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TV AZTECA SA DE CV  
Form 6-K  
March 05, 2003

FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934

For the month of March 2003

Commission File Number 1-14464

TV Azteca, S.A. de C.V.  
(Translation of registrant's name into English)

Periferico Sur, No. 4121, Col. Fuentes del Pedregal, 14141 Mexico D.F., Mexico  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as  
permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a  
Form 6-K if submitted solely to provide an attached annual report to security  
holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as  
permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a  
Form 6-K if submitted to furnish a report or other document that the registrant  
foreign private issuer must furnish and make public under the laws of the  
jurisdiction in which the registrant is incorporated, domiciled or legally  
organized (the registrant's "home country"), or under the rules of the home  
country exchange on which the registrant's securities are traded, as long as the  
report or other document is not a press release, is not required to be and has  
not been distributed to the registrant's security holders, and, if discussing a  
material event, has already been the subject of a Form 6-K submission or other  
Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this  
Form, the registrant is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in  
connection with Rule 12g3-2(b): 82- \_\_\_\_\_

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## SIGNATURES

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

TV Azteca, S.A. de C.V.

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(Registrant)

Date: March 5, 2003

By: /s/ Othon Frias Calderon

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Name: Othon Frias Calderon

Title: Attorney-in-fact

Our parent, Azteca Holdings, S.A. de C.V., or Azteca Holdings, is offering to exchange its new 10 3/4% Senior Secured Amortizing Notes due 2008, for all of its outstanding 10 1/2% Senior Secured Notes due 2003, or the 10 1/2% notes. In addition, Azteca Holdings is requesting consents from holders of the 10 1/2% notes to make certain amendments to the indenture governing the 10 1/2% notes. The new notes being offered have not been registered under Securities Act of 1933, as amended (the "Securities Act") and, until the registration of the new notes becomes effective, the new notes may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

Included in this report is the following information that has not been previously publicly reported: (i) certain disclosure regarding the business and operations of us, Azteca Holdings and certain of our affiliates, including Azteca International Corporation, or Azteca International, and Unefon, S.A. de C.V., or Unefon, (ii) disclosure about ongoing legal proceedings and disputes involving our company and/or our affiliates, (iii) certain financial statements of our company, and Unefon. The foregoing information is provided below. We have also offered as exhibits to this report the settlement agreement and related ancillary documents entered into between our company, Azteca International Corporation and Pappas Telecasting Companies and its affiliates.

No assurance can be made that the exchange offer and consent solicitation will be completed. This report does not constitute an offer to exchange, or the solicitation of an offer to exchange, any security and shall not constitute an offer, solicitation or sale of any securities in any jurisdiction in which such offering and sale would be unlawful.

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. You should review carefully all information, including the financial statements and the notes to the financial statements, included in this report.

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The following important factors could affect future results, causing these results to differ materially from those expressed in our forward-looking statements:

- .. our ability to service our debt;
- .. the outcome of pending disputes and legal proceedings involving our company and our affiliates;
- .. competitive factors affecting our company and our subsidiaries in Mexico and the United States, or the U.S.;
- .. cancellations of significant advertising contracts of our company;
- .. limitations on our access to sources of financing on competitive terms;
- .. commencement of war or armed hostilities directly or indirectly involving or affecting Mexico or the U.S.;
- .. terrorist attacks initiated against the U.S. or its allies in the U.S. or elsewhere;
- .. significant economic or political developments in Mexico and globally which affect Mexico; and
- .. changes in the Mexican regulatory environment.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our future results. The forward-looking statements included in this

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report are made only as of the date of this report and we cannot assure you that projected results or events will be achieved. We disclaim any obligation to update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.

This report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts have been translated from pesos at an exchange rate of Ps.10.395 to US\$1.00, the average interbank free market exchange rate on December 31, 2002 as reported by the Mexican Central Bank (Banco de Mexico). On February 27, 2003, this exchange rate was Ps.11.026 to US\$1.00. U.S. dollar amounts for Unefon have been translated from pesos at an exchange rate of Ps.10.4393 to US\$1.00, the average rate in the wholesale foreign exchange market for operations payable in 48 hours as reported by the Mexican Central Bank. On February 27, 2003, this exchange rate was Ps.11.0329 to US\$1.00.

### Advertising Sales

Our company's share of broadcast television advertising sales in Mexico was 34% for the year ended December 31, 2002, compared to 31% for the year ended December 31, 2001.

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### Pre-sales of advertising time

At December 31, 2001, pre-sales of advertising time for 2002 amounted to Ps.4,640 million, which represented a 4% increase over pre-sales of advertising time for 2001 recorded in 2000. At December 31, 2002, pre-sales of advertising time for 2003 amounted to Ps.4,446 million (US\$427.7 million), representing a 4% decrease compared to pre-sales of advertising time for 2002 recorded in 2001. Pre-sales of advertising time recorded in 2002 were lower due to the expiration of certain multi-year advertising contracts.

### Unefon Advertising Advances

In June 1998, Unefon and our company entered into a 10-year advertising agreement, as amended, pursuant to which our company agreed to supply Unefon with advertising spots totaling an aggregate of 120,000 gross rating points, or GRPs, over the life of the agreement, up to a maximum of 35,000 GRPs per year. Unefon agreed to pay our company 3.0% of its gross revenues up to a maximum of US\$200.0 million. As of December 31, 2002, our company had broadcast Unefon advertisements having an aggregate value of Ps.147 million (US\$14.1 million) pursuant to this advertising agreement. Starting in 2003, Unefon's payments to our company are due on a current basis. At December 31, 2002, the aggregate deferred payments equaled US\$15.7 million (including interest).

### Critical accounting policies and estimates

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, valuation of long-lived and intangible assets and goodwill, exhibition rights, reserve for obsolescence, income taxes, deferred income taxes, labor benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### Revenue Recognition

Revenue for our company is derived primarily from the sale of advertising time on a national, spot and local basis and is net of commissions. Our company earned a majority of its advertising revenue in 2000, 2001 and 2002 pursuant to advertising contracts under its Azteca Plan and Mexican Plan. These contracts generally require the advertiser to deposit a portion of the purchase price of the advertising time at the time the advertiser executes a contract. A significant percentage of these contracts are commitments for advertising over a period of approximately one year. From time to time, our company enters into barter transactions with third parties in which it exchanges advertising time for goods, services and other assets, a significant portion of which are used in our company's operations. With respect to barter transactions, our company values these transactions based on the estimated fair market value of the goods, services or other assets received by our company. Such transactions accounted for approximately 2% of our company's net revenue for the year ended December 31, 2002.

On the date the advertising contract is signed, our company records cash or other assets, as the case may be, as an asset on its balance sheet and the

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amounts due and its obligation to deliver advertising as advertising advances, which are recorded as a liability on its balance sheet. These advertising advances are recognized as revenue at the time, and to the extent, the advertisements are shown.

Our company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Each customer is analyzed on a case by case basis. If the financial condition of our company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### Exhibition Rights

The cost of the exhibition rights are amortized on varying bases related to the license period, usage of the programs and management's estimate of revenue to be realized from each airing of the programs. The cost of exhibition rights acquired is amortized as the programming and events are broadcast and on an accelerated basis when the rights relate to multiple broadcasts. Costs of internally produced programming, including reality programming, are amortized when the programs are initially aired. Alternatively, the costs of telenovelas are amortized on the following schedule: (1) 70% is amortized when the telenovela is first aired and (2) 30% is amortized over a period of four years and represents management's estimate of exhibition rights necessary to meet demand in the U.S., Latin America, Europe, Asia and Africa. Our company bases its estimates on historical experience and on various other assumptions. If actual results differ from these estimates, there may be an adverse effect on our company's financial results.

### Intangible Assets and Goodwill

In December 2001, the Accounting Principles Commission of the MIPA issued Statement C-8 "Intangible Assets," or Statement C-8, which went into effect January 1, 2003. On January 1, 2002, our company adopted Statement C-8. Under Statement C-8, the intangible assets must be recognized on the balance sheet when they meet the following characteristics: (a) they are identifiable, (b) they have the ability to generate future economic benefits and (c) the company has the ability to control future economic benefits. The amortization of intangible assets would be allocated on a systematic basis over the assets' estimated useful lives, unless the intangible assets are determined to have an indefinite useful life based on their expected future economic benefits. The intangible assets should be tested for impairment annually and an impairment loss would be recognized in the event that the carrying amount of the intangible asset is not recoverable based on estimated cash flow of operating activities. As a result of the adoption of Statement C-8, our company determined that its television concessions qualified as indefinite useful life intangible assets. Accordingly, our company no longer amortizes these concessions. Prior to January 1, 2002, our company's television concessions were amortized by the straight-line method over the duration of the relevant concession.

### Deferred Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing tax and accounting treatment of items such as advertising advances, exhibitions rights and inventories, television concessions, property, machinery and equipment and tax loss carryforwards. These differences result in deferred tax assets and liabilities which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this

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allowance in a period, we must include an expense within the tax provision in the statement of operations. Significant management judgment is required in determining our provision for income taxes, our company's deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

### Unefon Investment

In October 2000, our company granted rights to acquire all of the Unefon Series A shares that it owns pro rata to the holders of all of our company's outstanding shares and to certain other of our company's securities, for an aggregate exercise price of US\$177.0 million. The grant of the rights to acquire the Unefon Series A shares was subject to receiving the consent of the holders of our company notes and Azteca Holdings' 11% Senior Secured Notes due 2002, or 11% notes. On March 27, 2001, our company and Azteca Holdings obtained these consents and paid a fee totaling Ps.121,328 (nominal) to certain holders of the 11% notes and our company notes, of which Ps.109,009 (nominal) was recorded as part of our company's total investment in Unefon. The grant of the rights remains subject to the filing and effectiveness of a registration statement with the SEC that registers the Unefon Series A shares underlying the rights and the receipt of all applicable regulatory and third-party approvals, including the consent of Nortel Networks Corporation, Unefon's primary equipment supplier. The rights to acquire the Unefon Series A shares were originally only exercisable on December 11, 2002. However, in December 2002, our company approved the change of the exercise date to December 12, 2003.

As a result of the grant of the rights to acquire the Unefon Series A shares in October 2000, our company stopped recognizing its participation in the losses of Unefon. Accordingly, at December 31, 2002, our company's investment in Unefon reflected the net book value of the investment at the date of the decision to dispose of the investment. In the event that the disposition of the Unefon Series A shares is not completed or if the likelihood of the completion of the transaction is deemed too remote, our company will be required to record the differences between the book value of the investment and the value of the investment under the equity method of accounting, which may result in our company's recognition of additional losses. For example, if this adjustment had been made at December 31, 2002, our company would have recognized additional losses equal to Ps.405 million (US\$39.0 million).

### Operating results

The following disclosure was taken from the management's discussion and analysis section of the Azteca Holdings Offering Memorandum and Consent Solicitation statement and relates to the financial statements of Azteca Holdings.

#### Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net revenue for the year ended December 31, 2002 increased by 10% to Ps.6,743 million (US\$648.7 million) from Ps.6,127 million for the year ended December 31, 2001. The increase in net revenue was due in part to higher ratings and advertising rates in real terms and the transmission of the 2002 World Cup Soccer Championship and our company's reality program La Academia. The increase in net revenue also reflected an increase in local advertising sales, excluding local sales in Mexico City, which increased by 20% to Ps.576 million (US\$55.4 million) for the year ended December 31, 2002, from Ps.481 million for the year ended December 31, 2001.

Programming, production, exhibition and transmission costs for the year ended December 31, 2002 increased by 2% to Ps.2,511 million (US\$241.5 million) from Ps.2,472 million for the year ended December 31, 2001. This increase was primarily due to an increase in the exhibition and production costs associated with the broadcast of the 2002 Soccer World Cup and the La Academia reality

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program. Sales and administrative expenses for the year ended December 31, 2002 increased by 2% to Ps.991 million (US\$95.3 million) from Ps.973 million for the year ended December 31, 2001. This difference resulted from the increase in our company's personnel expenses and general administrative expenses due to the operation of its new local stations.

Depreciation and amortization for the year ended December 31, 2002 decreased by 34% to Ps.447 million (US\$43.0 million) from Ps.676 million for the year ended December 31, 2001. This decrease reflects the effects of our company's adoption of Statement C-8 "Intangible Assets" as described in "Critical accounting policies--Intangible Assets and Goodwill" and the application of these rules with respect to the amortization schedule of our company's television concessions. Also effective January 1, 2002, our company changed the annual rate of depreciation for its transmission towers from 16% to 5%, based on the remaining useful life of these assets. This resulted in a decrease in depreciation expense for the year ended December 31, 2002.

As a result of these factors, operating profit for the year ended December 31, 2002 increased by 39% to Ps.2,794 million (US\$268.8 million) from Ps.2,006 million for the year ended December 31, 2001.

Other expenses--Net for the year ended December 31, 2002 decreased by 9% to Ps.202 million (US\$19.4 million) from Ps.221 million for the year ended December 31, 2001. This decrease was primarily due to lower legal and advisory expenses.

Net comprehensive financing cost for the year ended December 31, 2002 increased by 297% to Ps.1,728 million (US\$166.2 million) from Ps.435 million for the year ended December 31, 2001. Net comprehensive financing cost includes interest income and expense, net exchange gains or losses, gain on monetary position and other financing expense as described below. As of December 31, 2002, substantially all of our indebtedness and all of our subsidiaries' indebtedness was denominated in US dollars. The increase in net comprehensive financing cost for the year ended December 31, 2002 was primarily due to a foreign exchange loss of Ps.697 million (US\$67.0 million) which reflected a 13.5% depreciation of the peso against the U.S. dollar since December 31, 2001 compared with a foreign exchange gain of Ps.345 million for the year ended December 31, 2001. Interest income for the year ended December 31, 2002 decreased by 25% to Ps.171 million (US\$16.4 million) from Ps.228 million for the year ended December 31, 2001 as a result of a reduction of interest rates, and interest expense for the year ended December 31, 2002 increased by 1% to Ps.1,080 million (US\$103.9 million) from Ps.1,065 million for the year ended December 31, 2001. Other financing expense for the year ended December 31, 2002 increased 192% to Ps.187 million (US\$18.0 million) from Ps.64 million for the year ended December 31, 2001. This increase was primarily due to a significant decline in the market value of our company's portfolio investments. Gain on monetary position decreased by 46% for the year ended December 31, 2002 to Ps.66 million (US\$6.3 million) from Ps.121 million for the year ended December 31, 2001 as a result of the decrease in our company's net monetary liability position in the year ended December 31, 2002.

Income before provision for income tax, deferred income tax benefit (extraordinary item) for the year ended December 31, 2002 decreased by 36% to Ps.864 million (US\$83.1 million) from Ps.1,349 million for the year ended December 31, 2001.

Provision for income tax for the year ended December 31, 2002 increased by 37% to Ps.265 million (US\$25.4 million) from Ps.211 million for the year ended December 31, 2001. This increase reflects higher taxable income generated during the year ended December 31, 2002. Deferred income tax expense for the year ended December 31, 2002 was Ps.44 million (US\$4.2 million) compared with a deferred income tax benefit of Ps.220 million for the year ended December 31, 2001. As of December 31, 2002, we have recorded a valuation allowance due to uncertainties related to our ability to utilize some of our deferred tax assets before they

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expire, primarily certain net operating losses carried forward due to our tax loss carryforwards.

As a result of the foregoing, we had net income of Ps.556 million (US\$53.5 million) for the year ended December 31, 2002, as compared with a net income of Ps.1,358 million for the year ended December 31, 2001. Ps.436 million (US\$41.9 million) of the net income for the year ended December 31, 2002 represented net income of minority stockholders and Ps.120 million (US\$12.0 million) represented net income of majority stockholders compared with a Ps.669 million net income of minority stockholders and Ps.688 million net income of majority stockholders for the year ended December 31, 2001.

### Liquidity

The following disclosure was taken from the management's discussion and analysis section of the Azteca Holdings Offering Memorandum and Consent Solicitation statement and relates to the financial statements of Azteca Holdings.

#### Azteca Holdings

Azteca Holdings has no independent business or significant source of revenue.

#### TV Azteca

Our principal sources of liquidity include cash on hand, advance sales of advertising time and uncommitted sources of short-term financing. Our short term financing sources include a US\$130.0 million Euro-commercial paper program, or the ECP Program. Under the ECP Program, our company periodically issues notes with maturities not exceeding 365 days.

Cash and cash equivalents were Ps.1,718 million and Ps.1,434 million (US\$138.0 million) for the years ended December 31, 2001 and 2002, respectively.

Resources generated from operating activities were Ps.1,847 million and Ps.460 million (US\$44.3 million) for the years ended December 31, 2001 and 2002, respectively. The difference in net resources reflected the depreciation of the peso against the U.S. dollar which affected negatively our comprehensive financing cost. A significant portion of our cash flows are generated by our television broadcast operations. Because operating results may fluctuate significantly as a result of a decline in the advertising environment or pricing structure, our ability to generate positive cash flow from our television broadcast operations may be negatively impacted.

Resources used in investing activities were Ps.1,036 million and Ps.736 million (US\$70.8 million) for the years ended December 31, 2001 and 2002, respectively. The decrease in resources used in investing activities for the year ended December 31, 2002 was primarily due to Azteca International's investment of Ps.660 million in certain Pappas affiliates made in the year ended December 31, 2001 compared with an investment of Ps.456 million (US\$43.9 million) for the year ended December 31, 2002, which included US\$2.4 million related to payment for the 25% equity interests in the San Francisco and Houston stations and US\$32.8 million related to the acquisition of a secured loan in that amount from UBS AG in connection with the exercise of the option to purchase an equity



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interest in Azteca International's Los Angeles affiliate.

Resources used in financing activities were Ps.459 million and Ps.8 million (US\$0.8 million) for the years ended December 31, 2001 and 2002, respectively. Resources provided by (used in) financing activities are affected by various factors including: (i) indebtedness paid or obtained, (ii) the appreciation or depreciation of the peso against the U.S. dollar net of inflation, since a substantial amount of our indebtedness is dollar-denominated and (iii) increases or decreases in the capital stock of our company, the sale of treasury shares, repurchases of capital stock and the exercise of employee stock options of our subsidiaries. For the year ended December 31, 2001, there was Ps.210 million of indebtedness compared to indebtedness paid in the amount of Ps.214 million (US\$20.6 million) for the year ended December 31, 2002. Also for the year ended December 31, 2001 the peso appreciated by 5.1% against the U.S. dollar resulting in Ps.842 million used in financing activities, as compared to a 13.5% depreciation against the U.S. dollar during the year ended December 31, 2002, which resulted in Ps.614 million (US\$59.1 million) provided in financing activities. In addition, during the year ended December 31, 2001, resources in the amount of Ps.201 million were provided by the sale of treasury shares and the exercise of employee stock options, as compared with resources used of Ps.183 million (US\$17.6 million) for the year ended December 31, 2002.

### Sources of payment for the 10 1/8% notes

On February 15, 2004, our 10 1/8% Guaranteed Series Notes due 2004, or 10 1/8% notes, mature. As of December 31, 2002, the outstanding aggregate principal amount of these notes was US\$125.0 million. Our company expects to partially or entirely repay the principal amount of these notes with its internally generated cash. In the event that our company does not have the cash on hand to repay the principal amount of these notes in full, our company will evaluate alternative refinancing strategies.

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### Indebtedness

The following chart sets forth our outstanding principal amount of indebtedness:

(in millions of U.S. dollars)	As of December 31, 2002
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Banco Bilbao Vizcaya Mortgage Loan.....	25.9
Standard Chartered Bank Long-Term Import Credit Facility	10.1
ABN-AMRO Bank Euro-Commercial Paper Program.....	5.1
ATC Long-Term Credit Facility.....	119.8
TV Azteca 10 1/8% Guaranteed Senior Notes due 2004.....	125.0
TV Azteca 10 1/2% Guaranteed Senior Notes due 2007.....	300.0
Other Indebtedness.....	6.6
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Total.....	592.5
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On September 18, 1997, our company obtained a US\$25.9 million mortgage loan from

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Banco Bilbao Vizcaya, S.A., for the acquisition of an office building located adjacent to our principal offices. The mortgage loan accrues interest at a rate of 8.5% per year, payable on December 31 of each year beginning December 31, 1997. The principal amount of this mortgage loan matures on November 30, 2003.

In March 1999, our company entered into a US\$30.2 million long-term import credit facility with Standard Chartered Bank, as lender, and the Export-Import Bank of the United States, as guarantor. Under this credit facility, our company was permitted until May 2002 to borrow all or a portion of the US\$30.2 million by delivering promissory notes. The import credit facility was established to finance the purchase of equipment manufactured in the U.S. In October 1999 and March 2000, our company issued two promissory notes, one in the amount of US\$12.2 million due in October 2004, which accrues interest at a rate of 7.6% per year, and one in the amount of US\$10.5 million due in March 2005, which accrues interest at a rate of 8.45% per year. As of December 31, 2002, the aggregate outstanding amount due under the outstanding promissory notes was US\$10.1 million.

In May 1999, our company entered into a US\$75.0 million Euro-commercial paper program, or ECP Program, with ABN-AMRO Bank, N.V., as the principal arranger and dealer. The size of the ECP Program was increased to US\$130.0 million in July 1999. Notes issued under the ECP Program are issued at a discount, and do not bear interest. There is no commitment to purchase notes to be issued under the ECP Program, and notes issued thereunder may not have a maturity exceeding 365 days. The

ECP Program permits our company to issue and have outstanding up to US\$130.0 million in notes at any time. The aggregate principal amount of notes outstanding under the ECP Program as of December 31, 2002 was US\$5.1 million.

In February 2000, our company entered into a long-term credit facility for up to US\$119.8 million with a Mexican subsidiary of American Tower Corporation, or ATC. The ATC long-term credit facility is comprised of a US\$91.8 million unsecured term loan and a US\$28.0 million term loan secured by certain of our real estate properties. The interest rate on each of the loans is 12.877% per year. The initial term of the US\$91.8 million unsecured term loan is 20 years, which may be extended up to an additional 50 years, so long as the 70-year tower project agreement entered into by the parties in February 2000 remains in effect. The US\$28.0 million secured term loan currently matures in February 2004, but may be renewed annually for successive one-year periods so long as the tower project agreement remains in effect.

In February 1997, our company issued US\$125.0 million aggregate principal amount of our 10 1/8% notes, and US\$300.0 million aggregate principal amount of 10 1/2% Series B guaranteed senior notes due 2007, or our 10 1/2% notes. Our 10 1/8% notes mature on February 15, 2004, while our 10 1/2% notes mature on February 15, 2007. Interest on our notes is paid semi-annually on February 15 and August 15. Our notes are jointly and severally guaranteed by each of our material subsidiaries. Our company has the option to redeem our 10 1/8% notes at any time at a redemption price equal to the greater of (i) 101% of their principal amount and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semi-annual basis at the treasury rate (as defined in the indenture governing the TV Azteca notes) plus 50 basis points, plus interest accrued but unpaid on the date our company redeems the 10 1/8% notes. Our Company has the option to

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redeem our 10 1/2% notes at 103.5% of the principal amount if redeemed after February 15, 2003, 101.75% of the principal amount if redeemed after February 15, 2004 and 100% of the principal amount if redeemed after February 15, 2005 plus, in each case, interest that is accrued but unpaid on the date our company redeems our 10 1/2% notes.

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### Capital Expenditures

For the years ended December 31, 2001 and 2002, capital expenditures were Ps.185 million and Ps.194 million (US\$18.7 million), respectively. These capital expenditures were primarily related to the expansion of, and improvements to, our broadcasting and television production facilities. For the years ended December 31, 2001 and 2002, our company paid approximately Ps.13 million and Ps.23 million (US\$2.2 million), respectively, to acquire transmitters that we used to expand the national coverage of our networks and to improve the quality and operation of our transmission signal. For the years ended December 31, 2001 and 2002, our company made purchases of production equipment and expenditures related to the refurbishment of our production facilities amounting to Ps.51 million and Ps.98 million (US\$9.4 million), respectively. Our capital expenditures are primarily made in U.S. dollars. For the years ended December 31, 2001 and 2002, our company made purchases of computer equipment and vehicles amounting to approximately Ps.44 million and Ps.111 million (US\$10.7 million), respectively. For the years ended December 31, 2001 and 2002, our company paid approximately Ps.68 million and Ps.9 million (US\$0.9 million), respectively, for the maintenance, remodeling and refurbishment of its buildings and office facilities.

### Unefon

In July 2001, our company and Mr. Moises Saba Masari announced their intention to provide credit support to Unefon for up to US\$80.0 million each. As of January 31, 2003, our company had paid US\$17.7 million to certain creditors of Unefon pursuant to this credit support and we had outstanding credit support obligations in the amount of US\$12.1 million. Our company has suspended any further credit support to Unefon in light of Unefon's dispute with Nortel Networks Corporation, or Nortel.

### Our Company's 2003 Budgeted Capital Expenditures

Our company has an aggregate of approximately US\$26.0 million budgeted for capital expenditures in 2003, primarily to be used for the maintenance and expansion of, and improvements to, our television production and broadcasting facilities and the acquisition of equipment and expansion. Our company expects to use cash from our operations to fund these capital expenditures. As a result of our operating strategy, our company will not, for the foreseeable future, make major capital expenditures outside the scope of our core television broadcasting business, which would include loans, credit support and capital investments in Unefon and affiliates in the Azteca America Network.

### Our Company's Dividend Policy/Debt Reduction Strategy

Our company's board of directors has approved a six year debt reduction strategy pursuant to which our company will use our annual free cash flow to reduce our outstanding debt, which as of December 31, 2002, was US\$592.5 million, and to make annual distributions to our shareholders. However, there is no assurance

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that our company's financial results will permit us to make such anticipated distributions or that our company will not modify or terminate this dividend policy in its entirety.

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Azteca International

Station Affiliations

Azteca International has station affiliation agreements with over-the-air television broadcast stations in markets that cover approximately 53% of the U.S. Hispanic population, including stations in the Los Angeles, New York, Miami, Houston and San Francisco television markets. Pursuant to these station affiliation agreements, the stations have been granted exclusive licenses for over-the-air broadcasting of Azteca America Programming in their respective markets. These agreements have terms ranging up to seven years and may be automatically renewed for a specified duration. In return for this programming, Azteca International receives either a percentage of the net advertising revenue generated by its station affiliates or all of the net advertising revenue with respect to a percentage of the available advertising time on its station affiliates.

Pappas Station Affiliations

Background

In 2001, Azteca International entered into station affiliation agreements with affiliates of Pappas in the Los Angeles, San Francisco, Houston and Reno television markets. When our company entered into station affiliation agreements with Pappas Telecasting of Southern California LLC, or Pappas Southern California, operator of its Los Angeles affiliate, our company became a party to credit agreements and an equity option agreement that gave us the right to acquire an

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equity interest in Pappas Southern California. Additionally, in connection with entering into the station affiliation agreements with affiliates of Pappas in the San Francisco and Houston television markets, Azteca International acquired a 25% equity interest in each of the television stations for an aggregate purchase price of US\$70.6 million.

In July 2002, a dispute arose between our company and Pappas regarding the exercise of the purchase option for the Los Angeles station. In addition, Pappas alleged that our company was in breach of certain of our obligations under the station affiliation agreements governing the Los Angeles, San Francisco, Houston and Reno television stations. On February 11, 2003, our company announced that a definitive settlement agreement that resolved all of the outstanding litigation and disputes between our company and Pappas had been signed.

In connection with the settlement agreement, our company and Pappas entered into a number of agreements that will govern our future relationship. These

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agreements include a new promissory note issued by Pappas in favor of our company, a local marketing agreement governing, or LMA, under certain circumstances, Azteca International's operation of its Los Angeles affiliate and a purchase option agreement that grants Azteca International the right, subject to receipt of all necessary approvals, to acquire all of the assets of the Los Angeles station. In addition to these agreements, Pappas and our company modified the existing station affiliation agreements and entered into new station affiliation agreements.

### The New Pappas Promissory Note

Pursuant to the settlement agreement and related agreements, Pappas re-acquired the 25% equity interests owned by Azteca International in its Houston and San Francisco station affiliates. In addition, the outstanding secured indebtedness in the amount of US\$53.7 million owed to our company by Pappas Southern California was cancelled, together with our company's option to acquire an equity interest in Pappas Southern California.

As consideration for the re-acquisition of the equity interests in its affiliates and the cancellation of its indebtedness, Pappas issued Azteca International a promissory note in the principal amount of \$128.0 million, or the New Pappas Promissory Note that is secured by the assets of the Los Angeles station. The maturity date of the New Pappas Promissory Note is May 31, 2003, with a conditioned grace period of up to June 30, 2003. However, if Pappas does not repay the New Pappas Promissory Note prior to April 30, 2003, the principal amount will be increased to US\$129.0 million. The New Pappas Promissory Note may be prepaid, in whole or in part, at any time. If the New Pappas Promissory Note is not paid on or prior to April 30, 2003, the New Pappas Promissory Note will bear interest for the month of May 2003 at the rate of US\$20,161.29 per day. The New Pappas Promissory Note will bear interest at an annual rate of 11.6279% from and after the applicable maturity date, except as indicated below.

The maturity date of the New Pappas Promissory Note will be extended for a period of one year in the event that (i) Echostar obtains an injunction prior to the applicable maturity date that prohibits our company from directly or indirectly distributing any portion of our Azteca 13 Programming to Pappas Southern California for cable retransmission in the U.S. or (ii) Azteca International fails to comply with certain governmental filing requirements in connection with the acquisition of the assets of the Los Angeles station. In the event an Echostar injunction is imposed, the New Pappas Promissory Note will bear interest at an annual rate of 9.8%.

If the LMA is terminated pursuant to the occurrence of certain specified events and Azteca International does not timely exercise the Los Angeles purchase option following the termination of the LMA, Azteca International will have the right to require repayment of the New Pappas Promissory Note on the earlier of the then scheduled maturity date of the New Pappas Promissory Note and two years following the third anniversary of the effectiveness of the Los Angeles purchase option. Alternatively, if the purchase option is not consummated in a timely manner after its exercise, Azteca International may, under certain circumstances, require that the New Pappas Promissory Note be repaid two and a half years after the date the right to exercise the Los Angeles purchase option expires.

### Local Marketing Agreement

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Azteca International and Pappas also agreed that, if the New Pappas Promissory Note is not repaid on or prior to its applicable maturity date, then starting on June 1, 2003 or July 1, 2003, as applicable, the operation of the Los Angeles station will be subject to the terms and conditions specified in the LMA. However, the LMA will not become effective if (i) an Echostar injunction is issued prior to the applicable maturity date that prohibits our company from directly or indirectly distributing any portion of our programming broadcast on our Azteca 13 network, or the Azteca 13 Programming, to Pappas Southern California for cable retransmission in the U.S., or (ii) Azteca International fails to comply with certain governmental filing requirements in connection with the acquisition of the assets of the Los Angeles station.

The LMA will have an initial term of three years, but will continue thereafter until the New Pappas Promissory Note is paid in full. Under the LMA, Azteca International will provide programming and services to the Los Angeles station and will be entitled to retain all advertising and other revenues relating to the operation of the Los Angeles station. During the initial three year term of the LMA, Azteca International will pay Pappas Southern California an annual fee of US\$15.0 million which is payable in quarterly installments. The payment of this fee has been guaranteed by our company.

Azteca International's payments under the LMA will be offset on a dollar-for-dollar basis by the amount of interest payable under the New Pappas Promissory Note. Accordingly, if during the initial three-year term of the LMA, Pappas Southern California does not make principal payments under the New Pappas Promissory Note, then Azteca International will not be required to make any cash payments under the LMA. Following the expiration of the initial three year term of the LMA, the annual fee for the LMA will be increased to US\$24.6 million, a portion of which would continue to be subject to offset against Pappas' interest payment obligation, until the New Pappas Promissory Note is paid in full.

In order to resolve any future disputes between Azteca International and Pappas Southern California arising out of the operation of the Los Angeles station pursuant to the LMA, the parties have appointed an FCC expert who, upon request, will arbitrate all disputes between the parties, including disputes involving FCC matters. The decisions of the FCC expert will be binding on the parties; however, if the disputed matter relates to FCC rules or regulations, the parties are permitted to seek a ruling from the FCC on such matter and the FCC decision will be final and binding upon the parties.

The LMA will terminate (i) if the New Pappas Promissory Note is paid in full prior to the applicable maturity date, (ii) upon the closing of the purchase option for the assets of the Los Angeles station or (iii) upon the filing of a petition for bankruptcy of a party to the LMA. The LMA can also be terminated following the determination of the FCC expert that a party is in breach of the LMA.

Pursuant to the LMA, Azteca International has agreed, subject to receipt of regulatory approval, to pay up to US\$3.0 million for the installation, construction and acquisition of broadcasting facilities necessary

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to operate a digital television channel in the Los Angeles market. However, if the FCC expert determines that any cost overruns are reasonable, Azteca International's financial obligations with respect to this project could exceed

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US\$3.0 million. If by the third anniversary of the date on which the Los Angeles station purchase option became exercisable, (i) Azteca International has not closed the purchase option and (ii) Pappas Southern California has not repaid in full the principal and interest due on the New Pappas Promissory Note, Pappas Southern California is required to reimburse Azteca International for the costs incurred in connection with the development of the digital television channel. The aggregate amount of the reimbursement obligation shall be added to the then outstanding principal amount of the New Pappas Promissory Note and will be secured by the assets of the Los Angeles station.

### The Los Angeles Station Purchase Option

In the event the LMA becomes effective, Azteca International will also have the option to purchase all of the assets of the Los Angeles station, including its FCC license. This purchase option must be exercised, subject to limited exceptions, at least six months prior to the third anniversary of the effective date of the option agreement. The total purchase price for the assets is US\$250.0 million, plus certain specified liabilities. The purchase price payable for the assets may be offset against all amounts then outstanding under the New Pappas Promissory Note. In the event the LMA is terminated in connection with a governmental challenge to its effectiveness or Azteca International's breach of the LMA, as determined by the FCC expert, the period of time in which Azteca International may exercise the purchase option will be shortened.

The consummation of the purchase option transaction is subject to receipt of all necessary antitrust and FCC approvals. Azteca International is permitted to assign its rights with respect to the purchase option to a qualified third party in order to obtain any necessary consents. Under applicable FCC rules, Azteca International has the right to hold up to a 25% equity interest in an entity that holds a U.S. television broadcasting license.

