LIBERTY MEDIA INTERNATIONAL INC
Form 10-K/A
April 28, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 3)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-50671
Liberty Media International, Inc.
(Exact name of Registrant as specified in its charter)

State of Delaware *(State or other jurisdiction of incorporation or organization)*	**20-0893138** *(I.R.S. Employer Identification No.)*
12300 Liberty Boulevard **Englewood, Colorado** *(Address of principal executive offices)*	**80112** *(Zip Code)*

Registrant s telephone number, including area code:
(720) 875-5800
Securities registered pursuant to Section 12(b) of the Act:
none
Securities registered pursuant to Section 12(g) of the Act:
Series A Common Stock, par value $0.01 per share
Series B Common Stock, par value $0.01 per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes o No þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant s most recently completed second fiscal quarter: $5,174,572,000.

The number of outstanding shares of Liberty Media International, Inc. s common stock as of February 28, 2005 was:
165,514,962 shares of Series A common stock; and
7,264,300 shares of Series B common stock.

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EXPLANATORY NOTE

We are filing this Amendment No. 3 on Form 10-K/ A to our Annual Report on Form 10-K for the year ended December 31, 2004 in order to (i) file the information required by Item Nos. 10, 11, 12, 13 and 14 of our Annual Report on Form 10-K; (ii) amend, and replace in their entirety, Item Nos. 6, 7, 7A, 8, 9A and 15 to correct an error in our consolidated financial statements with respect to the accounting for the 1 3/4% euro-denominated convertible senior notes due April 15, 2024 that were issued by UnitedGlobalCom, Inc., our majority-owned subsidiary; (iii) file the consolidated financial statements of our equity investee, Cordillera Comunicaciones Holding Limitada, as required by Rule 3-09 of Regulation S-X; and (iv) file our recently amended and restated incentive plans and related forms of award agreements as Exhibits 10.6, 10.7, 10.9 and 10.10. The additional consolidated financial statements of our equity investee, described in clause (iii) above, were required as a result of changes to our pre-tax loss for the year ended December 31, 2004 that resulted from the correction of the error mentioned above and explained in greater detail in note 23 to our consolidated financial statements. Other than for these matters, the information in this Form 10-K/A (Amendment No. 3) is as of March 14, 2005, the filing date of our Form 10-K, and has not been updated for events subsequent to that date.

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Item 6. SELECTED FINANCIAL DATA.

The following tables present selected historical financial information of (i) certain international cable television and programming subsidiaries and assets of Liberty (LMC International), for periods prior to the June 7, 2004 spin off transaction, whereby LMI s common stock was distributed on a pro rata basis to Liberty s stockholders as a dividend, and (ii) LMI and its consolidated subsidiaries for periods following such date. Upon consummation of the spin off, LMI became the owner of the assets that comprise LMC International. The following selected financial data was derived from the audited consolidated financial statements of LMI as of December 31, 2004, 2003 and 2002 and for the each of the four years ended December 31, 2004. Data for other periods has been derived from unaudited information. This information is only a summary, and you should read it together with the accompanying consolidated financial statements.

		December 31,				
		2004(2)	2003	2002	2001	2000
		as restated (1)				
		amounts in thousands				
Summary Balance Sheet Data:						
Investment in affiliates	$	1,865,642	1,740,552	1,145,382	423,326	1,189,630
Other investments	$	838,608	450,134	187,826	916,562	134,910
Property and equipment, net	$	4,303,099	97,577	89,211	80,306	82,578
Intangible assets, net	$	2,897,953	689,026	689,046	701,935	803,514
Total assets	$	13,702,363	3,687,037	2,800,896	2,169,102	2,301,800
Debt, including current portion	$	4,992,746	54,126	35,286	338,466	101,415
Stockholders equity	$	5,240,506	3,418,568	2,708,893	2,039,593	1,907,085

		Year ended December 31,				
		2004(2)	2003	2002	2001	2000
		as restated (1)				
		amounts in thousands, except per share amounts				
Summary Statement of Operations Data:						
Revenue	$	2,644,284	108,390	100,255	139,535	125,246
Operating income (loss)	$	(313,873)	(1,455)	(39,145)	(122,623)	3,828
Share of earnings (losses) of affiliates(3)	$	38,710	13,739	(331,225)	(589,525)	(168,404)
Earnings (loss) from continuing operations(4)	$	(18,058)	20,889	(329,887)	(820,355)	(129,694)
Earnings (loss) from continuing operations per common share (pro forma for spin off)(5)	$	(.11)	.14	N/A	N/A	N/A

(1) See note 23 to the accompanying consolidated financial statements.

(2) Prior to January 1, 2004, the substantial majority of our operations were conducted through equity method affiliates, including UGC, J-COM and JPC. In January 2004, we completed a transaction that increased our company s ownership in UGC and enabled us to fully exercise our voting rights with respect to our historical investment in UGC. As a result, UGC has been accounted for as a consolidated subsidiary and included in our company s consolidated financial position and results of operations since January 1, 2004. For additional information, see note 5 to the accompanying consolidated financial statements.

(3) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (Statement 142), which, among other matters, provides that goodwill,

intangible assets with indefinite lives and excess costs that are considered equity method goodwill are no longer amortized, but are evaluated for impairment under Statement 142 and, in the case of equity method goodwill, APB Opinion No. 18. Share of losses of affiliates includes excess basis amortization of $92,902,000 and $41,419,000 in 2001 and 2000, respectively.

(4) Our net loss in 2002 and 2001 included our company s share of UGC s net losses of $190,216,000 and $439,843,000, respectively. Because we had no commitment to make additional capital contributions to UGC, we suspended recording our share of UGC s losses when our carrying value was reduced to zero in 2002. In addition, our net loss in 2002 included $247,386,000 of other-than-temporary declines in fair values of investments, and our net loss in 2001 included $534,962,000 of realized and unrealized losses on derivative instruments.

(5) Earnings (loss) per common share amounts were computed assuming that the shares issued in the spin off were outstanding since January 1, 2003. In addition, the weighted average share amounts for periods prior to July 26, 2004, the date that certain subscription rights were distributed to stockholders pursuant to a rights offering by our company, have been increased to give effect to the benefit derived by our company s stockholders as a result of the distribution of such subscription rights. For additional information, see note 3 to the accompanying consolidated financial statements.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The capitalized terms used below have been defined in the notes to the accompanying consolidated financial statements. In the following text, the terms, we, our, our company and us may refer, as the context requires, to LMC International (prior to June 7, 2004), LMI and its consolidated subsidiaries (on and subsequent to June 7, 2004) or both. Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2004.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying consolidated financial statements and the notes thereto included elsewhere herein.

Overview

We own majority and minority interests in international broadband distribution and programming companies. On June 7, 2004, Liberty completed the spin off of LMI to Liberty s shareholders. In connection with the spin off, holders of Liberty common stock on the June 1, 2004 Record Date received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned on the Record Date and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned on the Record Date. The spin off was intended to qualify as a tax-free spin off. For financial reporting purposes, the spin off is deemed to have occurred on June 1, 2004.

Following the spin off, we and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other.

Our operating subsidiaries and most significant equity method investments are set forth below:

Operating subsidiaries at December 31, 2004:

UGC
Liberty Cablevision Puerto Rico
Pramer

Our most significant subsidiary is UGC, an international broadband communications provider of video, voice, and Internet access services with operations in 13 European countries and three Latin American countries. UGC s largest operating segments are located in The Netherlands, France, Austria and Chile. At December 31, 2004, we owned approximately 423.8 million shares of UGC common stock, representing an approximate 53.6% economic interest and a 91.0% voting interest. As further described in note 5 to the

accompanying consolidated financial statements, we began consolidating UGC on January 1, 2004. Prior to that date, we used the equity method to account for our investment in UGC. As discussed in greater detail in note 1 to the accompanying consolidated financial statements, we have entered into a merger agreement with UGC, whereby Liberty Global, a newly-formed holding company, would acquire all of the capital stock of our company and all of the capital stock of UGC not owned by our company.

Liberty Cablevision Puerto Rico is a wholly-owned subsidiary that owns and operates cable television systems in Puerto Rico. Pramer is a wholly-owned Argentine programming company that supplies programming services to cable television and DTH satellite distributors in Latin America and Spain.

Significant equity method investments at December 31, 2004:

Super Media

JPC

On December 28, 2004, our 45.45% ownership interest in J-COM, and a 19.78% interest in J-COM owned by Sumitomo were combined in Super Media. As a result of these transactions, we held a 69.68% noncontrolling interest in Super Media, and Super Media held a 65.23% controlling interest in J-COM at December 31, 2004. Subject to certain conditions, Sumitomo has the obligation to contribute to Super Media substantially all of its remaining 12.25% equity interest in J-COM during 2005. At December 31, 2004, we accounted for our 69.68% interest in Super Media using the equity method. As a result of a change in the corporate governance of Super Media that occurred on February 18, 2005, we will begin accounting for Super Media as a consolidated subsidiary effective January 1, 2005. J-COM owns and operates broadband businesses in Japan. For additional information, see note 6 to the accompanying consolidated financial statements.

JPC is a joint venture between Sumitomo and our company that primarily develops, manages and distributes pay television services in Japan on a platform-neutral basis through various distribution infrastructures, principally cable and DTH service providers.

We believe our primary opportunities in our international markets include continued growth in subscribers; increasing the average revenue per unit by continuing to rollout broadband communication services such as telephone, Internet access and digital video; developing foreign programming businesses; and maximizing operating efficiencies on a regional basis. Potential impediments to achieving these goals include increasing price competition for broadband services; competition from alternative video distribution technologies; and availability of sufficient capital to finance the rollout of new services.

Results of Operations

Due to the January 1, 2004 change from the equity method to the consolidation method of accounting for our investment in UGC, our historical revenue and expenses for 2004 are not comparable to prior year periods. Accordingly, in addition to a discussion of our historical results of operations, we have also included an analysis of our operating results based on the approach we use to analyze our reportable operating segments. As further described below, we believe that our operating segment discussion provides a more meaningful basis for comparing UGC s operating results than does our historical discussion.

Changes in foreign currency exchange rates have a significant impact on our operating results as all of our operating segments, except Liberty Cablevision Puerto Rico, have functional currencies other than the U.S. dollar. Our primary exposure is currently to the euro as over 50% of our U.S dollar revenue during 2004 was derived from countries where the euro is the functional currency. In addition, our operating results are also significantly impacted by changes in the exchange rates for the Japanese yen, Chilean peso and, to a lesser degree, other local currencies in Europe.

Discussion and Analysis of Historical Operating Results

Years ended December 31, 2004 and 2003

As noted above, we began consolidating UGC effective January 1, 2004. Unless otherwise indicated in the discussion below, the significant increases in our historical revenue, expenses and other items during 2004, as compared to 2003, are primarily attributable to this change in our consolidated reporting entities.

Stock-based compensation charges

We incurred stock-based compensation expense of $142,762,000 and $4,088,000 during 2004 and 2003, respectively. The 2004 amount, which includes $116,661,000 of compensation expense related to UGC stock incentive awards, is primarily a function of higher UGC and LMI stock prices and additional vesting of stock incentive awards. As a result of adjustments to certain terms of UGC and LMI stock incentive awards that were outstanding at the time of their respective rights offerings in February 2004 and July 2004, most of the UGC and LMI stock incentive awards outstanding at December 31, 2004 are accounted for as variable-plan awards. A $50,409,000 first quarter 2004 charge was recorded by UGC to reflect a change from fixed-plan accounting to variable-plan accounting. Due to the use of variable-plan accounting by LMI and UGC, stock compensation expense with respect to LMI and Liberty options held by LMI employees and UGC stock incentive awards held by UGC employees is subject to adjustment based on the market value of the underlying common stock and vesting schedules, and ultimately on the final determination of market value when the incentive awards are exercised.

Impairment of long-lived assets

We recorded charges to reflect the impairment of long-lived assets of $69,353,000 during 2004. This amount includes a $26,000,000 charge to write-off enterprise level goodwill associated with Pramer. This charge was triggered by our third quarter 2004 determination that it was more-likely-than-not that we would sell Pramer. Other impairment charges during 2004 include $16,111,000 related to the write-down of certain of UGC s long-lived telecommunications assets in Norway and $10,955,000 related to the write-down of certain of UGC s tangible fixed assets in The Netherlands.

Restructuring and Other Charges

During 2004, UGC recorded aggregate restructuring and other charges of $29,018,000, including (i) $21,660,000 related to its operations in The Netherlands, (ii) $4,172,000 relating to certain of its other operations in Europe and (iii) $3,186,00 for certain benefits of the former Chief Executive Officer of UGC. For additional information, see note 17 to the accompanying consolidated financial statements.

Interest and dividend income

Interest and dividend income increased $40,733,000 during 2004, as compared to 2003. The increase includes $23,823,000 that is attributable to the January 1, 2004 consolidation of UGC. The remaining increase is primarily attributable to dividend income on the ABC Family preferred stock, a 99.9% interest in which was contributed by Liberty to our company in connection with the spin off.

Share of earnings of affiliates, net

Our share of earnings of affiliates increased $24,971,000 during 2004, as compared to 2003. Such increase primarily is attributable to increases in our share of the net earnings of J-COM and, to a lesser extent, JPC. Such increases were partially offset by write-downs of our investments in Torneos y Competencias S.A., (Torneos) and another programming entity that operates in Latin America to reflect other-than-temporary declines in the fair values of these investments. The increase in J-COM s net earnings is primarily attributable to revenue growth due to increases in the subscribers to J-COM s telephone, Internet and cable television services. For additional discussion of J-COM s operating results, see Discussion and Analysis of Reportable Segments below. During 2003, we did not recognize our share of UGC s losses as our investment in UGC

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previously had been reduced to zero and we had no commitment to make additional investments in UGC. For additional information, see note 6 to the accompanying consolidated financial statements.

Realized and unrealized gains (losses) on derivative instruments, net

The details of our realized and unrealized gains (losses) on derivative instruments are as follows:

	Year ended December 31,	
	2004	2003
	as restated (1)	
	amounts in thousands	
Foreign exchange derivatives	$ 196	(22,626)
Total return debt swaps	2,384	37,804
Cross-currency and interest rate swaps	(43,779)	
Interest rate caps	(20,318)	
Embedded equity and other derivatives	23,032	
Variable forward transaction	1,013	
Call agreements on LMI Series A common stock	1,713	
Other	(16)	(2,416)
	$ (35,775)	12,762

(1) See note 23 to the accompanying consolidated financial statements.

For additional information concerning our derivative instruments, see note 8 to the accompanying consolidated financial statements.

Foreign currency transaction gains (losses), net

The details of our foreign currency transaction gains (losses) are as follows:

	Year ended December 31,	
	2004	2003
	as restated (1)	
	amounts in thousands	
Repayment of yen denominated shareholder loans(2)	$ 56,061	
U.S. dollar debt issued by UGC s European subsidiaries	35,684	
Intercompany notes denominated in a currency other than the entities functional currency	46,349	
U.S. dollar debt issued and cash held by VTR	3,929	
Euro denominated debt issued by UGC	(51,903)	
Euro denominated cash held by UGC	26,192	
Pramer (primarily U.S. dollar denominated debt)	(730)	2,461
Telewest bonds	333	1,750
Yen denominated cash held by LMI	7,408	
Other	(5,666)	1,201

	$	117,657	5,412

(1) See note 23 to the accompanying consolidated financial statements.

(2) On December 21, 2004, we received cash proceeds of ¥43,809 million ($420,188,000 at December 21, 2004) in connection with the repayment by J-COM and another affiliate of all principal and interest due to our company pursuant to then outstanding shareholder loans. In connection with this transaction, we

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recognized in our statement of operations the foreign currency translation gains that previously had been reflected in accumulated other comprehensive earnings.

Through December 31, 2004, we have incurred cumulative translation losses with respect to our equity method investments in Torneos, an Argentine programming company, and Metrópolis, a Chilean cable company, of $86,446,000 and $30,338,000, respectively. Such amounts are included in other comprehensive earnings, net of taxes, in our December 31, 2004 consolidated balance sheet. Upon any disposition of all or a part of these investments, we would recognize the pro rata share of such losses in our statements of operations. Neither investment was deemed to be held for sale at December 31, 2004.

Gains on exchanges of investment securities

During 2004, we recognized pre-tax gains aggregating $178,818,000 on exchanges of investment securities, including a $168,301,000 gain that is attributable to the July 19, 2004 conversion of our investment in Telewest Communications plc Senior Notes and Senior Discount Notes into 18,417,883 shares or approximately 7.5% of the issued and outstanding common stock of Telewest. This gain represents the excess of the fair value of the Telewest common stock received over our cost basis in the Senior Notes and Senior Discount Notes.

Other-than-temporary declines in fair values of investments

We recognized other-than-temporary declines in fair values of investments of $18,542,000 and $6,884,000 during 2004 and 2003, respectively. The 2004 amount includes a $12,429,000 charge recognized during the third quarter of 2004 in connection with our decision to dispose of all remaining Telewest shares during the fourth quarter of 2004.

Gains on extinguishment of debt

During 2004, we recognized gains on extinguishment of debt of $35,787,000. Such gains included a $31,916,000 gain recognized by UGC in connection with the first quarter 2004 consummation of UPC Polska s plan of reorganization and emergence from U.S. bankruptcy proceedings. For additional information, see note 10 to the accompanying consolidated financial statements.

Gains (losses) on disposition of investments, net

We recognized net gains on dispositions of investments of $43,714,000 and $3,759,000 during 2004 and 2003, respectively. The 2004 amount includes (i) a $37,174,000 gain on the sale of News Corp. Class A common stock, (ii) a $25,256,000 gain in connection with the contribution to JPC of certain indirect interests in an equity method affiliate, (iii) a $16,407,000 net loss on the disposition of 18,417,883 Telewest shares, (iv) a $10,000,000 loss on the sale of Sky Multi-Country, and a (v) a $6,878,000 gain associated with the redemption of our investment in certain bonds. For additional information, see notes 6 and 7 to the accompanying consolidated financial statements.

Income tax benefit (expense)

We recognized income tax benefit (expense) of $17,449,000 and ($27,975,000) during 2004 and 2003, respectively. The 2004 tax benefit differs from the expected tax benefit of $80,110,000 (based on the U.S. federal 35% income tax rate) due primarily to (i) the reduction of UGC s deferred tax assets as a result of tax rate reductions in The Netherlands, France, the Czech Republic, and Austria; (ii) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items associated with cross jurisdictional intercompany loans and investments; (iii) the realization of taxable foreign currency gains in certain jurisdictions not recognized for financial reporting purposes, (iv) a net increase in UGC s valuation allowance associated with reserves established against currently arising tax loss carryforwards that were only partially offset by the release of valuation allowances in other jurisdictions. Certain of the released valuation allowances were related to deferred tax assets that were recorded in purchase accounting and accordingly, such valuation allowances were reversed against goodwill. The items mentioned above were

partially offset by (i) the reversal of a deferred tax liability originally recorded for a gain on extinguishment of debt in a 2002 merger transaction as a result of the emergence of Old UGC from bankruptcy in November 2004; (ii) the recognition of tax losses or deferred tax assets for the sale of investments or subsidiaries and (iii) a deferred tax benefit that we recorded during the third quarter of 2004 to reflect a reduction in the estimated blended state tax rate used to compute our net deferred tax liabilities. Such reduction represents a change in estimate that resulted from our re-evaluation of this rate upon our becoming a separate tax paying entity in connection with the spin off. The difference between the actual tax expense and the expected tax expense of $17,111,000 (based on the U.S. Federal 35% income tax rate) during 2003 is primarily attributable to foreign, state and local taxes**.** For additional details, see note 11 to the accompanying consolidated financial statements.

Years ended December 31, 2003 and 2002

Revenue

Revenue increased $8,135,000 or 8.1% during 2003, as compared to 2002. The increase was due primarily to a $7,495,000 increase in revenue generated by Liberty Cablevision Puerto Rico. The increase in the revenue of Liberty Cablevision Puerto Rico is due primarily to a $3,685,000 increase in revenue from cable television services, a $1,772,000 increase in broadband Internet revenue and a $1,255,000 increase in equipment rental income. The increase in revenue from cable television services is due primarily to the net effect of (i) increases associated with higher rates and an increase in the number of digital cable subscribers and (ii) decreases associated with an approximate 1% decrease in the number of subscribers to basic cable services. The increase in Liberty Cablevision Puerto Rico s equipment rental revenue is due primarily to the increase in digital cable subscribers.

