)	13
TOTAL ASSETS	
LIABILITIES AND SHAREHOLDERS' FUNDS	
Accounts payable	
Other liabilities	15
Debt repayable within one year	16
Capital lease obligations repayable within one year	
Total current liabilities	
Deferred tax	17
Debt repayable after more than one year	16
Capital lease obligations repayable after more than one year	
TOTAL LIABILITIES	
MINORITY INTERESTS	
SHAREHOLDERS' (DEFICIT)/EQUITY	
Ordinary shares, 10 pence par value; 4,300 million authorized; 2,873 and 2,886 million issued in 2002 and 2001 respectively	
Limited voting convertible ordinary shares, 10 pence par value; 300 million authorized and 82 million and 63 million outstanding in 2002 and 2001 respectively	
Additional paid in capital	
Accumulated deficit	
Accumulated other comprehensive (loss)/income	20
Ordinary shares held in trust for the Telewest Restricted Share Scheme and the Telewest Long-Term Incentive Plan	

TOTAL SHAREHOLDERS' (DEFICIT)/EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

See accompanying notes to the consolidated financial statements.

TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
years ended December 31

	(NOTE 2) 2002 RESTATED $ MILLION
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	(4,489)
Adjustments to reconcile net loss to net cash provided/(utilized) by operating activities	
Depreciation	797
Impairment of fixed assets	1,353
Amortization of goodwill	--
Impairment of goodwill	2,326
Amortization and write off of deferred financing costs and issue discount on Senior Discount Debentures	184
Deferred tax credit	(45)
Unrealized (gain)/loss on foreign currency translation	(343)
Non-cash accrued share based compensation (credit)/cost	(2)
Share of net (profits)/losses of affiliates and impairment	(16)
Loss on disposal of assets	148
Minority interests in losses of consolidated subsidiaries	--
Changes in operating assets and liabilities net of effect of acquisition of subsidiaries	

Change in receivables	31
Change in prepaid expenses	10
Change in accounts payable	27
Change in other liabilities	160
Change in other assets	24
NET CASH PROVIDED/(UTILIZED) BY OPERATING ACTIVITIES	165
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for property and equipment	(721)
Cash paid for acquisition of subsidiaries, net of cash acquired	--
Additional investments in and loans to affiliates	--
Repayment of loans made to joint ventures (net)	14
Proceeds from disposal of assets	2
Disposal of subsidiary undertaking, net of cash disposed	23
Disposal of associate undertaking, net of cash disposed	95
NET CASH USED IN INVESTING ACTIVITIES	(587)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from exercise of share options	--
Share issue costs	--
Proceeds from issue of Senior Discount Notes and Senior Notes 2010	--
Proceeds from issue of Senior Convertible Notes 2005	--
Proceeds from issue of Accreting Convertible Notes 2003	--
Issue costs of Notes and credit facility arrangement costs	--
Net proceeds from maturity of forward contracts	122
Release/(placement) of restricted deposits	13
Repayments from borrowings under old credit facilities	(3)
Repayment of SMG equity swap	(53)
Proceeds/(repayment) from borrowings under new credit facility	1,030
Capital element of finance lease repayments	(82)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,027
Net increase/(decrease) in cash and cash equivalents	605
Cash and cash equivalents at beginning of year	23

CASH AND CASH EQUIVALENTS AT END OF YEAR	628

See accompanying notes to the consolidated financial statements.

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIT) AND COMPREHENSIVE LOSS

	ORDINARY SHARES L MILLION	LIMITED VOTING SHARES L MILLION	SHARES HELD IN TRUST L MILLION	ADDITIONAL PAID-IN CAPITAL L MILLION	CO
BALANCE AT DECEMBER 31, 1999	228	6	(2)	2,328	
Ordinary shares issued on exercise of share options	--	--	--	3	
Shares issued to acquire Flextech Plc net of issue costs	60	--	--	1,873	
Accrued share based compensation cost	--	--	--	5	
Unrealised gain on deemed disposal of shares in an affiliate	--	--	--	7	
Net loss	--	--	--	--	
BALANCE AT DECEMBER 31, 2000	288	6	(2)	4,216	
Unrealised gain/(loss) on derivative financial instruments:					
Cumulative effects of accounting change	--	--	--	--	
Amounts reclassified into earnings	--	--	--	--	
Current period increase in fair value	--	--	--	--	
Net loss	--	--	--	--	
TOTAL COMPREHENSIVE LOSS					
Unrealised gain on deemed partial disposal of investment	--	--	--	--	
Ordinary shares issued on exercise of share options	1	--	1	6	
Gain on retranslation of investment in an overseas subsidiary	--	--	--	1	
Redesignation of ordinary shares	(2)	2	--	--	

Accrued share based compensation cost	--	--	--	1
BALANCE AT DECEMBER 31, 2001	287	8	(1)	4,224
Unrealised gain/(loss) on derivative financial instruments:				
Amounts reclassified into earnings	--	--	--	--
Net loss (restated)	--	--	--	--
TOTAL COMPREHENSIVE LOSS (RESTATED)				
Accrued share based compensation (credit)/cost	--	--	1	(1)
BALANCE AT DECEMBER 31, 2002 (RESTATED)	287	8	--	4,223

There was no other comprehensive income in the year ended December 31, 2000.

See accompanying notes to the consolidated financial statements.