### Amended Station Affiliation Agreements

Azteca International's station affiliation agreements with affiliates of Pappas in the Los Angeles, San Francisco, Houston and Reno markets will continue to be in effect through 2003 with certain modifications, except for the Los Angeles station if the LMA become effective. As modified, the allocation of revenue under the station affiliation agreements will change to a 50-50 time-split arrangement, where network advertising time is equally divided. Azteca International will have the option to extend these modified station affiliation agreements until May or June of 2004, after which these station affiliation agreements will be automatically renewable for additional six-month periods, subject to the termination provisions contained in the station affiliation agreements. As in the case of the LMA, the FCC expert is also authorized to settle disputes under the modified station affiliation agreements.

If the Echostar injunction has been issued prior to the applicable maturity date of the New Pappas Promissory Note, that prohibits our company from directly or indirectly distributing any portion of our Azteca 13 Programming to Pappas Southern California for cable retransmission in the U.S., the sole remedy of the Pappas station affiliates is termination of the respective station affiliation agreements. In addition, Azteca International has agreed to indemnify the Pappas station affiliates for any damages awarded to Echostar from any Pappas station affiliates, the costs of defending such actions (including attorney's fees), reasonable out-of-pocket expenses incurred in connection with obtaining alternative programming, and, under certain circumstances, lost profits.

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In general, the modified station affiliation agreements can be terminated by either party, subject to compliance with relevant notice provisions, (i) if a petition for bankruptcy of a party to the station affiliation agreement is filed, or (ii) following the determination by the FCC expert that a party is in breach of the station affiliation agreement. In the event the term of a modified station affiliation is extended to May 31, 2004 or June 30, 2004, as applicable, either party may terminate the agreement on 90 days notice effective as of May 31, 2004 or June 30, 2004, as applicable, or prior to the expiration of any renewal term.

### New Stations

Affiliates of Pappas and Azteca International have also entered into station affiliation agreements for several smaller television markets.

### Legal proceedings

#### Pappas Settlement

In July 2001, Azteca International and Pappas Southern California entered into an equity option agreement pursuant to which Azteca International was granted an option to purchase an equity interest in Pappas Southern California. The equity option was exercised by Azteca International on May 21, 2002. The acquisition by Azteca International of an equity interest in Pappas Southern California was not consummated by the parties on the anticipated closing date.

In July 2002, Azteca International filed a lawsuit against Pappas Southern California in Delaware Chancery Court seeking specific performance of the equity option agreement. Also, in July 2002, Pappas Southern California and its wholly-owned subsidiary that holds the FCC license to operate the Los Angeles station, collectively, the PSC Entities, filed a lawsuit in California state court against Azteca International and our company seeking a declaration that these parties did not have the right to acquire any portion of the equity of Pappas Southern California pursuant to the equity option agreement. The parties later agreed to stay the California action. The trial on the Delaware lawsuit was scheduled for December 2002.

Pappas also claimed that Azteca International had breached its station affiliation agreements with its affiliates in the Los Angeles, San Francisco, Houston and Reno television markets. In response, Azteca International filed a separate lawsuit in New York state court against Pappas Southern California and the Pappas affiliates operating the San Francisco, Houston and Reno stations seeking to prevent the termination of the station affiliation agreements. The Pappas-controlled entities filed counterclaims against Azteca International seeking a declaration that they were entitled to terminate the station affiliation agreements.

On November 27, 2002, our company and Pappas entered into an agreement in principle to settle all of the pending lawsuits and all related disputes, and on February 11, 2003, a definitive settlement agreement was signed. In connection with settling these pending matters, our company and Pappas also entered into a number of agreements that will govern their future relationship. These agreements include a new promissory note issued by Pappas in favor of our



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company, a local marketing agreement governing, under certain circumstances, Azteca International's operation of its Los Angeles affiliate and a purchase option agreement that grants Azteca International the right, subject to receipt of all necessary approvals, to acquire all of the assets of its Los Angeles affiliate. In addition to these agreements, Pappas and our company have modified their existing station affiliation agreements and entered into new station affiliation agreements.

### Channel 40

In December 1998, our company entered into a joint venture with Televisore del Valle de Mexico, S.A. de C.V., or TVM, and TVM's subsidiary, Corporacion de Noticias e Informacion, S.A. de C.V., or CNI, for the operation of a television channel that broadcasts throughout the Mexico City metropolitan area on UHF Channel 40. For a minimum term of three years and up to 10 years, our company agreed to pay to CNI, on a quarterly basis, 50% of the EBITDA, as defined in the agreement governing the joint venture, generated by Channel 40. Our company advanced US\$15.0 million of this payment to CNI in a series of installments paid in 1998 and 1999. Under the terms of the joint venture, our company agreed to provide substantially all of Channel 40's programming and to sell all of Channel 40's advertising time. Our company also established a 10 year credit facility of US\$10.0 million for CNI, secured by stock of TVM, with a three-year grace period for payment of principal and interest. As security for the loan, 51% of the capital stock of TVM owned by Mr. Javier Moreno Valle, a major shareholder and the sole administrator of TVM, was pledged as collateral. Our company was also granted an option to purchase up to 51% of the capital stock of TVM beginning in November 2002, or upon the earlier termination of the joint venture by CNI or TVM. Under the option to purchase, the sale price of TVM's capital stock will be based on a valuation of 100% of the stock of TVM that is equal to the greater of US\$100.0 million (which amount increases gradually over time) or 10 times the EBITDA generated by Channel 40 for the 12 months preceding the exercise of the purchase option, less any indebtedness owed by TVM or CNI to our company at the time the option is exercised. As of December 31, 2002, TVM's and CNI's indebtedness to our company totaled approximately US\$34.4 million, comprised of US\$10.0 million under the credit facility, a US\$15.0 million payment advance and US\$9.4 million comprised of interest on the credit facility and additional operating expenses forwarded to CNI.

In July 2000, CNI stopped broadcasting our company's signal as required by its contractual obligations under the joint venture agreement. In response to CNI's actions, our company filed several lawsuits in Mexico against TVM, CNI and Mr. Moreno Valle, seeking lost profits and the enforcement of our purchase option right under the joint venture to acquire up to 51% of the capital stock of TVM.

In July 2001, the 5th Civil Court in Mexico City ordered CNI to pay our company US\$35.0 million for damages and lost profits. CNI appealed this order, and, in October 2001, an appeals court decided our company did not have the right to receive damages but instructed CNI to return advance payments in the amount of US\$15.0 million. Our company filed an action for relief (amparo) before a federal circuit court seeking to reverse the appeals court's ruling. Accepting our company's action for relief, the federal circuit court instructed the appeals court to decide whether our company is entitled to damages arising from TVM's actions. Following this decision, the appeals court resolved that CNI committed an illegal act which allows our company to seek damages, but that such damages should be pursued pursuant to a different cause of action. Our company filed an action for relief before the same federal circuit court. This action is pending.

In July 2002, our company filed a lawsuit against Mr. Moreno Valle seeking the foreclosure of the pledge over 51% of the capital stock of TVM. This action, which is pending before a Mexican court, substituted a legal action that our company had commenced to enforce a guaranty trust.

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In November 2002, our company requested the bankruptcy of CNI before a Mexican court. In January 2003, CNI submitted its response. This action is pending before a bankruptcy court.

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In November 2000, our company filed another action before the International Court of Arbitration of the International Chamber of Commerce. In this action, our company sought to enforce our option to purchase up to 51% of the capital stock of TVM. TVM and Mr. Moreno Valle filed legal responses to these claims. In December 2002, an arbitral tribunal issued an award concluding that the joint venture and the option agreement entered into by our company and CNI are valid, in effect and enforceable. Our company believes this arbitral award confirms our right to operate Channel 40 as contemplated by the joint venture and to exercise its right to acquire up to 51% of the capital stock of TVM.

In reliance on the arbitral award issued in December 2002 by the arbitral tribunal of the International Court of Arbitration, our company took possession of certain broadcasting facilities of Channel 40 to restore our company's signal on Channel 40. Following this event, the SCT took exclusive control of the Channel 40 transmission site and signal.

In December 2002, CNI filed criminal complaints against individuals who took possession of the broadcasting facilities of Channel 40. These complaints, which resulted in criminal judgments, are currently being appealed before a federal criminal judge. No director or executive officer of our company is a part of these proceedings.

In January 2003, CNI filed an action for relief (amparo) before a federal district court seeking to reverse the SCT's decision to take exclusive control of the Channel 40 transmission site and signal. The federal district court suspended the SCT's decision, but required that TVM place a US\$5.0 million bail in respect of such suspension, which TVM placed. On January 27, 2003, CNI regained control of the Channel 40 transmission site and signal. As of the date of this report, no TV Azteca signal is being broadcast on Channel 40.

On February 10, 2003, the SCT imposed a Ps.210,750 (US\$21,000) fine on our company for having entered the broadcasting facilities of Channel 40 on December 27, 2002.

Our company is actively seeking to enforce our rights to operate Channel 40 and believes that we will be successful in our legal actions against CNI and Mr. Moreno Valle. However, no assurance can be given as to the outcome of these actions. If the Channel 40 litigation were to be adversely determined against our company, our company could lose the benefit of all or part of our option to purchase 51% of the capital stock of TVM, the joint venture agreement that allows our company to operate Channel 40 and revenues received therefrom could be terminated. However, in such event, CNI would continue to be indebted to our company for approximately US\$34.0 million, which indebtedness would continue to be secured by the pledge of 51% of TVM's capital stock.

La Academia

On October 16, 2002, Gestmusic Endemol, S.A., or Endemol, filed an administrative claim before the Mexican trademark agency (Instituto Mexicano de la Propiedad Industrial), or IMPI. Endemol alleges that our company violated

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certain provisions of the Mexican Industrial Law (Ley de la Propiedad Industrial) because our company did not obtain authorization from Endemol to use the trademark La Academia, and that such unauthorized use caused confusion among the general public. Endemol seeks that our company refrain from conducting unfair practices in the future, which it argues includes the use of La Academia's name and format, and that IMPI impose a penalty on our company for our alleged violations. Our company has denied this allegation, asserting that Endemol's trademark rights do not extend to television programming and that the name is of such general nature that it is not appropriate for trademark protections. This administrative action is still pending final resolution before the IMPI. In addition, our company has requested that IMPI declare the trademark La Academia null and void alleging that such trademark is descriptive in nature and of common public use for the services it was registered.

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Our company believes that if the administrative claim were to be adversely determined to us, our company could be subject to a fine of up to Ps.873,000 (US\$83,982).

Unefon

Unefon and Nortel Networks Corporation, Unefon's primary equipment supplier, are currently engaged in disputes over each party's compliance with the terms and conditions of the finance agreement, letter agreement, the procurement agreement, and other related agreements entered into by the parties and certain of their shareholders and affiliates.

Unefon asserts that Nortel Networks Corporation, or Nortel, has not fulfilled its obligations under the finance agreement, letter agreement and procurement agreement. With respect to the finance and letter agreements, Unefon has asserted, among other things, that Nortel breached its obligation to make available to Unefon the second loan tranche under the finance agreement in the amount of US\$210.0 million. Unefon contends that Nortel's failure to advance this additional financing has limited Unefon's ability to build out its network, to grow its business in accordance with its business plan and to realize the revenues and profits related to such growth and needed to repay the first loan tranche under the finance agreement. With respect to the procurement agreement, Unefon asserts, among other things, that Nortel failed to properly design and construct the network and failed to provide required and appropriate maintenance and support. Unefon also contends that the settlement agreement signed in July 2002 never became effective because Nortel failed to perform the pre-conditions to its effectiveness. Even to the extent that the settlement agreement became effective, Unefon contends that Nortel failed to perform its obligations thereunder.

As a result of Nortel's alleged breaches, Unefon withheld a US\$6.0 million interest payment due to Nortel in August 2002 and has asserted that it is relieved of its payment obligations under the finance agreement by reason of Nortel's breaches.

On August 28, 2002, Nortel sent Unefon a notice alleging that Unefon was in default under the finance agreement due to its non-payment of the August 2002 interest payment. Nortel also alleged that the proposed spin-off by our company of our 46.5% stake in Unefon would be deemed to be a change in control under the terms of the finance agreement, which also would constitute a default under the finance agreement unless Nortel consented to such action.

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On September 9, 2002, Unefon filed a lawsuit against Nortel in the Supreme Court of the State of New York seeking damages and lost profits in the amount of US\$900.0 million. Unefon alleged that Nortel had breached the finance agreement and related letter agreement by failing to advance the second loan tranche of US\$210.0 million. Unefon also alleged that Nortel had failed to comply with its obligation to pursue syndication of the first loan tranche in a diligent and timely manner, applying its best efforts consistent with standards of commercial reasonableness. Unefon alleged that Nortel's breach had caused Unefon damages, including, among others, lost profits and a diminution in equity value of Unefon and had relieved Unefon of its payment obligations under the finance agreement. As an alternative remedy, Unefon sought specific performance of Nortel's obligation to lend Unefon up to US\$210.0 million from the second loan tranche under the finance agreement.

Nortel notified Unefon on September 9, 2002 that based on its non-payment of the August 2002 interest payment, Nortel was accelerating all amounts owed by Unefon under the finance agreement. As of December 31, 2002, the outstanding principal amount under the finance agreement was US\$349.8 million. Nortel also notified Unefon that it was exercising its right to terminate the procurement agreement as a result of Unefon's alleged default under the finance agreement.

On September 23, 2002, Nortel filed an answer and counterclaim in the New York Supreme Court action commenced by Unefon in which Nortel asserted, among other things, that it had not breached the

finance agreement and related letter agreement and that the remedies sought by Unefon were not available under the finance agreement, the procurement agreement or applicable law. Nortel's counterclaim was based on Unefon's non-payment of the August 2002 interest payment and Nortel sought acceleration and immediate payment of all amounts allegedly due to Nortel under the finance agreement. On October 10, 2002, Unefon answered Nortel's counterclaim and denied the allegations offered in support thereof.

On November 11, 2002, Unefon filed a demand for arbitration under the procurement agreement, as well as the July 2002 settlement agreement, before the American Arbitration Association in New York City. In its demand, Unefon asserted numerous breaches by Nortel of its obligations under these agreements, including design and construction flaws, failure to fulfill software obligations, maintenance failures, failure to provide financing and other economic benefits and refusal to deliver equipment for which Unefon has paid. Unefon seeks damages and an order directing Nortel to deliver immediately all equipment for which Unefon has paid. On December 24, 2002, Nortel filed an answer denying liability and asserting counterclaims based on alleged breaches by Unefon of its payment obligations under the procurement agreement and requested the arbitration tribunal to award damages in the amount of at least US\$47.0 million.

On November 11, 2002, Nortel moved for summary judgment on its counterclaim relating to the non-payment of interest. On December 10, 2002, Unefon moved for partial summary judgment on its claim that Nortel breached the finance agreement, and moved to amend its complaint to assert claims for fraud and intentional misrepresentation relating to Nortel's willingness to lend the second loan tranche, including Nortel's willingness to seek syndication of the first loan tranche, and to assert two affirmative defenses: (i) that Nortel's

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fraudulent inducement bars Nortel from any relief under the finance agreement or procurement agreement and (ii) that Unefon is excused from performance under the finance agreement by virtue of Nortel's breaches of the finance agreement and procurement agreement. Unefon also sought a stay of the action pending resolution of the arbitration commenced by Unefon against Nortel, as described above. On January 14, 2003, Nortel filed papers opposing Unefon's motions. Unefon's reply on its cross motions was presented on February 24, 2003.

On November 29, 2002, Unefon and certain of its affiliates commenced an action against Nortel and others in civil court in Mexico City seeking a declaration of the parties' rights under pledge agreements pursuant to which Unefon's and the affiliates' stock had been pledged to Nortel as security to the loans made under the finance agreement. Unefon and its affiliates seek, among other things, declarations that Nortel is disproportionately collateralized and that certain provisions of the stock pledge agreements are void under Article 198 of the Mexican General Commercial Companies Law (which voids any agreement which restricts the free exercise of shareholder voting rights).

On December 16, 2002, Nortel filed a second, separate lawsuit in the Supreme Court of the State of New York seeking authorization from the Court, pursuant to the stock pledge agreement, to sell the shares of Operadora Unefon and Servicios that were pledged to secure its indebtedness, or, in the alternative, authorization to take appropriate steps to obtain control over the management and business of Unefon. Unefon filed a motion to dismiss this action on jurisdictional grounds and on the basis of the prior Mexican action commenced by it against Nortel in regard to the pledge agreements. The parties have stipulated that Nortel will not take any further action to foreclose on the shares until such motion is decided.

In January 2003, Nortel petitioned for the bankruptcy of Unefon before a Mexican court. In response, Unefon filed an action for relief (amparo) before a federal district court challenging Nortel's request. Unefon believes that Nortel's bankruptcy petition is insufficient under Mexican law and that it will therefore prevail in this proceeding. The federal district court suspended Nortel's bankruptcy claim pending its analysis of the sufficiency of Nortel's petition.

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### Our Company's Obligations

On December 20, 2002, Nortel notified our company and Mr. Saba of its view that Unefon's non-payment of the August 2002 interest payment triggered our joint and several obligation to make additional funds available to Unefon up to an aggregate amount of US\$35.0 million as provided in the shareholders' undertaking. Our company and Mr. Saba dispute Nortel's contention that their funding obligation has been triggered, asserting that Nortel has materially breached the finance agreement and the procurement agreement, thereby excusing Unefon from performance of its obligations under these agreements and, therefore, that our company and Mr. Saba are excused from performance of our and their obligations under the shareholders' undertaking. Our company and Mr. Saba also assert that, even if our funding obligation has been triggered, we have satisfied our obligations under the shareholders' undertaking by making up to US\$35.8 million in additional funds available to or on behalf of Unefon.

If Unefon is found by a final court or arbitral decision to be in default under its agreements with Nortel and Unefon is not able to satisfy its financial obligations under these agreements, our company's financial exposure in

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connection with Unefon would consist of all or part of the following:

- .. the potential payment under credit guarantees issued in connection with the outstanding obligations of Unefon, which as of January 31, 2003 were US\$12.1 million;
  - .. the potential loss of US\$19.1 million which represents the aggregate amount of Unefon's indebtedness to our company as of December 31, 2002;
  - .. the potential joint and several liability with Mr. Saba for up to US\$35.0 million under their December 2000 shareholders' undertaking (less such portion, if any, of the funding made available by our company and Mr. Saba to or on behalf of Unefon that is credited against such undertaking);
  - .. the potential loss of revenue under our company's advertising agreement with Unefon (including payment of the deferred amount of US\$15.7 million (including interest));
  - .. the potential loss of revenue under Unefon's real property lease with our company, which for the year ended December 31, 2002 amounted to approximately US\$2.5 million; and
  - .. the potential loss of our company's 46.5% equity interest in Unefon, which is valued on our company's books at US\$168.9 million as of December 31, 2002.
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Report of independent accountants

Mexico City, February 7, 2003, except for the Pappas Group recent developments in Note 7, which is as of February 11, 2003

To the Stockholders and Board of Directors of  
TV Azteca, S. A. de C. V. and subsidiaries:

We have audited the consolidated balance sheets of TV Azteca, S. A. de C. V. and its subsidiaries (the "Company") as of December 31, 2001 and 2002, and the related consolidated statements of results of operations, of changes in stockholders' equity and of changes in financial position for each of the three years in the period ended December 31, 2002 all expressed in constant pesos of December 31, 2002 purchasing power. 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 auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with accounting principles generally accepted in Mexico. 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 aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of TV Azteca, S. A. de C. V. and its subsidiaries as of December 31, 2001 and 2002, and the consolidated results of their operations, and the changes in stockholders' equity and in their financial position for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in Mexico.

Accounting principles generally accepted in Mexico differ in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income, expressed in pesos of December 31, 2002 purchasing power, for each of the two years in the period ended December 31, 2001 and the determination of consolidated stockholders' equity and consolidated financial position as of December 31, 2000 and 2001 also expressed in pesos of December 31, 2002 purchasing power to the extent summarized in Note 16 to the consolidated financial statements.

PricewaterhouseCoopers

Manuel Leyva Vega  
Audit Partner

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TV Azteca, S. A. de C. V. and Subsidiaries  
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(Note 1)  
 CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2001	2002
	Thousands of Mexican pesos of December 31, 2002 purchasing power	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and marketable securities (Note 4).....	Ps 1,650,871	Ps 1,393,273
Accounts receivable (Note 5).....	4,927,444	4,921,200
Due from related parties (Note 8).....	426,794	484,682
Exhibition rights.....	545,151	309,597
Inventories.....	136,395	134,269
	-----	-----
<b>Total current assets</b> .....	<b>7,686,655</b>	<b>7,243,021</b>
Investment in Unefon, S. A. de C. V. ("Unefon") (Note 7).....	1,848,485	1,755,942
Accounts receivable from Unefon (Note 8).....	1,931,139	2,009,067
Exhibition rights.....	1,043,068	1,379,583
Property, machinery and equipment--Net (Note 6).....	2,304,077	2,231,443
Television concessions--Net (Note 21.).....	3,742,945	3,741,702
Other assets (Note 7).....	1,201,752	1,182,999
Investment in Todito.com, S. A. de C. V. ("Todito") (Note 7).....	397,883	319,986
Advance payments to Pappas Telecasting Companies, through Azteca America (Note 7).....	660,031	1,154,479
Goodwill--Net (Note 7).....	679,246	641,603
	-----	-----
<b>Total assets</b> .....	<b>Ps21,495,281</b>	<b>Ps21,659,825</b>
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Current portion of long-term bank loans (Note 9).....	Ps 38,418	Ps 47,179
Short-term debt (Note 9).....	528,455	389,997
Interest payable.....	197,979	206,613
Exhibition rights payable.....	671,534	598,878
Accounts payable and accrued expenses.....	777,150	633,031
Due to related parties (Note 8).....	61,657	81,281
	-----	-----
<b>Total current liabilities</b> .....	<b>2,275,193</b>	<b>1,956,979</b>
	-----	-----
<b>Long-term liabilities:</b>		
Guaranteed senior notes (Note 9).....	4,114,901	4,417,875
Bank loans (Note 9).....	1,507,825	1,302,915
Advertising advances (Note 2q.).....	4,639,819	4,446,264
Unefon advertising advance (Note 8).....	2,258,381	2,167,340
Todito advertising, programming and services advance (Note 8)..	715,446	504,418
Exhibition rights payable.....	206,079	246,096
Deferred income tax payable (Note 12).....		25,534
	-----	-----
<b>Total long-term liabilities</b> .....	<b>13,442,451</b>	<b>13,110,442</b>
	-----	-----
<b>Total liabilities</b> .....	<b>15,717,644</b>	<b>15,067,421</b>
	-----	-----
<b>Commitments and contingencies (Note 13)</b>		
<b>Stockholders' equity (Note 11):</b>		



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Capital stock.....	2,737,188	2,740,130
Premium on the issuance of capital stock.....	1,920,032	1,762,781
Legal reserve.....	97,564	172,964
Reserve for the repurchase of shares.....	1,041,662	1,013,123
Retained earnings.....	1,325,727	2,194,872
Insufficiency in the restatement of capital.....	(1,352,907)	(1,300,183)
<hr/>		
Majority stockholders' equity.....	5,769,266	6,583,687
Minority stockholders' equity (Note 1).....	8,371	8,717
<hr/>		
Total stockholders' equity.....	5,777,637	6,592,404
<hr/>		
Total liabilities and stockholders' equity.....	Ps21,495,281	Ps21,659,825
<hr/>		

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 (\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed as of December 31, 2002 purchasing power translated at the exchange rate of Ps10.395 per US dollar and are not covered by the Report of Independent Accountants.

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

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TV Azteca, S. A. de C. V. and Subsidiaries  
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(Note 1)

CONSOLIDATED STATEMENTS OF RESULTS OF OPERATIONS

	Year ended December 31,			
	2000	2001	2002	
	Thousands of Mexican pesos of December 31,			Thousands
	2002 purchasing power, except per share amounts			Dollars
Net revenue.....	Ps5,986,790	Ps6,122,805	Ps 6,689,957	US\$ 643
Programming, production and transmission costs.....	2,680,067	2,470,020	2,510,898	241
Selling and administrative expenses....	939,709	956,657	974,282	93
Total costs and expenses.....	3,619,776	3,426,677	3,485,180	335
Profit before depreciation and amortization.....	2,367,014	2,696,128	3,204,777	308
Depreciation and amortization (Notes 2h. and 2l.).....	626,851	604,239	385,325	37
Operating profit.....	1,740,163	2,091,889	2,819,452	271

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Other expenses--Net (Note 14).....	(376,217)	(243,851)	(441,588)	(42
-----				
Comprehensive financing cost:				
Interest expense.....	(791,033)	(743,485)	(725,270)	(69
Other financing expense (Note 4)....	(143,456)	(27,400)	(135,708)	(13
Interest income.....	188,271	239,927	191,950	18
Exchange (loss) income--Net				
(Note 3).....	(127,912)	197,676	(353,139)	(33
Gain (loss) on monetary position....	208,910	2,387	(81,729)	(7
-----				
Net comprehensive financing cost....	(665,220)	(330,895)	(1,103,896)	(106
-----				
Income before provision for income				
tax, deferred income tax and				
extraordinary item.....	698,726	1,517,143	1,273,968	122
Provisions for (Note 12):				
Income tax.....	(184,479)	(209,934)	(264,158)	(25
Deferred income tax benefit				
(expense).....	204,451	198,905	(25,534)	(2
-----				
Income before extraordinary item....	718,698	1,506,114	984,276	94
Extraordinary item--NBC				
settlement agreement--net of				
income tax				
(Note 11).....	(335,929)			
-----				
Net income.....	Ps 382,769	Ps1,506,114	Ps 984,276	US\$ 94
=====				
Net loss of minority stockholders...	(Ps 6,114)	(Ps 1,892)	(Ps 235)	(US\$
=====				
Net income of majority stockholders.	Ps 388,883	Ps1,508,006	Ps 984,511	US\$ 94
=====				
Net income per share of majority				
stockholders (Note 2r.).....	Ps 0.043	Ps 0.167	Ps 0.109	US\$ 0
=====				

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 (\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed as of December 31, 2002 purchasing power translated at the exchange rate of Ps10.395 per US dollar and are not covered by the Report of Independent Accountants.

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

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TV Azteca, S. A. de C. V. and Subsidiaries  
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(Notes 1, 4 and 11)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Three Years ended December 31, 2000, 2001 and 2002

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	Number of common shares outstanding (thousands)	Capital stock	Premium on the issuance of capital stock	r
Balances at January 1, 2000.....	8,930,573	Ps2,715,347	Ps1,555,439	Ps
Variations in 2000:				
Net income (loss).....				
Cumulative effect of change in method of accounting for income taxes.....				
Loss from holding non-monetary assets.....				
Minority interest from the sale of subsidiary.....				
Comprehensive loss.....				
Preferred dividend.....				
Repurchase of shares.....	(107,370)	(20,066)		
Exercise of stock options.....	30,497	5,799	21,417	
Capital stock increase.....	96,000	18,217	267,347	
Balances at December 31, 2000.....	8,949,700	2,719,297	1,844,203	
Variations in 2001:				
Net income (loss).....				
Loss from holding non-monetary assets.....				
Minority interest.....				
Comprehensive income (loss).....				
Preferred dividend.....				
Repurchase of shares.....	(38,674)	(6,717)		
Exercise of stock options.....	31,215	5,542	75,829	
Sale of treasury shares.....	107,804	19,066		
Balances at December 31, 2001.....	9,050,045	2,737,188	1,920,032	
Variations in 2002:				
Net income (loss).....				
Increase legal reserve.....				
Gain from holding non-monetary assets.....				
Minority interest.....				
Comprehensive income.....				
Preferred dividend.....				
Repurchase of shares.....	(111,349)	(18,883)		
Exercise of stock options.....	46,020	7,759	16,122	
Sale of treasury shares.....	82,749	14,066		
Financial instruments (Note 4).....			(173,373)	
Balances at December 31, 2002.....	9,067,465	Ps2,740,130	Ps1,762,781	Ps
		Reserve for the	Retained	(Insufficiency excess in the

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	repurchase of shares	earnings (deficit)	restatement of capital
Balances at January 1, 2000.....	Ps1,230,772	Ps 209,402	(Ps 892,293)
Variations in 2000:			
Net income (loss).....		388,883	
Cumulative effect of change in method of accounting for income taxes.....		(693,526)	57,854
Loss from holding non-monetary assets.....			(241,278)
Minority interest from the sale of subsidiary.....			
Comprehensive loss.....		(304,643)	(183,424)
Preferred dividend.....		(44,908)	
Repurchase of shares.....	(296,028)		
Exercise of stock options.....			
Capital stock increase.....			
Balances at December 31, 2000.....	934,744	(140,149)	(1,075,717)
Variations in 2001:			
Net income (loss).....		1,508,006	
Loss from holding non-monetary assets.....			(277,190)
Minority interest.....			
Comprehensive income (loss).....		1,508,006	(277,190)
Preferred dividend.....		(42,130)	
Repurchase of shares.....	(36,455)		
Exercise of stock options.....			
Sale of treasury shares.....	143,373		
Balances at December 31, 2001.....	1,041,662	1,325,727	(1,352,907)
Variations in 2002:			
Net income (loss).....		984,511	
Increase legal reserve.....		(75,400)	
Gain from holding non-monetary assets.....			52,724
Minority interest.....			
Comprehensive income.....		909,111	52,724
Preferred dividend.....		(39,966)	
Repurchase of shares.....	(150,996)		
Exercise of stock options.....			
Sale of treasury shares.....	122,457		
Financial instruments (Note 4).....			
Balances at December 31, 2002.....	Ps1,013,123	Ps2,194,872	(Ps 1,300,183)
	=====	=====	=====
	Total stockholders' equity		

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Balances at January 1, 2000.....	Ps4,955,258
-----	
Variations in 2000:	
Net income (loss).....	382,769
Cumulative effect of change in method of accounting for income taxes.....	(635,672)
Loss from holding non-monetary assets.....	(241,278)
Minority interest from the sale of subsidiary.....	(19,708)
-----	
Comprehensive loss.....	(513,889)
-----	
Preferred dividend.....	(44,908)
Repurchase of shares.....	(316,094)
Exercise of stock options.....	27,216
Capital stock increase.....	285,564
-----	
Balances at December 31, 2000.....	4,393,147
-----	
Variations in 2001:	
Net income (loss).....	1,506,114
Loss from holding non-monetary assets.....	(277,190)
Minority interest.....	(2,942)
-----	
Comprehensive income (loss).....	1,225,982
-----	
Preferred dividend.....	(42,130)
Repurchase of shares.....	(43,172)
Exercise of stock options.....	81,371
Sale of treasury shares.....	162,439
-----	
Balances at December 31, 2001.....	5,777,637
-----	
Variations in 2002:	
Net income (loss).....	984,276
Increase legal reserve.....	
Gain from holding non-monetary assets.....	52,724
Minority interest.....	581
-----	
Comprehensive income.....	1,037,581
-----	
Preferred dividend.....	(39,966)
Repurchase of shares.....	(169,879)
Exercise of stock options.....	23,881
Sale of treasury shares.....	136,523
Financial instruments (Note 4).....	(173,373)
-----	
Balances at December 31, 2002.....	Ps6,592,404
=====	

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

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TV Azteca, S. A. de C. V. and Subsidiaries

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(Note 1)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December		
	2000	2001	
Thousands of Mexican pesos of			
December 31, 2002, purchasing p			
<hr/>			
Operations:			
Net income before extraordinary item.....	Ps 718,698	Ps 1,506,114	Ps 9
Charges (credits) to results of operations not affecting resources:			
Amortization of concessions and goodwill.....	154,081	162,454	
Depreciation.....	472,770	441,785	3
Equity in loss of affiliates.....	107,088	67,893	1
Deferred income tax (benefit) expense.....	(204,451)	(198,905)	
Gain on sale of subsidiaries.....	(17,797)		
Net change in accounts receivable, inventories, exhibition rights, related parties, accounts payable and accrued expenses.....	(642,564)	(283,024)	(1
Advertising advances.....	753,445	182,316	(1
Unefon advertising advance.....	39,826	(54,541)	(
Todito advertising, programming and services advance.....	911,654	(196,208)	(2
	<hr/>	<hr/>	<hr/>
Resources provided by operations before extraordinary item.....	2,292,750	1,627,884	8
NBC settlement agreement--net of income tax.....	(335,929)		
	<hr/>	<hr/>	<hr/>
Resources provided by operations.....	1,956,821	1,627,884	8
	<hr/>	<hr/>	<hr/>
Investment:			
Acquisition of property, machinery and equipment-- Net.....	(201,894)	(176,965)	(2
Investment in Unefon.....	(1,092,120)		
Advance payments to Pappas Telecasting Companies, through Azteca America.....		(660,031)	(4
Account receivable from Pappas Telecasting of Southern California, LLC.....		(191,124)	
Minority interest.....	(19,708)	(2,942)	
	<hr/>	<hr/>	<hr/>
Resources used in investing activities.....	(1,313,722)	(1,031,062)	(6
	<hr/>	<hr/>	<hr/>
Financing:			
Bank loans--Net.....	(166,661)	36,965	(3
Guaranteed senior notes.....	(328,410)	(410,861)	3
Loan granted to related party.....			(1
Preferred dividend paid.....	(44,908)	(42,130)	(
Stock options exercised.....	27,216	81,371	(
Sale of treasury shares.....		162,439	1
Repurchase of shares.....	(316,094)	(43,172)	(1
Financial instruments.....			(1
Capital stock increase.....	18,217		
Premium on issuance of capital stock.....	267,347		
	<hr/>	<hr/>	<hr/>
Resources used in financing activities.....	(543,293)	(215,388)	(4

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Net increase (decrease) in cash and marketable securities.....	99,806	381,434	(2)
Cash and marketable securities at beginning of year.....	1,169,631	1,269,437	1,6
Cash and marketable securities at end of year.....	Ps 1,269,437	Ps 1,650,871	Ps1,3

(\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed as of December 31, 2002 purchasing power translated at the exchange rate of Ps10.395 per US dollar and are not covered by the Report of Independent Accountants.

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

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TV Azteca, S. A. de C. V. and Subsidiaries

Notes to the consolidated financial statements  
December 31, 2000, 2001 and 2002

(monetary amounts expressed in thousands of Mexican pesos (Ps) of December 31, 2002 purchasing power and thousands of U.S. dollars (US\$), except exchange rates and per share amounts)

Note 1--The company and basis of presentation:

In July 1993, TV Azteca, S. A. de C. V. (the "Company"), was acquired by the stockholders for Ps2,000,050 nominal (equivalent to US\$642,700 at the date of acquisition) in connection with the Mexican government's privatization of certain television stations and related assets. The Company and its subsidiaries are engaged principally in the broadcasting and production of television programs, and the sale of advertising time.