Operating costs and expenses

Operating costs and expenses increased $6,375,000 or 14.5% during 2003, as compared to 2002. The increase was due primarily to increases in the operating costs and expenses of both Liberty Cablevision Puerto Rico and Pramer. Higher programming rates and an increase in the number of subscribers receiving the digital programming tier of service contributed to an increase in programming costs that accounted for most of the $4,103,000 increase in Liberty Cablevision Puerto Rico s operating expenses. The increase in Pramer s operating costs and expenses is attributable to individually insignificant items.

Selling, general and administrative (SG&A) expenses

SG&A expenses decreased $1,932,000 or 4.6% during 2003, as compared to 2002. The decrease is due primarily to a $4,596,000 decrease in SG&A expenses incurred by Pramer, offset by a $2,584,000 increase in SG&A expenses incurred by Liberty Cablevision Puerto Rico. The decrease in Pramer s SG&A expenses is due primarily to a decrease in bad debt expense as Pramer experienced unusually high bad debt expense during 2002 as a result of poor economic conditions in Argentina and the devaluation of the Argentine peso. The increase in Liberty Cablevision Puerto Rico s SG&A expense is due to increases in salaries and related personnel costs and other individually insignificant items. The increase in salaries and personnel costs is primarily related to increased headcount required to support Liberty Cablevision Puerto Rico s launch of its broadband Internet service.

Stock-based compensation charges (credits)

We had stock-based compensation charges of $4,088,000 in 2003 and credits of $5,815,000 in 2002. The stock compensation amounts reflected in our statements of operations during these periods were based on stock appreciation rights held by Liberty employees who performed services for our company. The stock compensation amounts recorded during 2003 and 2002 are primarily a function of the market price of Liberty common stock and the vesting of the awards.

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Depreciation and amortization

Depreciation and amortization increased $2,027,000 or 15.5% during 2003, as compared to 2002. The increase in depreciation and amortization is primarily due to an increase in the depreciable tangible assets of Liberty Cablevision Puerto Rico as a result of capital additions.

Impairment of long-lived assets

We recorded charges to reflect the impairment of long-lived assets of $45,928,000 during 2002, including charges of $39,000,000 and $5,000,000 to reflect the write-off of enterprise goodwill associated with our investments in Metrópolis and Torneos, respectively. We recorded the Metrópolis impairment in connection with an evaluation of the carrying value of our investment in Metrópolis as more fully described below. The Torneos impairment resulted primarily from the devaluation of the Argentine peso.

Interest and dividend income

We recognized interest and dividend income of $24,874,000 and $25,883,000 during 2003 and 2002, respectively. The $1,009,000 decrease during 2003 is primarily attributable to a decrease in interest income from the Belmarken Loan that was largely offset by increases in (i) interest income earned on shareholder loans to J-COM and (ii) other sources of interest income. The Belmarken Loan represented debt of a UGC subsidiary, and we contributed the Belmarken Loan to UGC in connection with the 2002 UGC Transaction.

Share of earnings (losses) of affiliates, net

A summary of our share of earnings (losses) of affiliates, net, is included below:

	Year ended December 31,	
	2003	**2002**
	amounts in thousands	
J-COM	$ 20,341	(21,595)
JPC	11,775	5,801
Metrópolis	(8,291)	(80,394)
UGC		(190,216)
Other	(10,086)	(44,821)
	$ 13,739	(331,225)

Included in share of losses in 2003 and 2002 are adjustments for other-than-temporary declines in value aggregating $12,616,000 and $72,030,000, respectively. The 2002 amount includes $66,555,000 associated with Metrópolis. The Metrópolis impairment was recorded as a result of a decline in value associated with increased competition and subscriber losses.

As noted above, we did not recognize our share of UGC s losses during 2003 as our investment in UGC previously had been reduced to zero and we had no commitment to make additional investments in UGC.

Realized and unrealized gains (losses) on derivative instruments, net

The details of our realized and unrealized gains (losses) on derivative instruments, net, are as follows:

	Year ended December 31,	
	2003	**2002**
	amounts in thousands	
Foreign exchange derivatives	$ (22,626)	(11,239)
Total return debt swaps	37,804	(1,088)

Other		(2,416)	(4,378)
	$	12,762	(16,705)

Foreign currency transaction gains (losses), net

The details of our foreign currency transaction gains (losses), net are as follows:

	Year ended December 31,		
	2003		2002
	amounts in thousands		
Pramer (primarily U.S. dollar denominated debt) (a)	$	2,461	(12,290)
Telewest bonds		1,750	3,603
Other		1,201	420
	$	5,412	(8,267)

(a) The foreign currency losses experienced by Pramer during 2002 are attributable to the devaluation of the Argentine peso.

Gains on exchanges of investment securities

On January 30, 2002, our company and UGC completed the 2002 UGC Transaction pursuant to which UGC was formed to own Old UGC. Upon consummation of the 2002 UGC Transaction, all shares of Old UGC common stock were exchanged for shares of common stock of UGC. In addition, we contributed to UGC (i) cash consideration of $200,000,000, (ii) the Belmarken Loan, with an accreted value of $891,671,000 and a carrying value of $495,603,000 and (iii) Senior Notes and Senior Discount Notes of UPC, a subsidiary of Old UGC, with an aggregate carrying amount of $270,398,000, in exchange for 281.3 million shares of UGC Class C common stock with a fair value of $1,406,441,000. We accounted for the 2002 UGC Transaction as the acquisition of an additional noncontrolling interest in UGC in exchange for monetary financial instruments. Accordingly, we calculated a $440,440,000 gain on the transaction based on the difference between the estimated fair value of the financial instruments and their carrying value. Due to our continuing indirect ownership in the assets contributed to UGC, we limited the amount of gain we recognized to the minority shareholders attributable share (approximately 28%) of such assets or $122,618,000 (before deferred tax expense of $47,821,000).

Other-than-temporary declines in fair values of investments

During 2003 and 2002, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based on quoted market prices and discounted cash flow analysis. These adjustments are reflected as other-than-temporary declines in fair value of investments in the consolidated statements of operations. The details of our other-than-temporary declines in fair value of investments are as follows:

	Year ended December 31,		
	2003		2002
	amounts in thousands		
Sky Latin America	$	6,884	105,250
Telewest bonds			141,271
Other			865

	$ 6,884	247,386

The impairment of our investment in Sky Latin America was primarily a function of economic conditions in the countries in which Sky Latin America operates. The amount of the Sky Latin America impairment was based on discounted cash flow analysis. The carrying value of the Telewest bonds was reduced based on quoted market prices at the balance sheet date.

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Income tax benefit (expense)

We recognized income tax benefit (expense) of ($27,975,000) and $166,121,000 during 2003 and 2002, respectively. The 2003 tax expense differs from the expected tax expense of $17,111,000 (based on the U.S. federal 35% income tax rate) primarily due to foreign, state and local taxes. The 2002 tax expense differs from the expected tax benefit of $173,593,000 (based on the U.S. federal 35% income tax rate) as the effect of state, local and foreign tax benefits was more than offset by the impact of certain non-deductible expenses and other individually insignificant items. For additional information, see note 11 to the accompanying consolidated financial statements.

Cumulative effect of accounting change, net of taxes

We and our subsidiaries adopted Statement 142 effective January 1, 2002. Upon adoption, we determined that the carrying value of certain of our reporting units (including allocated goodwill) was not recoverable. Accordingly, in the first quarter of 2002, we recorded an impairment loss of $238,267,000, after deducting taxes of $103,105,000, as the cumulative effect of a change in accounting principle. This transitional impairment loss includes a pre-tax adjustment of $264,372,000 for our proportionate share of transition adjustments that UGC recorded.

Discussion and Analysis of Reportable Segments

For purposes of evaluating the performance of our operating segments, we compare and analyze 100% of the revenue and operating cash flow of our reportable operating segments regardless of whether we use the consolidation or equity method to account for such reportable segments. Accordingly, in the following tables, we have presented 100% of the revenue, operating expenses, SG&A expenses and operating cash flow of our reportable segments, notwithstanding the fact that we used the equity method to account for (i) UGC during the 2003 and 2002 periods and (ii) our equity method investment in J-COM for all periods presented. The revenue, operating expenses, SG&A expenses and operating cash flow of UGC for the 2003 and 2002 periods and J-COM for all periods presented are then eliminated to arrive at the reported amounts. It should be noted, however, that this presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate. For additional information concerning our operating segments, including a discussion of our performance measures and a reconciliation of operating cash flow to pre-tax earnings (loss), see note 20 to the accompanying consolidated financial statements.

The tables presented below in this section provide a separate analysis of each of the line items that comprise operating cash flow (revenue, operating expenses and SG&A expenses) as well as an analysis of operating cash flow by operating segment for 2004 compared to 2003 and 2003 compared to 2002. In each case, the tables present (i) the amounts reported by each of our operating segments for the comparative periods, (ii) the U.S. dollar change and percentage change from period to period, and (iii) the U.S. dollar equivalent of the change and the percentage change from period to period, after removing foreign currency effects (FX). The comparisons that exclude FX assume that exchange rates remained constant during the periods that are included in each table.

UGC Broadband France acquired Noos on July 1, 2004. Accordingly, increases in the amounts presented for UGC Broadband France during 2004, as compared to the corresponding prior year periods, are primarily attributable to the Noos acquisition. In addition, UGC has included Chorus Communications Limited (Chorus), a wholly owned subsidiary of PHL and a cable operator in Ireland, in its consolidated financial statements since June 1, 2004. Accordingly, increases in the amounts presented for UGC Broadband Other Europe during 2004, as compared to 2003, are partially attributable to the operations of Chorus since June 1, 2004. In addition, the third quarter 2002 deconsolidation of UGC s broadband operations in Germany factors into the 2003 to 2002 comparisons. For additional information concerning the Noos acquisition and the PHL transactions, see note 5 to the accompanying consolidated financial statements.

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Revenue of our Reportable Segments

Revenue Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 716,932	592,223	124,709	21.1%	60,999	10.3%
UGC Broadband France	312,792	113,946	198,846	174.5%	187,462	164.5%
UGC Broadband Austria	299,874	260,162	39,712	15.3%	13,268	5.1%
UGC Broadband Other Europe	752,900	561,737	191,163	34.0%	134,926	24.0%
UGC Broadband Total Europe	2,082,498	1,528,068	554,430	36.3%	396,655	26.0%
UGC Broadband Chile (VTR)	299,951	229,835	70,116	30.5%	36,314	15.8%
J-COM	1,504,709	1,233,492	271,217	22.0%	156,706	12.7%
Corporate and all other	400,818	369,072	31,746	8.6%	(3,835)	(1.0%)
Elimination of intercompany transactions	(138,983)	(127,055)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(1,504,709)	(3,125,022)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 2,644,284	108,390	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband The Netherlands

UGC Broadband The Netherlands revenue increased 21.1% in 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 10.3%. The local currency increase is primarily attributable to an increase in the average monthly revenue per subscriber, due primarily to higher average rates for cable television services and the increased penetration of broadband Internet services. These factors were somewhat offset by reduced tariffs for telephone services as lower outbound interconnect rates were passed through to the customer to maintain the product at a competitive level in the market. The average number of subscribers in 2004 was slightly higher than the comparable number in 2003 as increases in broadband Internet and telephone subscribers were largely offset by a decline in cable television subscribers.

UGC previously announced that it would increase rates for analog video customers in The Netherlands towards a standard rate, effective January 1, 2004. As previously reported, UGC has been enjoined from, or has voluntarily waived, implementing these rate increases in certain cities within The Netherlands. Thus far, UGC has reached agreement with most of these municipalities, including the municipality of Amsterdam, allowing it to increase its cable tariffs to a standard rate of 15.20. UGC is continuing to negotiate with the other municipalities.

UGC Broadband France

UGC Broadband France s revenue in 2004 includes $183,930,000 generated by Noos. Excluding the increase associated with the Noos acquisition and the $11,384,000 increase associated with foreign exchange fluctuations, UGC Broadband France s revenue increased $3,532,000 or 3.1% in 2004, as compared to 2003. This 3.1% increase is primarily attributable to an increase in the average number of subscribers in 2004, as compared to 2003. Cable television, broadband Internet and telephone services all contributed to this subscriber increase. A decrease in the average monthly revenue per telephone subscriber partially offset the positive impact of the subscriber increases. The lower telephone revenue is attributable to lower tariffs from telephone services, as lower outbound interconnect rates were passed through to the customer to maintain the service at a competitive level in the market, as well as reduced outbound telephone traffic as more customers

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migrate from dial-up Internet access to broadband Internet access and migrate from fixed-line telephone usage to cellular phone usage.

UGC Broadband Austria

UGC Broadband Austria s revenue increased 15.3% in 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 5.1%. The local currency increase is primarily attributable to growth in the average number of subscribers in 2004, as compared to 2003. This subscriber growth is primarily attributable to an increase in the average number of subscribers to broadband Internet service.

UGC Broadband Other Europe

UGC Broadband Other Europe includes broadband operations in Norway, Sweden, Belgium, Ireland, Hungary, Poland, Czech Republic, Slovak Republic, Slovenia and Romania. UGC Broadband Other Europe s revenue in 2004 includes $48,953,000 of revenue generated by Chorus. Excluding the increase associated with the 2004 Chorus acquisition and the $56,237,000 increase associated with foreign exchange fluctuations, UGC Broadband Other Europe s revenue increased $85,973,000 or 15.3% during 2004, as compared to 2003. The 15.3% increase is due primarily to increases in the average monthly revenue per subscriber across all of the UGC Broadband Other Europe countries. An overall increase in the average number of cable television and broadband Internet subscribers in 2004, as compared to 2003, also contributed to the increase.

UGC Broadband Chile (VTR)

UGC Broadband Chile s revenue increased 30.5% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 15.8%. This 15.8% increase is due primarily to growth in the average number of subscribers to cable television, broadband Internet and telephone services during 2004, as compared to 2003. This subscriber growth is due primarily to improved direct sales, mass marketing initiatives and lower subscriber churn. UGC Broadband Chile s average monthly revenue per subscriber remained relatively flat from period to period due primarily to significant competition in UGC Broadband Chile s markets.

J-COM

J-COM s revenue increased 22.0% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 12.7%. The local currency increase is primarily attributable to a significant increase in the average number of subscribers in 2004, as compared to 2003. Most of this subscriber increase is attributable to growth within J-COM s telephone and broadband Internet services. An increase in average revenue per household per month also contributed to the increase in local currency revenue. The increase in average revenue per household per month is primarily attributable to the full-year effect of cable television service price increases implemented during 2003 and increased penetration of J-COM s higher-priced broadband Internet service. These factors were somewhat offset by a reduction in the price for one of J-COM s lower-priced broadband Internet services and a decrease in customer call volumes for J-COM s telephone service.

Revenue — Years ended December 31, 2003 and 2002

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband — The Netherlands	$ 592,223	459,044	133,179	29.0%	35,346	7.7%
UGC Broadband — France	113,946	92,441	21,505	23.3%	2,681	2.9%
UGC Broadband — Austria	260,162	198,189	61,973	31.3%	19,026	9.6%
UGC Broadband — Other Europe	561,737	461,149	100,588	21.8%	34,034	7.4%
UGC Broadband — Total Europe	1,528,068	1,210,823	317,245	26.2%	91,087	7.5%
UGC Broadband — Chile (VTR)	229,835	186,426	43,409	23.3%	42,319	22.7%
J-COM	1,233,492	930,736	302,756	32.5%	211,703	22.7%
Corporate and all other	369,072	326,722	42,350	13.0%	(8,448)	(2.6)%
Elimination of intercompany transactions	(127,055)	(108,695)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(3,125,022)	(2,445,757)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 108,390	100,255	N.M.	N.M.	N.M.	N.M.

N.M. — Not Meaningful

UGC Broadband — The Netherlands

UGC Broadband — The Netherlands' revenue increased 29.0% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 7.7%. The local currency increase is due primarily to rate increases for cable television services. The average number of subscribers in 2003 increased slightly over the comparable number in 2002 as increases in broadband Internet subscribers were largely offset by decreases in cable television and telephone subscribers.

UGC Broadband — France

UGC Broadband — France's revenue increased 23.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, revenue increased 2.9% in 2003, as compared to 2002. This local currency increase is primarily attributable to increases in the average number of subscribers to cable television, and to a lesser extent, broadband Internet and telephone services in 2003, as compared to 2002. UGC Broadband — France's average monthly revenue per subscriber declined slightly as the positive impact of increased penetration of broadband Internet services was more than offset by lower telephony revenue and an increase in the proportion of subscribers to lower-priced tiers within the total number of subscribers for cable television services.

UGC Broadband — Austria

UGC Broadband — Austria's revenue increased 31.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 9.6%. The local currency increase is due primarily to increases in the average number of broadband Internet and telephone subscribers during 2003, as compared to 2002. An increase in

the average monthly revenue per subscriber, due primarily to the increased penetration of broadband Internet services, also contributed to the increase.

UGC Broadband Other Europe

UGC Broadband Other Europe s revenue increased 21.8% during 2003, as compared to 2002. Excluding the $28,069,000 decrease associated with the third quarter 2002 deconsolidation of UGC s broadband operations in Germany and the $66,554,000 increase associated with foreign exchange fluctuations, UGC Broadband Other Europe s revenue increased $62,103,000 or 14.3% in 2003, as compared to 2002. The

local currency revenue increase is attributable to increases in average monthly revenue per subscriber across all of the UGC Broadband Other Europe countries. An overall increase in the average number of cable television and broadband Internet subscribers in 2004, as compared to 2003, also contributed to the increase.

UGC Broadband Chile (VTR)

UGC Broadband Chile s revenue increased 23.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 22.7%. The local currency increase was primarily due to an increase in the average number of subscribers in 2003, as compared to 2002. The subscriber increase is attributable to the increased effectiveness of UGC Broadband Chile s direct sales force and mass marketing initiatives for its broadband Internet services, and to increased premium tier customers. In addition, UGC Broadband Chile s average monthly revenue per subscriber was favorably impacted by a decrease in promotions and price discounts.

J-COM

J-COM s revenue increased 32.5% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 22.7%. The local currency increases are primarily attributable to a significant increase in the average number of subscribers in 2003, as compared to 2002. Most of this subscriber increase is attributable to growth within J-COM s telephone and broadband Internet services. An increase in average revenue per household per month during 2003, as compared to 2002, also contributed to the increase in local currency revenue. The increases in average revenue per household per month is primarily attributable to the effect of cable television service price increases and increased penetration of J-COM s higher-priced broadband Internet service. These factors were somewhat offset by a reduction in the prices for J-COM s lower-priced broadband Internet services and a decrease in customer call volumes for J-COM s telephone service.

Operating Expenses of our Reportable Segments

Operating expenses Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 243,975	229,653	14,322	6.2%	(8,038)	(3.5)%
UGC Broadband France	168,634	67,160	101,474	151.1%	94,427	140.6%
UGC Broadband Austria	136,675	118,457	18,218	15.4%	5,686	4.8%
UGC Broadband Other Europe	329,669	259,045	70,624	27.3%	44,952	17.4%
UGC Broadband Total Europe	878,953	674,315	204,638	30.3%	137,027	20.3%
UGC Broadband Chile (VTR)	116,131	96,965	19,166	19.8%	5,818	6.0%
J-COM	502,488	429,911	72,577	16.9%	34,243	8.0%
Corporate and all other	201,819	181,581	20,238	11.1%	5,909	3.3%
Elimination of intercompany transactions	(128,611)	(117,423)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(502,488)	(1,215,043)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 1,068,292	50,306	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

General

Operating expenses include programming, network operations and other direct costs. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of

the expansion of service offerings and the potential for price increases. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

UGC Broadband Total Europe

Operating expenses for UGC Broadband Total Europe increased 30.3% in 2004, as compared to 2003. Operating expenses for UGC Broadband France and UGC Broadband Other Europe include $92,076,000 and $11,451,000 incurred by Noos and Chorus, respectively, both of which were acquired in 2004. Excluding the $103,527,000 increase associated with the 2004 Noos and Chorus acquisitions and the $67,611,000 increase associated with foreign exchange rate fluctuations, UGC Broadband Total Europe s operating expenses increased $33,500,000 or 5.0% in 2004, as compared to 2003, primarily due to the net effect of the following factors:

(i) an increase in customer operation expenses as a result of higher numbers of new and reconnecting subscribers during 2004, as compared to 2003. This higher activity level required UGC to hire additional staff and use outsourced contractors;

(ii) an increase in direct programming costs related to subscriber growth and, in certain markets, an increase in channels on the analog and digital platforms;

(iii) a decrease due to net cost reductions across network operations, customer care and billing and collection activities. These reductions were due to improved cost controls across all aspects of the business, including more effective procurement of support services, lower billing and collections charges, with bad debt charges in particular reduced in The Netherlands, and the increasing operational leverage of the business;

(iv) an increase in intercompany costs for broadband Internet services under the revenue sharing agreement between UPC Broadband and chellomedia;

(v) a decrease related to reduced telephone direct costs in 2004, as compared to 2003, primarily due to decreases in outbound interconnect rates;

(vi) an increase due to annual wage increases; and

(vii) a decrease due to cost savings in The Netherlands resulting from a restructuring plan implemented in the second quarter of 2004 whereby the management structure was changed from a three-region model to a centralized management organization.

