Financial Highlights

Results of Operations

2003 compared with 2002

Total revenues for the year ended December 31, 2003 were $5.8 billion, a 14% increase over revenues of $5.0 billion for the year ended December 31, 2002. This increase was primarily attributable to:

- a 31% increase in customers for advanced services (digital cable, high-speed Internet access and telephony);
- an increase in basic cable rates resulting from increased programming costs and inflation, as well as increased channel availability;
- a $5 price increase on monthly high-speed Internet access adopted in select markets in the fourth quarter of 2002 and in most of Cox's remaining markets in the first quarter of 2003; and
- an increase in commercial broadband customers.

Cost of services, which includes programming costs, other direct costs and field service costs, was $2.4 billion for the year ended December 31, 2003, an increase of 13% over the same period in 2002. This was primarily due to a 12% increase in programming costs reflecting rate increases and customer growth. Other cost of services increased 15%, primarily due to:

- 1.2 million in net additions of advanced-service customers over the last twelve months; and
- increased labor costs due to the transition from upgrade construction and new product launches to maintenance and related customer costs directly associated with the growth of new subscribers.

Cox recorded a one-time non-recurring charge of approximately $9.8 million in 2002 associated with the continuation of Excite@Home high speed Internet service following the bankruptcy of Excite@Home, and excluding this one-time charge, other cost of services increased 16% in 2003.

Selling, general and administrative expenses for the year ended December 31, 2003 increased 9% to $1.3 billion due to:

- a 10% increase in general and administrative expenses relating to increased labor costs, expenses related to trials of new video and telephony products, and public relations expenses related to our campaign aimed at the rising costs of programming; and
- a 5% increase in marketing expense relating to the promotion of new services and bundling alternatives, partially offset by an 8% decrease in costs associated with Cox's advertising sales business, Cox Media.

Depreciation and amortization increased to $1.5 billion for the year ended December 31, 2003 from $1.4 billion for the comparable period in 2002 due to an increase in depreciation from Cox's continuing investment in its broadband network in order to deliver additional services, and an increase in amortization resulting from a non-cash impairment charge of $25.0 million recognized in the first quarter of 2003, upon completion of an impairment test of franchise value in accordance with Statement of Financial Accounting Standards (SFAS) No. 142. Operating income for the year ended December 31, 2003 was $586.9 million compared to operating income of $417.4 million for the year ended December 31, 2002 .

Interest expense decreased to $467.8 million primarily due to interest savings as a result of Cox's interest rate swap agreements and a reduction of outstanding indebtedness.

For the year ended December 31, 2003, Cox recorded a $22.6 million pre-tax loss on derivative instruments primarily due to a $4.4 million pre-tax loss resulting from the change in the fair value of Cox's net settleable warrants and an $18.7 million pre-tax loss resulting from the change in the fair value of certain derivative instruments embedded in Cox's zero-coupon debt.

Net gain on investments for the year ended December 31, 2003 of $165.2 million includes:

- $154.5 million pre-tax gain related to the sale of 46.8 million shares of Sprint PCS common stock;
- $21.8 million pre-tax gain as a result of the change in market value of Cox's investment in Sprint PCS common stock classified as trading; *partially offset by*
- $10.5 million pre-tax decline considered to be other than temporary in the fair value of certain investments.

Financial Highlights

During the year ended December 31, 2003, Cox recorded a $450.1 million pre-tax loss on extinguishment of debt consisting of:

- $412.8 million pre-tax loss resulting from the purchase of $1.8 billion aggregate principal amount at maturity of the Discount Debentures pursuant to Cox's offer to purchase any and all Discount Debentures;
- $29.5 million pre-tax loss resulting from the termination of Cox's series of prepaid forward contracts to sell up to 19.5 million shares of Sprint PCS common stock;
- $10.2 million pre-tax loss resulting from the purchase of $422.7 million aggregate principal amount at maturity of Cox's convertible senior notes due 2021 pursuant to the holders' right to require Cox to purchase the convertible notes;
- $1.5 million pre-tax loss resulting from the purchase of $250.0 million aggregate principal amount of its 6.15% Reset Put Securities due 2033 (REPS); *partially offset by*
- $3.9 million pre-tax gain resulting from the purchase of $1.3 billion aggregate principal amount of the PRIZES and $274.9 million aggregate principal amount of the Premium PHONES pursuant to Cox's offer to purchase any and all PRIZES and Premium PHONES.

Liquidity and Capital Resources

Uses of Cash

As part of Cox's ongoing strategic plan, Cox has invested, and will continue to invest, significant amounts of capital to enhance the reliability and capacity of its broadband network in preparation for the offering of new services. Cox believes it will be able to meet its capital needs for the next 12 months and the foreseeable future with amounts available under existing revolving credit facilities and its commercial paper program.