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

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1 ORGANIZATION AND HISTORY

Telewest Communications plc ("the Company") and its subsidiary undertakings (together "the Group") provide cable television, telephony and internet services to business and residential customers in the United Kingdom ("UK"). The Group derives its cable television revenues from installation fees, monthly basic and premium service fees and advertising charges. The Group derives its telephony revenues from connection charges, monthly line rentals, call charges, special residential service charges and interconnection fees payable by other operators. The Group derives its internet revenues from installation fees and monthly subscriptions to its ISP. The cable television, telephony and internet services account in 2002 for approximately 26%, 61% and 5%, respectively, of the Group's revenue.

The Group is also engaged in broadcast media activities, being the supply of entertainment content, interactive and transactional services to the UK pay-TV broadcasting market. The Content Division accounts in 2002 for approximately 8% of the Group's revenue.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Group's significant estimates and assumptions include capitalisation of labor and overhead costs; impairment of goodwill and long-lived assets (see note 6); and accounting for debt and financial instruments (see note 5). Actual results could differ from those estimates.

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons:

Following the directors' decision on September 30, 2002 not to pay the interest on certain of the Group's bonds and other hedging instruments, the Group is now in default of its bonds and its Senior Secured Facility.

These liabilities are now due for repayment in full and the Group is negotiating with its bondholder creditors and bank facility creditors to effect a reorganization of the Group's debt. This will involve, among other things, the conversion of bond debt to equity and the renegotiation of existing bank facilities. The directors believe the amended facilities will provide the Group with sufficient liquidity to meet the Group's funding needs after completion of the Financial Restructuring. Further details of the planned Financial Restructuring are included in note 23.

In order for the Financial Restructuring to be effective, the Scheme Creditors need to approve the plans by the relevant statutory majority. In addition, the Group's shareholders need to approve the proposed share capital reorganization.

The directors are of the opinion that the status of negotiations of the financial restructuring will lead to a successful outcome and that this is sufficient grounds for issuing the annual financial statements under the assumption of going concern.

The effect on the financial statements as presented, of the going concern basis of preparation being inappropriate, is principally that the book value of tangible fixed assets and investments would be restated from their present value in use to a net realizable value. Whilst the directors believe that the net realizable values would be lower than the current value in use there is insufficient information available for the directors to quantify the difference.

The Group faces the following significant risks and uncertainties about:

- its continued ability to raise finance to fund its operations;
- its successful execution of its long term business plan, which in turn will affect the Group's ability to raise further finance under the Senior Secured Facility (see note 16); and
- the need to meet financial and other covenants relating to debt instruments which have already been issued.

The economic environment and currency in which the Group operates is the United

Kingdom and therefore its reporting currency is Pounds Sterling (L). Certain financial information for the year ended December 31, 2002 has been translated into US Dollars ($), with such US Dollar amounts being unaudited and presented solely for the convenience of the reader, at the rate of $1.6095 =L1.00, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2002. The presentation of the US Dollar amounts should not be construed as a representation that the Pounds Sterling amounts could be so converted into US Dollars at the rate indicated or at any other rate.

3 RESTATEMENT

Subsequent to the issuance of our consolidated financial statements as of and for the year ended December 31, 2002, we have determined the need to adjust the classification of debt previously reflected as non-current in the consolidated balance sheet at December 31, 2002 and write off deferred financing costs as at December 31, 2002 relating to the restated debt. The adjustment of debt reclassifies L1,792 million from non-current "Debt repayable after more than one year" to "Debt repayable within one year". The write off of deferred financing costs decreases other assets and increases interest expense and net loss as at and for the year ended December 31, 2002 by L11 million. There was no impact on the 2001 Consolidated Financial Statements.

These adjustments have been made because the Company recently determined that the effect of non-payment of a hedge contract of L10.5 million in 2002 triggered a default on an additional L1,792 million of bond debt as at December 31, 2002.

We have also determined the need to accrue additional interest of L2 million relating to additional interest for bonds in default as at December 31, 2002. This adjustment increases net loss, interest expense and other liabilities by L2 million as at and for the year ended December 31, 2002.

BALANCE SHEET (IN L MILLIONS)

Other assets
Total assets
Debt repayable within one year
Other liabilities
Total current liabilities
Debt repayable after more than one year
Accumulated deficit
Total shareholders' (deficit)/equity

CONSOLIDATED STATEMENT OF OPERATIONS (IN L MILLIONS, EXCEPT PER SHARE DATA)

Interest expense

Net loss

Basic and diluted loss per ordinary share

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY/(DEFICIT) AND COMPREHENSIVE LOSS (IN L MILLIONS)

Total comprehensive loss

TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated upon consolidation. All acquisitions have been accounted for under the purchase method of accounting. Under this method, the results of subsidiaries and affiliates acquired in the year are included in the consolidated statement of operations from the date of acquisition.

IMPAIRMENT OF LONG LIVED ASSETS AND GOODWILL

The Group applies Statement of Financial Accounting Standard ("SFAS") No. 144, Accounting for the Impairment or disposal of Long-Lived Assets. The Group adopted, from January 1, 2002 SFAS 144 which requires that long-lived assets and certain identifiable intangibles, including goodwill, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indications of impairment are determined by reviewing undiscounted projected future cash flows. If impairment is indicated, the amount of the impairment is the amount by which the carrying value exceeds the fair value of the assets.