UGC Broadband Chile (VTR)

UGC Broadband Chile s operating expenses increased 19.8% for 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 6.0%. The local currency increase primarily is due to increases in (i) domestic and international access charges, (ii) programming costs, and (iii) the cost of maintenance and technical services. Such increased costs were largely driven by subscriber growth.

J-COM

J-COM operating expenses increased 16.9% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 8.0%. These local currency increases primarily are due to an increase in programming costs as a result of subscriber growth and improved service offerings. Increases in network maintenance and technical support costs associated with the expansion of J-COM s network also contributed to the increases.

Operating expenses Years ended December 31, 2003 and 2002

An analysis of the operating expenses of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 229,653	251,614	(21,961)	(8.7)%	(58,878)	(23.4)%
UGC Broadband France	67,160	72,120	(4,960)	(6.9)%	(15,794)	(21.9)%
UGC Broadband Austria	118,457	100,849	17,608	17.5%	(1,412)	(1.4)%
UGC Broadband Other Europe	259,045	236,685	22,360	9.4%	(6,750)	(2.9)%
UGC Broadband Total Europe	674,315	661,268	13,047	2.0%	(82,834)	(12.5)%
UGC Broadband Chile (VTR)	96,965	93,243	3,722	4.0%	3,730	4.0%
J-COM	429,911	366,828	63,083	17.2%	31,348	8.5%
Corporate and all other	181,581	175,639	5,942	3.4%	(19,118)	(10.9)%
Elimination of intercompany transactions	(117,423)	(96,762)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(1,215,043)	(1,156,285)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 50,306	43,931	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband Total Europe

Operating expenses for UGC Broadband Total Europe increased 2.0% in 2003, as compared to 2002. Excluding the $14,332,000 decrease associated with the third quarter 2002 deconsolidation of UGC s Broadband operations in Germany and the $95,881,000 increase associated with foreign exchange rate fluctuations, UGC Broadband Total Europe s operating expenses decreased $68,502,000 or 10.4% in 2003, as compared to 2002, primarily due to:

(i) a decrease associated with improved cost control across all aspects of the business, including the benefit of restructuring activities, other cost cutting initiatives, continued improvements in processes and systems and organizational rationalization. In addition, more effective procurement processes resulted in improved terms from major vendors; and

(ii) a decrease in billing and collection charges, reflecting improved receivables management and lower bad debt charges, particularly in The Netherlands and France, where reduced bad debt charges accounted for over 75% of the total reduction;

(iii) a decrease in telephone outbound interconnect costs, which offset an increase in intercompany cost for broadband Internet services under the revenue sharing agreement between UPC Broadband and chellomedia;

(iv) a decrease in programming costs resulting from a year over year reduction in the DTH business, due to the closure of an uplink facility, which was only partially offset by the impact of subscriber growth.

UGC Broadband Chile (VTR)

Operating expenses for UGC Broadband Chile increased 4.0% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was also 4.0%. This increase is primarily due to increases in variable costs such as domestic and international access charges, programming costs and maintenance and technical service costs. Such increased costs were largely driven by subscriber growth.

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J-COM

J-COM operating expenses increased 17.2% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increases were 8.5%. The local currency increase primarily is due to an increase in programming costs as a result of video subscriber growth, and to an increase in interconnection charges paid to third parties associated with an increase in telephone revenue. Increases in network maintenance and technical support costs associated with the expansion of J-COM s network also contributed to the increase.

SG&A Expenses of our Reportable Segments

SG&A expenses Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 111,692	95,495	16,197	17.0%	6,016	6.3%
UGC Broadband France	90,468	32,866	57,602	175.3%	54,257	165.1%
UGC Broadband Austria	51,249	43,427	7,822	18.0%	3,344	7.7%
UGC Broadband Other Europe	141,833	99,197	42,636	43.0%	32,448	32.7%
UGC Broadband Total Europe	395,242	270,985	124,257	45.9%	96,065	35.5%
UGC Broadband Chile (VTR)	75,068	62,919	12,149	19.3%	3,775	6.0%
J-COM	412,624	375,263	37,361	10.0%	6,009	1.6%
Corporate and all other	227,906	193,581	34,325	17.7%	10,238	5.3%
Elimination of intercompany transactions	(10,372)	(9,632)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(412,624)	(852,779)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 687,844	40,337	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

General

SG&A expenses include human resources, information technology, general services, management, finance, legal and marketing costs and other general expenses.

UGC Broadband Total Europe

SG&A expenses for UGC Broadband Total Europe increased 45.9% in 2004, as compared to 2003. SG&A expenses for UGC Broadband France and UGC Broadband Other Europe include $51,069,000 and $25,707,000 incurred by Noos and Chorus, respectively, both of which were acquired in 2004. Excluding the $76,776,000 increase associated with the 2004 Noos and Chorus acquisitions and the $28,192,000 increase due to exchange rate fluctuations, UGC Broadband Total Europe s SG&A expenses increased $19,289,000, or 7.1% in 2004, as compared to 2003, primarily due to:

(i) an increase in marketing expenditures to support subscriber growth and new digital programming services;

(ii) annual wage increases; and

(iii) increased consulting and other information technology support costs associated with the implementation of new customer care systems in several countries and a subscriber management system in Austria.

These increases were partly offset by continuing cost control across all aspects of the business and cost savings resulting from UGC Broadband The Netherlands restructuring that was implemented during the second quarter of 2004.

UGC Broadband Chile (VTR)

UGC Broadband Chile s SG&A expenses increased 19.3% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 6.0%. The local currency increase primarily is due to (i) an increase in commissions and marketing costs as a result of subscriber growth and increased competition, (ii) annual wage increases, and (iii) higher legal, accounting and other professional advisory fees due in part to requirements of the Sarbanes-Oxley Act of 2002.

J-COM

J-COM SG&A expenses increased 10% during 2004 as compared to 2003. Excluding the effects of foreign exchange fluctuations, J-COM SG&A expenses increased 1.6% during 2004 as compared to 2003. This local currency increase primarily is attributable to the net effect of (i) increased labor and other overhead costs associated primarily with increases in J-COM s subscribers, and (ii) reduced marketing personnel and advertising and promotion expenses.

SG&A expenses Years ended December 31, 2003 and 2002

An analysis of the SG&A expenses of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 95,495	88,101	7,394	8.4%	(9,691)	(11.0)%
UGC Broadband France	32,866	30,767	2,099	6.8%	(3,538)	(11.5)%
UGC Broadband Austria	43,427	32,678	10,749	32.9%	2,680	8.2%
UGC Broadband Other Europe	99,197	92,582	6,615	7.1%	(2,381)	(2.6)%
UGC Broadband Total Europe	270,985	244,128	26,857	11.0%	(12,930)	(5.3)%
UGC Broadband Chile (VTR)	62,919	51,224	11,695	22.8%	11,321	22.1%
J-COM	375,263	352,762	22,501	6.4%	(5,380)	(1.5)%
Corporate and all other	193,581	188,040	5,541	2.9%	(19,513)	(10.4)%
Elimination of intercompany transactions	(9,632)	(11,933)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(852,779)	(781,952)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 40,337	42,269	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband Total Europe

SG&A expenses for UGC Broadband Total Europe increased 11.0% in 2003, as compared to 2002. Excluding the $1,175,000 decrease associated with the third quarter 2002 deconsolidation of UGC s broadband operations in Germany and the $39,787,000 increase associated with exchange rate fluctuations, UGC Broadband Total Europe s SG&A expenses decreased $11,755,000 or 4.8% in 2003, as compared to 2002, primarily due to improved operational cost control resulting from restructuring activities and other cost cutting measures. These cost reductions were partially offset by an increase in marketing expenditures to support subscriber growth.

UGC Broadband Chile (VTR)

SG&A expenses for UGC Broadband Chile increased 22.8% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, SG&A expenses increased 22.1%, primarily due to (i) an increase in commissions and marketing costs as a result of subscriber growth and increased competition, (ii) annual wage increases and (iii) higher professional advisory fees.

J-COM

J-COM SG&A expenses increased 6.4% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, J-COM SG&A expenses decreased 1.5% during 2003 as compared to 2002. This decrease was attributable primarily to reduced costs for marketing personnel and advertising and promotion expenses associated with customer acquisitions, expense reductions resulting from scale efficiencies and to continued management focus on limiting expenses. The decrease was partially offset by an increase in labor costs at J-COM s call centers as a result of the provision of customer support to a larger subscriber base.

Operating Cash Flow of our Reportable Segments

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance and to decide how to allocate resources to segments. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding depreciation and amortization, impairment of long-lived assets, restructuring and other charges and stock-based compensation). We believe operating cash flow is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within operating cash flow distorts the ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of operating cash flow is important because analysts and investors use it to compare our performance to other companies in our industry. For a reconciliation of total consolidated operating cash flow to our consolidated pre-tax earnings (loss), see note 20 to the accompanying consolidated financial statements. Investors should view operating cash flow as a supplement to, and not a substitute for, operating income, net income, cash flow from operating activities and other GAAP measures of income as a measure of operating performance.

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Operating Cash Flow Years ended December 31, 2004 and 2003

An analysis of the operating cash flow of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	**2003**	**$**	**%**	**$**	**%**
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 361,265	267,075	94,190	35.3%	63,021	23.6%
UGC Broadband France	53,690	13,920	39,770	285.7%	38,778	278.6%
UGC Broadband Austria	111,950	98,278	13,672	13.9%	4,238	4.3%
UGC Broadband Other Europe	281,398	203,495	77,903	38.3%	57,526	28.3%
UGC Broadband Total Europe	808,303	582,768	225,535	38.7%	163,563	28.1%
UGC Broadband Chile (VTR)	108,752	69,951	38,801	55.5%	26,721	38.2%
J-COM	589,597	428,318	161,279	37.7%	116,454	27.2%
Corporate and all other	(28,907)	(6,090)	(22,817)	374.7%	(19,982)	328.1%
Elimination of equity affiliates	(589,597)	(1,057,200)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 888,148	17,747	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

As set forth in the above table, our consolidated operating cash flow for 2004 was $888,148,000. If exchange rates had remained unchanged from 2003 levels, our operating cash flow would have been $816,931,000 in 2004. For explanations of the factors contributing to the changes in operating cash flow, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments.

Operating Cash Flow Years ended December 31, 2003 and 2002

An analysis of the operating cash flow of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	**2002**	**$**	**%**	**$**	**%**
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 267,075	119,329	147,746	123.8%	103,915	87.1%
UGC Broadband France	13,920	(10,446)	24,366	(233.3)%	22,013	(210.7)%
UGC Broadband Austria	98,278	64,662	33,616	52.0%	17,758	27.5%
UGC Broadband Other Europe	203,495	131,882	71,613	54.3%	43,165	32.7%

UGC Broadband Total Europe		582,768	305,427	277,341	90.8%	186,851	61.2%
UGC Broadband Chile (VTR)		69,951	41,959	27,992	66.7%	27,268	65.0%
J-COM		428,318	211,146	217,172	102.9%	185,735	88.0%
Corporate and all other		(6,090)	(36,957)	30,867	(83.5)%	30,183	(81.7)%
Elimination of equity affiliates		(1,057,200)	(507,520)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$	17,747	14,055	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

For explanations of the factors contributing to the changes in operating cash flow, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments.

Liquidity and Capital Resources

Sources and Uses of Cash

Prior to the spin off, cash transfers from Liberty represented our primary source of funds. Due to the spin off, cash transfers from Liberty no longer represent a source of liquidity for us. Although our consolidated operating subsidiaries have generated cash from operating activities and have borrowed funds under their respective bank facilities, we generally are not entitled to the resources of our operating subsidiaries or business affiliates. In this regard, we and each of our operating subsidiaries perform separate assessments of our respective liquidity needs. Accordingly, the current and future liquidity of our corporate and subsidiary operations is discussed separately below. Following the discussion of our sources and uses of liquidity, we present a discussion of our consolidated cash flow statements.

Corporate Liquidity

At December 31, 2004, we and our non-operating subsidiaries held unrestricted cash and cash equivalents of $1,487,963,000. Such cash and cash equivalents represent available liquidity at the corporate level. Our remaining unrestricted cash and cash equivalents at December 31, 2004 of $1,043,523,000 were held by UGC and our other operating subsidiaries. As noted above, we generally do not anticipate that any of the cash held by our operating subsidiaries will be made available to us to satisfy our corporate liquidity requirements. As described in greater detail below, our current sources of liquidity include (i) our cash and cash equivalents, (ii) our ability to monetize certain investments and derivative instruments, and (iii) interest and dividend income received on our cash and cash equivalents and investments. From time to time, we may also receive distributions or loan repayments from our subsidiaries or affiliates and proceeds upon the disposition of investments and other assets or upon the exercise of stock options.

During the 2004 period prior to the spin off, a subsidiary of our company borrowed $116,666,000 from Liberty pursuant to certain notes payable. In connection with the spin off, Liberty also entered into a Short-Term Credit Facility with us. During the third quarter of 2004, all amounts due to Liberty under the notes payable were repaid with proceeds from the LMI Rights Offering and the Short-Term Credit Facility was terminated.

In connection with the spin off, Liberty contributed to our company cash and cash equivalents of $50,000,000 and available-for-sale securities with a fair value of $561,130,000 on the contribution date. For additional information, see note 2 to the accompanying consolidated financial statements.

On July 19, 2004, our investment in Telewest Communications plc Senior Notes and Senior Discount Notes was converted into 18,417,883 shares or approximately 7.5% of the issued and outstanding common stock of Telewest. During the third and fourth quarters of 2004, we sold all of the acquired Telewest shares for aggregate cash proceeds of $215,708,000, resulting in a pre-tax loss of $16,407,000.

On July 26, 2004, we commenced the LMI Rights Offering whereby holders of record of LMI common stock on that date received 0.20 transferable subscription rights for each share of LMI common stock held. The LMI Rights Offering expired in accordance with its terms on August 23, 2004. Pursuant to the terms of the LMI Rights Offering, we issued 28,245,000 shares of LMI Series A common stock and 1,211,157 shares of LMI Series B common stock in exchange for aggregate cash proceeds of $739,432,000, before deducting related offering costs of $3,771,000.

In October 2004, we sold our interest in the Sky Multi-Country DTH platform in exchange for reimbursement by the purchaser of $1,500,000 of funding provided by us in the previous few months and the release from certain guarantees described below. We were deemed to owe the purchaser $6 million in respect of such platform, which amount was offset against a separate payment we received from the purchaser as explained below. We also agreed to sell our interest in the Sky Brasil DTH platform and granted the purchaser an option to purchase our interest in the Sky Mexico DTH platform. On October 28, 2004, we received $54 million in cash from the purchaser, which consisted of $60 million consideration payable for our Sky Brasil interest less the $6 million we were deemed to owe the purchaser in respect of the Sky Multi-Country DTH platform. The $60 million is refundable by us if the Sky Brasil transaction is terminated. It may be terminated by us or the purchaser if it has not closed by October 8, 2007 or by the purchaser if certain conditions are incapable of

being satisfied. We will receive $88 million in cash upon the transfer of our Sky Mexico interest to the purchaser. The Sky Mexico interest will not be transferred until certain Mexican regulatory conditions are satisfied. If the purchaser does not exercise its option to purchase our Sky Mexico interest on or before October 8, 2006 (or in some cases an earlier date), then we have the right to require the purchaser to purchase our interest if certain conditions, including the absence of Mexican regulatory prohibition of the transaction, have been satisfied or waived. In connection with these transactions our guarantees of the obligations of the Sky Multi-Country, Sky Brasil and Sky Mexico platforms under certain transponder leases were terminated and the purchaser agreed to obtain releases of our guarantees of obligations under certain equipment leases no later than December 31, 2004. All but one of such guarantees have been released. The purchaser has agreed to indemnify us for any amounts we are required to pay under our remaining guarantee until such guarantee is terminated.

Cablevisión is currently seeking to restructure its debt pursuant to an out of court reorganization agreement. That agreement has been approved by the requisite majorities of Cablevisión s creditors, and a petition for its approval has been filed by Cablevisión with a commercial court in Buenos Aires under Argentina s bankruptcy laws. Pursuant to the reorganization agreement, we had the right and obligation to contribute $27,500,000 to Cablevisión, for which we would receive, after giving effect to a capital reduction pertaining to the current shareholders of Cablevisión (including the entity in which Liberty had a 78.2% economic interest), approximately 40.0% of the equity of the restructured Cablevisión. In the fourth quarter of, 2004, we entered into an agreement that provided for the transfer of this right and obligation in exchange for cash consideration of approximately $40,527,000. We received 50% of such cash consideration as a down payment in November 2004 and we received the remainder in March 2005. We will recognize a gain of $40,527,000 during the first quarter of 2005 in connection with the closing of this transaction.

On December 21, 2004, we received cash proceeds of ¥43,809 million ($420,188,000 at December 21, 2004) in repayment of all principal and interest due to our company from J-COM and another affiliate pursuant to then outstanding shareholder loans.

During the fourth quarter of 2004, we sold 4,500,000 shares of News Corp. Class A common stock for aggregate cash proceeds of $83,669,000 ($29,770,000 of which was received in 2005), resulting in a pre-tax gain of $37,174,000.

On December 23, 2004, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility with a new $140 million dollar facility consisting of a $125 million six-year term loan facility and a $15 million six-year revolving credit facility. In connection with the closing of this facility, (i) Liberty Cablevision Puerto Rico made a $63,500,000 cash distribution to our company and (ii) the $50,542,000 cash collateral (including interest) for Liberty Cablevision Puerto Rico s previous bank facility was released to our company.

In addition to the above sources and potential sources of liquidity, we may elect to monetize our investments in News Corp., ABC Family preferred stock and/or certain other investments and derivative instruments that we hold. In this regard, we are a party to a variable forward sale transaction with respect to 5,500,000 shares of News Corp. Class A common stock that provided us with borrowing availability of $86,460,000 at December 31, 2004. For additional information concerning our investments and derivative contracts, see notes 7 and 8 to the accompanying consolidated financial statements.

We believe that our current sources of liquidity are sufficient to meet our known liquidity requirements through 2005, including any cash consideration that we might pay in connection with the closing of the proposed merger transaction with UGC, as described below. However, in the event another major investment or acquisition opportunity were to arise, it is likely that we would be required to seek additional capital in order to consummate any such transaction.

Our primary uses of cash have historically been investments in affiliates and acquisitions of consolidated businesses. We intend to continue expanding our collection of international broadband and programming assets. Accordingly, our future cash needs include making additional investments in and loans to existing affiliates, funding new investment opportunities, and funding our corporate general and administrative expenses.

On January 5, 2004, we completed a transaction pursuant to which UGC s founding shareholders transferred 8.2 million shares of UGC Class B common stock to our company in exchange for 12.6 million shares of Liberty Series A common stock valued, for accounting purposes, at $152,122,000 and a cash payment of $12,857,000. We also incurred $2,970,000 of acquisition costs in connection with this transaction. This transaction was the last of a number of independent transactions that occurred from 2001 through January 2004 pursuant to which we acquired our controlling interest in UGC.