The consolidated subsidiaries of the Company as of December 31, 2002 were:

- .. Television Azteca, S. A. de C. V.
- .. Grupo TV Azteca, S. A. de C. V.
- .. Azteca Records, S. A. de C. V.
- .. Alta Empresa, S. A. de C. V.
- .. Azteca Entertainment, S. A. de C. V.
- .. Eventos Deportivos Azteca, S. A. de C. V.
- .. Servicios Especializados Taz, S. A. de C. V.
- .. Producciones Especializadas, S. A. de C. V.
- .. Producciones Exclusivas, S. A. de C. V.
- .. Grupo Promotora Empresarial, S. A. de C. V.
- .. Producciones Azteca Digital, S. A. de C. V.
- .. Azteca Digital, S. A. de C. V.
- .. Corporacion de Asesoría Técnica y de Producción, S. A. de C. V.
- .. Operadora Mexicana de Televisión, S. A. de C. V.
- .. Azteca Publishing, S. A. de C. V.
- .. Inversora Mexicana de Producción, S. A. de C. V.
- .. TV Azteca Latinoamérica, S. A. de C. V.
- .. Servicios Aéreos Noticiosos, S. A. de C. V.

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- .. SCI de Mexico, S. A. de C. V.
- .. Canal 12 de Television, S. A. de C. V.
- .. Grupo TV Azteca, S. A. de C. V. (El Salvador)
- .. Servicios Locales de Produccion, S. A. de C. V.
- .. Servicios Foraneos de Administracion, S. A. de C. V.
- .. Desarrollo de Comunicacion Azteca, S. A. de C. V.
- .. Azteca Telecasting, L. P.
- .. Alta Empresa Holdings, B. V.
- .. Alta Empresa International, B. V.
- .. Red Azteca International, S. A. de C. V.
- .. Azteca International Corporation

The consolidation of the net assets of Canal 12 de Television, S. A. de C. V. (acquired in 1997) resulted in minority interest of Ps8,717 (Ps8,371 in 2001) and in goodwill of Ps34,876 (Ps37,851 in 2001).

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TV Azteca, S. A. de C. V. and Subsidiaries

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On February 24, 2000, the Company sold its interest in Tele America, S. A. (acquired in 1998) for US\$2,625 and recognized a gain of US\$1,609 (Ps17,797).

The financial statements of the subsidiaries incorporated abroad included in the consolidation are translated in conformity with the requirements of Statement B-15 issued by the Accounting Principles Commission of the Mexican Institute of Public Accountants ("MIPA"). The translation effect was not significant.

All intercompany balances and transactions have been eliminated in consolidation. The Company consolidates all of its majority-owned subsidiaries.

Note 2--Summary of significant accounting policies:

The significant accounting policies used in the preparation of the consolidated financial statements including the concepts, methods and criteria related to the recognition of the effects of inflation on the financial statements, are summarized as shown below:

a. Accounting for effects of inflation

The consolidated financial statements and notes are expressed in thousands of Mexican pesos. They have been prepared in accordance with generally accepted accounting principles as promulgated by the MIPA. The recognition of the effects of inflation on the financial information is in accordance with the following rules and includes the guidelines of the Fifth Amendment to Statement B-10:

- .. Inventories, property, machinery and equipment of Mexican origin, television concessions, exhibition rights of Mexican origin, deferred charges and other non-monetary assets and liabilities are restated by applying factors derived from the National Consumer Price Index ("NCPI"), issued by the Banco de Mexico.
- .. Exhibition rights and machinery and equipment of foreign origin (mainly from the United States of America and Japan) are restated on the basis of the



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devaluation of the Mexican peso against the foreign currencies, and by applying inflation factors of the countries in which they originate.

- .. The components of stockholders' equity are restated using factors derived from the NCPI.
- .. The cumulative gain or loss from holding non-monetary assets which are not restated using factors derived from the NCPI is included in stockholders' equity under the caption "Insufficiency in the restatement of capital".
- .. The purchasing power gain or loss from holding monetary liabilities and assets is included in net comprehensive financing income (cost).

All consolidated financial statements presented are expressed in constant pesos of purchasing power of December 31, 2002.

The NCPI used to recognize the effects of inflation in the financial statements were 93.248, 97.354 and 102.904 as of December 31, 2000, 2001 and 2002, respectively.

### b. Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in these currencies are stated at the Mexican peso equivalents resulting from applying exchange rates at the balance sheet dates.  
Exchange

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### TV Azteca, S. A. de C. V. and Subsidiaries

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differences arising from fluctuations in the exchange rates between the dates on which transactions are entered into and those on which they are settled, or the balance sheet dates, are charged or credited to income.

### c. Cash and cash equivalents

The Company considers all highly liquid investments to be cash equivalents.

### d. Financial instruments

The Company recognizes on its balance sheet as assets or liabilities at fair value all of its contractual rights and obligations under financial instruments to which the Company is a party. See Note 4.

### e. Barter transactions

Barter transactions represent non-cash transactions in which the Company sells advertising time to a third party or related party in return for assets or services. These transactions are accounted for on the basis of the fair market value of the assets or services provided in the barter contracts. During the years ended December 31, 2000, 2001 and 2002, net revenue derived from barter transactions amounted to Ps202,308, Ps84,470 and Ps146,243, respectively.

### f. Exhibition rights

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Exhibition rights represent primarily the acquired rights to the transmission of programming and events under license agreements and the cost of internally produced programming. The rights acquired and the obligations incurred are recorded as an asset and liability, respectively, when the license agreements are signed. The cost of exhibition rights acquired is amortized as the programming and events are broadcast.

At December 31, 2001 and 2002, the allowance for unused exhibition rights amounted to Ps161,580 and Ps229,466, respectively, which represents management's estimate of exhibition rights which were not expected to be used prior to their expiration.

Exhibition rights at December 31, 2001 and 2002 also include Ps369,632 and Ps329,255, respectively, associated with internally produced programming. Costs of internally produced programming are expensed when the programs are initially aired, except in the case of telenovelas, where the costs are amortized over a maximum of a four-year period.

### g. Inventories and costs

Inventories of merchandise, materials and spare parts, and their related costs, are stated at average cost and are restated by using factors derived from the NCPI.

### h. Property, machinery and equipment

Property, machinery and equipment acquired through December 31, 1996, and the related depreciation, were stated at net replacement cost determined on the basis of appraisals performed by independent appraisers registered with the National Banking and Securities Commission. Property, machinery and equipment acquired on or after January 1, 1997 are initially stated at cost. Both the replacement costs of

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### TV Azteca, S. A. de C. V. and Subsidiaries

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assets of Mexican origin acquired through December 31, 1996 and the costs of assets of Mexican origin acquired on or after January 1, 1997 are restated by applying factors derived from the NCPI. Assets of non-Mexican origin acquired through December 31, 1996 and thereafter are restated on the basis of the devaluation of the Mexican peso against the foreign currency and by applying inflation factors of the countries in which they originate.

Depreciation was calculated by the straight-line method, based on the estimated useful lives of the net fixed assets as estimated by the Company.

The annual depreciation rates are the following:

Buildings.....	5%
Machinery and operating equipment	5% and 16%
Furniture and office equipment...	10%
Transportation equipment.....	20%
Other fixed assets.....	25%

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Effective January 1, 2002, the Company changed the annual depreciation rate of the transmission towers, from 16% to 5%, based on the remaining useful life of these assets. This resulted in a decrease in depreciation expense of Ps42,080 for the year ended December 31, 2002.

### i. Investment in affiliates

Investment in affiliates is recorded by the equity method and is included in the balance sheet as other assets. The investment in Unefon reflects the net book value at the date of the decision to sell this investment. See Note 7.

The investments in Unefon and Todito are presented in the balance sheet as "Investment in Unefon, S.A. de C.V." and "Investment in Todito.com, S.A. de C.V.", respectively. See Note 7.

### j. Goodwill

The excess of cost over the book value of subsidiaries acquired is amortized using the straight-line method over 20 years and restated by applying factors derived from the NCPI to its historical cost. Amortization expense for the years ended December 31, 2000, 2001 and 2002 amounted to Ps34,789, Ps41,333 and Ps37,643, respectively. The Company periodically reviews the realization of its intangible assets based on estimated gross future cash flows from its operations. To date there has been no indication that such recorded amounts will not be realized from future operations.

### k. Deferred costs

Deferred costs relate primarily to the issuance of guaranteed senior notes (as defined in Note 9) and are amortized over the life of the notes. See Note 9.

### l. Television concessions

The aggregate value of the television concessions was determined based on the excess of the purchase price paid for the assets of the Company over their book value at the time of privatization.

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### TV Azteca, S. A. de C. V. and Subsidiaries

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On January 1, 2002, the Company adopted Statement C-8, "Intangible Assets", ("Statement C-8"), issued by the MIPA. Under statement C-8, intangible assets must be recognized on the balance sheet when they meet the following characteristics: (a) they are identifiable, (b) they have the ability to generate future economics benefits and (c) there is the ability to control such future economic benefits. The intangible asset amortization would be allocated on a systematic basis over the estimated useful lives of the assets, unless the intangible assets are determined to have an indefinite useful life based on their expected future economic benefits. The intangible assets should be tested for impairment annually and an impairment loss would be recognized in the event that the carrying amount of the intangible assets is not recoverable based on estimated cash flows of operating activities. As a result of the adoption of Statement C-8, the Company determined that its television concessions qualified as indefinite useful life intangible assets. The Company no longer amortizes

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its concessions.

Prior to January 1, 2002, the Company's television concessions were amortized by the straight-line method over the relevant concession periods then in existence. Amortization expense for the years ended December 31, 2000 and 2001 amounted to Ps119,292 and Ps121,122, respectively.

m. Labor benefits

Seniority premiums to which employees are entitled upon termination of employment after seven years of service are expensed in the years in which the services are rendered. The related obligation is determined in accordance with Statement D-3, "Labor Obligations", issued by the MIPA based on actuarial studies. See Note 10.

Other compensation based on length of service, to which employees may be entitled in the event of dismissal or death, in accordance with the Mexican Federal Labor Law, is charged to income in the year in which it becomes payable.

n. Income tax and employees' statutory profit sharing

Effective January 1, 2000, the Company adopted the guidelines of Revised Statement D-4, "Accounting Treatment of Income Tax, Tax on Assets and Employee Statutory Profit Sharing" ("Revised Statement D-4"), issued by the MIPA. As a result of the foregoing, the Company switched from the partial liability method to the comprehensive assets and liability method for recognition of deferred income tax, which consists of calculating deferred income tax by applying the respective income tax rate to the temporary differences between the accounting and tax values of assets and liabilities at the date of the financial statements. The cumulative effect of this change on the consolidated balance sheet as of January 1, 2000 was to increase deferred tax liabilities by Ps693,526 and reduce stockholders' equity by the same amount.

In 2000, the Company adjusted its investment in Unefon by Ps57,854 as a result of Unefon's adoption of Revised Statement D-4. The increase was reflected in the component in stockholders' equity entitled "Insufficiency in the restatement of capital" for the year ended December 31, 2000.

o. Comprehensive income (loss)

As of January 1, 2001, Bulletin B-4, "Comprehensive Income", issued by the MIPA, became effective. This bulletin requires that the various items making up the capital gains (losses) during the year be shown in the statements of stockholders' equity under the heading of comprehensive income (loss). Therefore, in order that the various lines of the statement of stockholders' equity could be comparable, this statement was restructured.

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TV Azteca, S. A. de C. V. and Subsidiaries  
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p. Revenue recognition

Revenues from advertising contracts are recognized as the contracted advertising is aired. Net revenue includes revenue from advertisers less sales commissions paid. During the years ended December 31, 2000, 2001 and 2002 sales

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commissions paid amounted to Ps318,044, Ps356,659 and Ps364,874, respectively.

q. Advertising advances

The Company enters into two principal types of advance advertising agreements with clients. The Azteca plan generally requires advertisers to pay in full within four months of the date in which they sign the advertising agreement. The Mexican plan allows clients to pay for advertising by making cash deposits from 10% to 20% of the advertising commitment, with the balance payable in installments, which are generally supported by promissory notes, over the period during which the advertising is aired. The Company records cash or other assets received and the amounts due and its obligation to deliver advertising under both types of advance advertising agreements when the contracts are signed. The amounts represented by such advertising advances are credited to net revenue as the contracted advertising is aired. Such obligations with respect to advertising advances are considered non-monetary liabilities and are restated applying factors derived from the NCPI.

r. Net income per share applicable to majority stockholders

Net income per share is calculated based on the net income attributable to the majority stockholders divided by the weighted average number of shares outstanding during each of the years ended December 31, 2000, 2001 and 2002. See Note 11. The weighted average number of common shares outstanding during each of the years ended December 31, 2000, 2001 and 2002 were 8,967 million, 9,025 million and 9,057 million, respectively.

As required by Statement B-14, "Earning per share", issued by the MIPA, net income per share before and after extraordinary item is provided as follows:

	Year ended December 31,		
	2000	2001	2002
Net income before extraordinary item per preferred and common shares (1):.....	Ps 0.080	Ps0.167	Ps0.109
Extraordinary item--NBC settlement agreement--net of income tax (see note 11d.).....	(0.037)		
Net income per preferred and common shares.....	Ps 0.043	Ps0.167	Ps0.109
(1) Dividend per preferred shares.....	Ps 0.042	Ps0.042	Ps0.042

s. Stock option plans for employees

Stock options granted to employees are given effect when the options are exercised by crediting paid-in capital stock for the amount of cash received.

t. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

TV Azteca, S. A. de C. V. and Subsidiaries

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Note 3--Foreign currency position:

Monetary amounts in this note are expressed in U.S. dollars (US\$) except exchange rates, since this is the currency in which most of the Company's foreign currency transactions are carried out.

In December 1994, the Mexican government devalued the peso and allowed it to float freely in the foreign exchange market. Since that time the fluctuations in the foreign exchange market have continued and at December 31, 2002, the exchange rate used by the Company for financial reporting purposes was Ps10.395 per dollar (Ps9.65 and Ps9.16 at December 31, 2000 and 2001, respectively). As a result, the Company had net exchange (losses) income of (Ps127,912), Ps197,676 and (Ps353,139) during the years ended December 31, 2000, 2001 and 2002, respectively, which are shown in the statement of results of operations as a component of comprehensive financing cost.

At February 7, 2003, the date of issuance of the audited financial statements, the exchange rate was Ps10.96 per dollar.

At December 31, 2001 and 2002, the Company had monetary assets and liabilities in foreign currencies as shown below:

	At December 31,	
	2001	2002
	-----	-----
Assets.....	US\$ 357,222	US\$ 491,936
Liabilities.....	(705,822)	(674,511)
	-----	-----
Net short position	(US\$ 348,600)	(US\$ 182,575)
	=====	=====

At December 31, 2001 and 2002, the Company had no hedge contracts for protection against foreign exchange risks.

Note 4--Operations with financial instruments:

a. Marketable Securities

During 2002, the Company purchased Ps295,988 (nominal) Grupo Elektra, S.A. de C.V. ("Grupo Elektra") Ordinary Participation Certificate ("CPOs"). During 2002, the Company recorded a loss against comprehensive financing cost for Ps56,658 to reflect the decline in the market value of the investment.

In October 2002, the Company entered into a put option agreement with its CPOs in Grupo Elektra. Pursuant to the option agreement, the Company is required to pay a premium of 10.5% of the number of options valued at the strike price.

b. Financial instruments

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In January 2002, the Company entered into a monthly certificate of deposit with a rate of return based on the market value of the CPOs which was recorded against stockholders' equity. The Company has periodically renewed the certificate of deposit upon expiration. During 2002, as a result of the decline in market value of the CPOs, the Company recognized a loss of Ps34,097 against stockholders' equity. At December 31, 2002, the outstanding balance of the certificate of deposit was Ps139,276.

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Note 5--Accounts receivable:

	At December 31,	
	2001	2002
Amounts due from advertisers.....	Ps4,417,170	Ps4,421,686
Accounts receivable from Unefon advertising agreement (see Note 8).....		80,649
Taxes recoverable.....	191,842	116,007
Prepaid expenses.....	60,910	66,731
Other accounts receivable.....	340,925	325,981
	5,010,847	5,011,054
Allowance for bad debts.....	(83,403)	(89,854)
	Ps4,927,444	Ps4,921,200

Amounts due from barter transactions included in amounts due from advertisers amounted to Ps345,627 and Ps352,655 as of December 31, 2001 and 2002, respectively.

Note 6--Property, machinery and equipment:

	At December 31,	
	2001	2002
Buildings.....	Ps 1,115,490	Ps 1,118,258
Machinery and operating equipment	1,985,774	2,312,350
Furniture and office equipment...	223,154	223,154
Transportation equipment.....	301,264	346,819
Other fixed assets.....	379,432	530,330
	4,005,114	4,530,911

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Accumulated depreciation.....	(2,252,393)	(2,857,912)
	-----	-----
	1,752,721	1,672,999
Land.....	545,068	554,883
Construction in progress.....	6,288	3,561
	-----	-----
	Ps 2,304,077	Ps 2,231,443
	=====	=====

At December 31, 2001 and 2002, property, machinery and equipment amounting to Ps816,431 and Ps795,865, respectively, have been pledged to guarantee bank loans. See Note 9.

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TV Azteca, S. A. de C. V. and Subsidiaries  
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Note 7--Other assets:

	At December 31,	
	2001	2002
	-----	-----
Investment in affiliates.....	Ps 135,037	Ps 65,598
Advances to Corporacion de Noticias e Informacion, S. A. de C. V.....	200,773	298,000
Deferred costs related to the issuance of guaranteed senior notes--Net.....	98,189	78,895
Account receivable from an affiliate which represents a reduction in Unefon contributed capital. This amount was contributed to incorporate Cosmofrecuencias, S. A. de C. V. ("Cosmofrecuencias") (see Unefon below).....	354,964	
Investment in 50% equity interest in Cosmofrecuencias (see Unefon below).....		354,746
Account receivable from Pappas Telecasting of Southern California, LLC (see Azteca America below).....	191,124	235,565
Other assets.....	221,665	150,195
	-----	-----
	Ps1,201,752	Ps1,182,999
	=====	=====
Investment in Unefon.....	Ps1,848,485	Ps1,755,942
	=====	=====
Investment in Todito.....	Ps 397,883	Ps 319,986
	=====	=====
Advance payments to Pappas Telecasting Companies, through Azteca America (see "Azteca America" below)..	Ps 660,031	Ps1,154,479
	=====	=====

Corporacion de Noticias e Informacion, S. A. de C. V. ("CNI")



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On December 10, 1998, the Company entered into a Joint Venture Agreement with Televisora del Valle de Mexico, S. A. de C. V. ("TVM"), the owner of the concession for UHF Channel 40 in Mexico City, and its subsidiary CNI.

The original contract was established with the following terms:

1. The Company agreed to provide advisory services to TVM and CNI regarding the television operations of Channel 40 for a period of ten years or until the expiration of TVM's television concession, whichever is shorter.
2. Under a Programming, Promotion and Commercialization Agreement with TVM, CNI agreed to cede to the Company the rights and obligations, originally established in favor of CNI, to program and operate Channel 40. The Company agreed to pay to CNI 50% of the joint venture's earnings before interest, taxes, depreciation and amortization ("EBITDA") on a quarterly basis, with an advance payment of US\$15,000 to be applied against future EBITDA generated from the operation of Channel 40, over a maximum period of ten years. At December 31, 1999, the Company had made advances of US\$15,000.
3. The Company has provided a US\$10,000 credit facility in favor of CNI for a period of ten years with a grace period for the payment of principal and interest of three years. The interest accrues at an annual interest rate based on the maximum interest rate paid by the Company plus 25 basis points. As security for the loan, 51% of the capital stock of TVM owned by Mr. Javier Moreno Valle was pledged as collateral. At December 31, 2001 and 2002, CNI had drawn down US\$10,000 under this credit facility.

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4. Under a purchase option contract, the Company has the right to acquire up to 51% of the capital stock of TVM beginning in November 2002. The sale price of the capital stock is based on a valuation of 100% of the capital stock of TVM equal to the greater of US\$100,000 (which increases gradually over time) and ten times the EBITDA generated by Channel 40 for the 12 months preceding the exercise of the purchase option. This contract also gives Mr. Javier Moreno Valle and Mr. Hernan Cabalceta Vara the right to put their CNI capital stock to the Company for the same purchase price per share under certain circumstances.
5. Under the terms of this agreement, the Company has the right to determine all Channel 40 programming except for 16 and one-half hours per week that is to be made up of CNI-determined programming. In return for the transmission rights of this CNI-determined programming through Channel 40, the Company agreed to pay CNI, during the first year, US\$5.0 for each 60 minute program or its equivalent broadcast and, after the second year, US\$1.65 for each rating point generated by the broadcast of CNI-determined programming on Channel 40. During the year ended December 31, 2000, US\$3,292 (Ps37,167) were paid for these services.
6. To improve the efficiency of Channel 40's operations, the Company has agreed to provide accounting, administrative, computer, technical or any other advice that will improve the operations and administration of Channel 40.

In July 2000, CNI stopped broadcasting the Company's signal as required by its

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contractual obligation under the joint venture agreement and the Company's signal has not been broadcast on Channel 40 since this date. In response to CNI's actions, the Company filed several lawsuits against CNI. At February 7, 2003, the date of these financial statements, this matter is in litigation. The Company is seeking lost profits and the enforcement of its purchase option right under the joint venture agreement to acquire up to 51% of the capital stock of TVM. As of December 31, 2001 and 2002, the Company had advanced an aggregate amount of US\$34,000 to CNI, which includes US\$9,000 comprised of interest on the credit facility and additional operating expenses forwarded to CNI, in connection with the joint venture that may be recovered based on future earnings of the joint venture.

In December 2002, an Arbitral Tribunal of the International Court of Arbitration of the International Chamber of Commerce issued an award concluding that the joint venture and the purchase option agreement entered into by the Company and CNI are valid, in effect and enforceable. As a consequence of this conclusion, the Company believes that the terms of the arbitral award confirms the Company's right to operate Channel 40 as contemplated by the joint venture and to exercise its right to acquired up to 51% of the capital stock of TVM. In reliance on the arbitral award issued in December 2002, the Company took possession of certain broadcasting facilities of Channel 40 to restore TV Azteca's signal on Channel 40. Following this event, the Ministry of Communications and Transportation (Secretaria de Comunicaciones y Transportes, or SCT) took exclusive control of the Channel 40 transmission site and signal. In January 2003, CNI filed an action for relief (amparo) before a federal court seeking to reverse SCT's decision to take exclusive control of the Channel 40 transmission site and signal. On January 27, 2003, CNI regained control of the Channel 40 transmission site and signal. On that same day, the Company appealed the decision. Although no assurance can be given, management of the Company believes it will prevail in the litigation, and accordingly, no reserve has been established with respect to these proceedings.

### Unefon

On May 14, 1999, the Company signed an agreement (the "Stockholders Agreement") with Corporacion RBS, S. A. de C. V. ("CRBS"), a Mexican company wholly-owned by Ricardo B. Salinas Pliego, and Moises Saba Masri to invest in Unefon and its subsidiaries. Unefon is a personal telecommunications services wireless network that is a provider of wireless mobile telephone services in Mexico. The

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Stockholders' Agreement establishes that Unefon must be operated and managed as a joint venture, initially between CRBS and Moises Saba Masri. The Stockholders' Agreement required each of CRBS and Moises Saba Masri to contribute US\$186,500 to Unefon's capital, for a total of US\$373,000 in capital stock. These capital contributions to Unefon were completed on June 15, 1999.

Before signing the Stockholders' Agreement, CRBS made a contribution to Unefon's capital of approximately US\$88,600, which was used to make an advance payment to the Mexican government for the acquisition of wireless concessions and for pre-operating expenses. CRBS made the balance of the contribution required by the Stockholders' Agreement with funds borrowed from Azteca Holdings, S. A. de C. V. ("AH"), a holding company controlled by Mr. Salinas Pliego. AH obtained part of the funds for this loan from the sale of 218

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million of the CPOs of the Company owned by AH to a group of private Mexican investors. AH obtained the remaining funds for the loan from the sale by AH of 44 million TV Azteca CPOs to AH's wholly-owned subsidiary, Compania Operadora de Teatros, S. A. de C. V.

On October 28, 1999, the Company acquired the interest in Unefon held by CRBS at a cost (including financial costs) of US\$189,793 which was funded through (i) proceeds from the issuance of shares; (ii) the payment of US\$35,108 in cash and (iii) the cancellation of debts of US\$43,067 owed to the Company by CRBS.

In February 2000, Unefon commenced operations.

At the extraordinary stockholders' meeting held on October 2, 2000, the Unefon stockholders agreed to reduce the Unefon capital stock by Ps611 million (nominal). At December 31, 2001, this reduction had not yet been made, and is shown in the financial statements of the affiliate as an account payable to the stockholders, bearing interest at an annual rate of 8%. The stockholders will use the proceeds of said capital reduction to capitalize a newly formed company owned 50% by the Company and 50% by Moises Saba Masri, Cosmofrecuencias, S. A. de C. V. ("Cosmofrecuencias"), for which purpose, the Company will contribute Ps354,964 at December 31, 2001. In June 2002, the Company contributed to Cosmofrecuencias as a capital contribution its receivable from Unefon, including the cumulative interests, equivalent to 50% of Cosmofrecuencias' capital stock.

On October 19, 2000, the Board of Directors approved the grant to its stockholders of the rights to acquire the Company's investment in Unefon and Cosmofrecuencias shares, a decision which was ratified at the ordinary stockholders' meeting held on December 4, 2000.

As determined by the Company's Board of Directors, the Company's stockholders will also have a right to purchase shares in Cosmofrecuencias from October 19, 2001 to October 19, 2006. The total exercise price for this option is approximately US\$32,000.

The grant of the rights ("Rights") to acquire the Unefon shares was subject to receiving the requisite consent of the holders of the Company and AH Senior Notes. On March 27, 2001, the Company obtained the consents and paid a fee totaling Ps115,223 to certain holders of the TV Azteca Notes (as defined in Note 9), which was recorded as part of its total investment in Unefon. The grant of the Rights is also subject to receiving applicable regulatory approvals, third party approvals, including the approval of Nortel Networks Corporation ("Nortel"), Unefon's major lender and equipment supplier, and the filing and effectiveness of a registration statement with the U.S. Securities and Exchange Commission that registers the Unefon shares underlying the Rights.

The Rights were exercisable only on December 11, 2002, unless the time of exercise was extended by the Company or an acceleration event occurred. In December 2002, the Company's Board of Directors

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approved the change of the exercise date to December 11, 2003. Any Rights that are not exercised on the exercise date will expire and the Company will retain ownership of the shares underlying the Rights. The Rights may become

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exercisable prior to December 11, 2003 if the Board of Directors of the Company approves a merger or consolidation of Unefon, a sale of all or substantially all of Unefon's assets or a sale (by tender or otherwise) of at least a majority of Unefon's shares or otherwise determines to accelerate the exercisability of the Rights.

With respect to the Company's investment in Unefon, the Company's stockholders have the right to acquire those shares subject to the occurrence of certain conditions, at a price of US\$0.15128 per Unefon share owned by the Company, for a total amount of US\$176,998. At December 31, 2001 and 2002, the Company's investment in Unefon reflects the net book value of the investment at the date of the decision to sell Unefon. The Company will record any differences between the net book value of the investment and the ultimate sales price once the stockholders exercise the purchase option and all the legal requirements of the transaction have been complied with.

In July 2002, the Company announced that its Board of Directors had approved of seeking the approval of the Company's shareholders in order to authorize the spin-off of its investment in Unefon in the form of a distribution of all of the shares of Unefon that the Company owns to the Company's shareholders at no monetary cost before the end of 2002. However, as a consequence of a dispute between Unefon and Nortel, the Company's Board of Directors postponed submitting the proposal to the Company's shareholders.

In December 2000, in connection with certain modifications of Unefon's finance agreement with Nortel, the Company and Mr. Saba, agreed, jointly and severally, in a shareholder's undertaking to provide Unefon up to US\$35,000 in the aggregate by way of either equity or subordinated debt in the event Unefon had liquidity shortfalls in 2001 or 2002.

In July 2001, the Company and Moises Saba Masri announced their intention to provide credit support to Unefon for up to US\$80,000 each. The Company has suspended any further credit support to Unefon in light of Unefon's dispute with Nortel. At December 31, 2002, the Company had provided US\$48,000 of credit guarantees on behalf of Unefon, of which US\$19,100 had become due and had been paid by the Company. See Note 8.

In September 1999, Unefon entered into a finance agreement and a procurement agreement with Nortel pursuant to which Nortel agreed to assist Unefon in the design and construction of its telecommunications network. Unefon and Nortel are currently engaged in disputes over each party's compliance with the terms and conditions of the finance agreement, letter agreement, procurement agreement, and other related agreements entered in to by the parties and certain of their shareholders and affiliates.

Unefon asserts that Nortel has not fulfilled its obligations under the finance agreement, letter agreement and procurement agreement. With respect to the finance and letter agreements, Unefon has asserted, among other things, that Nortel breached its obligation to make available to Unefon the second loan tranche under the finance agreement in the amount of US\$210,000. Unefon contends that Nortel's failure to advance this additional financing has limited Unefon's ability to build out its network, to grow its business in accordance with its business plan and to realize the revenues and profits related to such growth and needed to repay the first loan tranche under the finance agreement. With respect to the procurement agreement, Unefon asserts, among other things, that Nortel failed to properly design and construct the network and failed to provide required and appropriate maintenance and support. Unefon also contends that the settlement agreement signed in July 2002 never became effective because Nortel

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failed to perform the pre-conditions to its effectiveness. Even to the extent that the settlement agreement became effective, Unefon contends that Nortel failed to perform its obligations thereunder.

As a result of Nortel's alleged breaches, Unefon withheld a US\$6,000 interest payment due to Nortel in August 2002 and has asserted that it is relieved of its payment obligations under the finance agreement by reason of Nortel's breaches.

On August 28, 2002, Nortel sent Unefon a notice alleging that Unefon was in default under the finance agreement due to its failure to make the foregoing interest payment. Nortel also alleged that the proposed spin-off by the Company of its 46.5% stake in Unefon would be deemed to be a change in control under the terms of the finance agreement, which also would constitute a default under the finance agreement unless Nortel consented to such action.

On September 9, 2002, Unefon filed a lawsuit against Nortel in the Supreme Court of the State of New York seeking damages and lost profits in the amount of US\$900,000. Unefon alleged that Nortel had breached the finance agreement and related letter agreement by failing to advance the second loan tranche of US\$210,000. Unefon also alleged that Nortel had failed to comply with its obligation to pursue syndication of the first loan tranche in a diligent and timely manner, applying its best efforts consistent with standards of commercial reasonableness. Unefon alleged that Nortel's breach had caused Unefon damages, including, among others, lost profits and a diminution in equity value of Unefon and had relieved Unefon of its payment obligations under the finance agreement. As an alternative remedy, Unefon sought specific performance of Nortel's obligation to lend Unefon up to US\$210,000 from the second loan tranche under the finance agreement.

Nortel notified Unefon on September 9, 2002 that based on its non-payment of the August 2002 interest payment, Nortel was accelerating all amounts owed by Unefon under the finance agreement. As of December 31, 2002, the outstanding principal amount under the finance agreement was US\$349,800. Nortel also notified Unefon that it was exercising its right to terminate the procurement agreement as a result of Unefon's alleged default under the finance agreement.

On September 23, 2002, Nortel filed an answer and counterclaim in the New York Supreme Court action commenced by Unefon in which Nortel asserted, among other things, that it had not breached the finance agreement and related letter agreement and that the remedies sought by Unefon were not available under the finance agreement, the procurement agreement or applicable law. Nortel's counterclaim was based on Unefon's non-payment of the August 2002 interest payment and Nortel sought acceleration and immediate payment of all amounts allegedly due to Nortel under the finance agreement. On October 10, 2002, Unefon answered Nortel's counterclaim and denied the allegations offered in support thereof.

On November 11, 2002, Unefon filed a demand for arbitration under the procurement agreement, as well as the July 2002 settlement agreement, before the American Arbitration Association in New York City. In its demand, Unefon asserted numerous breaches by Nortel of its obligations under these agreements, including design and construction flaws, failure to fulfill software obligations, maintenance failures, failure to provide financing and other economic benefits and refusal to deliver equipment for which Unefon has paid.

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Unefon seeks damages and an order directing Nortel to deliver immediately all equipment for which Unefon has paid. On December 24, 2002, Nortel filed an answer denying liability and asserting counterclaims based on alleged breaches by Unefon of its payment obligations under the procurement agreement and requested the arbitration tribunal to award damages in the amount of at least US\$47,000.

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On November 11, 2002, Nortel moved for summary judgment on its counterclaim relating to the non-payment of interest. On December 10, 2002, Unefon moved for partial summary judgment on its claim that Nortel breached the finance agreement, and moved to amend its complaint to assert claims for fraud and intentional misrepresentation relating to Nortel's willingness to lend the second loan tranche, including Nortel's willingness to seek syndication of the first loan tranche, and to assert two affirmative defenses: (i) that Nortel's fraudulent inducement bars Nortel from any relief under the finance agreement or procurement agreement and (ii) that Unefon is excused from performance under the finance agreement by virtue of Nortel's breaches of the finance agreement and procurement agreement. Unefon also sought a stay of the action pending resolution of the arbitration commenced by Unefon against Nortel, as described above. On January 14, 2003, Nortel filed papers opposing Unefon's motions.

On November 29, 2002, Unefon and certain of its affiliates commenced an action against Nortel and others in civil court in Mexico City seeking a declaration of the parties' rights under pledge agreements pursuant to which Unefon's and the affiliates' stock had been pledged to Nortel as security to the loans made under the finance agreement. Unefon and its affiliates seek, among other things, declarations that Nortel is disproportionately collateralized and that certain provisions of the stock pledge agreements are void under Article 198 of the Mexican General Commercial Companies Law (which voids any agreement which restricts the free exercise of shareholders voting rights).

On December 16, 2002, Nortel filed a second, separate lawsuit in the Supreme Court of the State of New York seeking authorization from the Court, pursuant to the stock pledge agreement, to sell the shares of Operadora Unefon, S.A. de C.V. and Servicios SPC, S.A. de C.V. (each wholly-owned subsidiaries of Unefon) that were pledged to secure its indebtedness, or, in the alternative, authorization to take appropriate steps to obtain control over the management and business of Unefon. Unefon filed a motion to dismiss this action on jurisdictional grounds and on the basis of the prior Mexican action commenced by it against Nortel in regard to the pledge agreements. The parties have stipulated that Nortel will not take any further action to foreclose on the shares until such motion is decided.