BUSINESS COMBINATIONS AND GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires all business combinations undertaken after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill arising from

business combinations and intangible assets with indefinite lives are no longer amortized but are subject to annual review for impairment (or more frequently should indications of impairment arise). Goodwill associated with equity- method investments will also no longer be amortized upon adoption of SFAS 142, but will be subject to impairment testing as part of the investment to which it relates in accordance with Accounting Principles Board Opinion No. ("APB") 18, The Equity Method of Accounting for Investments in Common Stock. Separable intangible assets that do not have indefinite lives will continue to be amortized over their estimated useful lives and will be subject to review for impairment in accordance with SFAS 144 (see below). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. For goodwill and intangible assets acquired prior to July 1, 2001, the Group was required to adopt SFAS 142 effective January 1, 2002. As of January 1, 2002 the Group had L2,199 million of unamortized goodwill, L1,892 million of which related to business combinations and L307 million of which related to equity-method investments.

Impairment under SFAS 142 is measured using a two-step approach, initially based on a comparison of the reporting unit's fair value to its carrying value; if the fair value is lower, then the second step compares the implied fair value of the goodwill with its carrying value to determine the amount of the impairment. In connection with SFAS 142's transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption of January 1, 2002. The Company compared the individual carrying value of its two reporting units, Cable and Content, to their respective fair values. The fair values of the respective reporting units were determined from an analysis of discounted cash flows based on the Company's budgets and long-range plan. The discounted cash flow analysis was performed at a reporting unit level. At January 1, 2002 the fair values of both reporting units were greater than their respective carrying values and therefore the adoption of SFAS 142 on January 1, 2002, had no impact on the Company's financial position or results of operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash.

DERIVATIVES AND HEDGING

At January 1, 2001 the Company adopted SFAS 133 Accounting for Derivative Instruments and Hedging Activities as amended by SFAS 137 and SFAS 138. SFAS 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition at fair value of all derivative

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instruments as assets or liabilities in the Company's balance sheet. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated a hedge and if so, the type of hedge and its effectiveness as a hedge.

For derivatives, which are not designated as hedges, changes in fair value are recorded immediately in earnings.

For derivatives designated as cash flow hedges, changes in fair value on the effective portion of the hedging instrument are recorded within other comprehensive income ("OCI") until the hedged transaction occurs and are then recorded within earnings. Changes in the ineffective portion of a hedge are recorded in earnings. For derivatives designated as fair value hedges, changes in fair value are recorded in earnings. The Group has not, however, had any fair value hedges since the adoption of SFAS 133.

The Group discontinues hedge accounting for derivative financial instruments when it is determined that the derivative instrument is no longer effective in offsetting changes in the cash flows of the hedged item; the derivative instrument expires or is sold; the derivative instrument is no longer designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur; a hedged firm commitment no longer meets the definition of a firm commitment; or its management determines that designation of the derivative instrument as a hedging instrument is no longer appropriate. The tests for determining the effectiveness of a cash flow hedge compare on a strict basis the amount and timing of cash flows on the underlying economic exposure with the cash flows of the derivative instrument.

Upon discontinuation of cash flow hedge accounting, the net gain or loss attributable to the hedging instrument, which has been reported in OCI to the date of discontinuation, continues to be reported in OCI until the date the hedged transaction impacts earnings. This occurs unless it is probable that the hedged transaction will not occur by the end of the originally specified time period. If the hedged transaction is not expected to occur, the net gain or loss is reclassified from OCI to earnings upon discontinuation.

Prior to adoption of SFAS 133 the Group had the following accounting policies in respect of financial instruments. Foreign currency forward contracts, options and swaps, which were used to reduce the exchange risk on the principal amounts and early call premiums on certain foreign currency borrowings, were recorded on the balance sheet at their fair value. Gains and losses arising from changes in fair value were recorded concurrently within earnings. Such gains and losses were offset by gains and losses arising from retranslating the principal amounts of the foreign currency borrowings.

The Group also used foreign currency forward contracts and cross currency interest rate swaps to reduce its exposure to adverse changes in exchange rates associated with the interest payments on certain foreign currency borrowings. Such foreign currency forward contracts and cross currency interest rate swaps were accounted for using the accruals method.

The Group also used interest rate swap agreements and an interest rate collar to manage interest rate risk on the Group's borrowings. Net income or expense resulting from the differential between exchanging floating and fixed interest payments was recorded within the consolidated statement of operations on an accruals basis from the effective date of the interest rate swap agreements and interest rate collar.

INVESTMENTS

Generally, investments in partnerships, joint ventures and subsidiaries in which the Group's voting interest is 20% to 50%, and others where the Group has significant influence, are accounted for using the equity method. Investments which do not have a readily determinable fair value, in which the Group's voting interest is less than 20%, and in which the Group does not have significant influence, are carried at cost and written down to the extent that there has

been an other-than-temporary diminution in value. The Group accounts for certain investments in which the Group's ownership is greater than 50% using the equity method. This method is used for such subsidiaries where the minorities have substantive participating rights such as veto over key operational and financial matters and equal representation on the board of directors.

The Group reviews the carrying values of its investments in affiliates, including any associated goodwill, to ensure that the carrying amount of such investments are stated at no more than their recoverable amounts. The Group assesses the recoverability of its investments by determining whether the carrying value of the investments can be recovered through projected discounted future operating cash flows (excluding interest) of the operations underlying the investments. The assessment of the recoverability of the investments will be impacted if projected future operating cash flows are not achieved. The amount of impairment, if any, is measured based on the projected discounted future operating cash flows using a rate commensurate with the risks associated with the assets.