During 2003, Cox made capital expenditures of $1.6 billion. These expenditures were primarily directed at costs related to electronic equipment located on customers' premises, costs to upgrade and rebuild Cox's broadband network to allow for the delivery of advanced broadband services and costs associated with network equipment used to enter new service areas.

Capital expenditures for 2004 are expected to be approximately $1.4 billion. Although management continuously reviews industry and economic conditions to identify opportunities, Cox does not have any current plans to make any material acquisitions or enter into any material cable systems exchanges in 2004.

In addition to improvement of its own networks, Cox made strategic investments in businesses focused on cable programming, technology and telecommunications. Investments in affiliated companies of $22.3 million in 2003 included debt and equity funding. Future funding requirements are expected to total approximately $20.0 million over the next two years. These capital requirements may vary significantly from the amounts stated above and will depend on numerous factors as many of these affiliates are growing businesses and specific financing requirements will change depending on the evolution of these businesses.

During 2003, Cox repaid $2.3 billion of debt, which primarily consisted of the purchase of a portion of its convertible senior notes, the purchase of the majority of all three series of its exchangeable subordinated debentures, pursuant to offers to purchase any and all PRIZES, Premium PHONES and Discount Debentures, and the purchase of its REPS.

Sources of Cash

During 2003, Cox generated $1.9 billion from operations. Proceeds from the sale and exchange of investments of $246.4 million consisted of proceeds from the sale of 46.8 million shares of Sprint PCS common stock.

Net commercial paper borrowings during 2003 were $300.9 million. Proceeds from the issuance of other debt, net of debt issuance costs, underwriting commissions and discounts included the issuance of:

- 4.625% senior notes due 2013 for net proceeds of approximately $596.2 million;
- 3.875% senior notes due 2008 for net proceeds of $248.8 million; and
- 5.5% senior notes due 2015 for net proceeds of $496.5 million.

The proceeds from these offerings were primarily used to purchase the tendered PRIZES, Premium PHONES and Discount Debentures and REPS.

Other
At December 31, 2003, Cox had approximately $7.0 billion of outstanding indebtedness. Derivative adjustments in accordance with SFAS No. 133 have historically had a material impact on reported indebtedness. For example, reported indebtedness at December 31, 2002 of approximately $7.3 billion was net of certain derivative adjustments made in accordance with SFAS No. 133 that reduced the reported debt balance by approximately $1.4 billion. As a result of Cox's purchase of its exchangeable subordinated debentures, net settlement of its zero-coupon debt and sales of Sprint PCS stock during 2003, SFAS No. 133 adjustments did not significantly impact reported indebtedness at December 31, 2003 and are not expected to be material in the future. In addition, Cox had approximately $1.5 billion of total available financing capacity under its revolving credit facilities and commercial paper program at December 31, 2003.

Investments
Cox has certain investments in companies focused on cable programming, technology and telecommunications.

Discovery Communications, Inc. At December 31, 2003, Cox owned a 25.0% interest in Discovery.

Sprint PCS. In April 2003, Cox sold its Sprint Corporation PCS Group (Sprint PCS) warrants, which were exercisable for approximately 6.3 million shares of Sprint PCS common stock, for nominal consideration. Cox recognized a pre-tax loss of $0.4 million as a result of this sale.

In August 2003, Cox terminated its series of prepaid forward contracts to sell up to 19.5 million shares of its Sprint PCS common stock. In connection with the termination, Cox sold the 19.5 million shares of Sprint PCS common stock, which had been pledged to secure its obligations pursuant to these prepaid forward contracts and were classified as trading. The prepaid forward contracts had been accounted for as zero-coupon debt, so the termination resulted in the elimination of $80.9 million of balance sheet debt at the date of termination.

In 2003, Cox sold 46.8 million shares of Sprint PCS common stock for aggregate net proceeds of approximately $246.4 million. Cox recognized an aggregate pre-tax gain of $154.5 million on the sale of these shares.

At December 31, 2003, Cox's remaining investment in Sprint PCS was comprised of 0.3 million shares of Sprint PCS common stock and 0.1 million shares of convertible preferred stock, which are convertible into approximately 4.0 million shares of Sprint PCS common stock. The estimated fair value of Cox's investment in Sprint PCS was $59.9 million and $349.2 million at December 31, 2003 and December 31, 2002, respectively.

Intangible Assets
SFAS No. 142, *Goodwill and Other Intangible Assets,* requires that goodwill and certain intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least annually. Cox's indefinite lived intangible assets are comprised of cable franchise value, which Cox obtained through acquisitions of cable systems.

The January 2003 impairment test in accordance with SFAS No. 142 resulted in a non-cash impairment charge of approximately $25.0 million, which is classified within amortization expense in Cox's consolidated statement of operations. Cox completed its next impairment test in accordance with SFAS No. 142 in August 2003. The August 2003 test indicated no impairment of franchise value.