During 2004 we also purchased an additional 20 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to our company by UGC. The $152,284,000 purchase price for such shares was comprised of (i) the cancellation of indebtedness due from subsidiaries of UGC to certain of our subsidiaries in the amount of $104,462,000 (including accrued interest) and (ii) $47,822,000 in cash. As UGC was one of our consolidated subsidiaries at the time of these purchases, the effect of these purchases was eliminated in consolidation.

Also, in January 2004, UGC initiated a rights offering pursuant to which holders of each of UGC s Class A, Class B and Class C common stock received 0.28 transferable subscription rights to purchase a like class of common stock for each share of UGC common stock owned by them on January 21, 2004. The rights offering expired on February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 90.7 million shares for a total cash purchase price of $544,250,000.

We hold a 50% interest in Metrópolis, a cable operator in Chile. On January 23, 2004, we, Liberty and CristalChile entered into an agreement pursuant to which each agreed to use its respective commercially reasonable efforts to combine the businesses of Metrópolis and VTR a wholly owned subsidiary of UGC. If the proposed combination is consummated, UGC would own 80% of the voting and equity rights in the combined entity, and CristalChile would own the remaining 20%. We would also receive a promissory note from the combined entity (the amount of which is subject to negotiation), which would be unsecured and subordinated to third party debt. In addition, CristalChile would have a put right which would allow CristalChile to require UGC to purchase all, but not less than all, of its interest in the combined entity at the fair value of the interest, subject to a minimum price of $140 million. This put right will end on the tenth anniversary of the combination. Liberty has agreed to perform UGC s obligations under CristalChile s put if UGC does not do so and, in connection with the spin off, we agreed to indemnify Liberty against its obligations with respect to CristalChile s put right. If the merger does not occur, we and CristalChile have agreed to fund our pro rata share of a capital call sufficient to retire Metropolis local debt facility, which had an outstanding principal amount of Chilean pesos 30.2 billion ($54,399,000) at December 31, 2004. The combination is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of the respective boards of directors of the relevant parties (including, in the case of UGC, the independent members of UGC s board of directors) and the receipt of necessary third party approvals and waivers. The Chilean antitrust authorities approved the combination in October 2004 subject to certain conditions. The primary conditions require that the combined entity (i) re-sell broadband capacity to third party Internet service providers on a wholesale basis; (ii) activate two-way capacity on all portions of the combined network within five years; and (iii) limit basic tier price increases to the rate of inflation plus a programming cost escalator over the next three years. An action was filed with the Chilean Supreme Court seeking to reverse such approval, but the action was dismissed on March 10, 2005. We, CristalChile and UGC are currently negotiating the terms of the definitive agreements for the combination.

On May 20, 2004, we acquired all of the issued and outstanding ordinary shares of PHL for 2,447,000, including 447,000 of acquisition costs ($2,918,000 at May 20, 2004). PHL, through its subsidiary Chorus Communications Limited, owns and operates broadband communications systems in Ireland. In connection with this acquisition, we loaned an aggregate of 75,000,000 ($89,483,000 as of May 20, 2004) to PHL. The proceeds from this loan were used by PHL to discharge liabilities pursuant to a debt restructuring plan and to provide funds for capital expenditures and working capital. In June 2004, LMI loaned PHL an additional 4,500,000 ($6,137,000), for a total of 79,500,000 ($108,414,000) as of December 31, 2004. In addition to the amounts loaned to PHL as of December 31, 2004, we have committed to loan to PHL up to 10,000,000

($13,637,000) at December 31, 2004. On December 16, 2004, UGC acquired our interest in PHL in exchange for 6,413,991 shares of UGC Class A common stock, valued for accounting purposes at $58,303,000 on that date. In connection with UGC s acquisition of our interest in PHL, UGC committed to refinance our loans to PHL no later than June 16, 2005. We and UGC accounted for this transaction as a reorganization of entities under common control at historical cost, similar to a pooling of interests. For additional information, see note 5 to the accompanying consolidated financial statements.

During the fourth quarter of 2004, we entered into call option contracts pursuant to which we contemporaneously (i) sold call options on 1,210,000 shares of LMI Series A common stock at exercise prices ranging from $39.5236 to $41.7536, and (ii) purchased call options on 1,210,000 shares with an exercise price of zero. As structured with the counterparty, these instruments have similar financial mechanics to prepaid put option contracts. Under the terms of the contracts, we can elect cash or physical settlement. All of the contracts expired during the first quarter of 2005 and were settled for cash. At December 31, 2004, the $49,218,000 fair value of these call option contracts is included in other current assets in the accompanying consolidated balance sheet.

On December 16, 2004, chellomedia Belgium acquired our wholly owned subsidiary BCH for $121,068,000 in cash. BCH s only assets were debt securities of CPE and one of the InvestCos and certain related contract rights. This purchase price was equal to our cost basis in these debt securities, which included an unrealized gain of $10,517,000. On December 17, 2004, UGC entered into a restructuring transaction with CPE and certain other parties. In this restructuring, BCH contributed approximately $137,950,000 in cash and the debt security of the InvestCo to Belgian Cable Investors in exchange for a 78.4% common equity interest and 100% preferred equity interest in Belgian Cable Investors. CPE owns the remaining 21.6% interest in Belgian Cable Investors. Belgian Cable Investors distributed approximately $115,592,000 in cash to CPE, which used the proceeds to repurchase the debt securities of CPE held by BCH. Belgian Cable Investors holds an indirect 14.1% interest in Telenet and certain call options expiring in 2007 and 2009 to acquire 3.36 million shares (11.6%) and 5.11 million shares (17.6%), respectively, of the outstanding equity of Telenet from existing shareholders. Belgian Cable Investors indirect 14.1% interest in Telenet results from its majority ownership of the InvestCos, which hold in the aggregate 18.99% of the stock of Telenet, and a shareholders agreement among Belgian Cable Investors and three unaffiliated investors in the InvestCos that governs the voting and disposition of 21.36% of the stock of Telenet, including the stock held by the InvestCos.

During December 2004, we paid $127,890,000 to purchase 3,000,000 shares of LMI Series A common stock from Comcast Corporation in a private transaction.

On January 17, 2005, we entered into an agreement and plan of merger with UGC pursuant to which we each will merge with a separate wholly owned subsidiary of a new parent company named Liberty Global, which has been formed for this purpose. In the mergers, each outstanding share of LMI Series A common stock and LMI Series B common stock will be exchanged for one share of the corresponding series of Liberty Global common stock. UGC s public stockholders may elect to receive for each share of common stock owned either 0.2155 of a share of Liberty Global Series A common stock (plus cash for any fractional share interest) or $9.58 in cash. Cash elections will be subject to proration so that the aggregate cash consideration paid to UGC s stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC s public stockholders. Completion of the transactions is subject to, among other conditions, approval of both companies stockholders, including an affirmative vote of a majority of the voting power of UGC Class A common stock not beneficially owned by our company, Liberty, any of our respective subsidiaries or any of the executive officers or directors of our company, Liberty, or UGC. Based on the number of shares outstanding of LMI common stock and UGC common stock at December 31, 2004, we estimate that UGC s public stockholders will receive (i) between approximately 63 million and 79 million shares of Liberty Global Series A common stock and (ii) between nil and approximately $700 million of cash consideration depending on the extent to which UGC public shareholders elect to receive cash consideration. We anticipate that we would fund any cash consideration with existing cash balances.

As noted above, we will begin consolidating Super Media and J-COM effective January 1, 2005. We do not expect the consolidation of Super Media and J-COM to have a material impact on our liquidity or capital

resources as we expect that both our company and J-COM will continue to separately assess and finance our respective liquidity needs.

Subsidiary Liquidity

UGC. At December 31, 2004, UGC held cash and cash equivalents of $1,028,993,000 and short-term liquid investments of $48,965,000. In addition to its cash and cash equivalents and its short-term liquid investments, UGC s sources of liquidity include borrowing availability under its existing credit facilities and its operating cash flow.

UGC completed a rights offering in February 2004 and received net cash proceeds of $1.02 billion. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 90.7 million shares for a total cash purchase price of $544,250,000.

On February 18, 2004, in connection with the consummation of UPC Polska s plan of reorganization and emergence from its U.S. bankruptcy proceeding, third-party holders of UPC Polska Notes and other claimholders received a total of $87,361,000 in cash, $101,701,000 in new 9% UPC Polska Notes due 2007 and approximately 2,011,813 shares of UGC Class A common stock in exchange for the cancellation of their claims. UGC redeemed the new 9% UPC Polska Notes due 2007 for a cash payment of $101,701,000 during the third quarter of 2004.

On April 6, 2004, UGC completed the offering and sale of 500 million UGC Convertible Notes. The UGC Convertible Notes are convertible into shares of UGC Class A common stock at an initial conversion price of 9.7561 per share, which was equivalent to a conversion price of $12.00 per share and a conversion rate of 102.5 shares per 1,000 principal amount of the UGC Convertible Notes on the date of issue. For additional information, see note 10 to the accompanying consolidated financial statements.

On December 17, 2004, VTR completed the refinancing of its existing bank facility with the VTR Bank Facility, a new Chilean peso-denominated six-year amortizing term senior secured credit facility. The facility consists of two tranches a 54.7675 billion Chilean peso ($95 million at December 17, 2004) committed Tranche A and an uncommitted Tranche B. At December 31, 2004, the U.S. dollar equivalent of the amount outstanding under Tranche A of the VTR Bank Facility was $97,941,000.

At December 31, 2004, UGC s debt includes outstanding euro denominated borrowings under four Facilities aggregating 2,366,217,000 ($3,226,810,000) and U.S. dollar denominated borrowings under two Facilities aggregating $701,020,000 pursuant to the UPC Broadband Bank Facility (as amended through December 31, 2004), 500 million ($681,850,000) principal amount of UGC Convertible Notes, $97,941,000 outstanding under the VTR Bank Facility, and certain other borrowings. A fifth euro denominated Facility under the UPC Broadband Bank Facility provided for aggregate availability of 667 million ($909 million) at December 31, 2004. The indenture governing the UPC Broadband Bank Facility (i) provides for a commitment fee of 0.5% of unused borrowing availability and (ii) is secured by the assets of most of UPC s majority-owned European cable operating companies and is senior to other long-term obligations of UPC. The indenture governing the UPC Broadband Bank Facility also contains covenants that limit among other things, UPC Broadband s ability to merge with or into another company, acquire other companies, incur additional debt, dispose of any assets unless in the ordinary course of business, enter or guarantee a loan, and enter into a hedging arrangement. The indenture also restricts UPC Broadband from transferring funds to its parent company (and directly to UGC) through loans, advances or dividends. The weighted average interest rate on borrowings under the UPC Broadband Bank Facility was 6% for 2004.

On March 8, 2005, the UPC Broadband Bank Facility was further amended to permit indebtedness under: (i) Facility G, a new 1.0 billion term loan facility maturing in full on April 1, 2010; (ii) Facility H, a new 1.5 billion ($2.05 billion) term loan facility maturing in full on September 1, 2012, of which $1.25 billion was denominated in U.S. dollars and then swapped into euros through a 7.5 year cross-currency swap; and (iii) Facility I, a new 500 million ($682 million) revolving credit facility maturing in full on April 1, 2010. In connection with this amendment, 167 million ($228 million) of Facility A, the existing revolving credit facility, was cancelled, reducing Facility A to a maximum amount of 500 million ($682 million). The

proceeds from Facilities G and H were used primarily to prepay all amounts outstanding under existing term loan Facilities B, C and E, to fund certain acquisitions and pay transaction fees. The aggregate availability of 1.0 billion ($1.36 billion) under Facilities A and I can be used to fund acquisitions and for general corporate purposes. As a result of this amendment, the weighted average maturity of the UPC Broadband Bank Facility was extended from approximately 4 years to approximately 6 years, with no amortization payments required until 2010, and the weighted average interest margin on the UPC Broadband Bank Facility was reduced by approximately 0.25% per annum. The amendment also provided for additional flexibility on certain covenants and the funding of acquisitions.

For additional information concerning UGC s debt, see note 10 to the accompanying consolidated financial statements.

On July 1, 2004, UPC Broadband France, an indirect subsidiary of UGC and the owner of UGC s French cable television operations, acquired Noos, from Suez. Noos is a provider of digital and analog cable television services and high-speed Internet access services in France. UPC Broadband France purchased Noos to achieve certain financial, operational and strategic benefits through the integration of Noos with its French operations and the creation of a platform for further growth and innovation in Paris and its remaining French systems. The preliminary purchase price was subject to a review of certain historical financial information of Noos and UPC Broadband France. In January 2005, UGC completed its purchase price review with Suez, which resulted in a 42,844,000 ($52,128,000) reduction in the purchase price. The final purchase price for Noos was approximately 567,102,000 ($689,989,000), consisting of 487,085,000 ($592,633,000) in cash and a 19.9% equity interest in UPC Broadband France, valued at approximately 71,339,000 ($86,798,000). Acquisition costs totaled 8,678,000 ($10,558,000). For additional information, see note 5 to the accompanying consolidated financial statements.

During the third quarter of 2004, UGC s Board of Directors authorized a $100 million share repurchase program. As of December 31, 2004, UGC had repurchased 787,391 shares of UGC Class A common stock under this program. Pursuant to the Liberty Global merger agreement, UGC may not make further purchases of its Class A common stock until the mergers contemplated thereby are completed or the merger agreement is terminated.

On January 12, 2004, Old UGC, a wholly owned subsidiary of UGC that principally owns UGC s interests in businesses in Latin America and Australia, filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. Old UGC s plan of reorganization, as amended, was confirmed by the Bankruptcy Court on November 10, 2004, and the restructuring of its indebtedness and other obligations pursuant to the plan was completed on November 24, 2004. On February 15, 2005, all of the Old UGC Senior Notes held by third parties were redeemed in full for total cash consideration of $25,068,000 plus accrued interest from August 15, 2004 through the redemption date totaling $1,324,000. For additional information, see note 16 to the accompanying consolidated financial statements.

On January 17, 2005, chellomedia acquired an 87.5% interest in Zone Vision from its current shareholders. Zone Vision is a programming company that owns three pay television channels and represents over 30 international channels. The consideration for the transaction consisted of $50 million in cash and 1.6 million shares of UGC Class A common stock, which are subject to a five-year vesting period. As part of the transaction, chellomedia will contribute to Zone Vision the 49% interest it already holds in Reality TV Ltd. and chellomedia s Club channel business.

During the first quarter of 2005, UGC made aggregate cash payments of $49.3 million in connection with the settlement of certain litigation. For additional information, see note 22 to the accompanying consolidated financial statements.

Management of UGC believes that UGC will be able to meet its current and long-term liquidity, acquisition and capital needs through its existing cash, operating cash flow and available borrowings under its existing credit facilities. However, to the extent that UGC management plans to grow UGC s business through acquisitions, UGC management believes that UGC will need additional sources of financing, most likely to come from the capital markets in the form of debt or equity financing or a combination of both.

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Other Subsidiaries. Liberty Cablevision Puerto Rico and Pramer generally fund their own investing and financing activities with cash from operations and bank borrowings, as necessary. Due to covenants in their respective loan agreements, we generally are not entitled to the cash resources or cash generated by the operating activities of these two consolidated subsidiaries. As noted above, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility on December 23, 2004. At December 31, 2004, Pramer s U.S. dollar denominated bank borrowings aggregated $12,338,000. During 2002, following the devaluation of the Argentine peso, Pramer failed to make certain required payments due under its bank credit facility, resulting in a technical default. However, the bank lenders did not provide notice of default or request acceleration of the payments due under the facility. On December 29, 2004, Pramer and the banks signed definitive documents for the refinancing of this credit facility (the New Pramer Facility) and the closing occurred on January 28, 2005.

Consolidated Cash Flow Statements

Our cash flows are subject to significant variations based on foreign currency exchange rates. See related discussion under Quantitative and Qualitative Disclosures about Market Risk below. See also our Discussion and Analysis of Reportable Segments above.

Due to the fact that we began consolidating UGC on January 1, 2004, our cash flows for 2004 are not comparable to the cash flows for 2003. Accordingly, the following discussion focuses on our cash flows for 2004.

During 2004, we used net cash provided by our financing activities of $2,240,388,000 and net cash provided by operating activities of $746,240,000 to fund an increase in our cash and cash equivalent balances of $2,451,977,000 (excluding a $66,756,000 increase due to changes in foreign exchange rates) and net cash used in our investing activities of $534,651,000.

During 2004, the net cash used by our investing activities was $534,651,000. Such amount includes net cash paid for acquisitions of $508,836,000, capital expenditures of $508,347,000, investments in and loans to affiliates and others of $256,959,000 and other less significant uses of cash. For additional information concerning our acquisitions during 2004, see note 5 to the accompanying consolidated financial statements. UGC accounted for $480,133,000 of our consolidated capital expenditures during 2004. In 2005, UGC management will continue to focus on increasing penetration of services in its existing upgraded footprint and the efficient deployment of capital aimed at services that result in positive net cash flows. UGC management expects its capital expenditures to be significantly higher in 2005 than in 2004, primarily due to: (i) costs for customer premise equipment as UGC management expects to add more customers in 2005 than in 2004; (ii) increased expenditures for new build and upgrade projects to meet certain franchise commitments, increased traffic, expansion of services and other competitive factors; (iii) new initiatives such as UGC management s plan to invest more aggressively in digital television in certain locations and UGC management s planned VoIP rollout in UGC s major markets in Europe and Chile; and (iv) other factors such as improvements to UGC s master telecom center in Europe, information technology upgrades and expenditures for UGC s general support systems.

The above-described uses of our cash for investing activities were partially offset by proceeds received upon repayment of principal amounts loaned to affiliates of $535,074,000 and proceeds received upon dispositions of investments of $315,792,000 and other less significant sources of cash. The proceeds received upon repayment of affiliate loans primarily represent the third and fourth quarter repayment of yen-denominated loans to J-COM and another affiliate. The proceeds received upon dispositions of investments relate primarily to the sale of our Telewest and News Corp. securities.

During 2004, the cash provided by our financing activities was $2,240,388,000. Such amount includes net proceeds of $735,661,000 from the LMI Rights Offering, contributions from Liberty of $704,250,000, net proceeds received on a consolidated basis from the issuance of stock by subsidiaries of $488,437,000, and net borrowings of debt of $451,830,000.

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During 2003 and 2002, cash contributions from Liberty funded most of our investments in and advances to our affiliates, principally J-COM in 2003, and principally UGC and J-COM during 2002.

Critical Accounting Policies, Judgments and Estimates

The preparation of these financial statements required us to make estimates and assumptions that affected the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those policies that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe our judgments and related estimates associated with the carrying value of our investments, the carrying value of our long-lived assets, the valuation of our acquisition related assets and liabilities, capitalization of our construction and installation costs, our income tax accounting and our accounting for derivative instruments to be critical in the preparation of our consolidated financial statements. These accounting estimates or assumptions are critical because of the levels of judgment necessary to account for matters that are inherently uncertain or highly susceptible to change.

Carrying Value of Long-lived Assets

The aggregate carrying value of our property and equipment, intangible assets and goodwill (collectively, long-lived assets) comprised 55% and 21% of our total assets at December 31, 2004 and 2003, respectively. Pursuant to Statements 142 and 144, we are required to assess the recoverability of our long-lived assets.

Statement 144 requires that we periodically review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Pursuant to Statement 142, we evaluate the goodwill and franchise rights for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and franchise rights may not be recoverable. For purposes of the goodwill evaluation, we compare the fair value of each of our reporting units to their respective carrying amounts. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit s goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. Consistent with the provisions of Emerging Issue Task Force Issue No. 02-7, *Unit of Measure for Testing Impairment of Indefinite-Lived Assets,* we evaluate the recoverability of the carrying amount of our franchise rights based on the same asset groupings used to evaluate our long-lived assets because the franchise rights are inseparable from the other assets in the asset group. Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

Considerable management judgment is necessary to estimate the fair value of assets; accordingly, actual results could vary significantly from such estimates.

In 2004, 2003 and 2002, we recorded impairments of our long-lived assets aggregating $69,353,000, nil and $45,928,000, respectively. For additional information, see note 9 to the accompanying consolidated financial statements.