ADVERTISING COSTS

Advertising costs are expensed as incurred. The amount of advertising costs expensed was L52 million, L48 million, and L38 million for the years ended December 31, 2002, 2001, and 2000, respectively.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation is provided to write-off the cost, less estimated residual value, of property and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold and long leasehold buildings	50 years	Other equipment	
Cable and ducting	20 years		Office furniture and
Electronic equipment			Motor vehicles
System electronics	8 years		
Switching equipment	8 years		
Subscriber electronics	5 years		
Headend, studio, and playback facilities	5 years		

The Group accounts for costs, expenses and revenues applicable to the construction and operation of its cable systems in accordance with SFAS 51 Financial Reporting by Cable Television Companies. Initial subscriber

installation costs are capitalized and depreciated over the life of the network.

DEFERRED FINANCING COSTS

Direct costs incurred in raising debt are deferred and recorded on the consolidated balance sheet in other assets. The costs are amortized to the consolidated statement of operations at a constant rate to the carrying value of the debt over the life of the obligation. Deferred financing costs in respect of bond debt in default are written off immediately to the consolidated statement of operations.

MINORITY INTERESTS

Recognition of the minority interests' share of losses of consolidated subsidiaries is limited to the amount of such minority interests' allocable portion of the equity of those consolidated subsidiaries.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at the balance sheet date and the gains or losses on translation are included in the consolidated statement of operations.

REVENUE RECOGNITION

Revenues are recognized as network communication services are provided. Credit risk is managed by disconnecting services to customers who are delinquent. Connection and activation fees relating to cable television, telephony and internet are recognized in the period of connection to the extent that such fees are less than direct selling costs. Any excess connection and activation fees over direct selling costs incurred are deferred and amortized over the expected customer life.

Occasionally the Group sells capacity on its network to other telecommunications providers. Sales of capacity are accounted for as sales-type leases, operating leases, or service agreements depending on the terms of the transaction. If title is not transferred or if the other requirements of sales-type lease accounting are not met, revenues are recognized rateably over the term of the agreement.

Programming revenues are recognized in accordance with Statement of Position ("SOP") 00 - 2, Accounting by Producers or Distributors of Films. Revenue on transactional and interactive sales is recognized as and when the services are delivered. Advertising sales revenue is recognized at estimated realizable values when the advertising is aired.

RECOGNITION OF CONTRACT COSTS

Certain of the sales of network capacity referred to above involve the Group

constructing new capacity. Where the Group retains some of this new capacity, either for subsequent resale or for use within the business, then an element of the construction costs is retained within inventory or equipment, respectively. The allocation of construction cost between costs expensed to the statement of operations and costs capitalized within inventory or equipment is based upon the ratio of capacity to be sold and to be retained.

PENSION COSTS

The Group operates a defined contribution scheme (the Telewest Communications plc Pension Trust) or contributes to third-party schemes on behalf of employees. The amount included in expenses in 2002, 2001 and 2000 of L11 million, L10 million and L8 million, respectively, represents the contributions payable to the selected schemes in respect of the relevant accounting periods.

INCOME TAXES

Under the asset and liability method of SFAS 109 Accounting for Income Taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered.

The Group recognises deferred tax assets only where it is more likely than not that the benefit will be realized through future taxable income. Otherwise a valuation allowance is established to provide against deferred tax assets.

SHARE-BASED COMPENSATION

SFAS 123, Accounting for Stock-Based Compensation, encourages, but does not require, companies to record compensation costs for share-based employee compensation plans at fair value. The Group has chosen to continue to account for share-based compensation using the intrinsic value method prescribed in APB 25, Accounting for Stock Issued to Employees and related interpretations. Accordingly, compensation cost for fixed plan share options is measured as the excess, if any, of the quoted market price of the Company's shares at the date of the grant over the amount an employee must pay to acquire the shares. Compensation cost for variable plan share options is measured each period using the intrinsic value method until the variable or performance features of the plan become fixed. Compensation expense is recognized over the applicable vesting period.

Shares purchased by the trustees in connection with the Telewest Restricted Share Scheme and certain LTIP awards, are valued at cost and are reflected as a reduction of shareholders' equity in the consolidated balance sheet. This equity account is reduced when the shares are issued to employees based on the original cost of the shares to the trustees.

EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net loss available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding during the year for all dilutive potential ordinary shares outstanding during the year and adjusting the net loss for any changes in income or loss that would result from the conversion of such potential ordinary shares. There is no difference in net loss and number of shares used for basic and diluted net loss per ordinary share, as potential ordinary share equivalents for employee share options and convertible debt are not included in the computation as their effect would be to decrease

the loss per share. The number of potential ordinary shares was 393 million, 393 million and 464 million in 2002, 2001 and 2000, respectively.

INVENTORIES

Inventories of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Network capacity and ducting held for resale are stated at the lower of cost and net realizable value.

NEW ACCOUNTING STANDARDS APPLICABLE TO THE GROUP

SFAS 143 Accounting for Asset Retirement Obligations

In July 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143, which is effective for fiscal years beginning after June 15, 2002, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, an entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Telewest has evaluated its legal retirement obligations in relation to all of its tangible long-lived assets and specifically in relation to the buildings that it occupies and its network assets. Buildings, which are held under operating leases, do not specify a fixed refurbishment payment, but instead specify a standard of physical restoration for which Telewest is responsible. Telewest attempts to maintain properties on an ongoing basis to the standard required by the lease and consequently would not expect to have significant additional relevant obligations in respect of its leased properties. Also Telewest believes that it has no legal or constructive retirement obligations in relation to its network assets, all located in the United Kingdom, as there is no legal requirement for Telewest to retire such assets. The Group does not therefore believe the adoption of SFAS 143 will have a material impact on the financial statements.