On December 20, 2002, Nortel notified the Company and Mr. Saba of its view that Unefon's non-payment of the August 2002 interest payment triggered their joint and several obligation to make additional funds available to Unefon up to an aggregate amount of US\$35,000 as provided in the shareholders' undertaking. The Company and Mr. Saba dispute Nortel's contention that their funding obligation has been triggered, asserting that Nortel has materially breached the finance agreement and the procurement agreement, thereby excusing Unefon from performance of its obligations under these agreements and, therefore, that the Company and Mr. Saba are excused from performance of their obligations under

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the shareholders' undertaking. The Company and Mr. Saba also assert that, even if their funding obligation has been triggered, they have satisfied their obligations under the shareholders' undertaking by making up to US\$35,800 in additional funds available to or on behalf of Unefon.

In January 2003, Nortel petitioned for the bankruptcy of Unefon before a Mexican court. In response, Unefon filed an action for relief (amparo) before a federal district court challenging Nortel's request. Unefon believes that Nortel's bankruptcy petition is insufficient under Mexican law and that it will therefore prevail in this proceeding. The federal district court suspended Nortel's bankruptcy claim pending its analysis of the sufficiency of Nortel's petition.

If Unefon loses control over its assets or Unefon is unable to procure additional equipment from Nortel as it builds-out its network, its business and results of operations would be significantly and adversely affected. Although no assurance can be given, Unefon's management believes Unefon will prevail in the litigation, and accordingly, no reserve has been established by Unefon or the Company with respect to these proceedings.

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Todito

In its meeting held on February 9, 2000, the Company's Board of Directors approved a US\$100,000 investment in Todito. The investment was made on February 14, 2000 through an advertising, programming and services agreement (see Note 8), in exchange for 50% of the capital stock of Todito. The Company has the ability to exercise significant influence, but not control, over the operations of Todito. This investment is accounted for by the equity method and is presented on the balance sheet as "Investment in Todito". This acquisition resulted in goodwill of Ps543,370. The amortization of goodwill for the years ended December 31, 2000, 2001 and 2002 was Ps22,643, Ps27,260 and Ps27,260, respectively.

Todito operates a Spanish-language Internet portal and internet connection service located at "www.todito.com" that was launched in August 1999 by Dataflux, S. A. de C. V. ("Dataflux"), a company controlled by the brother of Mr. Salinas Pliego. Todito's website provides e-commerce and other services to Mexico and the Hispanic population in the United States.

Azteca America

In September 2000, the Company and Pappas Telecasting Companies ("Pappas Group"), a broadcasting company based in the United States, entered into a joint venture ("Azteca America JV"), with the purpose of creating a new television broadcast network. Azteca America JV was engaged in developing a new television broadcast network focused on the Hispanic market in the United States.

In accordance with the original Azteca America JV, Azteca America JV was owned 80% by Pappas Group and 20% by the Company. In connection with the creation of Azteca America JV, the Company also entered into a program license agreement (the "License") with Azteca America JV in September 2000 for an initial term of

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20 years with a renewal for one additional ten-year term at the option of the Company. The License granted exclusive rights from the date of the agreement to Azteca America JV and its subsidiaries for the broadcast of Spanish language programs within the United States. Additionally, the Company agreed to make all its programming available to Azteca America JV and to make available at least 3000 hours of new programming in each calendar year.

Prior to the launch date, Pappas Group agreed to pay the Company a monthly fee of approximately US\$1,500. During the years ended December 31, 2000 and 2001, the Company received US\$6,436 and US\$6,731, respectively, under the terms of this agreement which was recorded as net revenue in the Company's results of operations. After the launch date, Azteca America JV was scheduled to receive an annual fee equal to the greater of US\$15,000 or 10% of the annual net revenues of Azteca America JV which increased 1% every year to a maximum of 15% of net revenues. Until the Company's subscription obligation was paid, Azteca America JV agreed to apply the payment of the License fee to the outstanding subscription obligation. The Company had no outstanding subscription obligation at December 31, 2000 since Pappas Group had not made its initial capital contribution.

In June 2001, the Company and Pappas Group agreed to change their strategy, and as a result of this, the Azteca America JV was terminated as well as the corresponding license agreement. Also, the Company, through Azteca International Corporation ("Azteca America"), a wholly-owned subsidiary of the Company, has entered into station affiliation agreements with various television broadcast stations, including those owned by the Pappas Group.

In July 2001, the Company launched the Azteca America Network, a new Spanish-language television broadcast network in the U.S. Through Azteca America, its wholly-owned subsidiary, the Company establishes affiliate relationships with television broadcast stations in U.S. markets that have a significant Hispanic population. In addition, Azteca America may enter into distribution agreements with cable

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operators. Through the Azteca America Network, the Company distributes in the U.S. certain of its programming including telenovelas, reality programming, sports, news and other general entertainment programming in the Spanish language, which the Company refers to as the Azteca America Programming.

As of December 31, 2002, Azteca America has entered into station affiliation agreements with the following broadcast television stations, which are affiliates of Pappas Group:

#### Los Angeles Station

In July 2001, Azteca America and Pappas Southern California, LLC ("Pappas California") entered into a station affiliation agreement with respect to KAZA-TV, NTSC Channel 54, which serves the Los Angeles, California Designated Market Area (DMA). Pursuant to this agreement, Azteca America granted Pappas California an exclusive license for over-the-air broadcasting of the Azteca America Programming in the Los Angeles market. The station affiliation agreement, which was amended in December 2001, has a term of four years, commencing in July 2001. This agreement automatically renews for an additional



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four-year term, unless terminated by either party. Azteca America has the right to receive 50% of the net local and national spot advertising revenue generated by the station.

In connection with entering into the Los Angeles station affiliation agreement, the Company agreed to become a joint and several obligor under a credit agreement among Pappas Telecasting of Arizona, LLC ("Pappas Arizona") and Pappas California, as borrowers, and UBS AG, as lender. Pursuant to this credit agreement, UBS AG loaned a total of US\$31,000 to the borrowers. All loans made under this credit agreement were repaid by November 2, 2002. UBS AG was granted a first priority lien on the collateral securing the loans, which included the entire equity interest in the two Pappas affiliates that hold the U.S. Federal Communications Commission licenses for the Pappas Arizona and Pappas California television stations.

The Company and Pappas California also entered into a credit agreement under which the Company agreed to loan Pappas California up to US\$60,000 for, among other things, repayment of indebtedness, working capital and payment of the principal and unpaid interest under the UBS credit agreement, as describe above. The loan was required to be repaid by November 2, 2002 and was subordinate to the loans made under the UBS credit agreement. The Company was granted a second priority lien on the collateral securing the loans, subordinate to the liens securing the UBS credit agreement. However, the Company's ability to acquire the collateral in the event of foreclosure under the Company credit agreement was limited by the United States laws limiting foreign ownership of United States television stations. At December 31, 2001 and 2002, US\$18,216 and US\$19,667, respectively, were outstanding under the Company credit agreement.

In July 2001, Azteca America and Pappas California also entered into an equity option agreement pursuant to which Azteca America was granted an option to purchase an equity interest in Pappas California. The equity option was to be exercised by Azteca America on one occasion, in whole or in part, prior to July 27, 2002. Under the terms of the agreement, Azteca America had the right to acquire up to a 25% equity interest in Pappas California. However, in the event that Pappas California and Pappas Arizona have outstanding debt obligations under their respective credit agreements with the Company and affiliates of UBS AG, Azteca America had the right to acquire a percentage of Pappas California equal to the greater of 25% or the percentage obtained by dividing: (i) the amounts then owed under these credit agreements by (ii) US\$136,000, the value of the Los Angeles affiliate agreed upon by Azteca America and Pappas California. If Azteca America was not permitted to acquire an equity interest in Pappas California greater than 25% as a result of the United States laws limiting foreign ownership of United States television stations, Azteca America was permitted to transfer the right to acquire the excess

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equity interest to an unaffiliated third party. If Azteca America acquired an equity interest in Pappas California and, thereafter, the term of the station affiliation agreement was not renewed by Pappas California following the expiration of the initial four-year term, Azteca America would have the right to acquire 100% of the equity interests in Pappas California for a cash price equal to the fair market value of such interests (or to transfer the right to acquire such additional equity interests to an unaffiliated third party). If

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the station affiliation agreement was not renewed by Azteca America, Pappas California would have the right to acquire all of Azteca America's equity interest in Pappas California for a cash price equal to its fair market value. Pappas California would also have the right to acquire Azteca America's interest, and Azteca America would have the right to cause Pappas California to acquire Azteca America's interest, in certain other circumstances.

The equity option was exercised by Azteca America on May 21, 2002. In connection with its effort to exercise the option, the Company paid US\$32.8 million to acquire the UBS AG credit agreement that is secured by the Los Angeles station, which increased TV Azteca's secured loan to Pappas California to US\$53.7 million.

### Reno Station

In October 2001, Azteca America and Pappas Telecasting of Nevada ("Pappas Nevada"), entered into a station affiliation agreement with respect to KUVR-LP, NTSC, Channels 47 and 68, which serves the Reno-Sparks-Carson City, Nevada DMA. Pursuant to this agreement, Azteca America granted Pappas Nevada an exclusive license for over-the-air broadcasting of the Azteca America Programming in such market. This agreement has a term of two years, commencing in November 2001. This agreement automatically renews for an additional two-year term, unless terminated by either party. Azteca America has the right to receive 50% of the net local and national spot advertising revenue generated by the station.

### San Francisco and Houston Stations

In December 2001, Azteca America and Hispanic America of San Francisco, LLC ("Pappas San Francisco") entered into a station affiliation agreement with respect to KTNC-TV, NTSC Channel 42 and DTV Channel 63, which serves the San Francisco-Oakland-San Jose, California DMA. Also in December 2001, Azteca America and Hispanic America of Houston, LLC ("Pappas Houston") entered into a station affiliation agreement with respect to KAZH-TV, NTSC Channel 57 and DTV Channel 41, and KVVV-LP, NTSC Channel 53, which serves the Houston, Texas DMA. Pursuant to these station affiliation agreements, Azteca America granted Pappas San Francisco and Pappas Houston an exclusive license for over-the-air broadcasting of the Azteca America Programming in their respective markets. These agreements expire on July 21, 2005, and automatically renew for a four-year term, unless terminated by either party. Azteca America has the right to receive 50% of the net local and national spot advertising revenue generated by the stations.

In connection with the San Francisco station affiliation agreement, Azteca America acquired a 25% equity interest in Pappas San Francisco for a purchase price of US\$57,250, of which US\$55,250 was paid in December 2001 and the difference was paid in January 2002 and in connection with the Houston station affiliation agreement, Azteca America acquired a 25% equity interest in Pappas Houston for a purchase price of US\$13,404, of which US\$13,000 was paid in December 2001 and the difference was paid in January 2002. The remaining equity interests in these stations are owned by Pappas affiliates. If the term of the station affiliation agreement is not renewed by Pappas San Francisco or Pappas Houston, as applicable, following the expiration of the initial term, Azteca America will have the right to acquire 100% of the equity interests therein for a cash price equal to the fair market value of such interests (or to

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transfer the right to acquire such additional equity interests to an unaffiliated third party). If the station affiliation agreement is not renewed by Azteca America, Pappas San Francisco or Pappas Houston, as applicable, will have the right to acquire all of Azteca America's equity interest therein for a cash price equal to its fair market value. Pappas San Francisco or Pappas Houston, as applicable, will also have the right to acquire Azteca America's interests, and Azteca America will have the right to cause Pappas San Francisco or Pappas Houston, as applicable, to acquire Azteca America's interest, in certain other circumstances.

Following the exercise of the option by Azteca America to purchase an equity interest in the Los Angeles station, Pappas Group refused to permit Azteca America to complete the purchase, claiming that Azteca America had not satisfied certain conditions to the purchase. Consequently, in July, 2002, Azteca America filed a lawsuit against Pappas Group in Delaware seeking specific performance of the equity option agreement. In addition, Pappas Group claimed that Azteca America had breached the affiliation agreements for the Los Angeles, San Francisco and Houston stations, as well as an additional affiliation agreement covering the Reno, Nevada DMA and sought to terminate such agreements. Azteca America filed a separate lawsuit in New York state court to prevent the termination of the affiliation agreements. A trial on the Delaware lawsuit was scheduled for December 2002.

#### Other affiliation agreements

In addition to Azteca America's arrangements with Pappas Group affiliates, Azteca America has also entered into station affiliation agreements with television broadcast companies covering approximately 53% of the U.S. Hispanic population.

Pursuant to these station affiliation agreements, the stations have been granted exclusive licenses for over-the-air broadcasting of Azteca America programming in their respective markets. These agreements have terms ranging from two to seven years which may be automatically renewed for a specified duration, also ranging from two to seven years. Azteca America has the right to receive all of the net advertising revenue that it generates on each of the broadcast stations other than in the Las Vegas and Orlando markets, where they are only entitled to 50% of the net advertising revenue.

#### Pappas Group recent developments

On November 27, 2002, the Company and Pappas Group entered into an agreement in principle to settle all of the pending lawsuits and all related disputes, and on February 11, 2003, a definitive settlement agreement was signed. In connection with settling these pending matters, the Company and Pappas Group also entered into a number of agreements that will govern their future relationship. These agreements include a new promissory note issued by Pappas Group in favor of the Company for US\$128,000, a local marketing agreement governing, under certain circumstances, Azteca America's operation of its Los Angeles affiliate and a purchase option agreement that grants Azteca America the right, subject to receipt of all necessary approvals, to acquire all of the assets of its Los Angeles affiliate. In addition to these agreements, Pappas Group and the Company have modified their existing station affiliation agreements and entered into new station affiliation agreements.

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Note 8--Balances and transactions with related parties:

The Company had the following amounts due from and payable to related parties:

	At December 31,	
	2001	2002
<hr/>		
Accounts receivable:		
Operadora Unefon.....	Ps 19,823	Ps258,917
Grupo Cotsa.....	119,696	
Azteca Holdings, S. A. de C. V.....	103,473	133,109
Biper, S. A. de C. V.....	2,536	32,368
Corporacion RBS, S. A. de C. V.....	3,628	4,437
Compania Operadora de Teatros, S. A. de C. V. ("COTSA").	63,161	
Radio Cel, S. A. de C. V.....	9,463	
RTC-Cines, S. A. de C. V.....	11,281	
Corporacion de Comunicacion, S. A. de C. V.....	45,688	
Aerotaxis Metropolitanos, S. A. de C. V.....	5,050	
Teleactivos, S. A. de C. V.....		16,389
Club Atletico Morelia, S. A. de C. V.....		29,494
Others.....	42,995	9,968
	Ps426,794	Ps484,682
	=====	=====
Accounts payable:		
Todito.....	Ps 24,307	Ps 56,355
Grupo Elektra.....	20,027	17,475
TV Cuscatleca.....	6,739	7,166
Teleactivos, S. A. de C. V.....	5,552	
Club Atletico Morelia, S. A. de C. V.....	2,814	
Others.....	2,218	285
	Ps 61,657	Ps 81,281
	=====	=====

Additionally, the Company has an account receivable with Pappas Southern California, LLC, related party, which is described in Note 7.

The principal transactions with related parties are as follows:

### Advertising revenue

Revenue from airing advertising for related parties amounted to Ps199,485, Ps268,980 and Ps220,568 during the years ended December 31, 2000, 2001 and 2002, respectively.

### Advertising contracts

In March 1996, the Company entered into a Television Advertising Time Agreement with Grupo Elektra under which Grupo Elektra (or any company in which Grupo Elektra has an equity interest) has the right to receive at least 300

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advertising spots per week for a period of 10 years. Each spot has a duration of 20 seconds, and the aggregate amount of airtime is not to exceed 5,200 minutes annually. The spots are to run only in otherwise unsold airtime. In exchange for the television advertising airtime, the Company will receive US\$1,500 per year. The agreement may not be terminated by the Company but may be terminated by Grupo Elektra, which may also transfer its rights under this agreement to third parties.

On May 2, 2001, the Company entered into another advertising agreement with Grupo Elektra for Ps54,500 (nominal). Pursuant to the agreement, Grupo Elektra had the right to air advertising spots on

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Channels 7 and 13 and their national networks from May 2, 2001 through December 31, 2001. At December 31, 2001 Grupo Elektra had fully utilized the right to air advertising spots under this agreement.

Effective September 30, 1996, the Company entered into a Television Advertising Time Agreement with Productora de Medios, S. A. de C. V. ("Productora") a former wholly-owned subsidiary of COTSA (the "COTSA Advertising Agreement"), under which COTSA or any of COTSA's subsidiaries had the right to 42 advertising spots per week on Channel 7 or 13 for a period of 10 years. Each spot for an average duration of 20 seconds, totaling 728 minutes annually, but only in otherwise unsold airtime. In exchange for the advertising time, COTSA agreed to pay the Company US\$210 each year. The agreement may not be terminated by either party without the consent of the other party.

On November 15, 2001, Productora signed a number of agreements with third parties, by which Productora ceded its right to use the 7,280 airtime minutes pertaining to the COTSA Advertising Agreement.

Effective September 30, 1996, the Company entered into a Television Advertising Time Agreement with Dataflux (the "Dataflux Advertising Agreement") under which Dataflux or any of its subsidiaries has the right to 480 advertising spots per month on Channel 7 or 13 for a period of 10 years. Each spot is to have a duration of 30 seconds. The aggregate amount of airtime provided by the Company under this agreement is not to exceed 2,880 minutes annually, and the advertising spots shall run only in otherwise unsold airtime. In exchange for the advertising time, Dataflux has agreed to pay the Company US\$831 annually, payable in advance each year. The Dataflux Advertising Agreement may not be terminated by the Company; however, it may be terminated by Dataflux at any time upon at least 90 days' notice.

In June 1998, the Company signed an advertising agreement with Unefon ("Unefon Advertising Agreement"), as amended. Under the terms of the Unefon Advertising Agreement, Unefon has the right to advertising spots on the Channels 13 and 7 networks, as well as any other open television channel operated or commercialized by the Company, either directly or indirectly through its affiliates or subsidiaries. The advertising spots that are the subject of the Unefon Advertising Agreement will total 120,000 GRPs (a GRP is a Gross Rating Point, which is the number of rating points for the broadcast of a 60-second commercial or proportional fraction thereof) over a ten-year period.

Each year during the term of the agreement, Unefon will be able to make use of

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up to 35,000 GRPs. Unefon must submit a request for air time, specifying dates and hours of show-time, to the Company in advance.

Unefon is obligated to make use of 100% of the GRPs over a period of ten years. Any balance remaining after ten years will be automatically cancelled and the Company will have no further obligations to Unefon. Unefon will pay the Company 3% of its gross up to a maximum of US\$200,000 for the advertising services in installments as advertising is aired. The Company records revenue under the terms of this agreement as the GRPs are consumed based on a rate schedule established in the agreement, which provides less expensive GRPs initially and more expensive GRPs over the term of the agreement. The original agreement provided that Unefon may defer making payments until the third year of the agreement, and Unefon must pay interest on any unpaid advertising aired, at the rate per annum of the average annual Costo Porcentual Promedio de Captacion, plus three basis points. However, during 2001 Unefon and the Company agreed to defer payments due in 2000, 2001 and 2002 and to make these payments in four equal semi-annual installments during 2003 and 2004 with the first payment due in

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June 2003. The deferred payments accrue interest at an annual rate of 12%. Beginning in 2003, Unefon's payments to the Company are due on a current basis. At December 31, 2002, the aggregate deferred payments equaled US\$15,707 (including interest).

The Company's right to payment under the agreement is subject to compliance by Unefon with its payment obligations under the finance agreement with Nortel. Unefon's failure to pay advances will not be considered a default by Unefon under the agreement. However, the Company will be able to suspend provision of television services to Unefon after a year of Unefon's continued failure to pay.

On February 14, 2000, the Company, together with its subsidiary Grupo TV Azteca, S. A. de C. V., signed an advertising, programming and services agreement with Todito. The total amount of the five-year agreement was US\$100,000 and consisted of US\$45,000 for advertising services, US\$50,000 for programming content and US\$5,000 corresponding to sales services. Under the terms of this agreement, the Todito web site has the right to transmit announcements and advertising messages relating to the Todito Internet web page on the Azteca 13 and 7 networks, as well as on the satellite signal sent to other countries by the Company, during advertising spots that do not exceed an aggregate of 78,000 GRPs.

Todito is required to use the GRPs over a five year period and the Company must provide a minimum of 14,000 GRPs per year. For the years ended December 31, 2000, 2001 and 2002, the income from advertising services provided under this agreement amounted to Ps95,530, Ps69,654 and Ps68,409, respectively.

Todito also has the right to display on its web site news programs, telenovelas, sporting events, and other programming material displayed by the Company on its web sites ("tvazteca.com.mx" and "tvazteca.com").

The Company currently records the value of the content provided to Todito on a straight line basis over the life of the agreement. For the years ended December 31, 2000, 2001 and 2002, the Company recognized income of Ps81,786,

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Ps114,778 and Ps115,240, respectively, relating to programming content provided to Todito. Under the terms of the agreement, the Company cannot reassign the right to use and exploit the content obtained from the Company through other web pages on the internet to third parties.

The Company has also agreed to lend assistance, through its sales department, in promoting to its clients and to advertising agencies the advertising services that Todito will provide through its web site. For the years ended December 31, 2000, 2001 and 2002, the income from sales services provided under this agreement amounted to Ps5,356, Ps8,242 and Ps12,053, respectively.

### Interest income

During the years ended December 31, 2000, 2001 and 2002, the Company extended short-term loans to certain related parties. Interest income under these arrangements amounted to Ps50,551, Ps117,847 and Ps97,767, respectively.

### Donations

In the years ended December 31, 2000, 2001 and 2002, the Company made donations to a non-profit organization managed by a related party in the amounts of Ps113,093, Ps102,880 and Ps108,118, respectively. The related party has permission from tax authorities to collect donations and issue the corresponding receipts.

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#### Loans granted to stockholder

On December 21, 2001, three loans were granted to Mr. Ricardo Salinas Pliego for an aggregate amount of US\$3,067 with terms of one year. The loans granted in 2000 and in 2001 bore interest at the rate of 12% per year. These loans were repaid during 2002.

#### Building lease income

In May 1998, the Company signed a building lease agreement with Operadora Unefon, a wholly-owned subsidiary of Unefon. The lease has a term of ten years, starting June 1998, with a one-time right to renew for an additional ten years upon notice of at least 180 days prior to expiration. The rent under the lease is Ps2,072 a month, payable in advance each month. During the years ended December 31, 2000, 2001 and in 2002, the aggregate lease income received by the Company amounted to Ps23,424, Ps25,400 and Ps25,536, respectively.

#### Recoverability of accounts receivable from related parties

The Company evaluates periodically, on an arm-length basis, the recoverability of accounts receivable. When it is determined that such accounts are not recoverable, they are charged to other expenses.

#### Note 9--Short-term and long-term bank loans:

At December 31, 2001 and 2002, short-term loans for equipment financing amounted to Ps528,455 and Ps389,997, respectively, representing unsecured loans

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in U.S. dollars with Mexican and foreign banks, with an average annual interest rate of 9.12% and 7.41% at December 31, 2001 and 2002, respectively.

Long-term loans and senior notes at December 31, 2001 and 2002 are summarized as follows:

	At December 31,	
	2001	2002
Building and equipment financing.....	Ps 386,791	Ps 105,274
Loans from American Tower Corporation ("ATC")	1,159,452	1,244,820
Less-current portion.....	(38,418)	(47,179)
Long-term bank loans.....	Ps1,507,825	Ps1,302,915
Guaranteed Senior Notes.....	Ps4,114,901	Ps4,417,875
Total long-term bank loans and senior notes..	Ps5,622,726	Ps5,720,790

Guaranteed Senior Notes

On February 5, 1997, the Company issued unsecured Series A and Series B Guaranteed Senior Notes (collectively, the "Notes") in the international markets in an amount of US\$125,000, payable in the year 2004, at an interest of 10.125% per year and of US\$300,000, payable in the year 2007, bearing an interest rate of 10.50%, per year respectively.

Interest on the Notes is payable semi-annually on February 15 and August 15 each year, commencing on August 15, 1997. Substantially all of the Company's subsidiaries have fully and unconditionally guaranteed the Notes on a joint and several basis. The guarantor subsidiaries are all wholly-owned subsidiaries of the Company. The direct and indirect non-guarantor subsidiaries of the Company are

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individually and in the aggregate inconsequential. The parent company is a non-operating holding company with no assets, liabilities or operations other than its investments in its subsidiaries.

Building and equipment financing

In 1995, the Company borrowed US\$28,000 to finance the acquisition of equipment, of which approximately US\$24,000 was guaranteed by the Export-Import Bank of the United States of America ("Exim Bank") on January 31, 1996. The Exim Bank guaranteed funds were comprised of two separate loans for approximately US\$21,500 at an annual interest rate of LIBOR, plus 2.25% and approximately US\$2,700 at an annual interest rate of LIBOR plus 4.25% (6.17% and 4.19% during 2002). Both Exim Bank-guaranteed loans were payable in 14



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semi-annual payments beginning in June 1996. At December 31, 2001 the Company had made payments totaling to US\$18,400 and US\$2,300, respectively. During 2002, the outstanding balance of both loans was repaid.

On September 18, 1997, the Company obtained a mortgage loan for the acquisition of an office building amounting to US\$25,854 from Banco Bilbao Vizcaya, S. A. ("BBV"). The Company is required to pay BBV annual interest of 8.5%, payable on December 31 of each year beginning on December 31, 1997. Payment of the principal matures on November 30, 2003.

In March 1999, the Company entered into a US\$30,200 million long-term import credit facility with Standard Chartered Bank, as lender, and the Exim Bank, as guarantor. Under this credit facility, TV Azteca was permitted to borrow until May 2002 all or a portion of the US\$30,200 by delivering promissory notes. The import credit facility was established to finance the Company's purchase of equipment manufactured in the U.S. In October 1999 and March 2000, the Company issued two promissory notes, one in the amount of US\$12,200 due in October 2004, which accrues interest at a rate of 7.6% per year, and one in the amount of US\$10,500 due in March 2005, which accrues interest at a rate of 8.45% per year. At December 31, 2001 and 2002, the aggregate outstanding amounts due under the outstanding promissory notes were US\$14,095 and US\$10,128, respectively.

### Loans from ATC

On February 11, 2000, the Company entered into a long-term credit facility for up to US\$119,800 with a Mexican subsidiary of ATC (the "ATC Long-Term Facility"). The ATC Long-Term Facility is comprised of a US\$91,800 unsecured term loan and a US\$28,000 working capital loan secured by certain of the Company's real estate properties. The interest rate on each of the loans is 12.877%. The Company's payment obligations under the ATC Long-Term Facility are guaranteed by three principal subsidiaries of the Company that also guarantee the Company's payment obligations under the Guaranteed Senior Notes. The initial term of the unsecured term loan under the ATC Long-Term Facility is 20 years, which term may be extended, so long as the Global Tower Project Agreement remains outstanding, for up to an additional 50 years. The term of the working capital loan matures in February 2004, but may be renewed annually for successive one-year periods so long as the Global Tower Project Agreement remains outstanding.

On February 11, 2000, the Company drew down US\$71,800 of the unsecured term loan and the full US\$28,000 under the working capital loan, and in June 2000, the Company drew down the remainder of the unsecured term loan. A portion of the proceeds under the ATC Long-Term Facility was used to repay the ATC Interim Facility in its entirety. The balance of the proceeds from the ATC Long-Term Facility was used for general corporate purposes of the Company and its subsidiaries. At December 31, 2001 and 2002, US\$119,800 was outstanding under the ATC Long-Term Facility.

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In February 2000, the Company, together with its subsidiary Television Azteca, S. A. de C. V., entered into a 70-year Global Tower Project Agreement with a Mexican subsidiary of ATC regarding space not used by the Company in its

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operations on up to 190 of the Company's broadcast transmission towers. In consideration for the payment of a US\$1,500 annual fee and for a loan of up to US\$119,800 provided to the Company under the ATC Long-Term Facility, the Company granted ATC the right to market and lease the Company's unused tower space to third parties as well as to the Company's affiliates and to collect for ATC's account all revenue related thereto. The Company retains full title to the towers and remains responsible for the operation and maintenance thereof. The SCT approved the parties' agreement on February 10, 2000. After the expiration of the initial 20-year term of the ATC Long-Term Facility, the Company has the right to purchase from ATC at fair market value all or any portion of the revenues and assets related to the commercialization rights at any time upon the proportional repayment of the outstanding principal amount under the ATC Long-Term Facility.

### Euro-Commercial Paper Program

On May 14, 1999, the Company entered into a US\$75,000 Euro-Commercial Paper Program (the "ECP Program") with ABN-AMRO Bank, N.V., as the principal arranger and dealer. The size of the ECP Program was increased to US\$130,000 in July 1999. Notes issued under the ECP Program are issued at a discount. The Company's payment obligations under the ECP Program are guaranteed by the principal subsidiaries of the Company that also guarantee the Company's payment obligations under the guaranteed senior notes. The maturity of the notes issued under the ECP Program may not be more than 365 days. At December 31, 2001, the aggregate principal amount of the notes outstanding under the ECP Program was US\$20,063, which was paid in a series of installments ending in January 2002. At December 31, 2002, the amount of the notes outstanding under the ECP Program was US\$5,094, which is payable in a series of installments ending in June 2003.

### Commercial paper with Scotia Inverlat, S. A. ("Scotia")

On December 13, 2001, the Company issued two Ps158,550 commercial paper promissory notes to Scotia expiring on June 13, 2002 and December 6, 2002. These promissory notes, issued under the commercial paper program, were issued at a discount bearing interest rates of 12.20% and 12.40%, respectively. At December 31, 2001, the Company has utilized the entire commercial paper, which amounted to Ps287,770, net of the respective discount. The commercial paper promissory notes were repaid in 2002.

Maturity of long-term bank loans and senior notes is as follows:

Year ending at December 31,	Amount
2004.....	Ps1,346,555
2005.....	10,915
2007.....	3,118,500
2008 and thereafter.....	1,244,820
Total long-term bank loans and senior notes	Ps5,720,790

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Note 10--Labor obligations:

Below is a summary of the main financial data of the Company's seniority premium plan:

	At December 31,	
	2001	2002
Accumulated benefit obligation (same as accumulated liabilities)	Ps3,391	Ps3,407
Net projected liability.....	2,665	2,669
Intangible asset.....	Ps 726	Ps 738
Net cost for the year.....	Ps 643	Ps1,612

Note 11--Stockholders' equity:

a. Capital stock

The capital stock of the Company was comprised of Series "A" shares, Series "D-A" shares and Series "D-L" shares. Holders of Series "A" shares are entitled to vote at general meetings of stockholders of the Company. Holders of the Series "D-A" shares and Series "D-L" shares are entitled to vote only in limited circumstances. Holders of Series "D-A" shares and Series "D-L" shares are entitled to a dividend premium and liquidation preference. The rights of holders of all series of capital stock are otherwise identical except for limitations on ownership of Series "A" shares and Series "D-A" shares by persons other than eligible Mexican holders. The Series "A" shares are not exchangeable for shares of any class or equity securities of the Company. The Series "D-A" shares will be converted for Series "A" shares upon the tenth anniversary of the creation of the CPO Trust and shall have the same characteristics as the currently outstanding Series "A" shares of the Company. The Series "D-L" shares will be converted into Series "L" shares upon the tenth anniversary of their original issuance. The Series "L" shares that shall be exchanged for Series "D-L" shares shall entitle its holders to vote only in limited circumstances.

The issued and outstanding capital stock of the Company as of January 1, 2000 consisted of 10,815,834 thousand shares of which 5,408,078 thousand were Series "A" shares, 2,703,878 thousand were Series "D-A" shares and 2,703,878 thousand were Series "D-L" shares. The number of authorized shares at January 1, 2000 consisted of 8,930,573 thousand shares of which 4,623,419 thousand were Series "A" shares, 2,153,577 thousand were Series "D-A" shares and 2,153,577 thousand were Series "D-L" shares.

As part of the Company's employee stock option plan, during 2000, 2001 and 2002, the employees exercised their right to buy shares through said plan. As a result, the Company issued 30,497 thousand shares, 31,215 thousand shares and 46,020 thousand shares, respectively, with a nominal value of Ps5,799, Ps5,542 and Ps7,759, respectively, which resulted in a premium on the issuance of shares of Ps21,417, Ps75,829 and Ps16,122, respectively.

During 2000, 2001 and 2002, the Company decreased its capital stock by

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Ps20,066, Ps6,717 and Ps18,883, respectively, through the repurchase of 107,370 thousand shares, 38,674 thousand shares and 111,349 thousand shares for Ps316,094, Ps43,172 and Ps169,879, respectively. In these years, the nominal value of the repurchased shares was charged to the capital stock and the difference to the reserve for the repurchase of shares.

During 2001 and 2002, the Company increased its capital stock by Ps19,066 and Ps14,066, respectively, for the sale of treasury shares of 107,804 thousand shares and 82,749 thousand shares, respectively. During 2001 and 2002, these shares had a replacement value of Ps162,439 and Ps136,523, respectively,

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which were credited to the capital stock at nominal value, and the difference was applied to the reserve for the repurchase of shares.

In an ordinary stockholders' meeting held on April 27, 2000, the stockholders agreed to pay a preferential dividend of Ps44,908 to the Series "D-A" and "D-L" stockholders. The dividend was paid in September 2000.

In April 2000, the Company and NBC-TVA Holding, Inc., a subsidiary of National Broadcasting Company ("NBC") ("NBC-TVA") entered into a subscription agreement pursuant to which NBC-TVA agreed to purchase from the Company 2 million ADSs (96 million shares) for Ps285,564. As a result of this purchase, the Company increased the fixed portion of the capital stock by Ps18,217 plus Ps267,347 for a premium on share subscription. This increase was made by issuing the following shares:

Type of shares	Number
Series "A"	32,000
Series "D-A"	32,000
Series "D-L"	32,000

In an ordinary stockholders' meeting held on April 26, 2001, the stockholders agreed to pay a preferential dividend of Ps42,130 to the Series "D-A" and "D-L" stockholders. The dividend was paid in October 2001.

At the ordinary stockholders' meeting held on April 25, 2002, the stockholders agreed to apply the Company's income for 2001 amounting to Ps1,508,006 as follows:

- .. Set aside Ps75,400 for the legal reserve, in accordance with the Mexican Corporations Law.
- .. Set aside Ps39,966 for the payment of a preferential dividend to the Series "D-A" and "D-L" stockholders, which was paid in October 2002.
- .. Transfer the remainder of the account of retained earnings.