Carrying Value of Investments

The aggregate carrying value of our available-for-sale, cost and equity method investments comprised 20% and 59% of our total assets at December 31, 2004 and 2003, respectively. We account for these investments pursuant to Statement 115, Statement 142 and Accounting Principles Board Opinion No. 18. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary. If a decline in fair value is determined to be other-than-temporary, we are required to reflect such decline in our statement of operations. Other-than-temporary declines in fair value of cost investments are recognized on a separate line in our consolidated statement of operations, and other-than-temporary declines in fair value of equity method investments are included in share of losses of affiliates in our consolidated statement of operations.

The primary factors we consider in our determination are the length of time that the fair value of the investment is below our company s carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other-than-temporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, we use our best estimates and assumptions to arrive at the estimated fair value of such investment. Our assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from our estimates and judgments.

Our evaluation of the fair value of our investments and any resulting impairment charges are determined as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in our consolidated statement of operations in the period in which they occur to the extent such decreases are deemed to be other-than-temporary. Subsequent increases in fair value will be recognized in our consolidated statement of operations only upon our ultimate disposition of the investment.

In 2004, 2003 and 2002, we recorded other-than-temporary declines in the fair values of our (i) cost and available-for-sale investments aggregating $18,542,000, $6,884,000 and $247,386,000, respectively, and (ii) equity method investments aggregating $25,973,000, $12,616,000, and $72,030,000, respectively.

Fair Value of Acquisition Related Assets and Liabilities

We allocate the purchase price of acquired companies or acquisitions of minority interests of a subsidiary to the identifiable assets acquired and liabilities assumed based on their estimated fair values. In determining fair value, management is required to make estimates and assumptions that affect the recorded amounts. To assist in this process, third party valuation specialists generally are engaged to value certain of these assets and liabilities. Estimates used in valuing acquired assets and liabilities include, but are not limited to, expected future cash flows, market comparables and appropriate discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

Capitalization of Construction and Installation Costs

In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies,* we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and applicable overhead costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop, and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband Internet service. The costs of other customer-facing activities such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed. Significant judgment is involved in the determination of the nature and amount of internal costs to be capitalized with respect to construction and installation activities.

Income Tax Accounting

We are required to estimate the amount of tax payable or refundable for the current year and the deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact of such items. Net deferred tax assets are reduced by a valuation allowance if we believe it more-likely-than-not such net deferred tax assets will not be realized. Establishing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. Actual income taxes could vary from these estimates due to future changes in income tax law in the jurisdictions in which we operate, our inability to generate sufficient future taxable income, differences between estimated and actual results, or unpredicted results from the final determination of each year s liability by taxing authorities. Any of such factors could have a material effect on our current and deferred tax position as reported in the accompanying consolidated financial statements. A high degree of judgment is required to assess the impact of possible future outcomes on our current and deferred tax positions. For additional information, see note 11 to the accompanying consolidated financial statements.

Derivative Instruments

We have entered into free-standing derivative instrument contracts such as total return bond swaps, variable forward transactions and foreign currency derivative instruments. In addition, we have entered into other contracts, such as the UGC Convertible Notes, that contain embedded derivative financial instruments. All derivatives are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the derivative instruments that were in effect during the three years ended December 31, 2004 were designated as hedges.

We use a binomial model to estimate the fair value of the derivative instrument embedded in the UGC Convertible Notes. This model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security, an appropriate discount rate and the U.S. dollar to euro exchange rate. Volatility rates are based on the expected volatility of the underlying security over the term of the derivative instrument, and are adjusted quarterly. U.S. dollar to euro exchange rates are based on published indices, and are adjusted quarterly. Considerable management judgment is required in estimating these variables. Actual results upon settlement of this embedded derivative instrument may differ materially from these estimates.

Off Balance Sheet Arrangements and Aggregate Contractual Obligations

Off Balance Sheet Arrangements

At December 31, 2004, Liberty guaranteed ¥4,695 million ($45,842,000) of the bank debt of J-COM. Liberty s guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2019. In connection with the spin off, we have agreed to indemnify Liberty for any amounts it is required to fund under these arrangements.

Liberty Japan MC owns a 36.4% voting interest in Mediatti Communications and an additional 0.87% interest that has limited veto rights. Liberty Japan MC has the option until February 2006 to acquire from Mediatti up to 9,463 additional shares in Mediatti at a price of ¥290,000 ($3,000) per share. If such option is fully exercised, Liberty Japan MC s interest in Mediatti will be approximately 46%. The additional interest that

Liberty Japan MC has the right to acquire may initially be in the form of non-voting Class A shares, but it is expected that any Class A shares owned by Liberty Japan MC will be converted to voting common stock.

The Mediatti shareholders who are party to the shareholders agreement have granted to each other party whose ownership interest is greater than 10%, a right of first refusal with respect to transfers of their respective interests in Mediatti. Each shareholder also has tag-along rights with respect to such transfers. Olympus Mediacom has a put right that is first exercisable during July 2008 to require Liberty Japan MC, LLC to purchase all of its Mediatti shares at fair market value. If Olympus exercises such right, the two minority shareholders who are party to the shareholders agreement may also require Liberty Japan MC to purchase their Mediatti shares at fair market value. If Olympus Mediacom does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus Mediacom and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at fair market value. If both the Olympus Mediacom put right and the Liberty Japan MC call right expire without being exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010.

Suez 19.9% interest in UPC Broadband France consists of 85,000,000 Class B Shares of UPC Broadband France. Subject to the terms of a call option agreement, UPC France, UGC s indirect wholly owned subsidiary, has the right through June 30, 2005 to purchase from Suez all of the Class B Shares for 85,000,000, subject to adjustment, plus interest. The purchase price for the Class B Shares may be paid in cash, UGC Class A common stock or LMI Series A common stock. Subject to the terms of a put option, Suez may require UPC France to purchase the Class B Shares at specific times prior to or after the third, fourth or fifth anniversaries of the purchase date. UPC France will be required to pay the then fair value, payable in cash, UGC common stock or LMI Series A common stock, for the Class B Shares or assist Suez in obtaining an offer to purchase the Class B Shares. UPC France also has the option to purchase the Class B Shares from Suez shortly after the third, fourth or fifth anniversaries of the purchase date at the then fair value in cash, UGC Class A common stock or LMI Series A common stock.

Pursuant to the agreement with CPE governing Belgian Cable Investors, CPE has the right to require BCH to purchase all of CPE s interest in Belgian Cable Investors for the then appraised fair market value of such interest during the first 30 days of every six-month period beginning in December 2007. BCH has the corresponding right to require CPE to sell all of its interest in Belgian Cable Investors to BCH for appraised fair value during the first 30 days of every six-month period following December 2009.

In January 2005, chellomedia acquired an 87.5% interest in Zone Vision from its current shareholders. Zone Vision s minority shareholders have the right to put 60% of their 12.5% shareholding in Zone Vision to chellomedia on the third anniversary of the completion of the acquisition, and 100% of their shareholding on the fifth anniversary of the completion of the acquisition. Chellomedia has corresponding call rights. The price payable upon exercise of the put or call will be the then fair market value of the shareholdings purchased.

In the ordinary course of business, we have provided indemnifications to (i) purchasers of certain of our assets, (ii) our lenders, (iii) our vendors and (iv) other parties. In addition, we have provided performance and/or financial guarantees to our franchise authorities, customers and vendors. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.

We have contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible we may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Contractual Commitments

As of December 31, 2004, the U.S. dollar equivalent (based on December 31, 2004 exchange rates) of our consolidated contractual commitments are as follows:

	Payments due during years ended December 31,				
	2005	**2006-2007**	**2008-2009**	**Thereafter**	**Total**
	amounts in thousands				
Debt	$ 29,518	1,308,328	2,112,967	1,509,094	4,959,907
Capital leases	2,585	5,995	7,166	32,608	48,354
Other debt	4,724	2,145	1,533	2,124	10,526
	$ 36,827	1,316,468	2,121,666	1,543,826	5,018,787
Operating leases	$ 101,440	142,630	94,811	124,092	462,973
Purchase obligations:					
Programming	95,911	34,181	8,838	17,086	156,016
Other	22,717	1,957			24,674
Other commitments	53,697	15,636	7,925	14,313	91,571
Total contractual payments	$ 310,592	1,510,872	2,233,240	1,699,317	5,754,021

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us inasmuch as we have agreed to pay minimum fees, regardless of the actual number of subscribers or whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems.

Other purchase obligations consist of commitments to purchase customer premise equipment that are enforceable and legally binding on us. Other commitments consist of commitments to rebuild or upgrade cable systems and to extend the cable network to new developments, network maintenance, and other fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities. The amount and timing of the payments included in the table with respect to our rebuild, upgrade and network extension commitments are estimated based on the remaining capital required to bring the cable distribution system into compliance with the requirements of the applicable franchise agreement specifications.

In addition to the commitments set forth in the table above, we have commitments under agreements with programming vendors, franchise authorities and municipalities, and other third parties pursuant to which we expect to make payments in future periods. Such amounts are not included in the above table because they are not fixed or determinable due to various factors.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risk in the normal course of our business operations due to our investments in various foreign countries and ongoing investing and financial activities. Market risk refers to the risk of loss arising from adverse changes in foreign currency exchange rates, interest rates and stock prices. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Cash and Investments

We invest our cash in liquid instruments that meet high credit quality standards and generally have maturities at the date of purchase of less than three months. We are exposed to exchange rate risk with respect to certain of our cash

balances that are denominated in the Japanese yen, euros and, to a lesser degree, other currencies. At December 31, 2004, we held cash balances of $417,488,000 that were denominated in the Japanese yen and UGC held cash balances of $713,016,000 that were denominated in euros. These Japanese yen and euro cash balances are available to be used for future acquisitions and other liquidity requirements that may be denominated in such currencies.

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We are also exposed to market price fluctuations related to our investments in equity securities. At December 31, 2004, the aggregate fair value of our equity method and available-for-sale investments that was subject to price risk was $708,787,000.

Foreign Currency Risk

We are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar (our functional currency) against the currencies of our operating subsidiaries and affiliates. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of one of our operating subsidiaries or affiliates will cause the parent company to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, we and our operating subsidiaries and affiliates are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our respective functional currencies, such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) that are denominated in a currency other than their own functional currency. Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries monetary assets and liabilities and the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for our company is to the euro as over 50% of our U.S. dollar revenue is derived from countries where the euro is the functional currency. In addition, we have significant exposure to changes in the exchange rates for the Japanese yen, Chilean peso and, to a lesser degree, other local currencies in Europe.

We generally do not enter into derivative transactions that are designed to reduce our long-term exposure to foreign currency exchange risk. However, in order to reduce our foreign currency exchange risk related to our cash balances that are denominated in Japanese yen and our investment in J-COM, we have entered into collar agreements with respect to ¥15 billion ($146,470,000). These collar agreements have a weighted average remaining term of approximately 2 1/2 months, an average call price of ¥105/ U.S. dollar and an average put price of ¥109/ U.S. dollar. In the past, we have also entered into forward sales contracts with respect to the Japanese yen. During 2004, we paid $17,001,000 to settle yen forward sales and collar contracts.

The relationship between the euro, Japanese yen and Chilean peso and the U.S. dollar, which is our reporting currency, is shown below, per one U.S. dollar:

	Spot rate		
	Euro	**Japanese yen**	**Chilean peso**
December 31, 2004	0.7333	102.41	559.19
December 31, 2003	0.7933	107.37	593.80
December 31, 2002	0.9545	118.76	718.61

	Average rate		
	Euro	**Japanese yen**	**Chilean peso**

Year ended:			
December 31, 2004	0.8059	107.44	609.22
December 31, 2003	0.8806	116.06	686.04
December 31, 2002	1.0492	125.31	689.54

Inflation and Foreign Investment Risk

Certain of our operating companies operate in countries where the rate of inflation is higher than that in the United States. While our affiliated companies attempt to increase their subscription rates to offset increases in operating costs, there is no assurance that they will be able to do so. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on reported earnings. We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs, the effects of which to date have not been material. Our foreign operating companies are all directly affected by their respective countries government, economic, fiscal and monetary policies and other political factors.

Interest Rate Risks

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include fixed and floating rate investments and borrowings by our operating subsidiaries that are used to maintain liquidity and fund their respective business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. Our primary exposure to variable rate debt is through the EURIBOR-indexed and LIBOR-indexed debt of UGC. UGC maintains a mix of fixed and variable rate debt and enters into various derivative transactions pursuant to UGC s policies to manage exposure to movements in interest rates. UGC monitors its interest rate risk exposures using techniques including market value and sensitivity analyses. UGC manages the credit risks associated with its derivative financial instruments through the evaluation and monitoring of the creditworthiness of the counterparties. Although the counterparties may expose UGC to losses in the event of nonperformance, UGC does not expect such losses, if any, to be significant. UGC uses interest rate exchange agreements to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. UGC uses interest rate cap agreements that lock in a maximum interest rate should variable rates rise, but which enable it to otherwise pay lower market rates.

During the first quarter of 2003, UGC purchased interest rate caps related to the UPC Broadband Bank Facility that capped the variable EURIBOR interest rate at 3.0% on a notional amount of 2.7 billion for 2003 and 2004. As UGC was able to fix its variable interest rates below 3.0% on the UPC Broadband Bank Facility during 2003 and 2004, all of these caps expired without being exercised. During the first and second quarter of 2004, UGC purchased interest rate caps for a total of $21,442,000, capping the variable interest rate at 3.0% and 4.0% for 2005 and 2006, respectively, on notional amounts totaling 2.25 billion to 2.6 billion.

In June 2003, UGC entered into a cross currency and interest rate swap pursuant to which a notional amount of $347.5 million was swapped at an average rate of 1.133 euros per U.S. dollar until July 2005, with the variable LIBOR interest rate (including margin) swapped into a fixed interest rate of 7.85%. Following the prepayment of part of Facility C in December 2004, UGC paid down this swap with a cash payment of $59,100,000 and unwound a notional amount of $171,480,000. The remainder of the swap is for a notional amount of $176,020,000, and the euro to U.S. dollar exchange rate has been reset at 1.3158 to 1. In connection with the refinancing of the UPC Broadband Bank Facility in December 2004, UGC entered into a seven-year cross currency and interest rate swap pursuant to which a notional amount of $525 million was swapped at a rate of 1.3342 euros per U.S. dollar until December 2011, with the variable interest rate of LIBOR + 300 basis points swapped into a variable rate of EURIBOR + 310 basis points for the same time period.

During 2004, the weighted-average interest rate on variable rate indebtedness of our consolidated subsidiaries was approximately 6%. If market interest rates had been higher by 50 basis points during this period, our consolidated interest expense would have increased by approximately $19 million during 2004.

Derivative Instruments

At December 31, 2004, we were a party to total return debt swaps in connection with (i) bank debt of a subsidiary of UPC, and (ii) public debt of Cablevisión. Through March 2, 2005, Liberty owned an indirect 78.2% economic and non-voting interest in a limited liability company that owns 50% of the outstanding capital stock of Cablevisión. Under the total return debt swaps, a counterparty purchases a specified amount of

the underlying debt security for the benefit of our company. We posted collateral with the counterparties equal to 30% of the counterparty s purchase price for the purchased indebtedness of the UPC subsidiary and 90% of the counterparty s purchase price for the purchased indebtedness of Cablevisión. We record a derivative asset equal to the posted collateral and such asset is included in other assets in the accompanying consolidated balance sheets. We earn interest income based upon the face amount and stated interest rate of the underlying debt securities, and pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying purchased indebtedness of the UPC subsidiary declines by 10% or more, we are required to post cash collateral for the decline, and we record an unrealized loss on derivative instruments. The cash collateral related to the UPC subsidiary indebtedness is further adjusted up or down for subsequent changes in the fair value of the underlying indebtedness or for foreign currency exchange rate movements involving the euro and U.S. dollar. During the fourth quarter of 2004, we received cash proceeds of $35,800,000 in connection with the termination of a portion of the total return swap related to the debt of the UPC subsidiary. At December 31, 2004, the aggregate purchase price of debt securities underlying our total return debt swap arrangements involving the indebtedness of the UPC subsidiary and Cablevisión was $29,532,000. As of such date, we had posted cash collateral equal to $19,868,000 ($2,930,000 with respect to the UPC subsidiary and $16,938,000 with respect to Cablevisión). If the fair value of the purchased debt securities had been zero at December 31, 2004, we would have been required to post additional cash collateral of $8,972,000. During the first quarter of 2005, we received cash proceeds of $22,264,000 upon termination of the Cablevisión and UPC subsidiary total return swaps.

We are exposed to fluctuations in the fair value of derivatives embedded in our financial instruments. The UGC Convertible Notes contain an equity derivative component that is indexed to both UGC Class A common stock (traded in U.S. dollars) and to currency exchange rates (euro to U.S. dollar). Changes in the fair value of this derivative are recorded in our consolidated statement of operations.

Prior to the spin off, Liberty contributed to our company 10,000,000 shares of News Corp. Class A common stock, together with a related variable forward transaction. In connection with the sale of 4,500,000 shares of News Corp. Class A common stock during the fourth quarter of 2004, we paid $3,429,000 to terminate the portion of the variable forward transaction that related to the shares that were sold. After giving effect to the fourth quarter termination transaction, the forward, which expires on September 17, 2009, provides (i) us with the right to effectively require the counterparty to buy 5,500,000 News Corp. Class A common stock at a price of $15.72 per share, or an aggregate price of $86,460,000 (the Floor Price), and (ii) the counterparty with the effective right to require us to sell 5,500,000 shares of News Corp. Class A common stock at a price of $26.19 per share. At any time during the term of the forward, we can require the counterparty to advance the full Floor Price. Provided we do not draw an aggregate amount in excess of the present value of the Floor Price, as determined in accordance with the forward, we may elect to draw such amounts on a discounted or undiscounted basis. As long as the aggregate advances are not in excess of the present value of the Floor Price, undiscounted advances will bear interest at prevailing three-month LIBOR and discounted advances will not bear interest. Amounts advanced up to the present value of the Floor Price are secured by the underlying shares of News Corp. Class A common stock. If we elect to draw amounts in excess of the present value of the Floor Price, those amounts will be unsecured and will bear interest at a negotiated interest rate. During the third quarter of 2004, we received undiscounted advances aggregating $126 million under the forward. Such advances were subsequently repaid during the quarter.

During the fourth quarter of 2004, we entered into call option contracts pursuant to which we contemporaneously (i) sold call options on 1,210,000 shares of LMI Series A common stock at exercise prices ranging from $39.5236 to $41.7536, and (ii) purchased call options on 1,210,000 shares with an exercise price of zero. As structured with the counterparty, these instruments have similar financial mechanics to prepaid put option contracts. Under the terms of the contracts, we can elect cash or physical settlement. All of the contracts expired during the first quarter of 2005 and were settled for cash.

Credit Risk

In addition to the risks described above, we are also exposed to the risk that our counterparties will default on their obligations to us under the above-described derivative instruments. Based on our assessment of the credit worthiness of the counterparties, we do not anticipate any such default.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of Liberty Media International, Inc. are filed under this Item, beginning on Page II-38. The financial statement schedules and the separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K/A.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

In accordance with Exchange Act Rule 13a-15, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer, principal accounting officer and principal financial officer (the Executives), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this amended report. In designing and evaluating the disclosure controls and procedures, the Executives recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is necessarily required to apply judgment in evaluating the cost-benefit relationship of possible controls and objectives. As a result of the restatement of LMI s consolidated financial statements described below, the Executives have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this amended report.

On April 25, 2005, the audit committee of UGC, our majority owned subsidiary that files its own annual and quarterly reports with the SEC, determined that UGC needed to restate its consolidated financial information as of and for the quarters ended June 30, 2004, September 30, 2004 and December 31, 2004, as well as, its consolidated financial statements as of and for the fiscal year ended December 31, 2004 to correct an error in such financial statements with respect to the accounting treatment of the UGC Convertible Notes. Specifically, UGC failed to identify and account for an equity derivative embedded in the UGC Convertible Notes.