SFAS 145 Rescission of FASB Statements 4, 44 and 64, Amendment of FASB 13, and Technical Corrections

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB 13, and Technical Corrections". SFAS 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. The Group has adopted this standard from January 1, 2002 and reclassified L15 million from extraordinary items to expense for the year ended

December 31, 2001. No material adjustments have been required in 2002.

SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 applies to costs associated with an exit activity that do not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The Group does not believe the adoption of this statement will have a material impact on its financial position or results of operations.

SFAS 148 Accounting for Stock Based Compensation--Transition and Disclosure

An amendment of SFAS 123 is effective for the Group for the year ended December 31, 2002. SFAS 148 permits two additional transition methods for entities that adopt the fair value based method of accounting for stock-based employee compensation. The Statement also requires new disclosures about the ramp-up effect of stock-based employee compensation on reported results and that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures. The Group has adopted the disclosure provisions of the Statement in these financial statements. The Group has not adopted the fair value based method of accounting for stock-based employee compensation and still accounts for these in accordance with APB Opinion 25, Accounting for Stock Issued to Employees.

Other new standards

In November 2002, the Emerging Issues Task Force issued its consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21) on an approach to determine whether an entity should divide an arrangement with multiple deliverables into separate units of accounting. According to the EITF, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if all of the following criteria are met: (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s), and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the

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control of the vendor. If all the conditions above are met and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative fair values. The guidance in this Issue is effective for revenue arrangements entered into in fiscal years beginning after June 15, 2003. The Group believes that the adoption of EITF

00-21 will not have a material impact on the Group's financial statements.

In November 2002, the FASB issued FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ('FIN 45'), which addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees. FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees. It requires the guarantor to recognize a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The Group has adopted the disclosure requirements and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. To date the Company has not entered into or modified guarantees.

In January 2003, the FASB issued FASB Interpretation 46, Consolidation of Variable Interest Entities (FIN 46) which interprets Accounting Research Bulletin (ARB) 51, Consolidated Financial Statements. FIN 46 clarifies the application of ARB 51 with respect to the consolidation of certain entities (variable interest entities - 'VIEs') to which the usual condition for consolidation described in ARB 51 does not apply because the controlling financial interest in VIEs may be achieved through arrangements that do not involve voting interests. In addition, FIN 46 requires the primary beneficiary of VIEs and the holder of a significant variable interest in VIEs to disclose certain information relating to their involvement with the VIEs. The provisions of FIN 46 apply immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. FIN 46 applies in the first fiscal year beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. To comply with the transitional provisions of FIN 46, Telewest has evaluated its existing structures to determine whether it is reasonably likely that it would be required to consolidate or disclose information about a VIE's nature, purpose, size and activities, together with Telewest's maximum exposure to loss. Telewest is also required to disclose the anticipated impact of adoption of FIN 46 on its financial statements.

Telewest has 50% joint venture interests in two affiliates, UKTV, a joint venture with the BBC, and Front Row Television Limited ("Front Row"), a joint venture with NTL, both of which are accounted for under the equity method, and neither of which are considered VIEs. Management believes that both UKTV and Front Row are businesses as defined by EITF 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business, and FIN 46, Consolidation of Variable Interest Entities (Revised December 2003), and, accordingly, does not consider that either consolidation or additional disclosures are required. Telewest does not otherwise make use of traditional VIE structures in its business and does not currently securitize its receivables or other financial assets. The Group does not therefore believe that the impact of the adoption of FIN 46 will have a material effect on its financial statements.

5 FINANCIAL INSTRUMENTS

The Group holds derivative financial instruments solely to hedge specific risks and does not hold such instruments for trading purposes. The derivatives are held to hedge against the variability in cash flows arising from the effect of fluctuations of GBP:USD exchange rate on the Group's US Dollar-denominated debt and from changes in interest rates on its variable rate bank debt.

The Group maintains risk management control systems to monitor currency exchange and interest rate risk attributable to forecasted debt principal payments and interest rate exposure.

CASH FLOW HEDGES

Hedges of US Dollar denominated debt

The Group has issued US Dollar denominated debt instruments with a range of maturities. The Group previously hedged the principal amounts of these instruments up to their first call dates or other such dates where the Group may at its option redeem the instrument before maturity.

The Group has increased its foreign exchange risk since the discontinuation of hedge accounting as described below. The Group continues to monitor this risk until the Financial Restructuring is completed when the US Dollar-denominated debt instruments will be swapped for equity and the foreign exchange risk is minimised.

In the three-month period ended March 31, 2002, the Group determined that it was probable that forecasted future prepayments of principal against outstanding US Dollar-denominated debt would not occur. Accordingly, the cumulative adjustment in OCI of L53 million resulting from marking to market the derivative instruments has been reclassified from OCI to foreign exchange gains in the Statement of Operations. Subsequent adjustments of the carrying value of these instruments to fair value are taken directly to the Statement of Operations as incurred.