The authorized, issued and paid-in capital stock of the Company at December 31,

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2002 is as follows:

Type of shares	Authorized shares	Paid-in shares	Nominal amount	Restatement adjustment	Total
	(thousands)	(thousands)			
Series "A"...	5,408,078	4,669,049	Ps 764,802	Ps 748,690	Ps1,513,492
Series "D-A".	2,703,878	2,199,208	360,235	253,084	613,319
Series "D-L".	2,703,878	2,199,208	360,235	253,084	613,319
	-----	-----	-----	-----	-----
	10,815,834	9,067,465	Ps1,485,272	Ps1,254,858	Ps2,740,130
	=====	=====	=====	=====	=====

### b. Retained earnings

1. Legal reserve--The net income for the year is subject to the legal provision that requires that 5% of the profit of each year be applied to increase the legal reserve, until the latter equals a fifth of paid-in capital stock.
2. Tax regime for dividends--Dividends paid are not subject to income tax, provided they are paid out from the After Tax Earnings Account ("CUFIN"). The excess is subject to 34% income tax on the amount arrived at from multiplying the dividend paid by a factor of 1.5151 payable by the Company,

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which can be offset against the Company's tax liability of the three immediately following periods. Dividends paid are not subject to income tax withholding.

### c. Employee stock option plan

In the fourth quarter of 1997, the Company adopted an employee stock option plan pursuant to which options were granted to all current permanent employees who were employed by the Company as of December 31, 1996. The exercise prices assigned to these options from 1997 to 2002 range from US\$0.29 to US\$0.39 per CPO with a more significant number of options being granted to the Company's senior management and key actors, presenters and creative personnel.

The options, which relate to an aggregate of 76 million CPOs, were granted in equal portions in respect of each employee's first five years of employment with the Company (whether prior to or after adoption of the plans), but these options may be cancelled, in the case of employment years after 1996, if the Company's operating profit before deducting depreciation and amortization expenses in that year has not increased by at least 15% as compared to the previous fiscal year. An employee's options in respect of any employment year become exercisable five years later, unless the employee is no longer employed by the Company, in which case those options will be reassigned.

The options expire on the fifth anniversary of the date on which they become exercisable.

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During each of 2000 and 2001, options with respect to 10 million CPOs and during 2002 options with respect to 15 million CPOs were exercised, respectively, under the general option plan, at a price of US\$0.29, US\$0.29 and US\$0.29 per CPO, respectively.

The activity of employee stock option plans was as follows:

Options	At December 31,	
	2001	2002
	-----	
	(Millions of CPOs)	
Granted (cumulative)..	116	116
Exercised (cumulative)	(71)	(86)
	---	---
Outstanding.....	45	30
	===	===
Available to grant....	124	124
	===	===
Total authorized.....	240	240
	===	===

#### d. NBC warrants

In May 1994, the Company and Radiotelevisora del Centro, S. A. entered into an agreement with NBC, in which the companies agreed to pay NBC, for the license of specific programs and advisory and other services, a total of US\$7,000 over a three-year period ended June 30, 1997.

As additional consideration for the advisory and other services related to NBC's association, the Company provided NBC with the right to purchase Series "N-6" shares (non-voting) of the Company equal to up to 10% of all then fully diluted outstanding shares of the Company post-exercise (the "Warrants"). The total Warrant exercise price was US\$120,000 before June 30, 1994, and accreted at 2.75% compounded quarterly thereafter until it reached US\$160,000 at expiration of the Warrants. The Warrants were to be exercised, in whole or in part, from time to time until May 6, 1997. To the extent not exercised during that period, NBC had the right, during the sixty-day period after the expiration of the option period, to require the Company to purchase any unexercised portion of the Warrants for up

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to US\$25,000 and had the right to collect the Warrant put price at any time during the option period if it was determined that the Warrants could not, as a legal matter, be exercised.

On April 3, 1997 NBC notified the Company that it would exercise its rights under the Warrants to purchase Series "N-6" shares of the Company, equivalent to 1% of its total right to purchase 10% of all the fully diluted outstanding

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shares of the Company for an amount of US\$16,000 which was required to be paid on May 5, 1997. Subsequently, NBC advised the Company that the Company was required to purchase the unexercised portion of the warrant for US\$22,500 and owed an additional US\$5,552, the balance of the US\$7,000 owed by the Company for unpaid programming as of May 6, 1997, plus accrued interest.

The agreement with NBC also provided that the Company was required to issue to NBC Series "N-6" shares in an amount equal to 1.5% of all the then fully diluted outstanding capital stock of the Company upon the first to occur of various events relating to the achievement of specific market share and capitalization levels through May 6, 2002.

On April 29, 1997, the Company filed a request for arbitration with the International Chamber of Commerce ("ICC") in Paris pursuant to the arbitration clauses in its agreements with NBC and NBC Europe. In its request, the Company sought the rescission of all of its agreements with NBC, including the cancellation of its outstanding programming purchase obligations, the cancellation of the warrants granted to NBC Europe, NBC's right to require the Company to repurchase the unexercised portion of the warrants, and the return of all amounts previously paid to NBC, on the grounds that NBC did not fulfill its obligations under its agreements with the Company.

On July 29, 1997, NBC and NBC Europe filed an amended answer and counterclaim to the Company's request for arbitration. NBC's principal new claim was that, notwithstanding the expiration of NBC Europe's warrant, NBC Europe should be given the right to exercise the entire unexercised portion of the warrant (representing the right to purchase 9% of the fully-diluted outstanding capital stock of the Company as of May 6, 1997) or, at NBC Europe's election, to recover lost profits based on the difference between the fair market value and the aggregate exercise price in respect of the unexercised portion of NBC Europe's warrant. NBC based this claim on the allegation that the Company misled NBC in order to dissuade NBC Europe from exercising its warrant in full. NBC also claimed that NBC Europe has been deprived of the value of an additional equity bonus of 0.5% of the fully-diluted outstanding capital stock of the Company to which NBC Europe would have been entitled had it exercised its warrants for more than 5% of the Company's outstanding stock, rather than for only 1%.

In February 2000, the Company and NBC commenced discussions regarding the possible settlement of all claims raised in the ICC arbitration proceeding. Based on the progress of those discussions, on March 21, 2000, the Company and NBC jointly notified the ICC tribunal that settlement discussions were taking place and requested that the ICC tribunal withhold any decision in the matter for a period of 30 days, unless the ICC tribunal was informed by either decision in the matter for a period of 30 days, unless the ICC tribunal was informed by either party within that 30-day period that settlement discussions had been abandoned. This 30-day period was extended through April 28, 2000.

On April 28, 2000, the Company and NBC entered into a binding settlement agreement. Pursuant to the settlement agreement, the arbitration proceeding before the ICC tribunal was terminated and all claims by the Company against NBC and NBC Europe, and all claims by NBC and NBC Europe against the Company, have been fully released and discharged. Under the terms of the settlement agreement, the Company paid NBC the sum of US\$46,170 (Ps510,732) in cash. This settlement was recorded as an extraordinary item net of income tax.

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Note 12--Tax matters:

During 2000, the Company commenced consolidating for tax purposes.

During the years ended December 31, 2000, 2001 and 2002, the Company and various subsidiaries had taxable income, which was partially offset against tax loss carryforwards. The benefit of the utilization of these tax loss carryforwards amounted to Ps68,997, Ps414,082 and Ps359,781 during the years ended December 31, 2000, 2001 and 2002, respectively.

An analysis of the principal differences between the income tax computed at the statutory rate and the Company's income tax provision for the years ended December 31, 2000, 2001 and 2002 is shown as follows:

	Year ended December 31,		
	2000	2001	2002
Income before provision for income tax and extraordinary items.....	Ps 698,726	Ps1,517,143	Ps1,273,968
Income tax expense at statutory rate.....	Ps 244,554	Ps 531,000	Ps 445,889
Effects of B-10 and inflationary components	114,517	40,015	84,622
Amortization of TV concessions and goodwill	(98,632)	(108,005)	(148,447)
Advertising advances.....	61,015	303,788	195,178
Estimated cost point rating revenues.....	(38,443)	(86,244)	(72,237)
Non-deductible stock dividends.....	22,946		
Exhibition rights.....	88,051	(53,033)	(64,194)
Depreciation.....	28,557	46,223	7,994
Benefit on tax consolidation.....	(106,634)		
Other.....	(62,455)	(49,728)	175,134
Utilization of tax loss carryforwards.....	(68,997)	(414,082)	(359,781)
Income tax expense--Net.....	Ps 184,479	Ps 209,934	Ps 264,158

As a result of the amendments to the Income Tax Law approved on January 1, 2002, the income tax rate (35%) will be reduced by 1% annually beginning in 2003 until it reaches a nominal rate of 32% in 2005. This gradual decrease in the income tax will be taken into the deferred income tax of each year.

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The principal temporary items that gave rise to the recording of deferred tax (assets) liabilities are summarized as follows:



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	At December 31,	
	2001	2002
Allowance for bad debts.....	(Ps 83,403)	(Ps 89,854)
Exhibition rights and inventories.....	1,051,138	1,267,703
Property, machinery and equipment--Net.....	361,044	352,079
Television concessions.....	1,000,928	1,490,324
Payment to Corporacion de Noticias e Informacion, S. A. de C. V.....	200,773	200,773
Cost related to the issuance of guaranteed senior notes	98,189	78,895
Advertising advances.....	(576,218)	(1,090,081)
Tax loss carryforwards.....	(2,574,032)	(1,842,669)
Other.....	(328,919)	(292,070)
Tax base before valuation reserve.....	(850,500)	75,100
Applicable income tax rate.....	35%	34%
	(297,675)	25,534
Valuation reserve for tax loss carryforwards.....	497,805	
Deferred income tax asset recorded from the purchase of subsidiary.....	(200,130)	
Deferred income tax payable.....	Ps --	Ps 25,534

At December 31, 2001 and 2002, deferred income tax payable was analyzed as follows:

	At December 31,	
	2001	2002
Deferred income tax payable at beginning of year.....	Ps 416,593	Ps --
Less:		
Deferred income tax asset recorded from the purchase of subsidiary.....	(200,130)	
Deferred income tax (benefit) expense for the year.....	(198,905)	25,534
Monetary gain related to deferred income tax liabilities for the year.....	(17,558)	
Deferred income tax payable at end of year.....	Ps --	Ps 25,534

At December 31, 2001, the Company incorporated a new wholly-owned subsidiary with tax loss carryforwards. Cumulative tax losses of the Company at December 31, 2002, and their expiration dates are as follows:

Expiration date	Tax losses
2005.....	Ps 405,252

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2006.....	147,101
2007.....	228,148
2008.....	735,649
2009.....	40,361
2010.....	139,963
2011.....	16,920
2012.....	129,275

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 Ps1,842,669  
 =====

Tax loss carryforwards can be restated by applying factors derived from NCPI from the year in which they arise to the first-half of the year in which they are amortized.

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Note 13--Commitments and contingencies:

Leases

The Company leases the use of satellite transponders. Total rent expense under such leases included in operating costs and expenses was Ps25,382, Ps26,288 and Ps41,236 during the years ended December 31, 2000, 2001 and 2002, respectively. Combined rental obligations under these agreements are US\$200 per month. Each lease agreement expires in May 2005 but can be terminated by the supplier any time for justified cause upon 30 days' notice.

Other

The Company and its subsidiaries are parties to various legal actions and other claims in the ordinary course of their business. Management does not believe that any pending litigation against the Company will, individually or in the aggregate, have a material adverse effect on its results of operations or financial condition.

Note 14--Other (expenses) income:

Below is a summary of the main items of other (expenses) income:

	Year ended December 31,		
	2000	2001	2002
Equity in loss of affiliates.....	(Ps 107,088)	(Ps 67,894)	(Ps 111,160)
Donations (See Note 8).....	(113,093)	(102,880)	(108,118)
Miscellaneous expenses non-deductible for tax purposes.....	(29,886)	(6,527)	(17,754)
Legal advisory services (litigation expenses)	(69,137)	(79,747)	(31,998)
Amortization of installation charges.....			(19,513)

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Write-off of other accounts receivable.....			(45,788)
Write-off of investments.....			(32,152)
Others.....	(57,013)	13,197	(75,105)
	-----	-----	-----
	(Ps 376,217)	(Ps 243,851)	(Ps 441,588)
	=====	=====	=====

Note 15--New accounting pronouncements:

The MIPA issued Statement C-9, "Liabilities, Provisions, Assets and Contingent Liabilities and Commitments" ("Statement C-9"), which went into effect January 1, 2003. Statement C-9 establishes specific rules for valuation, presentation and disclosure of liabilities and provisions, as well as for valuation and disclosure of assets and contingent liabilities, and for disclosure of commitments contracted. The Company does not expect the adoption of this statement will have a material impact on its consolidated financial statements.

The MIPA issued Statement C-15, "Impairment of Long-Lived Assets and Their Disposal" ("Statement C-15"), which will be effective as of January 1, 2004, although early adoption is recommended. Statement C-15 provides specific criteria in determining when there is an impairment in the value of long-lived assets, for both tangible and intangible assets. Furthermore, Statement C-15 established a methodology for calculating and recording losses arising from the impairment of assets and their reversal. Also, Statement C-15 provides presentation and disclosure requirements for assets whose value has been impaired and the disclosure in the case that there is subsequent reversal of the impairment. In addition,

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Statement C-15 provided guidance for the accounting, presentation and disclosure for discontinued operations. The Company is currently evaluating the impact that adoption of this statement will have on its consolidated financial statements.

Note 16--Reconciliation between generally accepted accounting principles in Mexico (Mexican GAAP) and United States of America (US GAAP):

The Company's consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from US GAAP. The Mexican GAAP consolidated financial statements include the effects of inflation as provided for under Statement B-10, "Recognition of the Effects of Inflation on Financial Information" issued by the MIPA. The application of this statement represents a comprehensive measure of the effects of price level changes in the Mexican economy, and is considered to result in a more meaningful presentation for both Mexican and U.S. accounting purposes. Therefore, the following reconciliation to US GAAP does not include the reversal of such inflationary effects.

The principal differences between Mexican GAAP and US GAAP are summarized in the following pages with an explanation, where appropriate, of the effects on consolidated results of operations and stockholders' equity. The various reconciling items are presented net of any price level gain (loss).

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a. Reconciliation of consolidated results of operations:

		Year ended December 31,	
	Sub note reference	2000	2001
<hr style="border-top: 1px dashed black;"/>			
Majority net income under Mexican GAAP.....		Ps 388,883	Ps1,508,006
Amortization of goodwill.....	i	(197,395)	(197,395)
NBC warrant.....	ii	10,841	
NBC settlement agreement.....	ii	299,884	
Unefon advertising.....	iii	416,093	385,657
Equity in loss of Unefon.....	iv	(235,172)	(546,546)
Consent fee for Unefon rights.....	v		(115,223)
Todito advertising, programming and services agreement.....	vi	(175,146)	(192,674)
Equity in earnings of Todito.....	vi	63,947	91,594
Amortization of Todito goodwill.....	vi	22,643	27,260
Amortization of goodwill from Azteca Digital acquisition.....	vii	7,904	7,904
Effect of fifth amendment to B-10.....	viii	(273,441)	(192,386)
Compensation expense from stock options.....	ix	(113,964)	(35,296)
Compensation expense for Unefon stock option plan	x		(54,413)
Deferred income taxes.....	xi	(208,384)	4,593
Reversal of capitalized internally produced programming.....	xiii		(226,375)
		-----	-----
Net income under US GAAP.....		Ps 6,693	Ps 464,706
		=====	=====
Basic and diluted income per share.....	xviii	Ps 0.004	Ps 0.047
		=====	=====
Basic weighted average number of common shares outstanding (in thousands).....		8,966,752	9,025,274
		=====	=====

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b. Reconciliation of stockholders' equity:

		At December 31,	
	Sub note reference	2000	2001
<hr style="border-top: 1px dashed black;"/>			
Balance under Mexican GAAP.....		Ps4,379,942	Ps5,769,266
Goodwill.....	i	888,277	690,882
NBC warrant.....	ii	(299,884)	

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NBC settlement agreement.....	ii	299,884	
Unefon advertising.....	iii	416,093	801,750
Unefon investment.....	iv	192,306	(353,268)
Todito advertising, programming and services agreement.....	vi	(175,146)	(367,820)
Amortization of Todito goodwill.....	vi	22,643	49,903
Equity in earnings of Todito.....	vi	63,947	155,541
Stockholders' equity of Azteca Digital reflecting effect of combination of companies under common control.....	vii	(134,383)	(126,479)
Effect of fifth amendment to B-10.....	viii	308,323	316,834
Deferred income taxes.....	xi	(340,297)	(335,704)
Reversal of capitalized internally produced programming.....	xiii		(226,375)
Balance under US GAAP.....		Ps5,621,705	Ps6,374,530
		=====	=====

c. An analysis of the changes in stockholders' equity under US GAAP is as follows:

		Year ended December 31,	
	Sub note reference	2000	2001
Balance at beginning of the year.....		Ps5,198,569	Ps5,621,705
Net income.....		6,693	464,706
Preferred dividend.....		(44,908)	(42,130)
Paid-in capital for Unefon stock option plan....	iv		39,902
Exercise of stock options.....		27,216	81,371
Repurchase of shares.....		(316,094)	(43,172)
Sale of treasury shares.....			162,439
Issuance of common stock.....		18,217	
Premium on issuance of capital.....		267,347	
Unefon acquisition--excess basis.....	iv		
Effect relating to capital stock increase of Unefon, net of the loss from dilution.....	iv	350,700	
Effects of fifth amendment to B-10.....	vii	241,278	277,190
Loss from holding non-monetary assets.....	viii	(241,278)	(277,190)
Compensation expense from stock options.....	ix	113,965	35,296
Compensation expense for Unefon stock option plan	x		54,413
Balance at end of year.....		Ps5,621,705	Ps6,374,530
		=====	=====

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d. Significant differences between US GAAP and Mexican GAAP:

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### i. Goodwill

At the effective date of the privatization in 1993 in connection with which the Company was formed, additional goodwill of Ps2,368,737 was recorded due to the deferred net income tax liability, relating primarily to the non-deductibility of the television concessions, required under US GAAP. The additional goodwill will be amortized over 12 years.

### ii. Mandatory redeemable securities

#### NBC warrant and bonus right

Under US GAAP, the NBC warrant, discussed in Note 11d., would be considered a mandatory redeemable security and would have been initially recorded as temporary equity at its estimated fair value, at the date of the initial agreement, of Ps242,601, based on the present value of US\$25 million payment that the Company would be required to pay NBC in the event NBC elected not to exercise the warrant, with a corresponding amount established as deferred operating costs representing the value of the technical advisory services to be provided by NBC at the date of the agreement. Under US GAAP, the Company would have amortized the deferred operating costs over the agreement period. However, at December 31, 1995, the Company wrote-off the unamortized deferred operating costs associated with the agreement, based on management's opinion that there were no future benefits to be derived under the terms of the agreement.

Due to the nature of the Company's obligations with respect to the warrant, the related temporary equity would be considered a monetary liability under US GAAP. The foreign exchange losses, the accretion of the warrant obligation and monetary gains related to the warrant would be reflected in results of operations.

The following table summarizes the accumulated deferred costs, accretion, exchange loss and gain on monetary position related to the NBC warrant:

At December 31, 2000	
-----	
Deferred operating costs..	(Ps 242,601)
Accretion.....	(116,010)
Exchange loss.....	(365,089)
Gain on monetary position.	423,816
	-----
Accumulated at end of year	(Ps 299,884)
	=====

The terms of the warrant agreement with NBC as discussed in Note 11d. required the Company to issue 1% of its outstanding shares to NBC upon attainment of the performance goals consisting of specified market share levels or the market capitalization of the Company of at least US\$1,400 if a public offering of the Company's stock occurred prior to 1998 and US\$1,800 if a public offering occurred after 1998. As a result of the initial public offering, the Company achieved a market capitalization in excess of US\$2,000.

As part of the arbitration proceedings with NBC, the Company requested the rescission of all its agreements with NBC including cancellation of warrants granted to NBC Europe and NBC's rights to require the Company to repurchase the unexercised portion of the warrants on the grounds that NBC did not fulfill its obligations under its agreements with the Company.

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TV Azteca, S. A. de C. V. and Subsidiaries

Temporary equity

An analysis of the changes in the temporary equity under US GAAP is as follows:

	Year ended December 31, 2000
Balance at beginning of year.....	Ps 310,725
Foreign exchange loss, net of monetary (gain) loss of NBC warrant	(10,841)
NBC settlement agreement.....	(299,884)
	-----
Balance at end of year.....	Ps -- =====

As a result of the settlement reached with NBC in April 2000, as described in Note 11d., the Company paid NBC US\$46,170 (Ps510,732) in cash as settlement for claims relating to the NBC warrants and bonus right.

Under Mexican GAAP, the settlement paid to NBC was charged against results of operations as an extraordinary item. The excess over the amount recorded as temporary equity (Ps210,848) would be charged against results of operations during the year ended December 31, 2000. Under US GAAP, however, the net charge would not be reflected as an extraordinary item.

iii. Unefon advertising advance

The Company recorded the advertising contract signed with Unefon (see Note 8) in a manner similar to other advertising contracts that the Company has entered into with related and third parties. See Note 2r.

The Unefon advertising contract is a long-term contract which originated a long-term account receivable and an advertising advance for the same amount at inception. At December 31, 2000 and 2001, the long-term unbilled accounts receivable from Unefon was Ps2,312,922 and Ps2,258,381, respectively. For US GAAP purposes, this long-term contract represents an obligation to provide services in the future that would not be recorded on the balance sheet, and consequently, both the receivable (except for amounts relating to services provided) and the advertising advance would not be recorded under US GAAP. Under Mexican inflation accounting rules, the accounts receivable are US dollar denominated items that expose the Company to exchange gains and losses as well as to monetary losses. The advertising advances related to the Unefon advertising contract are considered non-monetary items under Mexican GAAP and are restated for the effects of inflation.

Revenues recognized under Mexican GAAP are based on the indexed value of the advances recorded as the GRPs are consumed based on a rate schedule established in the contract. For US GAAP purposes, revenues would be recognized based on the average cost per GRPs as the GRPs are consumed.

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TV Azteca, S. A. de C. V. and Subsidiaries

The following tables illustrate the differences between Mexican and US GAAP in the method of accounting for the advertising contract with Unefon:

	Year ended December 31, 2000		
	Mexican GAAP	US GAAP	Difference
Long term receivable from Unefon	Ps 2,123,149	Ps226,321	(Ps1,896,828)
Unefon advertising advance.....	(2,312,921)		2,312,921
Net (liabilities) assets.....	(Ps 189,772)	Ps226,321	Ps 416,093
Revenues.....	Ps 9,521	Ps237,576	Ps 228,055
Exchange (loss) gain.....	(12,725)	(2,117)	10,608
Monetary (loss) gain.....	(186,568)	(9,138)	177,430
Total.....	(Ps 189,772)	Ps226,321	Ps 416,093

	Year ended December 31, 2001		
	Mexican GAAP	US GAAP	Difference
Long term receivable from Unefon	Ps 1,931,139	Ps474,508	(Ps1,456,631)
Unefon advertising advance.....	(2,258,381)		2,258,381
Net (liabilities) assets.....	(Ps 327,242)	Ps474,508	Ps 801,750
Cumulative:			
Revenues.....	Ps 75,844	Ps528,926	Ps 453,082
Exchange (loss) gain.....	(121,555)	(29,869)	91,686
Monetary (loss) gain.....	(281,531)	(24,549)	256,982
Total.....	(Ps 327,242)	Ps474,508	Ps 801,750

iv. Unefon investment

The Company acquired a 50% interest in Unefon on October 28, 1999. Unefon commenced operations in February 2000. The Company's share of the stockholders' equity of Unefon at the date of acquisition under US GAAP was Ps105,991 greater than the amount recorded under Mexican GAAP due to the capitalized monetary gain net of the pre-operating expenses. This excess would result in an increase



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in the Company's stockholders' equity under US GAAP since this was an acquisition of an entity under common control and the difference between the book value acquired and the amount paid would be considered as an additional contribution from the stockholder.

As a result of the Rights granted to the Company's stockholders in October 2000, the Company stopped recognizing its participation in the losses of Unefon. Under US GAAP, the Company would continue to recognize its participation in the losses of Unefon until such Rights are exercised.

The Company's share of Unefon's net loss for years ended December 31, 2000 and 2001 under US GAAP were Ps329,630 and Ps546,546 compared to Ps94,458 and zero under Mexican GAAP, respectively. The principal differences were due to pre-operating expenses, advertising expenses, revenue recognition, recognition of the participation in the losses mentioned in the preceding paragraph and capitalized interest and monetary gain.

During 2000, Unefon completed an initial public offering. Net proceeds received from the offering amounted to Ps991,900. As a result of the offering, the Company's participation in Unefon decreased from 50% to 46.5%. The increase in Unefon's stockholders' equity would increase the Company's investment in Unefon with a corresponding increase in stockholders' equity under US GAAP of Ps350,701.

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### TV Azteca, S. A. de C. V. and Subsidiaries

The following table illustrates the differences between Mexican and US GAAP in the method of accounting for the Company's investment in Unefon.

	At December 31,	
	2000	2001
Investment in Unefon under Mexican GAAP.....	Ps1,809,528	Ps1,848,485
Equity in loss.....	(242,900)	(789,446)
Acquisition--excess basis.....	105,991	105,991
Reversal of capitalized consent fee for Unefon Rights.....		(115,223)
Paid-in capital for Unefon stock option plan.....		39,902
Effect relating to capital stock increase of Unefon, net of the loss from the dilution.....	350,700	350,700
Reversal of loss from holding non-monetary assets for Unefon investment.....	(21,485)	54,808
	192,306	(353,268)
Investment in Unefon under US GAAP.....	Ps2,001,834	Ps1,495,217

Summarized financial information at December 31, 2000 and 2001 and the years

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then ended for Unefon, stated in Mexican pesos, is as follows:

	At and for the year ended December 31			
	Under Mexican GAAP		Under US GAAP	
	2000	2001	2000	2001
Current assets.....	Ps1,327,481	Ps 715,975	Ps1,386,186	Ps 1,125,736
Non-current assets.....	7,725,254	8,452,660	7,763,189	8,773,292
Current liabilities....	685,057	1,555,127	674,990	1,852,819
Non-current liabilities	3,953,028	4,284,193	4,169,368	4,830,688
Stockholders' equity...	4,414,650	3,329,315	4,305,017	3,215,521
Revenues.....	317,822	1,748,787	216,329	1,560,156
Gross margin.....	(311,415)	(859,768)	(802,017)	(1,024,916)
Net loss.....	(339,462)	(1,112,668)	(659,259)	(1,175,368)

### v. Unefon Rights

As discussed in Note 7, the Company's Board of Directors granted rights to certain stockholders of the Company to acquire a pro-rata share of the Unefon shares currently owned by the Company. The Rights to acquire the Unefon shares were subject to the receipt of consents from the Holders of the TV Azteca Notes and Azteca Holdings Senior Secured Notes 2002, which were obtained on March 27, 2001, the receipt of regulatory approvals and third parties approvals, including the approval of Nortel. In addition, the Rights are subject to the filing and effectiveness of a registration statement with the U.S. Securities and Exchange Commission that registers the Unefon shares underlying the Rights.

On March 27, 2001, the Company paid a fee totaling Ps115,223 to certain holders of the TV Azteca Notes to obtain the required consent for the grant of the rights to acquire a pro-rata share of the Unefon shares owned by the Company. Under Mexican GAAP, the Company capitalized the consent fee as part of its total investment in Unefon. Under US GAAP, this consent fee would be recognized in earnings during the year.

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TV Azteca, S. A. de C. V. and Subsidiaries

### vi. Todito investment

For Mexican GAAP purposes, the investment in Todito (see Note 7) was accounted for as a purchase and generated goodwill of Ps543,370. Goodwill amortization recorded under Mexican GAAP during the years ended December 31, 2000 and 2001 amounted to Ps22,643 and Ps27,260, respectively. Prior to the Company's investment, Todito was a wholly-owned subsidiary of Dataflux, S. A. de C. V., a company controlled by the brother of Mr. Salinas Pliego. Under US GAAP, the Company's investment in Todito would be accounted for as a transaction between companies under common control and would be recorded based on the historical cost of the advertising, programming and sales services provided to Todito when such services are provided. Under US GAAP, there was no cost to the Company

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associated with providing the programming to Todito for the years ended December 31, 2000 and 2001. The cost of providing advertising and sales services were Ps2,170 and Ps5,356 during the year ended December 31, 2000, respectively. Furthermore, there was no cost to the Company associated with providing the advertising and sales services during the year ended December 31, 2001.

Revenues related to the advertising provided to Todito under the terms of the agreement are recognized under Mexican GAAP when the advertising is utilized based on the peso equivalent amount of the advertising at the date of the agreement, indexed for the effects of inflation. Revenues related to the content and sales services provided to Todito under the terms of the agreement are recognized under Mexican GAAP on a straight line basis over the life of the agreement based on the peso equivalent amount of the programming and services at the date of the agreement indexed for the effects of inflation.

Revenues recognized in connection with the Todito agreement under Mexican and US GAAP were as follows:

Year ended December 31, 2000			
	Mexican GAAP	US GAAP	Difference
Revenues recognized for:			
Advertising.....	Ps 95,530	Ps2,170	(Ps 93,360)
Programming.....	81,786		(81,786)
Services.....	5,356	5,356	--
	Ps182,672	Ps7,526	(Ps175,146)
	=====	=====	=====

Year ended December 31, 2001			
	Mexican GAAP	US GAAP	Difference
Cumulative revenues recognized for:			
Advertising.....	Ps165,184	Ps2,170	(Ps 163,014)
Programming.....	196,564		(196,564)
Services.....	13,598	5,356	(8,242)
	Ps375,346	Ps7,526	(Ps 367,820)
	=====	=====	=====

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TV Azteca, S. A. de C. V. and Subsidiaries

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The following table illustrates the differences between Mexican and US GAAP in the method of accounting for the Company's investment in Todito:

	At December 31, 2000		At December 31, 2001	
	Investment in Todito	Goodwill in Todito	Investment in Todito	Goodwill in Todito
Amounts under Mexican GAAP..	Ps 482,491	Ps 520,727	Ps 397,883	Ps 493,467
Reverse investment in Todito	(543,430)	(543,370)	(539,901)	(543,370)
Equity in earnings.....	63,947		155,541	
Amortization of goodwill....		22,643		49,903
Amounts under US GAAP.....	Ps 3,008	Ps --	Ps 13,523	Ps --
	=====	=====	=====	=====

Under US GAAP, the Company's share of Todito's net gain for the years ended December 31, 2000 and 2001 were Ps53 and Ps6,051, respectively, compared to a net loss of Ps64,000 and Ps85,543, respectively, under Mexican GAAP. The difference is due to the pre-operating expenses and the cost of advertising and programming services provided by the Company that have been capitalized and expensed for Mexican GAAP purposes, respectively.

### vii. Acquisition of Azteca Digital

The Company acquired Azteca Digital, S. A. de C. V. on December 31, 1997. Under Mexican GAAP this acquisition was accounted by the purchase method; however, under US GAAP this acquisition is considered to be of a company under common control and accordingly, it would have been accounted for retroactively in a manner having a similar effect as a pooling of interests. The annual goodwill amortization relating to the Azteca Digital acquisition under Mexican GAAP in 2000 and 2001 amounted to Ps7,904.

### viii. Effects of fifth amendment to statement B-10

As mentioned in Note 2a., the Company restates its exhibition rights and equipment of foreign origin based on the devaluation of the Mexican peso against the foreign currencies of, and by applying inflation factors of the countries in which they originate. This methodology does not comply with Rule 3-20 of the SEC's Regulation S-X for presenting price level financial statements, and consequently the Company has determined the effects on exhibition rights and equipment of foreign origin and current year depreciation and amortization and reflected them in its results of operations and financial position under US GAAP.

### ix. Employee stock option plans

The granting of stock options in the fourth quarter of 1997 by the Company at exercise prices below the then current market prices of CPOs would result in non-cash compensation cost under US GAAP of approximately Ps113,964 and Ps35,296 for 2000 and 2001, respectively, as determined under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". The majority of the options granted were pursuant to plans which would be considered variable plans under US GAAP, since the number of shares exercisable is contingent upon the Company achieving specified financial goals and employees' performance. The Company expects to record non-cash compensation expense in future periods in connection with these plans.

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Had compensation cost for the Company's employees stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with Statement of Financial

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TV Azteca, S. A. de C. V. and Subsidiaries

Accounting Standard ("SFAS") No. 123, "Accounting for Stock Based Compensation", the Company's compensation expense would have been Ps40,510 and Ps17,869 for 2000 and 2001, respectively, and the net income and net income per share would have been reduced to the pro forma amounts indicated as follows:

	Year ended December 31,	
	2000	2001
Net income as reported.....	Ps 6,693	Ps464,706
	=====	=====
Net income pro forma.....	Ps80,148	Ps482,134
	=====	=====
Net income per share as reported	Ps 0.001	Ps 0.052
	=====	=====
Net income per share pro forma..	Ps 0.008	Ps 0.053
	=====	=====

The effect on net income and net income per share is not expected to be indicative of the effects in future years. The fair value of each option granted is estimated on the date of grant using the weighted average of the Black-Scholes option pricing model and simple binomial model with the following assumptions:

	Year ended December 31,	
	2000	2001
Expected volatility.....	0.353	0.391
Risk-free interest rate.....	18%	10%
Expected life of options (in years)	5	5
Expected dividend yield.....	10%	10%

The Black-Scholes option valuation model and simple binomial model were developed for use in estimating the fair value of traded options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The following table summarizes activity under the Company's stock option plans during the years ended December 31, 2000 and 2001.

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	Number of options (thousands of CPOs)	Weighted-average exercise price
-----		
Outstanding at January 1, 2000.....	68,712	0.32
Granted.....	1,886	0.29
Exercised.....	(15,652)	0.29
	-----	
Outstanding at December 31, 2000.....	54,946	0.32
Granted.....		0.29
Exercised.....	(10,405)	0.29
	-----	
Outstanding at December 31, 2001.....	44,541	
	=====	
Outstanding options exercisable at December 31,		
2000.....	14,000	0.32
	=====	
2001.....	18,651	0.32
	=====	

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TV Azteca, S. A. de C. V. and Subsidiaries

x. Compensation expense for Unefon stock option plan

On November 15, 2000, the Board of Directors of Unefon initiated a stock option plan (the "Unefon Stock Option Plan") for its employees and stockholders. Pursuant to the Unefon Stock Option Plan, the Company has the right to receive or designate the beneficiaries of the option to purchase 120,152,229 shares at US\$0.1507 per share. The Unefon Stock Option Plan has a vesting period of five years as follows: 10% during 2001, 10% during 2002, 20% during 2003, 30% during 2004, and 30% during 2005. The fair value of the options granted to the Company totaled US\$56,201. The Company designated certain employees as the sole beneficiaries of the Unefon Stock Option Plan.