UGC had previously concluded that GAAP did not require the separation of the embedded equity derivative component of the UGC Convertible Notes based on UGC s interpretation of certain scope exceptions prescribed by Statement 133. At that time, KPMG LLP, UGC s independent registered public accounting firm, concurred with UGC s accounting treatment. In April 2005, KPMG LLP, brought to UGC s attention the existence of minutes of an Emerging Issues Task Force (EITF) Agenda Committee Meeting, held on March 20, 2003, that included a discussion of the application of these scope exceptions with respect to foreign currency denominated convertible debt involving delivery of a fixed number of common shares. After further research and consultation with KPMG LLP, UGC concluded that the predominant view of the EITF Agenda Committee and the Financial Accounting Standards Board staff is that the scope exceptions of Statement 133 would not apply to the UGC Convertible Notes. As a result, UGC revised its conclusion to account for the embedded equity derivative separately at fair value, with changes in the fair value of the derivative recorded in the statement of operations.

As a result of the restatement being made by UGC, our audit committee, after consultation with management and our independent registered public accountants, determined that LMI also needed to restate its consolidated financial information as of and for the quarters ended June 30, 2004, September 30, 2004 and December 31, 2004, as well as, its consolidated financial statements as of and for the year ended December 31, 2004. See notes 21 and 23 to the accompanying consolidated financial statements.

In light of the foregoing, we are evaluating the implementation of additional procedures requiring enhanced oversight of determinations regarding the accounting for complex financial instruments.

We are continuing our evaluation, documentation and testing of our internal controls over financial reporting so that management will be able to report on, and our independent registered public accounting firm will be able to attest to, our internal controls as of December 31, 2005, as required by applicable laws and regulations.

No change in our internal control over financial reporting occurred during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media International, Inc.:

We have audited the accompanying consolidated balance sheets of Liberty Media International, Inc. (a Delaware corporation) and subsidiaries (as more fully described in Note 1) as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23, the consolidated financial statements as of and for the year ended December 31, 2004 have been restated.

KPMG LLP

Denver, Colorado
March 11, 2005, except as
to Note 23, which
is as of April 27, 2005

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	as restated (note 23)	
	amounts in thousands	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,531,486	12,753
Trade receivables, net	201,519	14,162
Other receivables, net	165,631	968
Other current assets	293,947	16,453
Total current assets	3,192,583	44,336
Investments in affiliates, accounted for using the equity method, and related receivables (note 6)	1,865,642	1,740,552
Other investments (note 7)	838,608	450,134
Property and equipment, net (note 9)	4,303,099	97,577
Intangible assets not subject to amortization:		
Goodwill (note 9)	2,667,279	525,576
Franchise rights and other	230,674	163,450
	2,897,953	689,026
Intangible assets subject to amortization, net (note 9)	382,599	4,504
Deferred tax assets (note 11)	77,313	583,945
Other assets, net	144,566	76,963
Total assets	$ 13,702,363	3,687,037

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	2004 as restated (note 23)	2003
	amounts in thousands	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 363,549	20,629
Accrued liabilities	526,382	12,556
Subscriber advance payments and deposits	353,069	283
Accrued interest	89,612	976
Current portion of accrued stock-based compensation (notes 3 and 13)	37,017	15,052
Derivative instruments (note 8)	14,636	21,010
Current portion of debt (note 10)	36,827	12,426
Total current liabilities	1,421,092	82,932
Long-term debt (note 10)	4,955,919	41,700
Deferred tax liabilities (note 11)	458,138	135,811
Other long-term liabilities	409,998	7,948
Total liabilities	7,245,147	268,391
Commitments and contingencies (note 19)		
Minority interests in subsidiaries	1,216,710	78
Stockholders Equity:		
Series A common stock, $.01 par value. Authorized 500,000,000 shares; issued 168,514,962 and nil shares at December 31, 2004 and 2003, respectively	1,685	
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,264,300 and nil shares at December 31, 2004 and 2003, respectively	73	
Series C common stock, $.01 par value. Authorized 500,000,000 shares; no shares issued at December 31, 2004 or 2003		
Additional paid-in capital	7,001,635	
Accumulated deficit	(1,649,007)	(1,630,949)
Accumulated other comprehensive earnings (loss), net of taxes (note 18)	14,010	(46,566)

Treasury stock, at cost (note 12)		(127,890)	
Parent s investment			5,096,083
Total stockholders equity		5,240,506	3,418,568
Total liabilities and stockholders equity	$	13,702,363	3,687,037

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

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	**2003**	**2002**
	as restated (note 23)		
	amounts in thousands, except per share amounts		
Revenue (note 14)	$ 2,644,284	108,390	100,255
Operating costs and expenses:			
Operating (other than depreciation) (note 14)	1,068,292	50,306	43,931
Selling, general and administrative (SG&A) (note 14)	687,844	40,337	42,269
Stock-based compensation charges (credits) primarily SG&A (notes 3 and 13)	142,762	4,088	(5,815)
Depreciation and amortization	960,888	15,114	13,087
Impairment of long-lived assets (note 9)	69,353		45,928
Restructuring and other charges (note 17)	29,018		
	2,958,157	109,845	139,400
Operating loss	(313,873)	(1,455)	(39,145)
Other income (expense):			
Interest expense (note 14)	(307,015)	(2,178)	(3,943)
Interest and dividend income (note 14)	65,607	24,874	25,883
Share of earnings (losses) of affiliates, net (note 6)	38,710	13,739	(331,225)
Realized and unrealized gains (losses) on derivative instruments, net (note 8)	(35,775)	12,762	(16,705)
Foreign currency transaction gains (losses), net	117,657	5,412	(8,267)
Gains on exchanges of investment securities (notes 6 and 7)	178,818		122,618
Other-than-temporary declines in fair values of investments (note 7)	(18,542)	(6,884)	(247,386)
Gains on extinguishment of debt (note 10)	35,787		
Gains (losses) on disposition of investments, net (notes 6 and 7)	43,714	(4,033)	(287)
Other income (expense), net	(7,931)	6,651	2,476
	111,030	50,343	(456,836)
Earnings (loss) before income taxes and other items	(202,843)	48,888	(495,981)
Income tax benefit (expense)	17,449	(27,975)	166,121

Minority interests in losses (earnings) of subsidiaries		167,336	(24)	(27)
Earnings (loss) before cumulative effect of accounting change		(18,058)	20,889	(329,887)
Cumulative effect of accounting change, net of taxes (note 3)				(238,267)
Net earnings (loss)	$	(18,058)	20,889	(568,154)
Pro forma earnings (loss) per common share (note 3):				
Basic and diluted	$	(0.11)	0.14	

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

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year Ended December 31,		
	2004	2003	2002
	as restated (note 23)		
	amounts in thousands		
Net earnings (loss)	$ (18,058)	20,889	(568,154)
Other comprehensive earnings (loss), net of taxes (note 18):			
Foreign currency translation adjustments	165,315	102,321	(173,715)
Reclassification adjustment for foreign currency translation gains included in net earnings (loss)	(36,174)	(27)	
Unrealized gains (losses) on available-for-sale securities	(1,450)	111,594	(39,526)
Reclassification adjustment for net (gains) losses on available-for-sale securities included in net earnings (loss)	(120,842)		86,175
Effect of change in estimated blended state income tax rate (note 11)	2,745		
Other comprehensive earnings (loss)	9,594	213,888	(127,066)
Comprehensive earnings (loss)	$ (8,464)	234,777	(695,220)

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

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Common stock			Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Treasury stock, at cost	Parent s investment	Total stockholders equity
	Series A	Series B	Series C						
					amounts in thousands				
Balance at January 1, 2002	$				(1,083,684)	(133,388)		3,256,665	2,039,593
Net loss					(568,154)				(568,154)
Other comprehensive loss (note 18)						(127,066)			(127,066)
Reallocation of enterprise-level goodwill from parent (note 3)								118,000	118,000
Intercompany tax allocation (note 11)								3,988	3,988
Allocation of corporate overhead (note 14)								10,794	10,794
Net cash transfers from parent								1,231,738	1,231,738
Balance at December 31, 2002					(1,651,838)	(260,454)		4,621,185	2,708,893
Net earnings					20,889				20,889
Other comprehensive earnings (note 18)						213,888			213,888
Intercompany tax allocation (note 11)								(14,774)	(14,774)
Allocation of corporate overhead (note 14)								10,873	10,873

Net cash transfers from parent				478,799	478,799
Balance at December 31, 2003		(1,630,949)	(46,566)	5,096,083	3,418,568
Net loss (as restated note 23)		(18,058)			(18,058)
Other comprehensive earnings (note 18)			9,594		9,594
Intercompany tax allocation (note 11)				6,133	6,133
Allocation of corporate overhead (note 14)				9,357	9,357
Issuance of Liberty Media Corporation common stock in acquisition (note 5)				152,122	152,122
Contribution of cash, investments and other net liabilities in connection with spin off (note 2)			50,982	304,578	355,560
Assumption by Liberty Media Corporation of obligation for stock appreciation rights in connection with spin off (note 2)				5,763	5,763
Adjustment due to issuance of stock by subsidiaries and affiliates and other changes in subsidiary equity, net of	6,049			1,025	7,074

taxes (note 12)								
Net cash transfers from parent							654,250	654,250
Change in capitalization in connection with spin off (note 2)	1,399	61	6,227,851				(6,229,311)	
Common stock issued in rights offering (note 2)	283	12	735,366					735,661
Stock issued for stock option exercises (note 13)	3		11,987					11,990
Repurchase of common stock (note 12)						(127,890)		(127,890)
Stock-based compensation (notes 3 and 13)			20,382					20,382
Balance at December 31, 2004 (as restated note 23)	$ 1,685	73	7,001,635	(1,649,007)	14,010	(127,890)		5,240,506

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

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	as restated (note 23)		
	amounts in thousands		
Cash flows from operating activities:			
Net earnings (loss)	$ (18,058)	20,889	(568,154)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Stock-based compensation charges (credits)	142,762	4,088	(5,815)
Cumulative effect of accounting change			238,267
Depreciation and amortization	960,888	15,114	13,087
Impairment of long-lived assets	69,353		45,928
Restructuring and other charges	29,018		
Amortization of deferred financing costs and non-cash interest	40,218	117	134
Share of losses (earnings) of affiliates, net	(38,710)	(13,739)	331,225
Realized and unrealized losses (gains) on derivative instruments, net	35,775	(12,762)	16,705
Foreign currency transaction losses (gains), net	(117,657)	(5,412)	8,267
Gain on exchanges of investment securities	(178,818)		(122,618)
Other-than-temporary declines in fair values of investments	18,542	6,884	247,386
Gains on extinguishment of debt	(35,787)		
Losses (gains) on disposition of investments, net	(43,714)	(3,759)	287
Deferred income tax expense (benefit)	(84,149)	42,278	(169,606)
Minority interests in (losses) earnings of subsidiaries	(167,336)	24	27
Non-cash charges (credits) from Liberty Media Corporation	15,490	(3,901)	14,782
Other noncash items		(1,750)	(7,069)
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Receivables, prepaids and other	(50,358)	9,653	12,064
Payables and accruals	168,781	(1,728)	(28,165)
Net cash provided by operating activities	$ 746,240	55,996	26,732

LIBERTY MEDIA INTERNATIONAL, INC
(See note 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended December 31,		
	2004	**2003**	**2002**
	as restated (note 23)		
	amounts in thousands		
Cash flows from investing activities:			
Cash paid for acquisitions, net of cash acquired	$ (508,836)		
Cash paid for acquisition to be refunded by seller	(52,128)		
Investments in and loans to affiliates and others	(256,959)	(494,193)	(1,204,242)
Proceeds received upon repayment of principal amounts loaned to affiliates	535,074		
Proceeds received upon repayment of debt securities	115,592		
Purchases of short-term liquid investments	(293,734)		
Proceeds received from sale of short-term liquid investments	246,981		
Capital expended for property and equipment	(508,347)	(22,869)	(24,910)
Net cash received (paid) to purchase or settle derivative instruments	(158,949)	19,580	(15,346)
Proceeds received upon dispositions of investments	315,792	8,230	
Deposits received in connection with pending asset sales	80,264		
Change in restricted cash	(27,298)		
Other investing activities, net	(22,103)	(16,042)	1,940
Net cash used by investing activities	(534,651)	(505,294)	(1,242,558)
Cash flows from financing activities:			
Borrowings of debt	2,301,211	41,700	
Repayments of debt	(1,849,381)	(22,954)	(12,784)
Net proceeds received from rights offering	735,661		
Proceeds from issuance of stock by subsidiaries	488,437		
Change in cash collateral	41,700	(41,700)	
Contributions from Liberty Media Corporation	704,250	478,799	1,231,738
Treasury stock purchase	(127,890)		
Deferred financing costs	(65,951)		
Other financing activities, net	12,351		
Net cash provided by financing activities	2,240,388	455,845	1,218,954
Effect of exchange rates on cash	66,756	614	(2,238)

Net increase in cash and cash equivalents		2,518,733	7,161	890
Cash and cash equivalents:				
Beginning of period		12,753	5,592	4,702
End of period	$	2,531,486	12,753	5,592
Cash paid for interest	$	280,815	932	18,603
Net cash paid for taxes	$	4,264	4,651	2,895

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

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004, 2003 and 2002

(1) Basis of Presentation

The accompanying consolidated financial statements of Liberty Media International, Inc. (LMI) include the historical financial information of (i) certain international cable television and programming subsidiaries and assets of Liberty Media Corporation (Liberty), which we collectively refer to as LMC International, for periods prior to the June 7, 2004 consummation of the spin off transaction described in note 2 and (ii) LMI and its consolidated subsidiaries for the period following such date. Upon consummation of the spin off, LMI became the owner of the assets that comprise LMC International. In the following text, we, our, our company and us may refer, as the context requires, LMC International (prior to June 7, 2004), LMI and its consolidated subsidiaries (on and subsequent to June 7, 2004) or both.

Our operating subsidiaries and our most significant equity method investments are set forth below.

Operating subsidiaries at December 31, 2004:

UnitedGlobalCom, Inc. (UGC)
Liberty Cablevision of Puerto Rico Ltd. (Liberty Cablevision Puerto Rico)
Pramer S.C.A. (Pramer)

UGC. Our most significant subsidiary is UGC, an international broadband communications provider of video, voice, and Internet access services with operations in 13 European countries and three Latin American countries. UGC s largest operating segments are located in The Netherlands, France, Austria and Chile. At December 31, 2004, we owned approximately 423.8 million shares of UGC common stock, representing an approximate 53.6% economic interest and a 91.0% voting interest. As further described in note 5, we began consolidating UGC on January 1, 2004. Prior to that date, we used the equity method to account for our investment in UGC.

On January 17, 2005, we entered into an agreement and plan of merger with UGC pursuant to which we each will merge with a separate wholly owned subsidiary of a new parent company named Liberty Global, Inc. (Liberty Global), which has been formed for this purpose. In the mergers, each outstanding share of LMI Series A common stock and LMI Series B common stock will be exchanged for one share of the corresponding series of Liberty Global common stock. UGC s public stockholders may elect to receive for each share of common stock owned either 0.2155 of a share of Liberty Global Series A common stock (plus cash for any fractional share interest) or $9.58 in cash. Cash elections will be subject to proration so that the aggregate cash consideration paid to UGC s stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC s public stockholders. Completion of the transactions is subject to, among other conditions, approval of both companies stockholders, including an affirmative vote of a majority of the voting power of UGC Class A common stock not beneficially owned by our company, Liberty, any of our respective subsidiaries or any of the executive officers or directors of our company, Liberty, or UGC.

The proposed merger will be accounted for as a step acquisition by our company of the remaining minority interest in UGC. The purchase price in this step acquisition will include the consideration issued to UGC public stockholders to acquire the UGC interest not already owned by our company and the direct acquisition costs incurred by our company. As UGC was our consolidated subsidiary prior to the proposed mergers, the purchase price will first be applied to eliminate the minority interest in UGC from our consolidated balance sheet, and the remaining purchase price will be allocated on a pro rata basis to the identifiable assets and liabilities of UGC based upon their respective fair values at the effective date of the proposed merger and the 46.4% interest in UGC to be acquired by Liberty Global pursuant to the proposed mergers. Any excess purchase price that remains after amounts have been allocated to the net identifiable assets of UGC will be recorded as goodwill. As the acquiring company for accounting purposes, our company will be the predecessor

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004, 2003 and 2002 (Continued)

to Liberty Global and our historical financial statements will become the historical financial statements of Liberty Global.

Other. Liberty Cablevision Puerto Rico is a wholly-owned subsidiary that owns and operates cable television systems in Puerto Rico. Pramer is a wholly-owned Argentine programming company that supplies programming services to cable television and direct-to-home (DTH) satellite distributors in Latin America and Spain.

Significant equity method investments at December 31, 2004:

LMI/ Sumisho Super Media LLC (Super Media)
Jupiter Programming Co., Ltd. (JPC)

On December 28, 2004, our 45.45% ownership interest in Jupiter Telecommunications Co., Ltd. (J-COM), and a 19.78% interest in J-COM owned by Sumitomo Corporation were combined in Super Media. As a result of these transactions, we held a 69.68% noncontrolling interest in Super Media, and Super Media held an approximate 65.23% controlling interest in J-COM at December 31, 2004. At December 31, 2004, we accounted for our 69.68% interest in Super Media using the equity method. As a result of a change in the corporate governance of Super Media that occurred on February 18, 2005, we will begin accounting for Super Media as a consolidated subsidiary effective January 1, 2005. J-COM owns and operates broadband businesses in Japan.

JPC is a joint venture between Sumitomo and our company that primarily develops, manages and distributes pay television services in Japan on a platform-neutral basis through various distribution infrastructures, principally cable and DTH service providers.

For additional information concerning our equity affiliates, see note 6.

(2) Spin Off Transaction and Rights Offering

Spin Off Transaction

On June 7, 2004 (the Spin Off Date), our common stock was distributed on a pro rata basis to Liberty s shareholders as a dividend in connection with a spin off transaction. In connection with the spin off, holders of Liberty common stock on June 1, 2004 (the Record Date) received in the aggregate 139,921,145 shares of LMI Series A common stock for their shares of Liberty Series A common stock owned on the Record Date and 6,053,173 shares of LMI Series B common stock for their shares of Liberty Series B common stock owned on the Record Date. The number of shares of LMI common stock distributed in the spin off was based on a ratio of .05 of a share of LMI common stock for each share of Liberty common stock. The spin off was intended to qualify as a tax-free spin off.

In addition to the contributed subsidiaries and net assets that comprise our company, Liberty also contributed certain other assets and liabilities to our company in connection with the spin off, as set forth in the following table (amounts in thousands):

Cash and cash equivalents	$	50,000
Available-for-sale securities		561,130
Net deferred tax liability		(253,163)
Other net liabilities		(2,407)
	$	355,560

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004, 2003 and 2002 (Continued)

The contributed available-for-sale securities included 5,000,000 American Depositary Shares (ADSs) for preferred limited voting ordinary shares of The News Corporation Limited (News Corp.) and a 99.9% economic interest in 345,000 shares of ABC Family Worldwide, Inc. (ABC Family) Series A preferred stock. Liberty also contributed a variable forward transaction with respect to the News Corp. ADSs. During the fourth quarter of 2004, the 5,000,000 News Corp. ADSs were converted into 10,000,000 shares of News Corp. s Class A non-voting common stock (News Corp. Class A common stock) pursuant to News Corp. s reincorporation from Australia to the United States. All of the following references to News Corp. shares herein give effect to such conversion. For financial reporting purposes, the contribution of the cash, available-for-sale securities, related deferred tax liability and other net liabilities is deemed to have occurred on June 1, 2004.

All of the net assets contributed to our company by Liberty in connection with the spin off have been recorded at Liberty s historical cost.

As a result of the spin off, we operate independently from Liberty, and neither we nor Liberty have any stock ownership, beneficial or otherwise, in the other. In connection with the spin off, we and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and our company after the spin off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement and a Tax Sharing Agreement. In addition, Liberty and our company entered into a Short-Term Credit Facility that has since been terminated.

The Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the spin off, the issuance of LMI stock options upon adjustment of certain Liberty stock incentive awards and the allocation of responsibility for LMI and Liberty stock incentive awards, cross indemnities and other matters. Such cross indemnities are designed to make (i) our company responsible for all liabilities related to the businesses of our company prior to the spin off, as well as for all liabilities incurred by our company following the spin off, and (ii) Liberty responsible for all of our potential liabilities that are not related to our businesses, including, for example, liabilities arising as a result of our company having been a subsidiary of Liberty.