In the nine-month period ended September 30, 2002, the Group had the ability to terminate in-the-money derivative contracts that fluctuate in value. Such derivative contracts hedged our exposure to fluctuations in the US Dollar/pound sterling exchange rates on the Group's US Dollar-denominated debt. In March 2002, the Group terminated certain of these derivative contracts with a nominal value of $999 million (L688 million), netting L74 million cash inflow. In May 2002 the Group terminated further derivative contracts with a nominal value of $367 million (L253 million) realizing an additional L30 million cash inflow. In the three-month period ended September 30, 2002, the Group terminated arrangements with a nominal value of $2.3 billion (approximately L1.5 billion). Contracts with a nominal value of $1 billion were settled in cash resulting in an outflow of L28 million. The remaining contracts with a nominal value of $1.3 billion have yet to be settled for a total cost of L33 million of which L19 million was due on October 1, 2002, but the Company deferred such payment and is considering the payment in the context of its Financial Restructuring.

During the 12-month period ended December 31, 2002, the Group recorded a net L48 million transfer from cumulative OCI to the Statement of Operations arising from the dedesignation of derivative contracts as ineffective hedges, as described above. In the 12-month period ended December 31, 2001, the Group recorded a L36 million gain in fair value to cumulative OCI, consisting of a loss of L25 million to short-term derivative liabilities and a L61 million gain to long-term

derivative assets.

HEDGES OF VARIABLE RATE DEBT

As described in note 16 to the consolidated financial statements, the Group has a Senior Secured Facility with a syndicate of banks and a further amount from an Institutional Tranche ("Institutional Tranche"). Drawdowns under the Senior Secured Facility and the Institutional Tranche bear interest at 0.75% to 2.00% above LIBOR and up to 4% above LIBOR respectively, so the Group is exposed to variable cash flows arising from changes in LIBOR. The Group hedges these variable cash flows by the use of interest rate swaps. The interest rate swaps can be summarised as follows:

EFFECTIVE DATES	MATURITIES	NOTIONAL PRINCIPAL	RECEI
1/2/1997 - 7/1/2002	12/31/2003 - 3/31/2005	L900m	6-month

In June 2002, the Group reviewed the effectiveness as hedges of the derivative instruments hedging our exposure to fluctuations in interest rates on its long-term bank debt. The review concluded that continued designation of these instruments as hedges was no longer appropriate and hedge accounting was discontinued with immediate effect. The dedesignation of these instruments as hedges resulted in a transfer of L7 million from cumulative OCI to interest expense within the Statement of Operations. Any movements in the value of the derivatives after June 2002 are recorded within interest expense.

The Group continues to hedge some of its interest rate risk on its Senior Secured Facility through the use of interest rate swaps. The purpose of the derivative instruments is to provide a measure of stability over the Company's exposure to movements in sterling interest rates on its sterling denominated bank debt.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 107, Disclosures about Fair Value of Financial Instruments requires disclosure of an estimate of the fair values of financial instruments. SFAS 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

At December 31, 2002 the Group's significant financial instruments include cash and cash equivalents, trade receivables, interest rate swaps, trade payables and short-term and long-term debt instruments. The following table summarizes the fair value of certain instruments held by and obligations of the Group. The fair value of the other financial instruments held by the Group approximates their recorded carrying amount due to the short maturity of these instruments and these instruments are not presented in the following table:

	AT DECEMBER 31 200	
	CARRYING AMOUNT L MILLION	FAIR VALU L MILLIO
FINANCIAL INSTRUMENTS - ASSETS		
Foreign exchange forward contracts	--	-
Foreign currency swaps	--	-
FINANCIAL INSTRUMENTS - LIABILITIES		
Interest rate swap agreements	(34)	(3
Foreign exchange forward contracts	--	-
DEBT OBLIGATIONS		
Accreting Convertible Notes 2003	282	6
Senior Convertible Notes 2005	311	13
Senior Debentures 2006	186	3
Senior Convertible Notes 2007	300	6
Senior Discount Debentures 2007	955	20
Senior Notes 2008	217	4
Senior Discount Notes 2009	563	10
Senior Notes 2010	394	8
Senior Discount Notes 2010	222	4
Senior Secured Facility	2,000	2,00
Other debt	20	2

The estimated fair values of the financial instruments specified above are based on quotations received from independent, third-party financial institutions and represent the net amounts receivable or payable to terminate the position. The estimated fair values of the Debentures and Notes are also based on quotations from independent third-party financial institutions and are based on discounting the future cash flows to net present values using appropriate market interest

rates prevailing at the year end.

MARKET RISK AND CONCENTRATIONS OF CREDIT RISK

Market risk is the sensitivity of the value of the financial instruments to changes in related currency and interest rates.

As described above, the Group terminated its portfolio of derivative financial instruments which were used to hedge its exposure to fluctuations in the USD: GBP exchange rate. Consequently the Group is exposed to fluctuations in the value of its US Dollar-denominated debt obligations.

Generally, the Group is not exposed to such market risk arising on its interest rate derivative financial instruments because gains and losses on the underlying assets and liabilities offset gains and losses on the financial instruments.

The Group may be exposed to potential losses due to the credit risk of non-performance by the financial institution counterparties to its portfolio of derivative financial instruments. However such losses are not anticipated as these counterparties are major international financial institutions and the portfolio is spread over a wide range of institutions.

Temporary cash investments also potentially expose the Group to concentrations of credit risk, as defined by SFAS 133. At December 31, 2002 the Group had L160 million on deposit with a major international financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Group's customer base.