Under US GAAP, the Company would recognize as compensation expense the vested options since the Company is designating certain employees as the sole beneficiaries of the Unefon Stock Option Plan. At December 31, 2001, the Company recognized Ps54,413 as compensation expense related to the Stock Option Plan.

xi. Deferred income tax

As stated in Note 2n., income tax expense was recorded under Mexican GAAP through December 31, 1999 following inter-period allocation procedures under the partial liability method. Under this method, deferred income tax is recognized only in respect of identifiable, non-recurring timing differences between taxable and book income. This substantially eliminated all deferred taxes under Mexican GAAP. Also, under Mexican GAAP through December 31, 1999 the benefit from utilizing tax loss carry-forwards and asset tax credits was not recognized until utilized, at which time it was presented as an

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extraordinary item. This substantially eliminated all deferred taxes under Mexican GAAP. Effective January 1, 2000, the Company adopted the provisions of Revised Statement D-4 "Accounting Treatment of Income Tax, Assets Tax and Employees' Profit Sharing". Under this method, deferred tax assets or liabilities are recognized for all differences between the book value and the tax value of assets and liabilities. The cumulative effect of adopting Statement D-4 as of January 1, 2000 was a net deferred tax liability of Ps693,526, which was charged directly to stockholders' equity.

There would be no effect of adoption Revised Statement D-4 under US GAAP relating to the Company's investment in Unefon.

Under US GAAP, the Company follows SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"). This statement requires an asset and liability approach for financial accounting and reporting for income tax under the following basic principles: (a) a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year, (b) a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss and tax credit carry-forwards, (c) the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated, (d) the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Under this method, deferred tax is recognized with respect to all temporary differences, and the benefit from utilizing tax loss carry-forwards and asset tax credits is recognized in the year in which the loss or credits arise (subject to a valuation allowance with respect to any tax benefits not expected to be realized). The subsequent realization of this benefit does not affect income.

The temporary differences under SFAS 109 are determined based on the difference between the indexed tax basis amount of the asset or liability and the related stated amount reported in the financial statements. Except as indicated in the following paragraph the deferred tax expense or benefit should be

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TV Azteca, S. A. de C. V. and Subsidiaries

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calculated as the difference between (a) deferred tax assets and liabilities reported at the end of the current year determined as indicated above and (b) deferred tax assets and liabilities reported at the end of the prior year, remeasured to units of current general purchasing power at the end of the current period.

Gains and losses from holding non-monetary assets are recorded in stockholders' equity. It is the Company's policy to reflect in results of operations the deferred income taxes that arise as a result of such gains (losses) from holding non-monetary assets. The significant components of income tax expense (benefit) under US GAAP were as follows:

Year ended December 31,

-----  
2000                      2001  
-----

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Current.....	Ps 9,677	Ps 209,934
Deferred.....	(68,549)	(221,058)
	-----	-----
Total benefit	(Ps 58,872)	(Ps 11,124)
	=====	=====

The following items represent the principal differences between income tax computed under US GAAP at the statutory rate and the Company's provision for income tax in each period:

	Year ended December 31,	
	2000	2001
	-----	-----
(Loss) income before income tax benefit.....	(Ps 52,179)	Ps 453,582
	=====	=====
Income tax (benefit) expense at statutory rate.....	(Ps 18,263)	Ps 158,754
Non-deductible stock dividends.....	22,946	
Effects of inflationary components.....	117,716	10,149
Miscellaneous expenses non-deductible for tax purposes	24,805	14,811
Benefit of tax consolidation.....	(106,634)	(120,284)
Other.....	(99,442)	(74,554)
	-----	-----
Net income tax benefit.....	(Ps 58,872)	(Ps 11,124)
	=====	=====

During 1999, the Company and its external legal and tax advisers evaluated the deductibility of the concession rights and concluded that such rights are deductible for tax purposes, over the period granted by such concessions. Based on this conclusion and a confirmation received from the Mexican tax authorities in March 2000, the Company adjusted the previously recorded deferred tax liability.

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The income tax effects of significant items comprising the Company's net deferred tax assets and liabilities under US GAAP are as follows:

	At December 31,	
	2000	2001
	-----	-----
Deferred income tax assets:		
Current		
Advertising advances and other.....	Ps212,183	Ps 68,531



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Non-current		
Tax loss carryforwards and other.....	143,767	900,910
Deferred income tax asset recorded from the purchase of subsidiary.....		200,130
Valuation reserve for tax loss carryforwards.....		(497,805)
	-----	-----
Total non-current.....	143,767	603,235
	-----	-----
	355,950	671,766
	-----	-----
Deferred income tax liability:		
Current.....		
Inventories and provisions.....	(513,588)	(306,054)
	-----	-----
Non-current		
Television concessions.....	(210,547)	(350,325)
Property, machinery and equipment and other.....	(388,705)	(351,091)
	-----	-----
Total non-current.....	(599,252)	(701,416)
	-----	-----
	(1,112,840)	(1,007,470)
	-----	-----
Net deferred tax liabilities:		
Under US GAAP.....	(756,890)	(335,704)
Under Mexican GAAP.....	(416,593)	
	-----	-----
US GAAP adjustment.....	(Ps340,297)	(Ps335,704)
	=====	=====

The difference between net deferred tax liabilities under Mexican and US GAAP at December 31, 2000 and 2001, relates primarily to the effects of the Fifth Amendment to Statement B-10, the cancellations of the deferred tax asset related to the option for sale of an affiliate and the amortization of the goodwill of Azteca Digital.

During the year ended December 31, 2001, the Company acquired a company with tax loss carryforwards. Under Mexican and US GAAP, the Company recorded a tax asset of Ps939,616 and an income tax benefit of Ps328,865.

xii. Exhibition rights

Under US GAAP, a license agreement for program material is reported as an asset and a liability, when the license period begins and all of the following conditions are met: the cost of each program is known or reasonably determinable, the program material has been accepted by the license and the program is available for its first showing or telecast. Under Mexican GAAP, the rights acquired and obligations incurred are recorded when the license agreements are signed. At December 31, 2000 and 2001,

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Ps195,413 and Ps382,332, respectively, of deferred exhibition rights would not be recorded under US GAAP, since the related program material was not yet available to the Company. Since the Company's obligations under the license

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agreements and the deferred exhibition rights are considered monetary and non-monetary items, respectively, under the Mexican inflation accounting rules, the early recognition of the Company's obligations, prior to the period in which the program material is available for its first showing, overstates the monetary gain and exchange losses related to these obligations under US GAAP. However, since the obligations are US dollar denominated, the net effect of the related exchange losses and monetary gains, under US GAAP, are immaterial during the periods presented.

### xiii. Production costs of internally produced programming

Under Mexican GAAP, the Company expensed production costs of internally produced programming when the programs are initially aired, except in the case of telenovelas, where some of the production costs are amortized over a period of four-years based on estimates of secondary market revenue.

Under US GAAP, on January 1, 2001, the Company adopted the American Institute of Certified Public Accountants Statement of Position No. 00-2, "Accounting by Producers and Distributors of Films" ("SOP 00-2"), which replaced SFAS No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". SOP 00-2 provides that film costs should be accounted for under an inventory model and discusses various topics such as revenue recognition and accounting for exploitation costs and impairment assessment. In addition, SOP 00-2 establishes criteria for which revenues should be included in the Company's ultimate revenue projections. As discussed in Note 7, during 2001, the Company renegotiated its contract with Azteca America. Pursuant to SOP 00-2, given its limited experience with Azteca America, the Company reversed capitalized production costs of internally produced programming totaling Ps226,375.

### xiv. Comprehensive income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). During the periods presented, the Company had no change in equity from transactions or other events and circumstances from non-owner sources under US GAAP. Accordingly, a statement of comprehensive income (loss) has not been provided as comprehensive income (loss) equals net income (loss) for all periods presented.

### xv. Fair value information

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value.

Cash and cash equivalents, accounts receivable, and accounts payable. The carrying value of these items is a reasonable estimate of their fair value.

Bank loans. The Company's bank loans bear interest at variable rates and their terms are generally representative of those which are currently available to the Company at December 31, 2000 and 2001 for the issuance of debt with similar terms and remaining maturities, and therefore the carrying values of these loans are a reasonable estimate of their fair value.

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Guaranteed senior notes. The carrying value of the Company's guaranteed senior notes and the related fair value base on the quoted market prices for the same or similar issues at December 31, 2001 were Ps4,114,901 and Ps4,066,190, respectively.

### xvi. Property, machinery and equipment

Under US GAAP, advances for the acquisition of machinery and equipment would be classified as prepayments. As of December 31, 2000 and 2001, the Company had advances of Ps66,659 and Ps74,568, respectively.

### xvii. Other employee benefits

The Company has no post-retirement health care insurance or other benefit plans. Therefore, SFAS No. 106, "Employers' Accounting for Post-retirement Benefits other than Pensions", SFAS No. 112, "Employers' Accounting for Post-employment Benefits" and SFAS No. 132, "Employers' Disclosure about Pension and other Post-retirement Benefits", would have no effect on the Company's financial position.

### xviii. Earnings per share ("EPS")

For US GAAP purposes, the Company applies SFAS No. 128, "Earnings per Share". This statement simplifies the method of computing earnings per share by replacing the primary earnings per share computation with a basic earnings per share computation. The basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. The diluted earnings per share will reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in the earnings of the entity.

	Year ended December 31,	
	2000	2001
Net income.....	Ps 6,693	Ps 464,706
Preferred stock dividends.....	(44,908)	(42,130)
(Loss) income corresponding to common stockholders	(Ps 38,215)	Ps 422,576
Basic weighted average number of common shares		
outstanding.....	8,966,752	9,025,274
Effect of dilutive securities:		
Stock options pending to exercise.....	42,215	56,169
Diluted number of common shares.....	9,008,967	9,081,443
Basic (loss) income per share.....	(Ps 0.004)	Ps 0.047
Diluted (loss) income per share.....	(Ps 0.004)	Ps 0.047

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### xix. Effect of recently issued accounting standards

In June 2000, the FASB issued SFAS No. 139, "Rescission of SFAS 53 and Amendments to SFAS 63, 89 and 121 and SOP 00-2" ("SFAS 139") which rescinds SFAS 53 on financial reporting by motion picture film producers or distributors. SFAS 139 requires public companies to follow the guidance provided by SOP 00-2.

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TV Azteca, S. A. de C. V. and Subsidiaries

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Effective January 1, 2001, the Company adopted the SOP 00-2. SOP 00-2 supersedes SFAS 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". SOP 00-2 provides additional guidance in the areas of revenue recognition, costs for abandoned projects, limitations on ultimate revenues used, impairment guidance and advertising costs. The adoption of the statement did not have a material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 supersedes APB opinion No. 16, "Business Combinations" and amends or supersedes a number of related interpretations of APB 16. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations, and changes the criteria to recognize intangible assets apart from goodwill. SFAS 141 is required to be adopted for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have a material impact in the consolidated financial statements of the Company.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supersedes APB opinion No. 17, "Intangible Assets". Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. The Company is currently evaluating the impact that adoption of SFAS 142 will have on its consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS 143 will have a material impact on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

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SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, with early application encouraged and generally are to be applied prospectively. The Company does not expect the adoption of SFAS 144 will have a material impact on the consolidated financial statements.

### xx. Cash flow information

Under US GAAP, a statement of cash flows is prepared based on provisions of SFAS 95, "Statement of Cash Flows". This statement does not provide specific guidance for the preparation of cash flow statements for price level adjusted financial statements. Cash flows from operating, investing and financing activities have been adjusted for the effects of inflation on monetary items.

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TV Azteca, S. A. de C. V. and Subsidiaries

The Company has further segregated the effects of exchange rate changes and inflationary effect on cash from other cash flow activities as provided in the following condensed cash flow statement:

	Year ended December 31,	
	2000	2001
<hr/>		
Cash flows from operating activities:		
Net income.....	Ps6,693	Ps464,706
Adjustments:		
Gain on sale of subsidiary.....	(17,797)	
Minority interest.....	(25,825)	(1,892)
Compensation expense from stock options.....	113,964	35,296
Amortization and depreciation.....	870,846	863,362
NBC settlement agreement.....	210,848	
Equity in loss of affiliates.....	278,312	522,845
Unefon stock option plan.....		54,413
Deferred income tax.....	(68,549)	(221,058)
Foreign exchange loss, net of monetary gain on NBC warrant...	(10,841)	
Unrealized foreign exchange loss.....	101,920	(294,411)
Monetary gain on financing activities.....	(325,907)	(56,947)
Net changes in working capital.....	34,693	252,217
	1,168,357	1,618,531
<hr/>		
Cash flows from investing activities:		
Acquisition of machinery and equipment.....	(169,740)	(170,185)
Exhibition rights purchased.....	(413,700)	(648,594)
Investment in affiliates of Pappas Telecasting Companies,		

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through Azteca America.....		(660,031)
Loan granted to Pappas Southern California, LLC.....		(191,124)
		-----
Net cash used in investing activities.....	(583,440)	(1,669,934)
		-----
Cash flows from financing activities:		
Debt received.....	650,864	337,422
Debt paid.....	(668,009)	(116,594)
Preferred dividend paid.....	(44,908)	(42,130)
Proceeds from stock options exercised.....	27,216	81,371
Sale of treasury shares.....		162,439
Repurchase of shares.....	(316,094)	(43,172)
Proceeds from capital stock increase.....	18,217	
Premium on issuance of capital stock.....	267,347	
Payment to NBC as settlement for warrant and bonus right....	(510,732)	
		-----
Net cash (used in) provided by financing activities.....	(576,099)	379,336
		-----
Effects of inflation and exchange rate changes on cash....	90,988	53,501
		-----
Increase in cash and cash equivalents.....	99,806	381,434
		-----
Cash and cash equivalents at beginning of period.....	1,169,631	1,269,437
		-----
Cash and cash equivalents at end of period.....	Ps1,269,437	Ps1,650,871
		=====
Supplemental disclosure:		
Cash paid during the period for:		
Interest.....	Ps731,025	Ps669,426
		=====
Income tax.....	Ps252,664	Ps81,142
		=====

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TV Azteca, S. A. de C. V. and Subsidiaries

e. Condensed balance sheets and results of operations:

The following condensed balance sheets and results of operations reflect the effects of the principal differences between Mexican GAAP and US GAAP:

CONDENSED BALANCE SHEET

At December 31,

2001

Current assets.....	Ps7,755,187
Property, machinery and equipment--Net.....	2,496,652
Television concessions--Net.....	3,742,945
Investment in Unefon.....	1,495,216

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Investment in affiliates of Pappas Telecasting Companies, through Azteca America.....	660,031
Goodwill--Net.....	750,182
Other assets.....	2,248,407
Deferred income tax assets.....	603,235
	-----
Total assets.....	Ps19,751,855
	=====
Short-term debt.....	Ps566,872
Advertising advances.....	4,639,819
Deferred income tax payable.....	306,054
Other current liabilities.....	1,325,988
	-----
Total current liabilities.....	6,838,733
	-----
Long-term debt.....	5,622,726
Exhibition rights payable.....	206,079
Deferred income tax payable.....	701,416
	-----
Total long-term liabilities.....	6,530,221
	-----
Minority interest.....	8,371
Stockholders' equity.....	6,374,530
	-----
Total liabilities and stockholders' equity.....	Ps19,751,855
	=====

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TV Azteca, S. A. de C. V. and Subsidiaries

	CONDENSED RESULTS OF OPERATIONS	
	Year ended December 31,	
	2000	2001
Net revenue.....	Ps6,039,699	Ps6,165,887
Costs and expenses:		
Programming and transmission costs.....	2,876,360	2,791,889
Selling and administrative expenses.....	1,053,674	1,046,367
Depreciation and amortization.....	870,846	863,362
NBC settlement agreement.....	210,848	
Other expense--Net.....	547,442	814,027
	-----	-----
Operating income.....	480,529	650,242
	-----	-----
Comprehensive financing cost:		
Interest expense.....	(934,488)	(770,885)
Interest income.....	188,271	239,927
Exchange (loss) income--Net.....	(118,511)	275,458

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Gain on monetary position.....	325,906	56,948
	-----	-----
Net comprehensive financing cost.....	(538,822)	(198,552)
	-----	-----
(Loss) income before minority interest and income tax benefit.	(58,293)	451,690
Minority interest.....	6,114	1,892
Income tax benefit.....	58,872	11,124
	-----	-----
Net income.....	Ps6,693	Ps464,706
	=====	=====

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UNEFON, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Report of independent accountants

Mexico City, February 24, 2003

To the Stockholders of  
Unefon, S. A. de C. V. and subsidiaries

We have audited the accompanying consolidated balance sheets of Unefon, S. A. de C. V. and its subsidiaries as of December 31, 2001 and 2002, and the related



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consolidated statements of results of operations for the period from February 1, 2000 (commencement of operations) through December 31, 2000 and for the years ended December 31, 2001 and 2002, of changes in stockholders' equity and of changes in financial position for the years ended December 31, 2000, 2001 and 2002, expressed in constant pesos of December 31, 2002 purchasing power. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained 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.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to these consolidated financial statements, the Company is currently engaged in several legal disputes with its main technology supplier and financial creditor which could significantly affect the Company's operations and its ability to repay its debt, and therefore raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Unefon, S. A. de C. V. and its subsidiaries as of December 31, 2000, 2001 and 2002, and the consolidated results of their operations for the period from February 1, 2000 (commencement of operations) through December 31, 2000 and for the years ended December 31, 2001 and 2002 and the changes in consolidated stockholders' equity and in their consolidated financial position for the years ended December 31, 2000, 2001 and 2002, in conformity with accounting principles generally accepted in Mexico.

Accounting principles generally accepted in Mexico differ in certain important respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of the consolidated net loss, expressed in pesos of December 31, 2002 purchasing power, for the years ended December 31, 2000 and 2001 and the determination of the consolidated stockholders' equity and consolidated financial position as of December 31, 2000 and 2001, also expressed in pesos of December 31, 2002 purchasing power, to the extent summarized in Note 16 to the consolidated financial statements.

PricewaterhouseCoopers

Alberto Del Castillo V. Vilchis  
Audit Partner

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Unefon, S. A. de C. V. and Subsidiaries

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 CONSOLIDATED BALANCE SHEETS

	December 31,		
	2001	2002	
	(Thousands of Mexican pesos of December 31, 2002 purchasing power)		Thousands US dollars
<b>Assets:</b>			
<b>Current:</b>			
Cash and cash equivalents.....	Ps130,955	Ps203,869	US\$ 19,52
Restricted cash (Note 10).....	164,613	159,492	15,27
Accounts receivable.....	155,111	250,218	23,96
Recoverable value added tax.....	87,441	12,604	1,20
Related parties (Note 9).....	6,651	206,054	19,73
Handset inventories.....	133,760	149,204	14,29
Other assets (Note 7).....	38,757	5,625	53
	-----	-----	-----
Total current assets.....	717,288	987,066	94,55
Property and equipment--Net (Note 4).....	3,584,539	3,406,730	326,33
Concession rights--Net (Note 5).....	4,038,578	3,881,338	371,80
Pre-operating expenses--Net (Note 6).....	656,684	580,405	55,59
Other assets--Net (Note 7).....	188,368	174,380	16,70
	-----	-----	-----
Total assets.....	Ps9,185,457	Ps9,029,919	US\$ 864,99
	=====	=====	=====
<b>Liabilities:</b>			
Bank loans (Note 8).....	Ps465,281	Ps217,962	US\$ 20,87
Nortel Networks Corporation (Note 10).....	67,333	357,859	34,28
Deferred revenue.....	80,277	222,205	21,28
Accounts payable and accrued expenses.....	628,580	701,628	67,21
Related parties (Note 9).....	316,630	797,807	76,42
	-----	-----	-----
Total current liabilities.....	1,558,101	2,297,461	220,07
Long-term bank loans (Note 8).....		100,327	9,61
Capital reduction payable to stockholders (Note 12)...	707,299	695,648	66,63
Long-term financing from Nortel Networks Corporation (Note 10).....	3,396,494	3,293,759	315,51
Related parties (Note 9).....	130,506	158,868	15,21
Other non-current liabilities.....	57,757	20,318	1,94
	-----	-----	-----
Total liabilities.....	5,850,157	6,566,381	629,00
	-----	-----	-----
<b>Stockholders' equity (Notes 1 and 12):</b>			
Capital stock authorized.....	3,769,091	3,769,091	361,04
Capital stock authorized but unpaid.....	(538,040)	(538,040)	(51,54)
	-----	-----	-----
	3,231,051	3,231,051	309,50
Premium on share subscription.....	1,561,096	1,561,096	149,54
Deficit.....	(1,456,847)	(2,328,609)	(223,06)
	-----	-----	-----
Total stockholders' equity.....	3,335,300	2,463,538	235,98
	-----	-----	-----
Contingencies (Notes 10 and 14).....			
	-----	-----	-----
Total liabilities and stockholders' equity.....	Ps9,185,457	Ps9,029,919	US\$ 864,99

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(\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed in pesos of December 31, 2002 purchasing power translated at the exchange rate of Ps10.4393 per US dollar and are not covered by the Report of Independent Accountants.

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

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Unefon, S. A. de C. V. and Subsidiaries

CONSOLIDATED STATEMENTS OF RESULTS OF OPERATIONS  
(Notes 1 and 9)

	Year ended December 31,		
	2000 (*)	2001	2002
	(Thousands of Mexican pesos of December 31, 2002 Th purchasing power, except per share amounts) US		
Revenue:			
Sale of handsets.....	Ps 303,110	Ps 603,910	Ps 597,900
Service revenue.....	34,094	607,766	1,525,517
Interconnection revenue.....	32,779	486,718	986,596
Other revenue.....	5,577	53,602	99,835
Total gross revenue.....	375,560	1,751,996	3,209,848
Less discounts on handsets.....	(55,173)	(203,808)	(171,099)
Total net revenue.....	320,387	1,548,188	3,038,749
Costs and expenses:			
Cost of handsets.....	324,313	874,405	891,171
Cost of interconnection and resale of long distance.....	28,636	218,652	367,984
Total costs.....	352,949	1,093,057	1,259,155
General and administrative expenses.....	66,832	289,929	579,970
Rentals.....	53,157	236,695	296,903
Other operating expenses.....	59,505	316,675	267,459
Total expenses.....	179,494	843,299	1,144,332
(Loss) income before depreciation and amortization.....	(212,056)	(388,168)	635,262
Depreciation and amortization.....	101,863	473,178	708,927
Loss from operations.....	(313,919)	(861,346)	(73,665)

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Other income--Net (Notes 9 and 11).....	41,649	22,049	44,770
	-----	-----	-----
Comprehensive financing result:			
Interest income.....	(6,359)	(21,752)	(5,453)
Interest expense (include US\$8,146 of interest accrued since August, 16 to December, 31 2002 of Nortel Networks Corporation debt, see Note 10).....	53,023	596,350	554,848
Amortization of debt fees and political risk insurance (Note 10).....	19,659	40,749	33,154
Exchange loss (gain)--Net.....	26,217	(132,953)	565,464
Gain on monetary position.....	(22,673)	(206,981)	(305,146)
	-----	-----	-----
	69,867	275,413	842,867
	-----	-----	-----
Net loss for the period.....	(Ps 342,137)	(Ps1,114,710)	(Ps 871,762)
	=====	=====	=====
Net loss for the period per share (Note 2p.)	(Ps 0.146)	(Ps 0.443)	(Ps 0.346)
	=====	=====	=====

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 (\*) The Company commenced operations on February 1, 2000 and all income, costs and expenses incurred during the period prior to February 1, 2000 were capitalized.

(\*\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed in pesos of December 31, 2002 purchasing power translated at the exchange rate of Ps10.4393 dollar and are not covered by the Report of Independent Accountants.

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

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Unefon, S. A. de C. V. and Subsidiaries  
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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Years ended December 31, 2000, 2001 and 2002  
 (Note 12)

	Number of common shares outstanding* (thousands)	Capital stock		Premium on share subscription	Defi
		Authorized	Unpaid		
(Thousands of Mexican pesos of December 31, 2002 purc					
Balances at December 31, 1999.....	2,340,000	Ps4,309,012	(Ps 582,647)	Ps 755,622	
Capital stock decrease of October 2, 2000.....		(582,647)	582,647		
Capital stock reduction of October 2, 2000.....		(689,858)			
Capital stock increase of					

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November 15, 2000.....		538,040	(538,040)		
Issuance of capital stock for initial public offering.....	176,129	194,544		805,474	
Comprehensive loss for the period....					(Ps 3)
Balances at December 31, 2000.....	2,516,129	3,769,091	(538,040)	1,561,096	(3)
Comprehensive loss for the period....					(1,1)
Balances at December 31, 2001.....	2,516,129	3,769,091	(538,040)	1,561,096	(1,4)
Comprehensive loss for the period....					(8)
Balances at December 31, 2002.....	2,516,129	Ps3,769,091	(Ps 538,040)	Ps1,561,096	(Ps 2,3)

\* The number of shares has been retroactively adjusted for a 6,500 for one stock split which occurred on November 15, 2000 (see Note 12).

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

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Unefon, S. A. de C. V. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December 31,		
	2000	2001	2002
	(Thousands of Mexican pesos of December 31, 2002 purchasing power)		
Operation:			
Net loss for the period	(Ps 342,137)	(Ps 1,114,710)	(Ps 871,762)
Charges to results of operations not requiring the use of resources:			
Depreciation and amortization	101,863	473,178	708,927
Interest accrued since August 1 to December 31, 2002 of Nortel Networks Corporation debt (See Note 10)			84,673
Net changes in restricted cash, accounts receivable, pre-operating expenses, other assets, accounts payable and accrued expenses	(200,209)	172,804	460,396
Resources (used in) provided by operating activities	(440,483)	(468,728)	382,234
Financing:			
Bank loans obtained (paid)		465,281	(146,992)

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Capital stock reduction	(689,858)		
Capital stock increase	194,544		
Premium on share subscription	805,474		
Debt to related parties	13,207	461,119	310,137
Financing from Nortel--Net	2,191,959	158,557	187,792
Capital stock reduction payable to shareholders	692,607	14,692	(11,650)
	-----	-----	-----
Resources provided by financing activities	3,207,933	1,099,649	339,287
	-----	-----	-----
Investment:			
Acquisition of property and equipment--Net	(2,030,329)	(1,079,038)	(648,607)
Comprehensive financing cost capitalized	(32,865)		
Pre-operating expenses	(310,434)	(11,063)	
	-----	-----	-----
Resources used in investment activities	(2,373,628)	(1,090,101)	(648,607)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents	393,822	(459,180)	72,914
Cash and cash equivalents at beginning of the year	196,313	590,135	130,955
	-----	-----	-----
Cash and cash equivalents at end of the year	Ps 590,135	Ps 130,955	Ps 203,869
	=====	=====	=====

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 (\*) The US dollar figures represent the Mexican peso amounts as of December 31, 2002 expressed in pesos of December 31, 2002 purchasing power translated at the exchange rate of Ps10.4393 per US dollar and are not covered by the Report of Independent Accountants.

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

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Unefon, S. A. de C. V. and Subsidiaries  
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Notes to the consolidated financial statements  
 Years ended December 31, 2000, 2001 and 2002

(Thousands of Mexican pesos of December 31, 2002 purchasing power, except exchange rates and number of shares)

Note 1--The company:

Unefon, S. A. de C. V. ("Unefon" or "Company") was incorporated under the laws of Mexico on January 19, 1998.

The Company is mainly engaged in the installation, operation and exploitation of a public, wireless, digital network of telecommunications services under concession rights granted by the Ministry of Communications and Transport

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("SCT") (see Note 5).

At an Extraordinary Stockholders' Meeting held on August 16, 2001, the stockholders agreed to spin-off part of the assets and liabilities pertaining to the 3.4 GHz, 7.1-7.7 GHz and 37.0-38.6 GHz frequencies, with the authorization of the SCT and consent from Nortel Networks Corporation ("Nortel"), from Operadora Unefon, S. A. de C. V., to three newly incorporated wholly owned subsidiaries of Unefon, S. A. de C. V.: Operadora de Comunicaciones, S. A. de C. V., Unefrecuencias, S. A. de C. V. and Frecuencia Movil, S. A. de C. V., respectively.

Unefon is a holding company, with no material assets or operations other than its investment in its subsidiaries described below:

Company	Operating activity	% of participation	
		Direct	Indirect
Operadora Unefon, S. A. de C. V. ("Operadora"), formerly Sistemas Profesionales de Comunicacion, S. A. de C. V.	Concessionaire for radio-electric frequency bands for fixed or mobile wireless access services	99.9%	
Servicios SPC, S. A. de C. V. ("Servicios")	Personal service company	99.9%	
Operadora SPC, S. A. de C. V. ("Operadora SPC")	Administrative personal service company (in pre-operating stage)	99.9%	
Operadora de Comunicaciones, S. A. de C. V. ("Operadora de Comunicaciones")	Concessionaire for radio-electric frequency band	99.9%	
Unefrecuencias, S. A. de C. V. ("Unefrecuencias")	Concessionaire for radio-electric frequency band (in pre-operating stage)	99.9%	
Frecuencia Movil, S. A. de C. V.	Concessionaire for radio-electric frequency band (in pre-operating stage)	99.9%	
Torres y Comunicaciones, S. A. de C. V. ("Torres") (a wholly-owned subsidiary of Operadora)	In pre-operating stage	99.9%	

On February 1, 2000, the Company began operations in the city of Toluca. At December 31, 2002 the Company had operations in fifteen cities (Toluca, Torreon, San Luis Potosi, Aguascalientes, Puebla, Leon, Guadalajara, Monterrey, Queretaro, Acapulco, Mexico City, Morelia, Tampico, Saltillo and Tuxtla Gutierrez).

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Unefon, S. A. de C. V. and Subsidiaries

The Company's revenues are dependent on providing reliable service to customers at competitive rates, the general economic conditions in the geographic regions served and the ability to effectively compete against alternative forms of telecommunications services, such as cellular and fixed line services.

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The Company is highly leveraged and may, depending on the outcome of the litigation with Nortel, need to generate significant cash flows from operations to meet its obligations on its indebtedness to Nortel (see Note 10).

### Note 2--Summary of Significant Accounting Policies:

The Company's consolidated financial statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico ("Mexican GAAP"), which differ in certain material respects from those under Accounting Principles Generally Accepted in the United States of America ("US GAAP") (see Note 16). Mexican GAAP requires that the financial statements be expressed in constant pesos of purchasing power as of the date of the most recent balance sheet presented, in this case, December 31, 2002, based on factors derived from the National Consumer Price Index ("NCPI") issued by the Banco de Mexico.

Following is a summary of the most significant accounting policies followed by the Company in preparing its consolidated financial statements:

#### a. Consolidation basis

The Company consolidates all of its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

#### b. Cash and cash equivalents

Cash and cash equivalents represent highly liquid interest-bearing deposits and investments with an original maturity of less than three months. Cash and cash equivalents are stated at cost, plus interest earned during the period.

#### c. Handset inventories

Inventories are stated at net replacement cost. Values so determined do not exceed market value.

#### d. Property and equipment

Property and equipment are expressed at restated value determined by applying factors derived from the NCPI to acquisition costs, which include capitalized comprehensive financing costs. Depreciation is calculated using the straight-line method, based on the estimated useful lives of the assets (see Note 4). Property and equipment includes Ps87,497, Ps19,876 and Ps22,011 of comprehensive financing cost capitalized in 2000, 2001 and 2002, respectively.

#### e. Concession rights

Concession rights are expressed at restated value determined by applying factors derived from the NCPI to acquisition costs, which include capitalized comprehensive financing costs. Amortization is calculated using the straight-line method over the term of the concession rights (20 years), starting from the date on which wireless telephone services commence in the cities in which the Company operates.

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Unefon, S. A. de C. V. and Subsidiaries

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Concession rights include Ps32,865 of capitalized comprehensive financing costs in 2000 (see Note 5).

### f. Pre-operating expenses

Pre-operating expenses include costs and expenses associated with the commencement of operations in the cities in which the Company will provide services, and are expressed at restated value determined by applying factors derived from the NCPI to original cost. Amortization is calculated using the straight-line method over a period of 10 years, starting from the date on which operations commence (see Note 6).

### g. Income tax and employees' statutory profit sharing

Income tax is recorded by the comprehensive assets and liability method which consists of recognizing deferred income tax on all temporary differences between the book and tax values of assets and liabilities at the date of the financial statements (see Note 13).

Deferred employees' statutory profit sharing is recorded only in respect of those temporary differences between book income and income adjusted for profit sharing purposes which it may reasonably be presumed will result in a future liability or benefit.

### h. Comprehensive income

As of January 1, 2001, Statement B-4 "Comprehensive Income", entered into effect, this statement requires that the various items making up the capital gains (losses) during the year be shown in the statement of stockholders' equity under the item of comprehensive income. Therefore, in order that the various lines of the statement of stockholders' equity could be comparable, said statement was restructured. Comprehensive loss is represented by the net loss plus the gain or loss from holding non-monetary assets, the translation adjustment arising in connection with foreign subsidiaries, and items required by specific accounting standards to be reflected in stockholders' equity but which do not constitute capital contributions, reductions or distributions. It is restated on the basis of NCPI factors. As of December 31, 2001 and 2002, comprehensive loss is integrated by the net loss for the period.

### i. Labor benefits

Seniority premiums to which employees are entitled upon termination of employment after 15 years of service are recognized as cost for the years in which their services are rendered. At December 31, 2001 and 2002, these labor liabilities were not significant, as most employees had not accumulated much seniority.

Other compensations based on length of service to which employees may be entitled in the event of dismissal or death, in accordance with the Mexican Federal Labor Law, are charged to results of operations in the year in which they become payable.

### j. Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in these currencies are stated at the Mexican peso equivalents resulting from applying exchange rates at the balance sheet date. Exchange differences arising from fluctuations in the exchange rate between the dates on which transactions are entered into and those on which they are settled, or the balance sheet date, are charged or credited to results of operations.

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k. Capital stock, premium on share subscription and result on monetary position

Capital stock is stated in terms of year-end purchasing power, and is determined by applying factors derived from the NCPI to the historical amounts.

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The premium on share subscription represents the difference between the payment for the shares subscribed and the nominal value of those shares, and is restated by applying NCPI factors.

The result on monetary position shown in concession rights, property, furniture and equipment, pre-operating expenses and results of operations represents the effects of inflation, measured in terms of the NCPI, on net monthly monetary assets and liabilities.

l. Revenue recognition

The Company sells wireless telephone services through pre-paid phone cards.