The Facilities and Services Agreement and the Short-Term Credit Facility, are described in note 14, and the Tax Sharing Agreement is described in note 11.

Rights Offering

On July 26, 2004, we commenced a rights offering (the LMI Rights Offering) whereby holders of record of LMI common stock on that date received 0.20 transferable subscription rights for each share of LMI common stock held. Each whole right to purchase LMI Series A common stock entitled the holder to purchase one share of LMI Series A common stock at a subscription price of $25.00 per share. Each whole right to purchase LMI Series B common stock entitled the holder to purchase one share of LMI Series B common stock at a subscription price of $27.50 per share. Each whole Series A and Series B right entitled the holder to subscribe, at the same applicable subscription price pursuant to an oversubscription privilege, for additional shares of the applicable series of LMI common stock, subject to proration. The LMI Rights Offering expired in accordance with its terms on August 23, 2004. Pursuant to the terms of the LMI Rights Offering, we issued 28,245,000 shares of LMI Series A common stock and 1,211,157 shares of LMI Series B common stock in exchange for aggregate cash proceeds of $739,432,000, before deducting related offering costs of $3,771,000.

As a result of the LMI Rights Offering, the exercise price for LMI stock options outstanding at the time of the LMI Rights Offering was reduced by multiplying the exercise price by 94%, and the number of options outstanding was increased by dividing the number of the then outstanding LMI stock options by 94%. Unless

otherwise noted, all references herein to the number of outstanding LMI stock options and the related exercise prices reflect these modified terms.

(3) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values of financial instruments, fair values of long-lived assets and any related impairments, capitalization of construction and installation costs, useful lives of property and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

We do not control the decision making process or business management practices of our equity affiliates. Accordingly, we rely on management of these affiliates and their independent auditors to provide us with accurate financial information prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) that we use in the application of the equity method. We are not aware, however, of any errors in or possible misstatements of the financial information provided by our equity affiliates that would have a material effect on our financial statements. For information concerning our equity method investments, see note 6.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which our company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents, Restricted Cash and Short-Term Liquid Investments

Cash equivalents consist of all investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition. Restricted cash includes cash held in escrow and cash held as collateral for lines of credit and other compensating balances. Cash restricted to a specific use is classified based on the expected timing of such disbursement. Short-term liquid investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $61,390,000 and $13,947,000 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. Generally, upon disconnection of a subscriber, the

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account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

Investments

All debt and marketable equity securities held by our company are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses on securities that are classified as available-for-sale are carried net of taxes as a component of accumulated other comprehensive earnings (loss) in stockholders equity. Realized gains and losses generally are determined on an average cost basis. Other investments in which our ownership interest is less than 20% and that are not considered marketable securities are carried at cost. Securities transactions are recorded on the trade date.

For those investments in affiliates in which we have the ability to exercise significant influence, the equity method of accounting is used. Generally, we exercise significant influence through a voting interest between 20% and 50% and/or board representation and management authority. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, and advances and commitments to, the investee. If our investment in the common stock of an affiliate is reduced to zero as a result of the prior recognition of the affiliate s net losses, and we hold investments in other more senior securities of the affiliate, we would continue to record losses from the affiliate to the extent of these additional investments. The amount of additional losses recorded would be determined based on changes in the hypothetical amount of proceeds that would be received by us if the affiliate were to experience a liquidation of its assets at their current book values. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (Statement 142), the portion of the difference between our investment and our share of the net assets of the investee that represents goodwill (equity method goodwill) is no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Our share of net earnings or losses of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

Changes in our proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases to additional paid-in capital.

We continually review our investments to determine whether a decline in fair value below the cost basis is other-than-temporary. The primary factors we consider in our determination are the length of time that the fair value of the investment is below our company s carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other-than-temporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, we use our best estimates and assumptions to arrive at the estimated fair value of such investment. Writedowns for cost investments and available-for-sale securities are included in the consolidated statements of operations as other-than-temporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

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Financial Instruments

At December 31, 2004 and 2003, the fair value and the carrying value of our debt were approximately equal. The carrying value of cash and cash equivalents, restricted cash, short-term liquid investments, receivables, trade and other receivables, other current assets, accounts payable, accrued liabilities, subscriber advance payments and deposits and other current liabilities approximate fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices, to the extent available, at the reporting date.

Derivative Instruments

We have entered into free-standing derivative instrument contracts such as total return bond swaps, variable forward transactions and foreign currency derivative instruments. In addition, we have entered into other contracts, such as the UGC Convertible Notes discussed in note 10, that contain embedded derivative financial instruments. All derivatives are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the derivative instruments that were in effect during the three years ended December 31, 2004 were designated as hedges.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies,* we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and applicable overhead costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop, and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband Internet service. The costs of other customer-facing activities such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed. Interest capitalized with respect to construction activities was not material during 2004, 2003 and 2002.

Depreciation is computed using the straight-line method over estimated useful lives of 2 to 25 years for cable distribution systems, 20 to 40 years for buildings and 3 to 15 years for support equipment. The useful lives used to depreciate cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed.

When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved of the applicable amounts and any difference is included in deprecation expense. The impact of such retirements and disposals was not material during 2004, 2003 and 2002.

Additions, replacements and improvements that extend the asset life are capitalized. Repairs and maintenance are charged to operations.

Intangible Assets

Our primary intangible assets are goodwill, cable television franchise rights, customer relationships and trade names. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired

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in a business combination. Cable television franchise rights, customer relationships, and trade names were originally recorded at their fair values in connection with business combinations.

Pursuant to Statement 142, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also provides that equity method goodwill is not amortized, but will continue to be considered for impairment under Accounting Principles Board Opinion No. 18. Pursuant to Statement 142, intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144).

We do not amortize our franchise rights and certain trade name intangible assets as we have concluded that these assets are indefinite-lived assets. Our customer relationship intangible assets are amortized on a straight line basis over estimated useful lives ranging from 4 to 10 years.

Effective January 1, 2002, we adopted Statement 142. Statement 142 required us to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, we identified our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires us to consider equity method affiliates as separate reporting units. As a result, a portion of Liberty s enterprise-level goodwill balance was allocated to our reporting units, including several reporting units whose only asset was a single equity method investment. For example, a portion of Liberty s enterprise level goodwill was allocated to a separate reporting unit which included only our investment in J-COM. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

After we had allocated enterprise level goodwill to our reporting units, we determined the fair value of our reporting units using independent appraisals, public trading prices and other means. We then compared the fair value of each reporting unit to the reporting unit s carrying amount. To the extent a reporting unit s carrying amount exceeded its fair value, we performed the second step of the transitional impairment test. In the second step, we compared the implied fair value of the reporting unit s goodwill, determined by allocating the reporting unit s fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption.

In situations where the implied fair value of a reporting unit s goodwill was less than its carrying value, we recorded a transitional impairment charge. As a result, during 2002, we recognized a $238,267,000 transitional impairment loss, after deducting taxes of $103,105,000, as the cumulative effect of a change in accounting principle. The foregoing transitional impairment loss included a pre-tax adjustment of $264,372,000, representing our proportionate share of transition adjustments recorded by UGC.

Impairment of Long-Lived Assets

Statement 144 requires that we periodically review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment

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adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Pursuant to Statement 142, we evaluate the goodwill and franchise rights for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and franchise rights may not be recoverable. For purposes of the goodwill evaluation, we compare the fair value of each of our reporting units to their respective carrying amounts. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit s goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. Consistent with the provisions of Emerging Issue Task Force Issue No. 02-7, *Unit of Measure for Testing Impairment of Indefinite-Lived Assets,* we evaluate the recoverability of the carrying amount of our franchise rights based on the same asset groupings used to evaluate our long-lived assets because the franchise rights are inseparable from the other assets in the asset group. Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

Income Taxes

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if we believe it more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax liabilities related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future.

Foreign Currency Translation

The functional currency of our company is the U.S. dollar. The functional currency of our foreign operations generally is the applicable local currency for each foreign subsidiary and equity method investee. Assets and liabilities of foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations and our company s share of the results of operations of its equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings (loss) in the consolidated statement of stockholders equity. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. The effect of exchange rates on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations as unrealized (based on the applicable period end translation) or realized upon settlement of the transactions.

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Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2004.

Revenue Recognition

Cable Network Revenue. We recognize revenue from the provision of video, telephone and Internet access services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to these services over our cable network is recognized as revenue in the period in which the installation occurs, to the extent these fees are equal to or less than direct selling costs, which are expensed. To the extent installation revenue exceeds direct selling costs, the excess fees are deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Other Revenue. We recognize revenue from the provision of direct-to-home satellite services, or DTH, telephone and data services to business customers outside of our cable network in the period the related services are provided. Installation revenue (including reconnect fees) related to these services outside of our cable network is deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recorded at the monthly rate, if any, charged to the subscriber.

Subscriber Advance Payments and Deposits. Payments received in advance for distribution services are deferred and recognized as revenue when the associated services are provided. Deposits are recorded as a liability upon receipt and refunded to the subscriber upon disconnection.

Earnings (Loss) per Common Share

Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share presents the dilutive effect on a per share basis of potential common shares (e.g. options and convertible securities) as if they had been converted at the beginning of the periods presented.

As described in note 2, we issued shares of LMI Series A common stock and LMI Series B common stock in connection with the spin off. The pro forma net earnings (loss) per share amounts set forth in the accompanying consolidated statements of operations were computed assuming that the shares issued in the spin off were issued and outstanding since January 1, 2003. In addition, the weighted average share amounts for periods prior to July 26, 2004, the date that certain subscription rights were distributed to our stockholders pursuant to the LMI Rights Offering, have been increased by 6,866,484 to give effect to the benefit derived by our stockholders as a result of the distribution of such subscription rights. The details of the calculations of our weighted average common shares outstanding are set forth in the following table:

	Year ended December 31,	
	2004	**2003**
Basic and diluted:		
Weighted average common shares outstanding before adjustment	158,597,222	145,974,318
Adjustment for July 2004 LMI Rights Offering	3,883,504	6,866,484
Weighted average common shares, as adjusted	162,480,726	152,840,802

* The weighted average share amounts for all periods assume that the shares of LMI common stock issued in connection with the spin off were issued and outstanding since January 1, 2003.

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At December 31, 2004, 4,768,254 potential common shares were outstanding. All of such potential common shares represent shares issuable upon the exercise of stock options that were issued in June 2004 and adjusted in connection with the LMI Rights Offering. Potential common shares have been excluded from the pro forma calculation of diluted earnings per share in 2004 because their inclusion would be anti-dilutive. Prior to the consummation of the spin off, no potential common shares were outstanding, and accordingly, there is no difference between basic and diluted earnings per share in 2003.

Stock Based Compensation

As a result of the spin off and related adjustments to Liberty s stock incentive awards, options to acquire an aggregate of 1,595,709 shares of LMI Series A common stock and 1,498,154 shares of LMI Series B common stock were issued to our and Liberty s employees. Consistent with Liberty s accounting for the adjusted Liberty stock options and stock appreciation rights prior to the Spin Off Date, we use variable-plan accounting to account for all LMI stock options issued as adjustments of Liberty s stock incentive awards in connection with the spin off.

In addition, options to acquire an aggregate of 453,206 shares of LMI Series A common stock and 1,568,562 shares of LMI Series B common stock were issued to LMI employees and directors in June 2004. Prior to the LMI Rights Offering, we used fixed-plan accounting to account for these LMI stock options. As a result of the modification of certain terms of the LMI stock options that were outstanding at the time of the LMI Rights Offering, we began accounting for these LMI options as variable-plan options. In addition, options to acquire an aggregate 7,000 shares of LMI Series A common stock were issued to LMI employees and directors subsequent to the LMI Rights Offering. These options were granted at fair market value and, as such, are accounted for using fixed-plan accounting.

As a result of the spin off and the related issuance of options to acquire LMI common stock, certain persons who remained employees of Liberty immediately following the spin off hold options to purchase LMI common stock and certain persons who are our employees hold options, stock appreciation rights (SARs) and options with tandem SARs with respect to Liberty common stock. Pursuant to the Reorganization Agreement, we are responsible for all stock incentive awards related to LMI common stock and Liberty is responsible for all stock incentive awards related to Liberty common stock regardless of whether such stock incentive awards are held by our or Liberty s employees. Notwithstanding the foregoing, our stock-based compensation expense is based on the stock incentive awards held by our employees regardless of whether such awards relate to LMI or Liberty common stock. Accordingly, any stock-based compensation that we include in our statements of operations with respect to Liberty stock incentive awards is treated as a capital transaction that is reflected as an adjustment of additional paid-in capital.

We account for our fixed and variable stock-based compensation plans using the intrinsic value method. Generally, under the intrinsic value method, (i) compensation expense for fixed-plan stock options is recognized only if the estimated fair value of the underlying stock exceeds the exercise price on the date of grant, in which case, compensation is recognized based on the percentage of options that are vested until the options are exercised, expire or are cancelled, and (ii) compensation for variable-plan options is recognized based upon the percentage of the options that are vested and the difference between the estimated fair value of the underlying common stock and the exercise price of the options at the balance sheet date, until the options are exercised, expire or are cancelled. We record stock-based compensation expense for our stock appreciation rights (SARs) using the accelerated expense attribution method. We record compensation expense for restricted stock awards based on the quoted market price of our stock at the date of grant and the vesting period.

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As a result of the modification of certain terms of its stock options in connection with its February 2004 rights offering, UGC began accounting for its stock options that it granted prior to February 2004 as variable plan options. UGC stock options granted subsequent to February 2004 are accounted for as fixed-plan options. Most of the stock-based compensation included in our consolidated statements of operations in 2004 is attributable to UGC s stock incentive awards.

The following table illustrates the effect on net earnings (loss) and earnings (loss) per share as if we had applied the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation,* (Statement 123) to our outstanding options. As the accounting for the liability-based SARs is the same under the intrinsic value method and the fair value method, the pro forma adjustments included in the following table do not include amounts related to our calculation of compensation expense related to SARs or to options with tandem SARs:

	Year ended December 31,		
	2004	**2003**	**2002**
	as restated (note 23)		
	amounts in thousands, except per share amounts		
Net earnings (loss)	$ (18,058)	20,889	(568,154)
Add stock-based compensation charges as determined under the intrinsic value method, net of taxes	51,524		
Deduct stock compensation charges as determined under the fair value method, net of taxes	(29,904)	(832)	(1,498)
Pro forma net earnings (loss)	$ 3,562	20,057	(569,652)
Basic and diluted earnings (loss) from continuing operations per share:			
As reported	$ (0.11)	0.14	
Pro forma	$ 0.02	0.13	

(4) <u>Recent Accounting Pronouncements</u>

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (Statement No. 123(R)), which is a revision of Statement 123, as amended by Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure and Amendment of Statement No. 123* (Statement 148). Statement No. 123(R) supersedes Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* (APB 25) and amends certain provisions of Statement No. 95, *Statement of Cash Flows.* Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, Statement No. 123(R) will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to operations over the

remaining vesting period. We are required to adopt Statement No. 123(R) in our third quarter of 2005, beginning July 1, 2005. Under Statement No. 123(R), we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include prospective and retroactive adoption methods. Under the

retroactive methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of Statement No. 123(R), while the retroactive methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. We are evaluating the requirements of Statement No. 123(R) and we expect that the adoption of Statement No. 123(R) will have a material impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption for Statement No. 123(R).

(5) Acquisitions

Acquisition of Controlling Interest in UGC

On January 5, 2004, we completed a transaction pursuant to which UGC s founding shareholders (the Founders) transferred 8.2 million shares of UGC Class B common stock to our company in exchange for 12.6 million shares of Liberty Series A common stock valued, for accounting purposes, at $152,122,000 and a cash payment of $12,857,000. We also incurred $2,970,000 of acquisition costs in connection with this transaction (the UGC Founders Transaction). The UGC Founders Transaction was the last of a number of independent transactions that occurred from 2001 through January 2004 pursuant to which we acquired our controlling interest in UGC. For information concerning our transactions with UGC during 2003 and 2002, see note 6.

Our acquisition of 281.3 million shares of UGC common stock in January 2002 gave us a greater than 50% economic interest in UGC, but due to certain voting and standstill arrangements, we used the equity method to account for our investment in UGC through December 31, 2003. Upon closing of the January 5, 2004 transaction, the restrictions on the exercise by us of our voting power with respect to UGC terminated, and we gained voting control of UGC. Accordingly, UGC has been accounted for as a consolidated subsidiary and included in our financial position and results of operations since January 1, 2004. We have accounted for our acquisition of UGC as a step acquisition, and have allocated our investment basis to our pro rata share of UGC s assets and liabilities at each significant acquisition date based on the estimated fair values of such assets and liabilities on such dates. Prior to the acquisition of the Founders shares, our investment basis in UGC had been reduced to zero as a result of the prior recognition of our share of UGC s losses. The following

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table reflects the amounts allocated to our assets and liabilities upon completion of the January 2004 acquisition of the Founders shares (amounts in thousands):

Cash	$	310,361
Other current assets		298,826
Property and equipment		3,386,252
Goodwill		2,023,374
Customer relationships(1)		379,093
Trade names		62,441
Other intangible assets		4,532
Investments and other assets		347,542
Current liabilities		(1,407,275)
Long-term debt		(3,615,902)
Deferred income taxes		(754,111)
Other liabilities		(259,492)
Minority interest		(607,692)
Aggregate purchase price		167,949
Issuance of Liberty common stock		(152,122)
Aggregate cash consideration (including direct acquisition costs)	$	15,827

(1) The estimated weighted-average amortization period on January 1, 2004 for the intangible asset associated with customer relationships was 4.9 years.

We have entered into a new Standstill Agreement with UGC that limits our ownership of UGC common stock to 90% of the outstanding common stock unless we make an offer or effect another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with us. Subsequent to December 31, 2004, we and UGC entered into a merger agreement whereby a newly-formed holding company will acquire all of the capital stock of our company and all of the capital stock of UGC not owned by our company. For additional information, see note 1.

During 2004, we also purchased an additional 20 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to our company by UGC. The $152,284,000 purchase price for such shares was comprised of (i) the cancellation of indebtedness due from subsidiaries of UGC to certain of our subsidiaries in the amount of $104,462,000 (including accrued interest) and (ii) $47,822,000 in cash. As UGC was one of our consolidated subsidiaries at the time of these purchases, the effect of these purchases was eliminated in consolidation.

Also, in January 2004, UGC initiated a rights offering pursuant to which holders of each of UGC s Class A, Class B and Class C common stock received 0.28 transferable subscription rights to purchase a like class of common stock for each share of UGC common stock owned by them on January 21, 2004. The rights offering expired on February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 90.7 million shares for a total cash purchase price of $544,250,000.

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PHL

On May 20, 2004, we acquired all of the issued and outstanding ordinary shares of Princes Holdings Limited (PHL) for 2,447,000, including 447,000 of acquisition costs ($2,918,000 at May 20, 2004). PHL, through its subsidiary Chorus Communications Limited, owns and operates broadband communications systems in Ireland. In connection with this acquisition, we loaned an aggregate of 75,000,000 ($89,483,000 as of May 20, 2004) to PHL. The proceeds from this loan were used by PHL to discharge liabilities pursuant to a debt restructuring plan and to provide funds for capital expenditures and working capital. In June 2004, LMI loaned PHL an additional 4,500,000 ($6,137,000), for a total of 79,500,000 ($108,414,000) as of December 31, 2004. This loan bears interest at 1.75% per annum. In addition to the amounts loaned to PHL as of December 31, 2004, we have committed to loan to PHL up to 10,000,000 ($13,637,000) at December 31, 2004.

We have accounted for this acquisition using the purchase method of accounting. For financial reporting purposes, the PHL acquisition is deemed to have occurred on June 1, 2004. The purchase price allocation for this acquisition is as follows (amounts in thousands):

Cash and cash equivalents	$ 14,473
Other current assets	7,423
Property and equipment	75,172
Customer relationships(1)	10,239
Goodwill	24,023
Current liabilities	(26,078)
Subscriber advance payments and deposits	(12,851)
Debt	(89,483)
Aggregate cash consideration (including acquisition costs)	$ 2,918

(1) The estimated weighted-average amortization period at acquisition for the intangible asset associated with customer relationships was 4 years.