6 IMPAIRMENT OF ASSETS AND GOODWILL

During the year ended December 31, 2002, the Group undertook an impairment review of its network assets, of goodwill arising on recent acquisitions and of its investments in affiliates acquired in recent years. The review covered the Cable and Content reporting units. The principal reasons for the review were: a share price decline indicative of a fall in the values of the underlying assets and a softening of the ad-sales market, declining revenue growth and a lower than expected customer take-up of additional services.

The review found evidence of impairment in the value of goodwill arising on the core Cable and Content reporting units and in the value of the affiliated undertaking UKTV. The carrying amounts of goodwill, fixed assets and the investments in the affiliated undertakings were written down to fair value, resulting in a charge of L1,445 million against goodwill, an impairment of L841 million against fixed assets and a charge of L88 million against the investments in affiliated undertakings. These charges have been included in the statement of operations within impairment of goodwill, impairment of fixed assets and share of net losses of affiliates and impairment, respectively. The estimated fair value of the goodwill and the investment in UKTV was based on projected future cash flows at a post-tax discount rate of 11.5% which the Group believes is commensurate with the risks associated with the assets. The projected future

cash flows were determined using the Company's ten-year plan for the business, with a terminal value which takes into account analysts' and other published projections of future trends across pay-TV platforms, including the total television advertising market.

The changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2001 by reporting unit are as follows:

Balance as of January 1, 2001
Addition in year
Amortization in year
Impairment of goodwill
Balance as of January 1, 2002
Impairment of goodwill
Balance as of December 31, 2002

Amortization expense related to goodwill was L183 million (including L27 million related to equity investment goodwill) for the year ended December 31, 2001 (L147 million for the year ended December 31, 2000). The following table reconciles previously reported net income as if the provisions of SFAS 142 were in effect in 2001 and 2000:

Net loss
Reported net loss
Add back amortization of goodwill
Adjusted net loss

Basic and diluted net loss per share
Reported net loss per share
Add back amortization of goodwill
Adjusted net loss per share

7 BUSINESS COMBINATIONS

On May 30, 2001, the Group acquired 51% of the issued share capital of Rapid Travel Solutions Limited ("Rapid Travel") and was granted a series of call options by, and granted a series of put options to, the vendors in respect of the balance of 49%. Assuming that either party exercises these options, the Group will acquire the remainder of the share capital in tranches ending on November 30, 2003 for total consideration of L4 million. The acquisition has been accounted for using the purchase method of accounting. Goodwill arising on the acquisition was L7 million.

If the Group had acquired Rapid Travel at the beginning of 2000 and 2001, the Group's results would not have been materially different from the actual results as disclosed in these financial statements.

On April 19, 2000 the Company acquired the entire issued share capital of Flextech Plc ("Flextech"), a company engaged in broadcast media activities, for a total consideration of L1,978 million. This comprised 601 million shares of 10p each and acquisition costs of L31 million. The value attributed to the shares issued was 323.85 pence per share, being the average share market price for a five day period around December 17, 2000, the day the terms of the acquisition were agreed to and announced. The acquisition was accounted for using the purchase method of accounting. The goodwill arising on acquisition of Flextech was L1,382 million. As described in note 16, the Group has undertaken an impairment review of goodwill. As a result of the review, a charge of L429 million has been made.

On November 1, 2000 the Company acquired the entire issued share capital of Eurobell (Holdings) PLC ("Eurobell"), from Deutsche Telekom ("DT") and agreed to pay initial and deferred consideration to DT, (as discussed below), in the form of 5% Accreting Convertible Notes due 2003. The aggregate principal amount of such Notes, following agreement of the deferred consideration, is L254 million. The terms of the Accreting Convertible Notes are described in note 16 to these financial statements.

Upon completion of the acquisition, the Company issued a L220 million Accreting Convertible Note to DT in consideration for:

- Eurobell's entire issued share capital, L72 million
- the assignment of an inter-company loan previously owed by Eurobell to DT, L128 million, and
- a cash payment remitted to Eurobell by DT shortly after the acquisition, L20 million.

Subsequently, on January 15, 2001 DT remitted a further cash payment, L30 million, to Eurobell and the Company issued an additional Accreting Convertible Note to DT for L30 million.

In addition under the terms of the acquisition, the Company was obliged to provide deferred consideration, contingent on Eurobell's turnover for the year ended December 31, 2000 exceeding a certain target. As a result, an additional L3.5 million Accreting Convertible Note, dated April 2, 2001 was issued to DT. This deferred consideration was accrued for at December 31, 2000.

Goodwill of L1 million arose on the acquisition.

If the Company had acquired Flextech and Eurobell on January 1, 2000 the Group's net loss of L755 million and loss per share of L0.28 would have been L820 million and L0.28, respectively.

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8 SUPPLEMENTAL DISCLOSURES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash paid for interest was L287 million, L335 million and L164 million for the years ended December 31, 2002, 2001 and 2000, respectively.

During 2002 there were no significant non-cash investing activities. The amounts stated for 2001 represent the purchase of Rapid Travel. The amounts stated for 2000 represent the purchase of Flextech and Eurobell. These transactions are described in note 7 to the consolidated financial statements.

	L
Acquisitions:	
Assets	
Liabilities assumed	
Debt assumed	
Net (liabilities)/assets (contributed)/ assumed	
Less:	
Goodwill arising	

Share consideration/capital contribution

Debt consideration

Purchase of shares

Option consideration

Direct costs of acquisition

In 2002 the Group entered into capital lease obligations with a total capital value of L17 million. The Group entered into no vendor financing arrangements during the year, but had a remaining financed balance of L11 million at December 31, 2002. At December 31, 2002, the Group had accrued a further L57 million of capital expenditure for property and equipment.