Revenue from the sale of handsets and accessories is recognized when the equipment is delivered to distributors. No revenue is recorded for the free minutes of wireless service provided to customers upon acquisition of handsets. Clients do not pay any activation fees.

Pre-paid wireless telephone services must be used in a maximum period of 30 days after prepayment, after which the right expires, except when prior to the expiration date, the client purchases at least Ps150 of additional services, at which time the latest purchase is accumulated to the unused balance, and the term is renewed for an additional 30 days.

Service revenue (including revenue recorded from pre-paid phone cards), interconnections revenue, resale of long distance, and other revenue are recognized when the related services are provided or when unused wireless services (minutes) expire.

m. Advertising costs

Advertising expenses are recorded as they accrue.

n. Stock option plan

Stock options granted to participants are given effect when the options are exercised by crediting paid-in capital stock, based on the cash received.

o. Intangible and long-lived assets

Intangible and long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

p. Net loss per share

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Net loss per share is calculated based on the weighted average number of shares outstanding during the period. The weighted average number of shares has been retroactively adjusted for a 6,500 for a stock split that occurred on November 15, 2000 (see Note 12). The weighted average number of shares outstanding for the period from February 1, 2000 (commencement of operations) through December 31, 2000 was 2,347,339 (thousands). As of December 2001 and 2002, the weighted average number of shares outstanding was 2,516,129 (thousands).

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### q. Fair value of financial instruments

The market value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable is not substantially different from their book value due to the variable interest rates and short-term maturity of the financial instruments.

The Company's long-term debt financing from Nortel is subject to interest at variable rates, and the terms are generally representative of those to which the Company had access at December 31, 2001 and 2002 for debt issuances under similar conditions and maturities (see Note 10).

### r. Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

### s. New accounting principles

In 2001, the MIPA issued new Statement C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments", which replaces original Statements C-9 and C-12, both dating back to 1974, and supersedes Circulars 46, 47, 48. Statement C-9 is compulsory for periods beginning after January 1, 2003. However, early adoption is recommended. The purposes of the statement is to establish particular rules for valuation, presentation and disclosure of liabilities, as well as provisions to determine special rules for valuation, as well as disclosure of contingent assets and liabilities and provide rules for the disclosure of commitments acquired by the Company as part of its daily operations.

In January 2002, the MIPA issued new Statement C-8 "Intangible Assets", which replaces original Statement C-8, in effect from 1976. The provisions of this statement are compulsory for financial statements for years beginning after January 1, 2003. However, early adoption is recommended. The most relevant aspects of this statement are that: i) specific guidelines and criteria are established for accounting treatment of research and development costs; ii) preoperating expenses fully identifiable as research must be recorded as expenses for the period, and iii) valuation rules are based on a logical sequence of the life cycle of the asset, considering the initial recognition and valuation of the intangible assets, recognition of an expense, subsequent disbursements and valuation following initial recognition.

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Additionally, the MIPA issued Statement C-15 "Deterioration in the Value of Long-Lasting Assets and Their Disposal", which will be effective as of January 1, 2004, although early adoption is recommended. This statement: a) provides criteria that allow the identification of situations showing evidence of deterioration in the value of long-lasting assets, both tangible and intangible; b) defines the rule for calculating and recording of losses arising from the deterioration of assets and their reversion; c) establishes the rules for presentation and disclosure of assets whose value has deteriorated of whose deterioration has reversed; and d) rules are provided for the presentation and disclosure applicable to the discontinuation of operations.

Management is currently evaluating the impact that the adoption of these statements will have on its consolidated financial statements.

t. Reclassifications

Some 2000 and 2001 figures were reclassified to conform to 2002 classifications.

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Note 3--Foreign currency position:

At December 31, 2001 and 2002, the Company had the following monetary assets and liabilities denominated in thousands of US dollars, valued at the exchange rates of Ps9.17 and Ps10.439 per US dollar, respectively.

	December 31,	
	2001	2002
Assets.....	US\$ 16,779	US\$ 24,903
Liabilities.....	(468,935)	(629,005)
Net short position.....	US\$ (452,156)	US\$ (604,102)

At February 24, 2003, date of issuance of these consolidated financial statements, the exchange rate was Ps10.98 per US dollar.

Below is a summary of the Company's principal foreign currency transactions, expressed in thousands of US dollars:

	For the year ended December 31,		
	2000	2001	2002
Fees.....	US\$ 920	US\$ 1,367	US\$ 395

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Interest expense.....	US\$ 27,064	US\$46,693	US\$ 19,442
Inventory purchases.....	US\$271,766	US\$85,697	US\$ 64,103
Property and equipment acquisitions.....	US\$198,794	US\$70,232	US\$151,664

Note 4--Property and equipment:

	December 31,		Estimated useful life  (years)
	2001	2002	
Buildings.....	Ps 254,034	Ps 254,036	20
Leasehold improvements.....	90,543	95,850	10
Communication equipment.....	83,367	102,245	3
Office furniture and equipment.....	73,153	75,038	10
Transportation equipment.....	19,151	17,962	4
Computer equipment and software.....	265,653	373,776	3
Transmission equipment.....	1,952,629	2,973,164	10
Machinery and equipment.....	84,357	94,925	10
	-----	-----	
Accumulated depreciation.....	2,822,887 (339,620)	3,986,996 (810,418)	
	-----	-----	
Land.....	2,483,267 39,691	3,176,578 39,598	
Transmission equipment on installation process-- Nortel.....	923,428		
Construction in progress others.....	138,153	190,554	
	-----	-----	
	Ps3,584,539	Ps3,406,730	
	=====	=====	

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On September 7, 1999, the Company signed a procurement agreement, a financing agreement, a letter agreement, and certain other related agreements with Nortel (see Note 10). Under the terms of the procurement agreement, 15% of the purchase price was due at the time the purchase orders were issued, 55% when the goods were shipped, 20% at the time of provisional acceptance, and the remaining 10% when the final written acceptance was issued. Title of equipment was to be transferred upon receipt of the final written acceptance.

Under the terms of the financing and other related agreements, which are under dispute and may or may not be in force, Nortel has a first priority security interest in all property of the Company and its subsidiaries and a pledge on

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Unefon's shares in Operadora de Comunicaciones, Unefrecuencias and Torres.

### Note 5--Concession rights:

On May 18, 1998, the Company received formal notification from the Federal Telecommunications Commission ("COFETEL") granting the Company national concessions for the use of 80 MHz of radio frequencies. These concessions give the Company the right to use a bandwidth of 30 MHz within the 1.9 GHz frequency range, and two bandwidths of 25 MHz within the 3.4 GHz frequency range in each of the nine regions of Mexico (jointly referred to as "wireless concessions"). Additionally, on June 23, 1998, the SCT issued the Company a concession for the installation, operation and exploitation of a public telecommunications network (the "network concession").

Wireless concessions allow the Company to exclusively use bandwidth blocks for which it is licensed to provide mobile or fixed telephone services. The network concession allows the Company to operate a public telephone network. The Company may provide specific services indicated in the network concession and the wireless concessions, which include i) local telephone services; ii) marketing, reception and transmission of any kind of information; and iii) access to videoconferencing, audio, video and information networks.

The Company paid the equivalent of 20% of the concession value on June 30, 1998, and was given an extension to June 15, 1999 to pay the remaining 80%. On June 14, 1999, the Company paid the Mexican Government the remaining 80% of the concession cost plus interest accruing through that date.

In April 1999 and October 1999, the Company acquired concessions for the use of a bandwidth of 112 MHz within the 37.0-38.6 GHz frequencies and the 7.1-7.7 GHz frequencies, amounting to Ps39,373 (Ps30,573 historical).

The Company's concessions were granted for a period of twenty years and are renewable if certain requirements are complied with.

Under the provisions of the 1995 Federal Telecommunications Law and the Foreign Investments Law, telecommunications concessions may only be granted to Mexican individuals or entities, in which foreign investment may not exceed 49% of the capital stock, or which are not controlled by foreign entities, except, in the case of concessions for cellular communication services, where foreign investment may exceed 49% of the capital stock, and there is approval from the National Foreign Investments Commission.

Under the 1995 Federal Telecommunications Law, a concession may be terminated in the following cases: i) when the term expires; ii) when the concessionaire cancels the concession; iii) when the concession is terminated due to noncompliance with the terms of the concessions and applicable law; iv) expropriation; or v) when there is dissolution or bankruptcy of the concession holder.

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Below is a breakdown of the concession rights:

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	December 31,	
	2001	2002
Concession for 1.9 GHz frequency.....	Ps2,302,780	Ps2,302,780
Capitalized interest net of result on monetary position	158,097	158,097
Effect of restatement.....	1,033,442	1,033,442
	-----	-----
	3,494,319	3,494,319
Less-accrued amortization:		
Concession for 1.9 GHz frequency.....	(172,265)	(329,505)
	-----	-----
	3,322,054	3,164,814
Concession for 3.4 GHz frequency.....	450,482	450,482
Capitalized interest net of result on monetary position	24,857	24,857
Effect of restatement.....	201,810	201,810
	-----	-----
	677,149	677,149
Concessions for 37.0-38.6 GHz frequencies.....	16,639	16,639
Capitalized interest net of result on monetary position	477	477
Effect of restatement.....	3,561	3,561
	-----	-----
	20,677	20,677
Concessions for 7.1-7.7 GHz frequencies.....	15,478	15,478
Capitalized interest net of result on monetary position	431	431
Effect of restatement.....	2,789	2,789
	-----	-----
	18,698	18,698
	-----	-----
	Ps4,038,578	Ps3,881,338
	=====	=====

Under the concession rights, the Company is subject to certain coverage commitments (mainly the provision of services in all 9 regions into which the concession titles are divided into). The coverage commitments are divided into five phases, all of which must be completed during a term of three through five years. As of December 31, 2002, the Company had not met the coverage commitments. However, it is in the process of obtaining an extension.

In September 2000, the SCT awarded the Company a concession (at no cost) to install, operate and exploit the public telecommunications network to provide national and international long distance telephone service. Until the public telecommunications network is in operation, the Company is able to provide national long distance services through agreements with other service providers. This concession is for a 30 years period and can be extended for an additional 30 year period at the SCT's discretion, and assuming compliance by the Company with the conditions of the concession.

During December 1999, Radiocel, S. A. de C. V. ("Radiocel") made an advance payment of Ps19,285 to purchase the 37.0-38.6 GHz concessions. In November 2000 Radiocel transferred its right to acquire the concessions to 38 GHTZ, S. A. de C. V. ("38 GHTZ"). Both Radiocel and 38 GHTZ are related parties.

In October 2000 and November 2000, the Company entered into: i) promissory sale agreements with Telefrecuencias, S. A. de C. V. ("Telefrecuencias") and Transmisiones y Frecuencias, S. A. de C. V. ("Transmisiones y Frecuencias")

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(related parties), for the transfer of the concessions relating to Operadora's right to use the 3.4 GHz and 7.1-7.7 GHz frequencies, respectively, (ii) operations agreements with Telefrecuencias and Transmisiones y Frecuencias; and (iii) distribution agreements with 38 GHTz. Each of these agreements will be terminated when the final transfers mentioned in the promissory sale agreement are realized.

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During the year ended December 31, 2000, the Company recognized Ps13,678 as revenue for the operating and distribution agreements described above. This revenue was canceled in 2001.

During 2001, the Company and Telefrecuencias, Transmisiones y Frecuencias and 38 GHTZ, decided to terminate the promissory sale and operation agreements without obligation or penalty for any of them.

Note 6--Pre-operating expenses:

	December 31,	
	2001	2002
Administrative expenses.....	Ps239,027	Ps239,027
Leasing.....	66,444	66,444
Fees.....	195,015	195,015
Advertising expenses.....	32,051	32,051
Depreciation.....	28,941	28,941
Political risk insurance.....	33,177	33,177
Exchange loss--Net.....	21,259	21,259
Interest expense--Net.....	157,858	157,858
Commissions.....	54,808	54,808
Gain on monetary position.....	(68,441)	(68,441)
Other expenses (income)--Net.....	(14,441)	(14,441)
	745,698	745,698
Less--Accumulated amortization.....	(89,014)	(165,293)
	Ps656,684	Ps580,405

Note 7--Other assets:

	December 31,	
	2001	2002
-----		



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Current balances:

Pre-paid political risk insurance (Note 10)....	Ps 19,504	Ps --	
Advance payments.....	17,479	788	
Other accounts receivable.....	1,774	4,837	
	Ps 38,757	Ps 5,625	
	=====	=====	

Long-term balances:

Arrangement fee (Note 10).....	Ps 90,306	Ps 63,150	
Prepaid expenses.....	45,542	50,099	
SCT fees for assigned telephone numbers.....	23,660	21,030	
Guarantee deposits.....	4,807	17,330	
Other.....	24,053	22,771	
	Ps 188,368	Ps 174,380	
	=====	=====	

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Note 8--Bank loans:

At December 31, 2002 the Company had the following direct bank loans:

Bank	Amount	Interest rate	Due date
	(thousands)		
<b>Short term</b>			
Banco Inbursa, S. A.....	US\$ 3,921	11%	June, 2003
Banco Inbursa, S. A.....	8,180	11%	June, 2003
STC Capital Corp.....	8,778	20%	February, 2003
	20,879		
<b>Long term</b>			
STC Capital Corp.....	8,000	20%	August, 2004
Others.....	1,611		
	9,611		
<b>Total.....</b>	<b>US\$30,490</b>		
	=====		

In December 2000, Unefon's principal shareholders, TV Azteca and Mr. Saba, agreed in a shareholders' undertaking to provide Unefon up to US\$35,000 in the aggregate by way of either equity or subordinated debt in the event Unefon had liquidity shortfalls in 2001 or 2002. In such event, TV Azteca and Mr. Saba would be jointly and severally obligated to make additional funds available to Unefon. On December 20, 2002, Nortel notified TV Azteca and Mr. Saba of its view that Unefon's non-payment of the August 2002 interest payment triggered

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their joint and several obligation to make additional funds available to Unefon up to an aggregate amount of US\$35,000 as provided in the shareholders' undertaking. TV Azteca and Mr. Saba dispute Nortel's contention that their funding obligation has been triggered, asserting that Nortel has materially breached the finance agreement and the procurement agreement, thereby excusing Unefon from performance of its obligations under these agreements and, therefore, that TV Azteca and Mr. Saba are excused from performance of their obligations under the shareholders' undertaking. TV Azteca and Mr. Saba also assert that, even if their funding obligation has been triggered, they have satisfied their obligations under the shareholders' undertaking by making up to US\$35,800 in additional funds available to or on behalf of Unefon.

In July 2001, TV Azteca and Mr. Saba announced their intention to provide credit support to Unefon for up to US\$80,000 cash. As of January 31, 2003, TV Azteca had paid US\$17,700 to certain creditors of Unefon pursuant to this credit support and it had outstanding credit support obligations in the amount of US\$12,100 . TV Azteca has suspended any further credit support to Unefon in light of Unefon's dispute with Nortel.

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Note 9--Related party balances and transactions:

	December 31,	
	2001	2002
Short-term balances:		
-----		
Accounts receivable:		
Elektra, S. A. de C. V. ("Elektra").....		Ps109,102
Grupo Hecali, S. A. de C. V.....	Ps 6,553	
TV Azteca.....		78,198
Grupo Telecosmos.....		18,754
Others.....	98	
	Ps 6,651	Ps206,054
	=====	=====
Accounts payable:		
Stockholders.....		Ps384,166
Grupo Alsavision, S. A. de C. V. ("Grupo Alsavision").	Ps175,533	143,060
Elektra.....	116,895	240,095
TV Azteca.....	21,484	16,692
Others.....	2,718	13,794
	Ps316,630	Ps797,807
	=====	=====
Long-term balances:		
-----		
Accounts payable:		
Elektra.....	Ps 21,970	Ps 65,429
TV Azteca.....	88,114	74,154

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38 GHZ (Note 5).....	20,422	19,285
	-----	-----
	Ps130,506	Ps158,868
	=====	=====

The most important transactions with related parties are summarized as follows:

	For the year ended December 31,		
	-----		
	2000	2001	2002
	-----		
Sales of handsets and accessories.....	Ps187,746	Ps140,477	Ps281,532
	=====	=====	=====
Other income--Net (Note 5).....	Ps 13,678		
	=====		
Administrative expenses.....	Ps 11,908		
	=====		
Rental expense.....	Ps 21,900	Ps 23,165	Ps 24,865
	=====	=====	=====
Interest expense (*).....	Ps 8,411	Ps 16,884	Ps 79,547
	=====	=====	=====
Advertising expenses.....	Ps 11,125	Ps 65,100	Ps 65,742
	=====	=====	=====
Commissions on prepaid cards.....	Ps 2,162	Ps 14,815	Ps 55,357
	=====	=====	=====
Purchases of telephone handsets.....	Ps 89,100	Ps127,627	Ps244,267
	=====	=====	=====
Sale of handsets commission.....		Ps 52,080	Ps 57,034
		=====	=====

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 (\*) This interest was accrued during 2000, 2001 and Ps 48,843 in 2002 in connection with the capital reduction payable to stockholders (see Note 12).  
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Marketing, Distribution and Lease agreements--Grupo Elektra:

In June 1998, the Company entered into a 10 year agreement with Elektra Comercial, S. A. de C. V., T.H.E.O.N.E, S. A. de C. V., Salinas y Rocha, S. A. de C. V. and Grupo Hecali, S. A. de C. V. (collectively "Grupo Elektra") for the marketing and distribution of Unefon's services in Grupo Elektra's national network of stores in Mexico. This agreement was amended in October 1999, November 2000 and December 2000. The current agreement with Grupo Elektra compensates Grupo Elektra based on a percentage of revenues generated from the sales of handsets, airtime sold in its stores and net interconnection from customers acquired by Unefon through Grupo Elektra.

As compensation for Grupo Elektra services, the Company has agreed to pay Grupo Elektra:

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- .. The greater of a 20% discount of the value of the handset or 150 pesos discount per handset (indexed annually by the NCPI).
- .. 5.8% of airtime sold at Grupo Elektra stores for use on Unefon's network through prepaid cards. During the year ended December 31, 2000, 2001 and 2002, the Company accrued commissions of Ps2,162, Ps14,815 and Ps19,196, respectively.
- .. 5.8% of the net interconnection revenue from "calling party pays" subscribers signed-up through Grupo Elektra stores. Net interconnection revenue is defined as interconnection revenue minus cost of interconnection. During 2000, 2001 and 2002, the Company accrued commissions of Ps28, Ps6,040 and Ps8,830, respectively.

In accordance with a ten-year lease agreement dated November 3, 2000, Grupo Elektra receives an annual fee payment of US\$3,000 for each of the Grupo Elektra stores at which the Company installs a transmission base or any other equipment. The Company recorded Ps246, Ps265 and Ps282 for fees of this nature during the year ended December 31, 2000, 2001 and 2002, respectively.

Under the terms of the agreements, the Company will defer payment of amounts related to airtime, interconnection and lease space accrued in 2000, 2001 and 2002 until the end of 2004. Amounts accrued in 2003 and 2004 will be payable in 2005. All amounts deferred under these agreements accrue interest at a rate equivalent to Grupo Elektra's average annual interest rate on its peso denominated debt. Starting in 2005, these payments will be made as they accrue.

### "Credito Plus":

In November 1, 2000 the Company entered a 5 year agreement with Grupo Elektra, as an alternative to promote and sell handsets and airtime through "Credito Plus". These agreements do not imply novation, switch, modification or cancellation of the Grupo Elektra agreement mentioned above.

Unefon will pay a 16.5% commission on prepaid air time sold inside Elektra stores to be used on Unefon's Network. The commissions will be paid on an accrued basis. During 2000, the amount was not significant. In 2001 and 2002, Operadora paid Ps9,096 and Ps17,263, respectively.

### Advertising Agreement--TV Azteca:

In June 1998, the Company entered into a 10 year agreement with TV Azteca under which TV Azteca is to provide the Company with airtime on its two national television channels, Azteca 7 and Azteca 13, in Mexico for Unefon's advertising campaigns. The agreement with TV Azteca was amended in October 1999 and in March 2001.

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The principal terms and conditions of the TV Azteca agreement include:

- .. TV Azteca will supply Unefon with advertising spots totaling an aggregate of 120,000 Gross Rating Points ("GRPs") over the term of the agreement, up to a

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maximum of 35,000 GRPs per year. For purposes of the agreement, GRPs equal the number of total rating points obtained in 60 second transmission of commercial messages. Up to 30% of these GRPs may be used during prime-time, which is defined in the agreement as 7:00 p.m. to 11:00 p.m., Monday through Friday, and 6:00 p.m. to 11:00 p.m., Saturday and Sunday. Unefon can only use the GRPs through December 2009;

- .. Unefon will pay TV Azteca 3.0% of its gross revenues up to maximum of US\$200,000. GRPs used by the Company are billed by TV Azteca in accordance with the terms of the agreement as the GRPs are consumed on a rate schedule set forth in the agreement, which provides less expensive GRPs initially and more expensive GRPs over the term of the agreement. Pursuant to the agreement, Unefon has elected to defer payments due in 2000, 2001 and 2002 and to make these payments in four equal semi-annual installments during 2003 and 2004, with the first payment due in June 2003. The deferred payments accrue interest at an annual interest rate of 12%. Starting in 2003, Unefon's payments to TV Azteca are due on a current basis. At December 31, 2002, the aggregate deferred payments equaled US\$15,700 (including interest);
- .. TV Azteca's right to payment under the agreement is subject to compliance by Unefon with its payment obligations under the finance agreement with Nortel; and
- .. Pursuant to the advertising agreement, Unefon's failure to pay advances will not be considered a default by Unefon under the agreement. However, TV Azteca will be able to suspend the provision of television services to Unefon after Unefon's continued failure to pay for one year.

During the year ended December 31, 2000, 2001 and 2002, the Company received Ps11,009, Ps70,010 and Ps80,357, respectively, in advertising under the terms of this agreement. Of the 2000 amount Ps4,530 was recorded as preoperating expenses and Ps6,479 in results of operations. The amounts for 2001 and 2002 were recorded in results of operations.

### TV Azteca lease agreement:

On May 22, 1998, the Company signed a building lease agreement with TV Azteca for its headquarters in Mexico City for a term of ten years with a one-time right to renew for an additional ten year term. The leased building consists of 8,607 square meters of office space and 300 parking spaces, for which the Company pays Ps2,072 plus value added tax monthly. The lease payment is adjusted monthly by applying NCPI factors.

### Grupo Alsavision loan

During 2001 and 2002, the Company entered into promissory notes payable to Grupo Alsavision. As of December 31, 2001 and 2002, the Company had outstanding balances of US\$19,000 and US\$13,000, respectively.

### Stockholder loans

As of December 31, 2002, the Company had received short-term stockholder loans in an aggregate amount of US\$36,800.

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Note 10--Long-term financing from Nortel:

Operadora signed a financing agreement with Nortel for a total of up to US\$618,000 available in two tranches. Tranche "A" was for US\$408 million (of which US\$135,000 was to finance working capital requirements) and was available from November 15, 1999 through May 15, 2002. Tranche "B" was for US\$210,000 (of which US\$35,000 was to finance working capital requirements) and was suppose to be available from May 15, 2002 through May 15, 2003, or earlier in the event that Tranche "A" had been utilized. Tranche "B" was available, on a dollar-by-dollar basis as Tranche "A" was syndicated.

As of December 31, 2002, Operadora drew down US\$382,900 from Tranche "A" and US\$14,500 of Tranche "B", totaling US\$397,400. On December 27, 2000, Operadora made a mandatory prepayment amounting to US\$22,600. The prepayment was required as a result of the proceeds received from the Company's initial public offering (see Note 12).

On September 21, 2001, Operadora made another prepayment amounting to US\$25,000, in order to make available Tranche "B".

At December 31, 2001 and 2002, long-term debt related to this agreement was Ps3,396,494 and Ps3,293,759, respectively (US\$349,800 and US\$315,500, respectively).

The interest rate on this agreement is defined as LIBOR plus a sovereign spread, plus an applicable margin. In general terms, the sovereign spread is the difference between the interest rate paid on the sovereign debt issued by the Mexican Government and the debt issued by the US Treasury Department. At December 31, 2001 and 2002, the interest rate was 7.8% and 6.8%, respectively.

Given the legal dispute between Unefon and Nortel, the Company has decided to record an interest provision amounting to US\$8,111 equivalent to the interest that would have accrued from August 15 to December 31, 2002. Such provision has been created due to the possibility that exists of Unefon becoming obligated to pay such amounts, in the event that a judicial ruling relative to the aforementioned dispute is issued by a competent authority.

The agreement required Operadora to refrain from: i) incurring any debt not expressly permitted in the terms of the agreement; ii) disposing of assets outside the ordinary course of business; iii) granting liens without the previous consent of the creditors; iv) making restricted payments dividend and other payments; v) merging or investing in other companies without the previous consent of Nortel, and vi) entering into certain operations with related parties, unless previously authorized by Nortel.

Under the financing agreement, an event of default would occur and the financing agreement would become due in the event of the occurrence of any of the following events: a) failure to pay the principal within a grace period of five calendar days; b) failure to pay any other amount within a period of grace of ten calendar days; c) any statement made by Unefon which is incorrect or false or which is not corrected within a period of 30 calendar days; d) any event of noncompliance with the obligations for investment of capital; e) noncompliance with the requirement to keep certain amounts of money in the "debt service reserve account"; f) when the political risk insurance ceases to be in effect; g) noncompliance with any of the requirements, and failure to resolve said noncompliance in a period of 30 calendar days; h) when any concession is revoked, suspended, etc.; i) noncompliance in connection with any other debt in an amount exceeding US\$10 million dollars; j) any change in

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shareholding control; and k) advance termination of the TV Azteca or Grupo Elektra agreements.

On November 14, 2000, Operadora obtained the consent of Nortel with respect to the capital reduction of the 25,000 Series "A" and 25,000 Series "B" shares approved by the Operadora's shareholders in

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October 2, 2000 (see Note 12), and the timing of the Company's proposed initial public offering (see Note 12).

An arrangement fee of US\$11,700 payable on May 15, 2001 was required for obtaining the Tranche "A" loan. The arrangement fee accrues interest at the LIBOR plus 200 base points. The arrangement fee plus interest accrued was paid on June 2001. The arrangement fee on the Tranche "B" was payable whenever the facility became available.

Operadora was also required to pay a commitment fee: i) on the unutilized amounts of Tranche "A" and ii) on Tranche "B" as from the date on which the amounts in question become available. At December 31, 2002 Operadora paid US\$355,000 related to Tranche "A" (US\$545,000 related to Tranche "A" at December 31, 2001 and US\$3,600 at December 31, 2000).

The financing agreement required the Company to pay on behalf of Nortel the costs incurred by Nortel in the acquisition of political risk insurance. Payments were due on a semi-annually basis. Those amounts are amortized using the straight-line method over the term specified in the insurance contract.

The financing agreement required the Company to make quarterly deposits beginning from December 31, 1999 into a debt service reserve account in order to guarantee principal and interest payments. At December 31, 2001 and 2002, the balance of such account was Ps164,613 and Ps159,492, respectively, and is presented as restricted cash in the balance sheet.

According to the financing agreement the future maturities of the long-term financing from Nortel at December 31, 2001 and 2002 are as follows:

	December 31,	
	2001	2002
2003 Ps	332,856	
2004	658,920	Ps 708,414
2005	2,404,718	2,585,345
	-----	-----
	Ps3,396,494	Ps3,293,759
	=====	=====

The balance of the long term financing with Nortel as of December 31, 2002 has been included as a long-term liability in the consolidated balance sheet based

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on the original repayment terms of the financing agreement. It is possible, however, that as part of the resolution of the legal disputes with Nortel described below, these amounts might have to be repaid within a year from the balance sheet date. Management is not in a position to anticipate the final outcome of this litigation.

At December 31, 2001 and 2002, the Company had no financial derivative instruments to protect itself against exchange and interest rate fluctuations.

The Nortel financing agreement includes certain affirmative and negative covenants and maintenance of certain financial conditions, with which Operadora and its subsidiaries were in compliance until December 31, 2001.

### Legal dispute

Unefon and Nortel are currently engaged in disputes over each party's compliance with the terms and conditions of the finance agreement, letter agreement, procurement agreement, and other related agreements entered into by the parties and certain of their shareholders and affiliates.

Unefon asserts that Nortel has not fulfilled its obligations under the finance agreement, letter agreement and procurement agreement. With respect to the finance and letter agreements, Unefon has asserted, among other things, that Nortel breached its obligation to make available to Unefon the second loan tranche under the finance agreement in the amount of US\$210,000. Unefon contends that Nortel's failure to advance this additional financing has limited Unefon's ability to build out its network, to grow

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its business in accordance with its business plan and to realize the revenues and profits related to such growth and needed to repay the first loan tranche under the finance agreement. With respect to the procurement agreement, Unefon asserts, among other things, that Nortel failed to properly design and construct the network and failed to provide required and appropriate maintenance and support. Unefon also contends that the settlement agreement signed in July 2002 never became effective because Nortel failed to perform the pre-conditions to its effectiveness. Even to the extent that the settlement agreement became effective, Unefon contends that Nortel failed to perform its obligations thereunder.

As a result of Nortel's alleged breaches, Unefon withheld a US\$6,000 interest payment due to Nortel in August 2002 and has asserted that it is relieved of its payment obligations under the finance agreement by reason of Nortel's breaches.

On August 28, 2002, Nortel sent Unefon a notice alleging that Unefon was in default under the finance agreement due to its failure to make the foregoing interest payment. Nortel also alleged that the proposed spin-off by TV Azteca of its 46.5% stake in Unefon would be deemed to be a change in control under the terms of the finance agreement, which also would constitute a default under the finance agreement unless Nortel consented to such action.

On September 9, 2002, Unefon filed a lawsuit against Nortel in the Supreme Court of the State of New York seeking damages and lost profits in the amount



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of US\$900.0 million. Unefon alleged that Nortel had breached the finance agreement and related letter agreement by failing to advance the second loan tranche of \$210.0 million. Unefon also alleged that Nortel had failed to comply with its obligation to pursue syndication of the first loan tranche in a diligent and timely manner, applying its best efforts consistent with standards of commercial reasonableness. Unefon alleged that Nortel's breach had caused Unefon damages, including, among others, lost profits and a diminution in equity value of Unefon and had relieved Unefon of its payment obligations under the finance agreement. As an alternative remedy, Unefon sought specific performance of Nortel's obligation to lend Unefon up to US\$210,000 from the second loan tranche under the finance agreement.

On September 9, 2002, Nortel notified Unefon that based on Unefon's alleged default, Nortel was accelerating all amounts owed by Unefon under the finance agreement, which as of the date of the letter were US\$356,000 in principal and interest. In addition, Nortel informed Unefon that it was terminating the procurement agreement as a result of Unefon's alleged default under the finance agreement.

On September 20, 2002, Nortel filed an answer and counterclaim in the New York Supreme Court action commenced by Unefon in which Nortel asserted, among other things, that it had not breached the finance agreement and related letter agreement and that the remedies sought by Unefon were not available under the finance agreement, the procurement agreement or applicable law. Nortel's counterclaim was based on Unefon's non-payment of the August 2002 interest payment and Nortel sought acceleration and immediate payment of all amounts allegedly due to Nortel under the finance agreement. On October 1, 2002, Unefon answered Nortel's counterclaim and denied the allegations offered in support thereof.

On November 11, 2002, Unefon filed a demand for arbitration under the procurement agreement, as well as the July 2002 settlement agreement, before the American Arbitration Association in New York City. In its demand, Unefon asserted numerous breaches by Nortel of its obligations under these agreements, including design and construction flaws, failure to fulfill software obligations, maintenance failures, failure to provide financing and other economic benefits and refusal to deliver equipment for which Unefon has paid. Unefon seeks damages and an order directing Nortel to deliver immediately all

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equipment for which Unefon has paid. On December 24, 2002, Nortel filed an answer denying liability and asserting counterclaims based on alleged breaches by Unefon of its payment obligations under the procurement agreement and requested the arbitration tribunal to award damages in the amount of at least US\$47.0 million.

On November 11, 2002, Nortel moved for summary judgment on its counterclaim relating to the non-payment of interest. On December 11, 2002, Unefon moved for partial summary judgment on its claim that Nortel breached the finance agreement, and moved to amend its complaint to assert claims for fraud and intentional misrepresentation relating to Nortel's willingness to lend the second loan tranche, including Nortel's willingness to seek syndication of the first loan tranche, and to assert two affirmative defenses: i) that Nortel's fraudulent inducement bars Nortel from any relief under the finance agreement

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or procurement agreement and ii) that Unefon is excused from performance under the finance agreement by virtue of Nortel's breaches of the finance agreement and procurement agreement. Unefon also sought a stay of the action pending resolution of the arbitration commenced by Unefon against Nortel, as described above. On January 14, 2003, Nortel filed papers opposing Unefon's motions. Unefon's reply on its cross motions was presented on February 24, 2003.

On November 29, 2002, Unefon and certain of its affiliates commenced an action against Nortel and others in civil court in Mexico City seeking a declaration of the parties' rights under pledge agreements pursuant to which Unefon's and the affiliates' stock had been pledged to Nortel as security to the loans made under the finance agreement. Unefon and its affiliates seek, among other things, declarations that Nortel is disproportionately collateralized and that certain provisions of the stock pledge agreements are void under Article 198 of the Mexican General Commercial Companies Law (which voids any agreement which restricts the free exercise of shareholder voting rights).

On December 12, 2002, Nortel filed a second, separate lawsuit in the Supreme Court of the State of New York seeking authorization from the Court, pursuant to the stock pledge agreement, to sell the shares of Operadora Unefon and Servicios that were pledged to secure its indebtedness, or, in the alternative, authorization to take appropriate steps to obtain control over the management and business of Unefon. On January 3, 2003, Unefon filed a motion to dismiss this action on jurisdictional grounds and on the basis of the prior Mexican action commenced by it against Nortel in regard to the pledge agreements. The parties have stipulated that Nortel will not take any further action to foreclose on the shares until such motion is decided.

In January 2003, Nortel requested the bankruptcy of Unefon before a Mexican court. Unefon has challenged this request and Nortel's bankruptcy claim has been suspended pending resolution of this dispute.

Note 11--Agreements with MATC Digital:

In October 1999, Torres and MATC Digital, S. de R. L. de C. V. ("MATC") entered into a construction agreement with Operadora in which Operadora agreed to build a certain number of communication towers.

In May 2000, Unefon, Operadora and Torres entered into the following agreements with MATC and American Tower Corporation ("ATC"), the parent company of MATC:

- .. Build-to-Suit agreement between MATC and Operadora. Pursuant to this agreement, the parties agreed that MATC would find and/or build tower sites for Operadora in specifically designated locations in Mexico.

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- .. Master Lease agreement between Torres and Operadora. Pursuant to this agreement, the parties agreed that Operadora would lease space from MATC within tower sites built (under the terms of the Build-to-Suit agreement) or owned or managed by MATC.
- .. Co-ownership agreement between MATC and Torres. Pursuant to this agreement, the parties agreed to co-own, on an equal 50%-50% basis, tower sites built

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by MATC and requested by Operadora under the terms of the Build-to-Suit agreement.

In December 2000 the Company and MATC entered into amended and restated Build-to-Suit and Master Lease agreements and into a Termination agreement to terminate and unwind the Co-ownership agreement.

### Termination agreement:

In connection with the termination and unwinding of the Co-ownership agreement the parties agreed to treat all build-to-suit sites and single tenant rooftop sites constructed pursuant to the original Build to Suit agreement as if they had originally been designated as excluded build to Suit sites. As a result MATC became the sole owner of all rights, title and interest in and to the Co-ownership rights and the Co-ownership assets.

The consummation of the termination of the Co-ownership agreement and the Amended and Restated Build-to-Suit and Master Lease agreements was scheduled to occur in two closings. At the initial closing on December 8, 2000, MATC paid US\$10,400 to the Operadora which consisted of the termination fee of US\$4,500 plus US\$7,000 representing Unefon's good faith estimate of the reimbursable costs less US\$1,100 representing MATC's good faith estimate of the aggregate prior rent. The termination fee received was recorded as other income in the results of operations.

At the final closing, the parties will deliver any amounts due relating to the reimbursable cost adjustment and the aggregate prior rent adjustment.

Through December 31, 2001 and 2002, the Company had incurred costs of approximately Ps206 million and Ps173 million in connection with the construction of the communications towers. The amount received from MATC as payment for reimbursable costs plus accrued rents (Ps238 million and Ps201 million) has been offset against the amount incurred by the Company in its balance sheet included in accounts payable and accrued expenses at December 31, 2001 and 2002, respectively.

### Amended and Restated Build-to-Suit and Master Lease Agreements:

The Amended and Restated Build-to-Suit agreement states that MATC: a) will acquire, develop and/or build within search rings identified by the Company all new Build-to-Suit sites during the term of the agreement and that the Company shall lease certain space from MATC pursuant to terms provided in the Amended and Restated Master Lease Agreement; b) identify space on third party existing sites within the search rings identified by the Company; c) identify, investigate and develop space on MATC existing sites within search rings identified by the Company and if such site is selected lease certain space from MATC, and d) perform the searches as set forth in the agreement, as applicable to each site.

The Company is obligated to request at least 400 Build-to-Suit sites during the term of the agreement. Under the terms of the Amended and Restated Build-to-Suit agreement the Company, ATC and MATC agreed to increase the maximum obligation, as defined in the Agreement, to 600 Build-to-Suit sites.

MATC has the exclusive right to perform services for the Company and its subsidiaries until the earlier of the expiration of the agreement (December 31, 2005) or the date upon which the Company has requested from MATC the 1000th Build-to-Suit site that will be credited toward the maximum obligation.

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Under the Amended and Restated Master Lease Agreement, the Company agreed to lease space from MATC within equipment shelters constructed and owned by MATC in accordance with the Amended and Restated Build-to-Suit agreement, ground space for the installation of the Company's equipment and space on MATC towers. Each of the site leases is governed by the Amended and Restated Master Lease agreement.

The initial term of each site lease begins on the commencement date of such site lease and will continue for eleven years and may be extended automatically beyond its initial term unless the Company notifies MATC in writing at least 90 days before the renewal period that it does not wish to extend the term. The rent payable to MATC by the Company under each site lease is equal to the base rent plus any additional rent as provided under the terms of the agreement.

At December 31, 2001 and 2002 the Company had leased 467 and 556 sites, respectively. These leases are accounted for as operating leases. The lease expense during the period ended December 31, 2001 and 2002 amounted to Ps154 million and Ps203 million, respectively. The total future minimum lease obligations based on the base rent of 556 sites, under the terms of the contract is approximately US\$90,000 as follows:

Year ended December 31,	Millions of US dollars
-----	
2003.....	US\$11
2004.....	11
2005.....	11
2006.....	11
2007.....	11
2008 and next year.....	35

Note 12--Stockholders' equity:

At the Extraordinary Stockholders' Meeting held on October 2, 2000, the Company's stockholders agreed to:

- .. Decrease the capital stock by Ps582,647 through canceling the 25,000 Series "A" and 25,000 Series "B" subscribed but unpaid shares owned by TV Azteca and Mr. Moises Saba, respectively, and
- .. Reduce the capital stock by Ps689,858 through recording liabilities in favor of Mr. Moises Saba and TV Azteca. This account payable to stockholders accrues interest at the rate of 8% annually.

At an extraordinary stockholders' meeting held on November 15, 2000 the stockholders agreed to:

Approve a new capital structure consisting only of Series "A" shares. As a result of this new structure, the Company effected a 6,500 for one stock split and converted its 180,000 Series "A" and 180,000 Series "B" shares into one class of 2,340,000,000 new Series "A" shares, which were divided equally

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between Mr. Moises Saba and TV Azteca; and

Increase the number of authorized capital stock by Ps538,040 through the issuance of 487,111,272 Series "A" ordinary shares without par value of which:

- .. 176,129,032 shares will be sold through a public offering in the Mexican stock market, and
- .. 310,982,240 shares will be sold through a stock options plan.

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On December 19, 2000, the Company completed its initial public offering in the Mexican stock market and issued 176,129,032 Series "A" shares at Ps5.67 per share. Net proceeds amounted to approximately Ps1,000 million, of which Ps805 million was recorded as a premium on share subscription.

After giving effect to the transactions described above, the capital stock is variable with a fixed minimum of Ps2,807,128 (historical) and unlimited maximum. The capital stock is composed of Series "A" common shares, ordinary, without par value, as shown on the next page.

	December 31, 2002	
Stockholder	Number of shares	Amount
	(thousands)	
TV Azteca.....	1,170,000	Ps1,161,730
Moises Saba Masri.....	1,170,000	1,161,730
Various (public).....	176,129	174,884
Stock options plan.....	310,983	308,784
	-----	-----
Total authorized.....	2,827,112	2,807,128
Capital stock authorized but not paid...	(310,983)	(308,784)
	-----	-----
Total outstanding.....	2,516,129	2,498,344
	=====	
Restatement increment.....		732,707
		-----
		Ps3,231,051
		=====

In the event of a capital reduction, income tax will be payable by the Company equivalent to 53.85% of the excess of stockholders' equity over the sum of the capital contributions account, as per the procedures established in the Mexican Income Tax Law.

Stock option plan

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On November 17, 2000, the Company established a stock option plan that provides for the issuance of stock options to: a) the persons designated by TV Azteca, b) Mr. Moises Saba or his designee, and c) certain current employees of the Company who will be designated by the Board of Directors.

The stock option plan, which relates to an aggregate of 310,982,240 Series "A" shares, authorizes the issuance of options to acquire capital stock of the Company as follows:

- .. 4.25% of the Company's fully diluted capital stock, or 120,152,229 Series "A" shares, to persons designated by TV Azteca (at an exercise price of US\$0.1507 per share).
- .. 4.25% of the Company's fully diluted capital stock, or 120,152,229 Series "A" shares, to Mr. Moises Saba or to persons whom he will designate (at an exercise price of US\$0.1507 per share).
- .. 0.5% of the Company's fully diluted capital stock, or 14,135,556 Series "A" shares, to Mr. Moises Saba or to persons whom he will designate (at an exercise price of US\$0.3537 per share).
- .. 2.0% of the Company's fully diluted capital stock, or 56,542,226 Series "A" shares, to the employees designated by the Board of Directors (at an exercise price of US\$0.3537 per share).

A trust has been created to administer the stock option plan. The trust is managed by a committee consisting of two members. The duties of the trust include maintaining a record of:

- .. Participants in the stock option plan, trustees and their beneficiaries;

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- .. The number of option shares granted to each;
- .. The exercise price of the option; and
- .. The governing terms and conditions of the plan.

Under the terms of plan the options will be granted on specified anniversary dates as provided below:

Anniversary date	% of options to be granted
-----	
January 1, 2001..	10
2002.....	10
2003.....	20
2004.....	30
2005.....	30

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These grants are contingent on the achievement of specific goals determined by the Technical Committee. The options will be considered granted once they are approved by the Technical Committee. If the Technical Committee does not take action, the options will be considered granted 90 days after the anniversary dates of the conditional assignment. Once the options have been granted there is a one year vesting period after which the participants have up to five years in which to exercise the options.

The Technical Committee has the authority to accelerate all or part of the options granted to any participant in the plan, provided that the right to accelerate is extended proportionally to the rest of the participants in the plan. Upon termination participants may retain options vested through the date of their termination.

Beneficiaries of the participants will automatically acquire the right to exercise the vested options in the case of death or permanent disability of any of the participants.

In 2001, the Technical Committee completed the final assignment of the options to be awarded under the plan and had notified the participants of the number of options that they would be eligible to be granted at the various anniversary dates.

At December 31, 2001 and 2002, the total number of shares formally assigned were 54,895,508 and 54,826,383, respectively.

### Principal shareholder

In October 2000, TV Azteca granted rights to acquire all of the shares of Unefon that it owns on a pro rata basis to the holders of all of TV Azteca's outstanding shares and to certain other of TV Azteca's securities. The grant of the rights to acquire the Unefon Series A shares was subject to receiving the consent of the holders of the TV Azteca notes and Azteca Holdings' 11% Senior Secured Notes due 2002, or Azteca Holdings' 11% notes. On March 27, 2001, TV Azteca and Azteca Holdings, S. A. de C. V. obtained these consents and paid a fee totaling Ps121,328 (nominal) to certain holders of the Azteca Holdings 11% notes and TV Azteca notes. The grant of the rights remains subject to the filing and effectiveness of a registration statement with the SEC that registers the Unefon Series A shares underlying the rights and the receipt of all applicable regulatory and third-party approvals, including the consent of Nortel (see Note 10). The rights to acquire the Unefon Series A shares were originally only exercisable on December 11, 2002. However, in December 2002, TV Azteca approved the change of the exercise date to December 12, 2003.

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Note 13--Tax matters:

Income tax ("IT")

Unefon and its subsidiaries do not consolidate for tax purposes.

For the year ended December 31, 2000, 2001 and 2002, Unefon determined combined

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losses for IT purposes of Ps566,710, Ps729,484 and Ps207,121, respectively, which can be amortized against future income, and restated by applying factors derived from the NCPI.

The difference between book and tax results is mainly due to effects of inflation; non-deductible expenses; the difference between book and tax depreciation and amortization; capitalization of certain expenses, interest and exchange losses for book purposes and timing differences for certain items that are reported in different periods for financial reporting and IT purposes.

The components of deferred tax assets and (liabilities) are comprised of the following:

	December 31,	
	2001	2002
Deferred revenue.....	Ps 72,487	Ps 224,607
Inventories.....	(128,157)	(149,204)
Property, furniture and equipment--Net.....	(54,475)	(1,855)
Pre-operating expenses.....	(286,554)	(179,046)
Advance payments.....	(243,035)	(112,921)
Accrued expenses.....	143,839	277,853
Concession rights.....	(3,999,245)	(3,450,456)
Tax loss carryforwards.....	5,177,165	5,542,659
Capitalization of comprehensive financing cost.....	(19)	--
	682,006	2,151,637
Statutory IT rate.....	35%	34%
	238,702	731,557
Deferred IT asset.....	238,702	731,557
Valuation reserve.....	(238,702)	(731,557)
	--	--
Net deferred IT.....	Ps --	Ps --

At December 31, 2002, the Company had the following combined tax loss carryforwards, which under the Mexican Income Tax Law (IT Law) are inflation-indexed through the date of utilization:

Year of expiration	Amount
2008.....	Ps1,517,621
2009.....	2,521,723
2010.....	566,710
2011.....	729,484
2012.....	207,121
	Ps5,542,659
	=====

Asset tax



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The Asset Tax Law establishes a tax of 1.8% on the average of assets, less certain liabilities, which is payable when it exceeds the IT due.

In 2001 and 2002, the Company and its subsidiaries were not subject to asset tax, under current tax provisions.

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Employees' statutory profit sharing

Employees' statutory profit sharing is determined by Servicios SPC at the rate of 10% on taxable income, adjusted as prescribed by the Mexican IT Law. For the year ended December 31, 2000, 2001 and 2002 Servicios, determined an employee statutory profit sharing of Ps41, Ps133 and Ps99, respectively.

Note 14--Contingencies:

Midicel, a Mexican wireless telecommunication company, has commenced legal proceedings ("amparo") in the Mexican Federal Ninth District Court for Administrative Matters in order to nullify the granting (in general) of the concessions for the use and exploitation of the bandwidths of frequencies of the radio-electric spectrum, of seven telecommunications companies, including Unefon. Although the Company has been successful in defending itself in similar disputes and litigation, the Company cannot assure that it will be successful in defending claims of this nature in the future. Management believes that Midicel's claims lack a legal basis for annulment of Unefon concessions.

Note 15--Segment Information:

The Company evaluates and assesses its performance on a city-by-city basis. All of the cities provide substantially the same services to their customers. Summarized financial information concerning the Company's reportable segments is shown in the following table (figures in this Note are in millions of Mexican pesos of December 31, 2002 purchasing power).

Period from February 1, 2000 (commencement of operations) to December 31, 2000	Toluca	Acapulco	Mexico	Others(2)	Total
-----					
Total net revenue.....	Ps28	Ps42	Ps139	Ps109	Ps320
Segment costs and expenses(1).....	(32)	(44)	(159)	(298)	(533)
	-----	-----	-----	-----	-----
Segment loss.....	(Ps4)	(Ps2)	(Ps20)	(Ps189)	213
	=====	=====	=====	=====	
Unallocated costs, expenses and income					(129)
					-----
Net loss for the period.....					(Ps342)
					=====

Period from January 1, 2001 to December 31, 2001	Toluca	Acapulco	Mexico	Others(2)	Total
-----------------------------------------------------	--------	----------	--------	-----------	-------

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Total net revenues.....	Ps90	Ps113	Ps757	Ps588	Ps1,548
Segment costs and expenses(1).....	(70)	(84)	(686)	(1,096)	(1,936)
Segment income (loss).....	Ps20	Ps29	Ps71	(Ps508)	(388)
Unallocated costs, expenses and income					(727)
Net loss for the period.....					(Ps1,115)

Period from January 1, 2002

to December 31, 2002	Toluca	Acapulco	Mexico	Others(2)	Total
Total net revenues.....	Ps147	Ps177	Ps1,542	Ps1,173	Ps3,039
Segment costs and expenses(1).....	(68)	(79)	(721)	(1,536)	(2,404)
Segment income (loss).....	Ps79	Ps98	Ps821	(Ps363)	635
Unallocated costs, expenses and income					(1,507)
Net loss for the period.....					(Ps872)

(1) Do not include depreciation and amortization.

(2) Includes the cities of Torreon, San Luis Potosi, Aguascalientes, Puebla, Leon, Guadalajara, Monterrey, Queretaro, Morelia, Tampico, Saltillo and Tuxtla Gutierrez cities.

The Company does not report assets by segments.

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Note 16--Reconciliation of differences between Mexican GAAP and US GAAP:

The Company's consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from US GAAP. The Mexican GAAP consolidated financial statements include the effects of inflation as provided for under Statement B-10 "Recognition of the Effects of Inflation on Financial Information". The application of this statement represents a comprehensive measure of the effects of price level changes in the Mexican economy, and is considered to result in a more meaningful presentation for both Mexican and US accounting purposes. Therefore, the following reconciliation to US GAAP does not include the reversal of such inflationary effects.

The principal differences between Mexican GAAP and US GAAP are summarized in the following pages with an explanation, where appropriate, of the effects on consolidated results of operations and stockholders' equity. The various reconciling items are presented net of any price level gain (loss).

a. Reconciliation of consolidated results of operations:

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	Sub-note reference	Year ended December 31,	
		2000	2001
Net loss under Mexican GAAP.....		(Ps 342,137)	(Ps1,114,710)
Revenue recognition:			
--Sales of handsets and service revenue...	i.	(20,781)	8,591
--Operating and distribution fee.....		(13,898)	13,898
Capitalized comprehensive financing cost--Net	ii.	255,977	111,036
Advertising costs.....	iii.	(218,095)	(204,501)
Pre-operating expenses.....	iv.	(299,974)	67,490
Deferred income taxes.....	v.	(25,616)	--
Stock option plan.....	vi.	--	(59,329)
Net loss under US GAAP.....		(Ps 664,524)	(Ps1,177,525)
Basic and diluted net loss per share.....		(Ps 0.283)	(Ps 0.467)
Weighted average number of shares outstanding (thousands).....		2,347,339	2,516,129

b. Reconciliation of stockholders' equity:

	Sub-note reference	Year ended December 31,	
		2000	2001
Balance under Mexican GAAP.....		Ps4,450,010	Ps3,335,300
Revenue recognition:			
--Sales of handsets and service revenue.....	i.	(20,781)	(12,190)
--Operating and distribution fee.....		(13,898)	--
Capitalized comprehensive financing cost--Net.....	ii.	866,421	977,457
Advertising costs.....	iii.	(218,095)	(422,596)
Pre-operating expenses.....	iv.	(724,165)	(656,675)
Balance under US GAAP.....		Ps4,339,492	Ps3,221,296

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c. An analysis of the changes in stockholders' equity under US GAAP is as follows:

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	2000	2001
Balance at beginning of the year.....	Ps4,693,856	Ps 4,339,492
Capital stock cancelled.....	(689,858)	--
Capital stock increase.....	1,000,018	--
Net loss.....	(664,524)	(1,177,525)
Stock option plan.....		120,516
Stock option plan dividends.....		(61,187)
	-----	-----
Balance at end of the year.....	Ps4,339,492	Ps 3,221,296
	=====	=====

d. Significant differences between US GAAP and Mexican GAAP:

i. Revenue recognition

Sales of handsets and service revenue--

Under Mexican GAAP, revenue from the sale of handsets is recognized when the equipment is delivered to distributors and when the legal title to handsets passes. Since the Company has effective control over the pricing and marketing of the handsets sold to the ultimate customers and provides the distributors with a guaranteed margin on the sale of the handsets, revenue, for US GAAP purposes, is recognized upon the sale of the handsets to the ultimate customer and customer activation. Based on recent interpretations of Staff Accounting Statement No. 101 provided by the SEC staff the Company considers that the sale of handsets and free wireless service offered on customer service activation represents a multiple-element arrangement that involves product sale and a future service contract for US GAAP purposes.

Since the handsets have value apart from the future service contract, proceeds from the sale of handsets to the distributors are recognized under US GAAP as revenue from the sale of handsets and deferred revenue to be derived from future wireless service base on the relative fair value of the handsets and future services. Revenue allocated to the sale of handsets is recognized when the handsets are sold to the final customers, the deferred revenue allocated to wireless service is recognized as the services are provided.

Provided below is a summary of deferred costs/deferred revenue, revenue on the sale of handsets, service revenue and cost of handsets under Mexican and US GAAP as of and for the years ended December 31, 2000 and 2001.

	December 31, 2000		
	Mexican GAAP	US GAAP	Difference
Balance sheet:			
Deferred cost.....	Ps --	Ps 81,531	Ps 81,531
Deferred revenue.....	--	(102,312)	(102,312)
	-----	-----	-----
Net amounts.....	Ps --	(Ps 20,781)	(Ps 20,781)
	=====	=====	=====
Results of operations:			
Revenue on sale of handsets--Net.....	Ps 247,935	Ps 113,103	(Ps 134,832)
Service revenue.....	34,094	66,613	32,519
Cost of handsets.....	(324,313)	(242,781)	81,532
	-----	-----	-----

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Net amounts..... (Ps 42,284) (Ps 63,065) (Ps 20,781)  
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	December 31, 2001		
	Mexican GAAP	US GAAP	Difference
Balance sheet:			
Deferred cost.....	Ps --	Ps 6,239	Ps 6,239
Deferred revenue.....	--	(14,830)	(14,830)
Net amounts.....	Ps --	(Ps 8,591)	(Ps 8,591)
Results of operations:			
Revenue on sale of handsets--Net.....	Ps 400,102	Ps 371,470	Ps 28,632
Service revenue.....	607,766	651,231	(43,465)
Cost of handsets.....	(874,405)	(880,647)	6,242
Net income.....	Ps 133,463	Ps 142,054	Ps 8,591

ii. Comprehensive financing cost--net

Capitalized interest--

In 1999, under Mexican GAAP the Company did not elect to capitalize interest expense associated with its long-term debt, while under US GAAP, the Company capitalized interest. Beginning in 2000, the Company began to capitalize interest under Mexican GAAP, which is permitted but not required. The difference in the amount of interest capitalized under Mexican and US GAAP is due to the determination of eligible assets and qualifying interest.

Net monetary gain--

Under Mexican GAAP, the Company capitalized gain on monetary position related to the indebtedness used to finance the concession rights and equipment acquired from Nortel. Under US GAAP, the gain on monetary position may not be capitalized, and consequently under US GAAP the Company must recognize an additional depreciation and amortization expense.

Exchange loss--

For Mexican GAAP purposes, the Company capitalized currency exchange fluctuations from the loan used to acquire equipment from Nortel. Under US GAAP, exchange gains and losses may not be capitalized, and consequently the Company recognized on additional depreciation and amortization expense.

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Provided below is a summary of capitalized comprehensive financing cost--net under Mexican and US GAAP:

	At December 31,	
	2000	2001
<b>Mexican GAAP:</b>		
Capitalized interest on fixed assets and concessions.....	Ps 224,270	Ps 260,686
Capitalized exchange loss on fixed assets.....	30,362	19,651
Capitalized net monetary gain on fixed assets and concessions.	(738,053)	(743,880)
	(483,421)	(463,543)
Accumulated depreciation and amortization.....	5,672	17,289
Net capitalized comprehensive financing costs under Mexican GAAP.....	(477,749)	(446,254)
<b>US GAAP:</b>		
Capitalized interest on fixed assets and concessions.....	406,141	576,285
Accumulated depreciation and amortization.....	(17,469)	(45,082)
Net capitalized interest under US GAAP.....	388,672	531,202
Net adjustment.....	(Ps 866,421)	(Ps 977,457)

iii. Advertising costs

Under both Mexican and US GAAP, television advertising costs related to TV Azteca agreement are expensed when the airtime is used. Under Mexican GAAP, television advertising costs are expensed in accordance with the rates established in the advertising agreement, while under US GAAP advertising costs are accrued in such a manner so to result in a constant periodic rate per gross rating point.

	December 31,	
	2000	2001
Advertising cost under Mexican GAAP	\$ 11,009	\$ 70,010
Advertising cost under US GAAP.....	(229,104)	(274,511)
Net adjustment.....	(\$ 218,095)	(\$ 204,501)

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iv. Pre-operating expenses

According to Mexican GAAP, expenses incurred during the pre-operating stage are capitalized, while under US GAAP, they are expensed when incurred.

v. Deferred income tax

Under Mexican GAAP income tax is recorded by the comprehensive assets and liabilities method, which consists of recognizing deferred income tax on all differences between the book value and tax value of assets and liabilities.

The Company follows Statement of Financial Accounting Standards ("FAS") No. 109 for US GAAP reconciliation purposes. This statement requires an asset and liability approach to financial accounting and reporting income tax under the following basic principles: a) a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year; b) a deferred

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tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss and tax credit carryforwards; c) the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated, and d) the measurement of deferred asset tax is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Under this method, deferred tax is recognized with respect to all temporary differences, and the benefit from utilizing tax loss carryforwards and asset tax credits is recognized in the year in which the loss or credits arise (subject to a valuation reserve with respect to any tax benefits not expected to be realized). The subsequent realization of this benefit does not affect income. Consequently, there are no extraordinary items of this nature for US GAAP purposes.

The temporary differences under FAS No. 109 are determined based on the difference between the indexed tax basis amount of the asset or liability and the related stated amount reported in the consolidated financial statements.

Deferred tax expense or benefit is calculated as the difference between: a) deferred assets and liabilities reported at the end of the current year, and b) deferred tax assets and liabilities reported at the end of the prior year, remeasured to units of current general purchasing power at the end of the current period.

For financial statement purposes, based on the weight of available evidence as of the balance sheet dates, valuation allowances were recognized for the amount of the net deferred income tax asset as of December 31, 2000 and 2001, the more likely than not will be realized.

The income tax effects of significant items comprising the Company's net deferred tax assets and liabilities under US GAAP are as shown:

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	December 31,	
	2000	2001
-----		
Deferred income tax assets:		
Current:		
Deferred cost/revenue--Net.....	Ps 7,273	Ps 4,456
Accrued expenses.....	88,421	60,587
	-----	-----
	95,694	65,043
	-----	-----
Non current:		
Pre-operating expenses.....	Ps 212,614	
Property, furniture and equipment.....	17,233	Ps 160,585
Tax loss carryforwards.....	392,693	1,787,992
	-----	-----
	622,540	1,948,577
	-----	-----
Deferred income tax liabilities:		
Current:		
Inventories.....	Ps (52,657)	Ps (46,814)
Advance payments.....	(8,941)	(60,679)
	-----	-----
	(61,598)	(107,493)
	-----	-----
Non current:		
Concessions and capitalized interest.....	(390,465)	(1,762,511)
	-----	-----
	(390,465)	(1,762,511)
	-----	-----
Net deferred IT assets before valuation reserve.....	266,171	143,630
Valuation reserve.....	(266,171)	(143,630)
	-----	-----
Net deferred tax.....	Ps	Ps --
	=====	=====

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The following provides an analysis of the principal difference between IT computed at the statutory rate and the Company's IT provision for the year ended December 31, 2000 and 2001.

	Year ended December 31,	
	2000	2001
-----		



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Income (loss) before deferred IT.....	Ps (638,908)	Ps (1,177,525)
	=====	=====
IT (expense) benefit at statutory Rate.....	Ps 223,618	Ps 412,133
Add (deduct):		
Differences between comprehensive financing cost--Net of inflationary gains or losses.....	17,554	(239,676)
Non deductible expenses.....	(639)	(2,500)
Others.....	(15,766)	(47,402)
Change in valuation reserve.....	(250,383)	(122,555)
	-----	-----
Income tax expense.....	Ps (25,616)	Ps --
	=====	=====

### vi. Stock option plan

Under Mexican GAAP, stock options granted are given effect only when the options are exercised by crediting capital stock for cash received. For US GAAP purposes, options granted to employees at exercise prices below the market price at the measurement date will result in non-cash compensation cost under US GAAP over the vesting period as determined under According Principles Board Opinion No. 25. Options granted to non-employees of the Company, but employees of the Company within the some controlling group will be accounted as dividends to the controlling entity under US GAAP based on the fair value of the options at the date of grant as determined under SFAS No. 123, "Accounting for Stock-based Compensation". No options were granted in 2000, however, the Company recorded compensation expense for Ps59,329 and Ps37,998 and dividends to the controlling entities for Ps61,187 and Ps30,083 in the year ended December 31, 2001 and 2002 respectively.

### vii. Earnings per share ("EPS")

Under Mexican GAAP, diluted EPS is not required for companies with operating and net losses. Under US GAAP, fully diluted EPS will reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in the earnings of the entity. At December 31, 2000, 2001 and 2002 there were no outstanding dilutive securities.

### viii. Comprehensive loss

Comprehensive loss determined in accordance with SFAS No. 130 "Reporting Comprehensive Income" includes certain changes to stockholder' equity not affecting net income (loss) and not related to capital payments, dividend payments or similar transactions with the shareholders. The comprehensive loss for the Company is equal to the net loss, as there are no items of comprehensive loss for the years presented under U.S. GAAP other than the net loss.

### ix. Effect of recently issued accounting standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 supersedes APB opinion No. 16, "Business Combinations" and amends or supersedes a number of related interpretations of APB 16. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations, and changes the criteria to recognize intangible assets apart from goodwill. SFAS 141 is required to be adopted for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have material import in the consolidated financial statements of the Company.

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Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supersedes APB opinion No. 17, "Intangible Assets". Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. The Company is currently evaluating the impact that adoption of SFAS 142 will have on its consolidated financial statements.

On August 15, 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("FAS 143") "Accounting for Asset Retirement Obligations". This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees.

This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made; the associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS 143 to have a material impact on its financial condition and results of operations.

In August, 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30 "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this standard did not have any effect on the Company's consolidated financial statements.

x. Cash flow information

Under US GAAP, a statement of cash flows is prepared based on the provisions of FAS No. 95 "Statement of Cash Flows" in lieu of a statement of changes in financial position under Mexican GAAP. FAS No. 95 establishes specific presentation requirements and requires additional disclosures, such as the amount of interest and income taxes paid and non-cash items. This statement does not provide specific guidance for the preparation of cash flows statements for price level adjusted financial statements. Cash flows from operating, investing and financing activities have been adjusted for the effects of

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inflation on monetary items.

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The condensed statement of cash flows prepared under US GAAP is as follows:

	Year ended D
	2000
<hr/>	
Cash flows from operating activities:	
Net loss.....	Ps (664,524)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Stock option plan.....	
Deferred income taxes.....	25,616
Depreciation and amortization.....	140,462
Unrealized exchange loss on debt.....	42,133
Monetary gain relating to financing activities.....	(167,676)
Changes in assets and liabilities:	
Restricted cash.....	(165,048)
Accounts receivable.....	(50,474)
Recoverable value added tax.....	(61,680)
Related parties.....	194,915
Handset inventories.....	(161,820)
Net changes in others assets, accounts payable and accrued expenses.....	182,486
Net cash flows (used in) provided by operating activities.....	(685,610)
<hr/>	
Cash flows from investing activities:	
Acquisition of property furniture and equipment.....	(735,945)
Capitalized interest in concession rights.....	(252,347)
Net cash flows used in investing activities.....	(988,292)
<hr/>	
Cash flows from financing activities:	
Bank loans.....	
Proceeds from long-term financing from Nortel.....	1,186,046
Payments under long-term financing from Nortel.....	(240,971)
Proceed from short-term vendor financing.....	106,897
Premium on share subscription.....	805,474
Capital stock increase.....	194,544
Net cash flows provided by financing activities.....	2,051,990
<hr/>	
Effects of inflation in cash.....	15,734
<hr/>	
Increase (decrease) in cash and cash equivalents.....	393,822
Cash and cash equivalents at beginning of period.....	196,313
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Cash and cash equivalents at end of period.....	Ps590,135
=====	
Supplemental cash flows disclosure:	
Cash paid during the year for interest.....	Ps317,942
=====	
Other non-cash activities:	
Capital reduction payable to stockholders.....	Ps692,607
=====	
Construction in process--Nortel.....	Ps1,372,422
=====	
Pre-paid political risk insurance.....	Ps25,549
=====	

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Unefon, S. A. de C. V. and Subsidiaries

e. Condensed balance sheets and results of operations:

The following condensed balance sheets and results of operations reflect the effects of the principal differences between Mexican GAAP and US GAAP:

CONDENSED BALANCE SHEETS

	December 31,	
	2000	2001
-----		
Total current assets.....	Ps 1,397,320	Ps 1,127,801
Property, furniture and equipment--Net.....	2,845,225	3,751,426
Concession rights--Net.....	4,960,503	4,849,597
Others non-current assets.....	19,866	188,368
-----		
Total assets.....	Ps 9,222,914	Ps 9,917,192
=====		
Total current liabilities.....	Ps 680,406	Ps 1,856,343
Capital reduction payable to stockholders.....	692,607	707,299
Long-term financing from Nortel.....	3,255,803	3,396,494
Long-term payables to related parties.....	254,606	735,760
-----		
Total liabilities.....	4,883,422	6,695,896
-----		
Capital stock.....	3,231,051	3,231,051
Premium on share subscription.....	1,561,096	1,561,096
Retained earnings (deficit).....	(452,655)	(1,630,180)
Stock option plan.....		59,329
-----		
Total stockholders' equity.....	4,339,492	3,221,296
-----		
Total liabilities and stockholders' equity.....	Ps 9,222,914	Ps 9,917,192
=====		

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### CONDENSED RESULTS OF OPERATIONS

	Year ended December 31,	
	2000	2001
Net revenues.....	Ps 218,068	Ps 1,563,019
Total costs and expenses.....	(1,026,560)	(2,589,816)
Loss from operations.....	(808,492)	(1,026,797)
Other income--Net.....	58,779	34,493
Interest income.....	14,377	21,752
Interest expense.....		(463,367)
Amortization of political risk insurance.....	(21,616)	(40,749)
Exchange gain (loss)--Net.....	(54,149)	143,664
Gain on monetary position.....	172,193	212,808
Net comprehensive financing income (cost).....	110,805	(125,892)
Stock option plan.....		(59,329)
Income (loss) before IT.....	(638,908)	(1,177,525)
IT benefit (expense).....	(25,616)	
Net income (loss).....	(Ps 664,524)	(Ps 1,177,525)

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### EXHIBIT INDEX

- 4.1 Settlement Agreement among TV Azteca, S.A. de C.V., Azteca International Corporation, Pappas Telecasting Companies, Pappas Telecasting Of Southern California LLC, Pappas Southern California License, LLC, Pappas Telecasting Of Houston, Hispanic America Of Houston, LLC, Pappas Telecasting Of Concord, Hispanic America Of San Francisco, LLC Pappas Telecasting Of Nevada, Pappas Telecasting Of Arizona, LLC, and Pappas Arizona License, LLC, dated as of February 11, 2003
- 4.2 Purchase and Sale Agreement among Pappas Telecasting Of Southern California LLC, Pappas Telecasting Of Houston, Pappas Telecasting Of Concord, Hispanic America Of Houston, LLC, Hispanic America Of San Francisco, LLC and Azteca International Corporation, dated as of February 11, 2003
- 4.3 Option Agreement by and between Pappas Telecasting of Southern California LLC, and Azteca International Corporation, dated as of February 11, 2003
- 4.4 Local Marketing Agreement among Pappas Telecasting of Southern California LLC, and Pappas Southern California License LLC, and Azteca International Corporation and TV Azteca, S.A. de C.V. as guarantor, dated as of February 11, 2003
- 4.5 Guarantee Agreement by TV Azteca, S.A. de C.V. in favor of Pappas Telecasting of Southern California LLC, dated as of February 11, 2003

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- 4.6 Amended and Restated Credit Agreement between Pappas Telecasting of Southern California LLC as debtor and Azteca International Corporation, dated as of February 11, 2003
- 4.7 Amended and Restated Note by Pappas Telecasting of Southern California LLC to Azteca International Corporation for US\$128 million, dated as of February 11, 2003