9 OTHER RECEIVABLES

Interconnection receivables

Accrued income

Other

Foreign currency swap

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

Accrued income primarily represents telephone calls made by Cable Division subscribers and Business Services Division customers that have not been billed as at the accounting period end. The period of time over which billings have not been billed varies between two days and four weeks.

10 INVESTMENTS

The Group has investments in affiliates accounted for under the equity method at December 31, 2002 and 2001 as follows:

	PE 2
Front Row Television Limited	5
UKTV	5
Blue Yonder Workwise Limited	10
SMG	

During the year Blue Yonder Workwise Limited became a wholly owned subsidiary of the Group. No goodwill arose on the acquisition.

Summarized combined financial information for such affiliates which operate principally in the cable television, broadcasting and interactive media industries is as follows:

COMBINED FINANCIAL POSITION
Current assets
Property and equipment, net
Intangible assets, net
Other assets, net
Total assets
Current liabilities
Debt
Other liabilities
Owners' equity
Total liabilities and equity

	2002 L MILLION
COMBINED OPERATIONS	

Revenue	128
Operating expenses	(103)
Operating profit	25
Interest expense	(12)
Net profit	13

THE GROUP'S INVESTMENTS IN AFFILIATES ARE COMPRISED AS FOLLOWS:

Goodwill
Loans
Share of net assets

On September 4, 2002 the investment in SMG plc, a listed investment in an associated undertaking, was reclassified as a current asset investment at net realizable value. This resulted in L42 million being written off the carrying value of the investment. The investment in SMG plc was subsequently sold in November 2002 realizing a gain of L1 million.

11 PROPERTY AND EQUIPMENT

	LAND L MILLION	BUILDINGS L MILLION	CABLE AND DUCTING L MILLION
ACQUISITION COSTS			

Balance at January 1, 2002	6	133	3,186
Additions	--	7	269
Disposals	--	(2)	--
Balance at December 31, 2002	6	138	3,455
ACCUMULATED DEPRECIATION			
Balance at January 1, 2002	--	45	894
Charge for the year	--	10	159
Impairment	--	39	678
Disposals	--	(2)	--
Balance at December 31, 2002	--	92	1,731
2002 NET BOOK VALUE	6	46	1,724

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

	LAND L MILLION	BUILDINGS L MILLION	CABLE AND DUCTING L MILLION
ACQUISITION COSTS			
Balance at January 1, 2001	6	119	2,630
Additions	--	14	556
Disposals	--	--	--
Balance at December 31, 2001	6	133	3,186
ACCUMULATED DEPRECIATION			
Balance at January 1, 2001	--	35	546
Charge for the year	--	10	348
Disposals	--	--	--
Balance at December 31, 2001	--	45	894

2001 NET BOOK VALUE	6	88	2,292

Cable and ducting consists principally of civil engineering and fiber optic costs. In addition, cable and ducting includes net book value of pre-construction and franchise costs of L18 million and L14 million as of December 31, 2002 and 2001, respectively. Electronic equipment includes the Group's switching, headend and converter equipment. Other equipment consists principally of motor vehicles, office furniture and fixtures and leasehold improvements.

12 VALUATION AND QUALIFYING ACCOUNTS

		BALANCE AT JANUARY 1 L MILLION	ACQUISITION OF SUBSIDIARIES L MILLION	AD CHAR COS EX L M
2002	Deferred tax valuation allowances	901	--	
	Allowance for doubtful accounts	16	--	
2001	Deferred tax valuation allowances	733	--	
	Allowance for doubtful accounts	19	--	
2000	Deferred tax valuation allowances	491	38	
	Allowance for doubtful accounts	13	5	

13 OTHER ASSETS

The components of other assets, net of amortization and write offs, are as follows:

Deferred financing costs of debentures
Deferred financing costs of Senior Secured Facility

During the year L11 million of deferred financing costs of debentures were written off in connection with bond debt default.

TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

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14 INVENTORY

Raw materials and consumables

Inventories of spare capacity and duct held for resale

Programming inventory

15 OTHER LIABILITIES

Other liabilities are summarized as follows:

Deferred income

Accrued construction costs

Accrued programming costs

Accrued interconnect costs

Accrued interest

Accrued staff costs

Accrued expenses

Other liabilities

16 DEBT

Debt is summarized as follows at December 31, 2002 and 2001:

	WEIGHTED AVERAGE 2002	20
Accreting Convertible Notes 2003	5%	
Senior Convertible Notes 2005	6%	
Senior Debentures 2006	9.625%	9.62
Senior Convertible Notes 2007	5.25%	5.2
Senior Discount Debentures 2007	11%	1
Senior Notes 2008	11.25%	11.2
Senior Discount Notes 2009	9.875%	9.87
Senior Discount Notes 2009	9.25%	9.2
Senior Notes 2010	9.875%	9.87
Senior Discount Notes 2010	11.375%	11.37
Senior Secured Facility	6.223%	7.26
Other debt	6.7%	6.76

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TELEWEST COMMUNICATIONS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
years ended December 31, 2002, 2001 and 2000

NOTES AND DEBENTURES

		PRINCIPAL AT MATURITY MILLION	ORIGINAL MATURITY DATE
Accreting Convertible Notes 2003	GBP		