On December 16, 2004, UGC acquired our interest in PHL in exchange for 6,413,991 shares of UGC Class A common stock, valued for accounting purposes at $58,303,000 on that date. In connection with UGC s acquisition of our interest in PHL, UGC committed to refinance our loans to PHL no later than June 16, 2005. We and UGC accounted for this transaction as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, UGC consolidated the financial position and results of operations of PHL using LMI s historical cost, as if this transaction had been consummated by UGC as of May 20, 2004 (June 1, 2004 for financial reporting purposes), the date of the original acquisition of PHL by our company. As UGC was a consolidated subsidiary of LMI at the time of this transaction, the shares of UGC Class A common stock received by LMI were eliminated in consolidation.

Noos

On July 1, 2004, UPC Broadband France SAS (UPC Broadband France), an indirect subsidiary of UGC and the owner of UGC s French broadband video and Internet access operations, acquired Suez-Lyonnaise Télécom SA (Noos), from Suez SA (Suez). Noos is a provider of digital and analog cable television services and high-speed Internet access services in France. UPC Broadband France purchased Noos to achieve certain financial, operational and strategic benefits through the integration of Noos with its French operations and the

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creation of a platform for further growth and innovation in Paris and its remaining French systems. The preliminary purchase price was subject to a review of certain historical financial information of Noos and UPC Broadband France. In January 2005, UGC completed its purchase price review with Suez, which resulted in a 42,844,000 ($52,128,000) reduction in the purchase price. The receivable that resulted from this purchase price reduction is included in other receivables in our consolidated balance sheet. The final purchase price for Noos was approximately 567,102,000 ($689,989,000), consisting of 487,085,000 ($592,633,000) in cash and a 19.9% equity interest in UPC Broadband France, valued at approximately 71,339,000 ($86,798,000). Acquisition costs totaled 8,678,000 ($10,558,000). UGC accounted for this transaction as the acquisition of an 80.1% interest in Noos and the sale of a 19.9% interest in UPC Broadband France. Under the purchase method of accounting, the preliminary purchase price was allocated to the acquired identifiable tangible and intangible assets and liabilities based upon their respective fair values. UGC recorded a loss of approximately 9,679,000 ($11,776,000) associated with the dilution of its ownership interest in UPC Broadband France as a result of the Noos transaction. Our $6,102,000 share of this loss is reflected as a reduction of additional paid-in capital in our consolidated statement of stockholders equity.

The following table presents the purchase price allocation for UGC s acquisition of an 80.1% interest in Noos, together with the effects of the sale of a 19.9% interest in UGC s historical French operations (amounts in thousands):

Working capital	$	(106,744)
Property, plant and equipment		769,852
Intangible assets(1)		11,815
Other long-term assets		4,066
Other long-term liabilities		(7,099)
Minority interest		(91,033)
Equity in UPC Broadband France		11,776
Cash consideration for Noos		592,633
Less cash acquired		(18,791)
Net cash consideration for Noos	$	573,842

(1) The estimated weighted-average amortization period for the intangible assets (favorable programming contract and tradename) at acquisition was 3.8 years.

The allocation above was made based on UGC s assessment of the fair value of the assets and liabilities of Noos. As of December 31, 2004, this assessment had not been finalized, but UGC does not expect further significant purchase accounting adjustments. Minority interest was computed based on 19.9% of the fair value of our historical French operations and 19.9% of the historical carrying amount of Noos.

Suez 19.9% interest in UPC Broadband France consists of 85,000,000 shares of Class B common stock of UPC Broadband France (the Class B Shares). Subject to the terms of a call option agreement, UPC France Holding BV (UPC France), UGC s indirect wholly owned subsidiary, has the right through June 30, 2005 to purchase from Suez all of the Class B Shares for 85,000,000, subject to adjustment, plus interest. The purchase price for the Class B Shares may be paid in cash, UGC Class A common stock or LMI Series A common stock. Subject to the terms of a put option, Suez may require UPC France to purchase the Class B Shares at specific times prior to or after the third, fourth or fifth anniversaries of the purchase date.

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UPC France will be required to pay the then fair value, payable in cash, UGC common stock or LMI Series A common stock, for the Class B Shares or assist Suez in obtaining an offer to purchase the Class B Shares. UPC France also has the option to purchase the Class B Shares from Suez shortly after the third, fourth or fifth anniversaries of the purchase date at the then fair value in cash, UGC Class A common stock or LMI Series A common stock.

Pro Forma Information

The following unaudited pro forma condensed consolidated operating results give effect to the UGC, PHL and Noos transactions as if they had been completed as of January 1, 2004 (for 2004 results) and as of January 1, 2003 (for 2003 results). These pro forma amounts are not necessarily indicative of operating results that would have occurred if the UGC, PHL and Noos acquisitions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

	Years ended December 31,		
	2004		2003
	as restated (note 23)		
	amounts in thousands, except per share amounts		
Revenue	$	2,877,159	2,429,548
Net loss	$	(30,458)	(690,869)
Loss per share	$	(.19)	(4.52)

(6) Investments in Affiliates Accounted for Using the Equity Method

Our affiliates generally are engaged in the cable and/or programming businesses in various foreign countries. The following table includes our company s carrying value and approximate percentage ownership of our more significant investments in affiliates:

	December 31, 2004			December 31, 2003
	Percentage Ownership		Carrying Amount	Carrying Amount
	amounts in thousands, except percent amounts			
Super Media/ J-COM	70%	$	1,052,468	1,330,602
JPC	50%		290,224	259,571
Telenet Group Holdings N.V. (Telenet)	19%		232,649	
Mediatti Communications, Inc. (Mediatti)	37%		58,586	
Metrópolis-Intercom S.A. (Metrópolis),	50%		57,344	52,223
Other	Various		174,371	98,156
		$	1,865,642	1,740,552

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The following table sets forth our share of earnings (losses) of affiliates including any writedowns for other-than-temporary declines in fair value:

	Year ended December 31,		
	2004	2003	2002
	amounts in thousands		
Super Media/ J-COM	$ 45,092	20,341	(21,595)
JPC	14,644	11,775	5,801
Mediatti	(2,331)		
Metrópolis	(8,355)	(8,291)	(80,394)
UGC			(190,216)
Other	(10,340)	(10,086)	(44,821)
	$ 38,710	13,739	(331,225)

Our share of earnings (losses) of affiliates includes losses related to other-than-temporary declines in the value of our equity method investments of $25,973,000, $12,616,000, and $72,030,000 during 2004, 2003 and 2002, respectively. Substantially all of such losses relate to our affiliates that operate in Latin America.

At December 31, 2004 and 2003, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates net assets by $757,235,000 and $690,332,000, respectively. Any calculated excess costs on investments are allocated on an estimated fair value basis to the underlying assets and liabilities of the investee. Amounts associated with assets other than goodwill and indefinite lived intangible assets are amortized over their estimated useful lives.

Super Media/ J-COM

J-COM was incorporated in 1995 to own and operate broadband businesses in Japan. The functional currency of J-COM is the Japanese yen. On December 28, 2004, our 45.45% ownership interest in J-COM, and a 19.78% interest in J-COM owned by Sumitomo Corporation (Sumitomo) were combined in Super Media. As a result of these transactions, we held a 69.68% noncontrolling interest in Super Media, and Super Media held a 65.23% controlling interest in J-COM at December 31, 2004. At December 31, 2004, Sumitomo also held a 12.25% direct interest in J-COM and Microsoft Corporation (Microsoft) held a 19.46% beneficial interest in J-COM. Subject to certain conditions, Sumitomo has the obligation to contribute to Super Media substantially all of its remaining 12.25% equity interest in J-COM during 2005. Also, Sumitomo and we are generally required to contribute to Super Media any additional shares of J-COM that either of us acquires and to permit the other party to participate in any additional acquisition of J-COM shares during the term of Super Media.

Due to certain veto rights held by Sumitomo, we accounted for our 69.68% ownership interest in Super Media using the equity method of accounting at December 31, 2004. On February 18, 2005, J-COM announced an initial public offering of its common shares in Japan. Under the terms of the operating agreement of Super Media, our casting or tie-breaking vote with respect to decisions of the management committee became effective upon this announcement. Super Media is managed by a management committee consisting of two members, one appointed by us and one appointed by Sumitomo. From and after February 18, 2005, the management committee member appointed by us has a casting or deciding vote with respect to any management committee decision that we and Sumitomo are unable to

agree on, with the exception of the terms of the initial public offering of J-COM. Certain decisions with respect to Super Media will continue to require the consent of both members rather than the management committee. These include any decision to engage in any business other than holding J-COM shares, sell J-COM shares, issue additional units in Super

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Media, make in-kind distributions or dissolve Super Media, in each case other than as contemplated by the Super Media operating agreement.

As a result of the above-described change in the governance of Super Media, we will begin accounting for Super Media and J-COM as consolidated subsidiaries effective January 1, 2005. If all of the J-COM shares offered for sale by J-COM in the initial public offering are sold (including pursuant to the underwriters over-allotment option). Super Media s equity interests in J-COM will be diluted to approximately 52.84%.

Super Media will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. Super Media may also be earlier dissolved under specified circumstances.

On August 6, 2004, J-COM used cash proceeds received pursuant to capital contributions from our company, Sumitomo and Microsoft to repay shareholder loans with an aggregate principal amount of ¥30,000 million ($275,660,000 at August 6, 2004). Such amount includes ¥14,065 million ($129,237,000 at August 6, 2004) of shareholder loans held by us that were effectively converted to equity in these transactions. Such transactions did not materially impact the J-COM ownership interests of our company, Sumitomo or Microsoft.

On December 21, 2004, we received cash proceeds of ¥42,755 million ($410,080,000 at December 21, 2004) in repayment of all principal and interest due to our company from J-COM pursuant to then outstanding shareholder loans. In connection with this transaction, we recognized in our statement of operations foreign currency translation gains of $55,350,000 that previously had been reflected in accumulated other comprehensive earnings and deferred taxes.

On February 25, 2005, J-COM acquired the respective interests of Sumitomo, Microsoft and our company in Chofu Cable, Inc. (Chofu Cable), a Japanese broadband communications provider, for cash consideration of ¥2,884 million ($27,358,000 at February 25, 2005), of which ¥972 million ($9,223,000 at February 25, 2005) was paid to our company for our equity method investment in Chofu Cable. As a result of this acquisition, J-COM owns an approximate 92% equity interest in Chofu Cable.

In 2003, we purchased an 8% equity interest in J-COM from Sumitomo for $141,000,000 in cash, and we and Sumitomo each converted certain shareholder loans to equity interests in J-COM.

Summarized financial information for J-COM is as follows:

	December 31,	
	2004	**2003**
	amounts in thousands	
Financial Position		
Investments	$ 65,178	52,962
Property and equipment, net	2,441,196	2,274,632
Intangible and other assets, net	1,783,162	1,601,596
Total assets	$ 4,289,536	3,929,190
Debt	$ 2,260,805	2,378,698
Other liabilities	677,595	649,229
Owners equity	1,351,136	901,263
Total liabilities and equity	$ 4,289,536	3,929,190

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	Year ended December 31,		
	2004	**2003**	**2002**
	amounts in thousands		
Results of Operations			
Revenue	$ 1,504,709	1,233,492	930,736
Operating, selling, general and administrative expenses	(915,112)	(805,174)	(719,590)
Stock-based compensation	(783)	(840)	(494)
Depreciation and amortization	(378,868)	(313,725)	(240,042)
Operating income (loss)	209,946	113,753	(29,390)
Interest expense, net	(94,958)	(68,980)	(33,381)
Other, net	(15,532)	1,335	2,579
Net earnings (loss)	$ 99,456	46,108	(60,192)

JPC

JPC, a 50% joint venture formed in 1996 by our company and Sumitomo, is a programming company in Japan, which owns and invests in a variety of channels including *Shop Channel*. The functional currency of JPC is the Japanese yen. At December 31, 2004, our investment in JPC included ¥500 million ($4,882,000) of shareholder loans to JPC. Such loans are denominated in Japanese yen and bear interest at variable rates (1.55% at December 31, 2004). Such shareholder loans are due and payable on July 26, 2008.

On April 22, 2004, JPC issued 24,000 shares of JPC ordinary shares to Sumitomo for ¥6 billion ($54,260,000 as of April 22, 2004). On April 26, 2004, JPC paid ¥3 billion ($27,677,000 as of April 26, 2004) to each of our company and Sumitomo to redeem 12,000 shares of JPC ordinary shares from each shareholder. On April 27, 2004, we transferred our 100% indirect ownership interest in Liberty J-Sports, Inc. (Liberty J-Sports), the owner of an indirect minority interest in J-SPORTS Broadcasting Corporation, to JPC in exchange for 24,000 ordinary shares of JPC valued at ¥6 billion ($54,805,000 as of April 27, 2004). We recognized a $25,256,000 gain on this transaction, representing the excess of the cash received from the earlier share redemption over 50% of our historical cost basis in Liberty J-Sports.

Telenet

On December 16, 2004, chellomedia Belgium I BV and chellomedia Belgium II BV, UGC s indirect wholly owned subsidiaries (collectively, chellomedia Belgium), acquired our wholly owned subsidiary Belgian Cable Holdings (BCH) for $121,068,000 in cash. BCH s only assets were debt securities of Callahan Partners Europe (CPE) and one of two entities majority-owned by CPE (the InvestCos), and certain related contract rights. This purchase price was equal to our cost basis in these debt securities, which included an unrealized gain of $10,517,000. On December 17, 2004, UGC entered into a restructuring transaction with CPE and certain other parties. In this restructuring, BCH contributed approximately $137,950,000 in cash and the debt security of the InvestCo to Belgian Cable Investors, LLC (Belgian Cable Investors) in exchange for a 78.4% common equity interest and 100% preferred equity interest in Belgian Cable Investors. CPE owns the remaining 21.6% interest in Belgian Cable Investors. Belgian Cable Investors distributed approximately $115,592,000 in cash to CPE, which used the proceeds to repurchase the debt securities of CPE held by BCH. Belgian Cable Investors holds an indirect 14.1% interest in Telenet Group Holding NV (Telenet)

and certain call options expiring in 2007 and 2009 to acquire 3.36 million shares (11.6%) and 5.11 million shares (17.6%),

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respectively, of the outstanding equity of Telenet from existing shareholders. Belgian Cable Investors indirect 14.1% interest in Telenet results from its majority ownership of the InvestCos, which hold in the aggregate 18.99% of the stock of Telenet, and a shareholders agreement among Belgian Cable Investors and three unaffiliated investors in the InvestCos that governs the voting and disposition of 21.36% of the stock of Telenet, including the stock held by the InvestCos. Telenet is a cable system operator in Belgium.

The restructuring was accounted for as a fair value transaction, in which BCH effectively transferred its debt securities and approximately $22,358,000 in return for an equity interest in Belgian Cable Investors. As this was a transaction consummated at fair value, we recognized the $10,517,000 unrealized gain associated with the CPE and InvestCo debt securities as a realized gain in our consolidated statement of operations. We have determined that the InvestCos are variable interest entities, in which Belgian Cable Investors is the primary beneficiary. Certain of the securities of the InvestCos held by the InvestCos shareholders have a mandatory redemption feature, and accordingly, we have classified such securities attributable to the other shareholders of the InvestCos as debt. See note 10. In our preliminary allocation of the purchase price, we have allocated $232,649,000 to the investment in Telenet and the call options to purchase additional shares of Telenet, and have allocated $87,821,000 to the InvestCos securities that we have classified as debt, based on our preliminary assessment of fair values. We expect our purchase price allocation to be finalized during the first quarter of 2005. For financial reporting purposes, the restructuring transaction was deemed to have occurred on December 31, 2004.

Pursuant to the Telenet shareholders agreement, the InvestCos are able to vote a 25% interest plus one vote on certain Telenet matters that require a 75% vote to pass. In addition, through its interest in the InvestCos, UGC has two representatives on Telenet s board of directors. Based on the InvestCos voting ability, board membership and ability to acquire significantly more direct ownership of Telenet through the call options, UGC believes that the InvestCos exercise significant influence over Telenet. Therefore, we account for our indirect investment in Telenet using the equity method of accounting.

Pursuant to the agreement with CPE governing Belgian Cable Investors, CPE has the right to require BCH to purchase all of CPE s interest in Belgian Cable Investors for the then appraised fair value of such interest during the first 30 days of every six-month period beginning in December 2007. BCH has the corresponding right to require CPE to sell all of its interest in Belgian Cable Investors to BCH for appraised fair value during the first 30 days of every six-month period following December 2009.

Mediatti

During 2004, we completed three transactions that resulted in our acquisition of 21,572 Mediatti shares for an aggregate cash purchase price of ¥6,257 million ($59,129,000). Mediatti is a provider of cable television and high speed Internet access services in Japan. Our interest in Mediatti is held through Liberty Japan MC, LLC, (Liberty Japan MC) a company of which we own approximately 93.1% and Sumitomo owns approximately 6.9%. Sumitomo has the option until February 2006 to increase its ownership interest in Liberty Japan MC to up to 50%.

Liberty Japan MC owns a 36.4% voting interest in Mediatti and an additional 0.87% interest that has limited veto rights. Liberty Japan MC has the option until February 2006 to acquire from Mediatti up to 9,463 additional shares in Mediatti at a price of ¥290,000 ($3,000) per share. If such option is fully exercised, Liberty Japan MC s interest in Mediatti will be approximately 46%. The additional interest that Liberty Japan MC has the right to acquire may initially be in the form of non-voting Class A shares, but it is expected that any Class A shares owned by Liberty Japan MC will be converted to voting common stock.

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Liberty Japan MC, Olympus Mediacom L.P. (Olympus Mediacom) and two minority shareholders of Mediatti have entered into a shareholders agreement pursuant to which Liberty Japan MC has the right to nominate three of Mediatti s seven directors and which requires that significant actions by Mediatti be approved by at least one director nominated by Liberty Japan MC.

The Mediatti shareholders who are party to the shareholders agreement have granted to each other party whose ownership interest is greater than 10%, a right of first refusal with respect to transfers of their respective interests in Mediatti. Each shareholder also has tag-along rights with respect to such transfers. Olympus Mediacom has a put right that is first exercisable during July 2008 to require Liberty Japan MC to purchase all of its Mediatti shares at fair market value. If Olympus exercises such right, the two minority shareholders who are party to the shareholders agreement may also require Liberty Japan MC to purchase their Mediatti shares at fair market value. If Olympus Mediacom does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus Mediacom and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at fair market value. If both the Olympus Mediacom put right and the Liberty Japan MC call right expire without being exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010.

Metrópolis

We hold a 50% interest in Metrópolis, a cable operator in Chile. On January 23, 2004, we, Liberty and CristalChile entered into an agreement pursuant to which each agreed to use its respective commercially reasonable efforts to combine the businesses of Metrópolis and VTR GlobalCom S.A. (VTR), a wholly owned subsidiary of UGC that owns UGC s Chilean operations. If the proposed combination is consummated, UGC would own 80% of the voting and equity rights in the combined entity, and CristalChile would own the remaining 20%. We would also receive a promissory note (the amount of which is subject to negotiation) from the combined entity, which would be unsecured and subordinated to third party debt. In addition, CristalChile would have a put right which would allow CristalChile to require UGC to purchase all, but not less than all, of its interest in the combined entity at the fair value of the interest, subject to a minimum price of $140 million. This put right will end on the tenth anniversary of the combination. Liberty has agreed to perform UGC s obligations under CristalChile s put if UGC does not do so and, in connection with the spin off, we agreed to indemnify Liberty against its obligations with respect to CristalChile s put right. If the merger does not occur, we and CristalChile have agreed to fund our pro rata share of a capital call sufficient to retire Metropolis local debt facility, which had an outstanding principal amount of Chilean pesos 30.2 billion ($54,399,000) at December 31, 2004. The combination is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of the respective boards of directors of the relevant parties (including, in the case of UGC, the independent members of UGC s board of directors) and the receipt of necessary third party approvals and waivers. The Chilean antitrust authorities approved the combination in October 2004 subject to certain conditions. The primary conditions require that the combined entity (i) re-sell broadband capacity to third party Internet service providers on a wholesale basis; (ii) activate two-way capacity on all portions of the combined network within five years; and (iii) limit basic tier price increases to the rate of inflation plus a programming cost escalator over the next three years. An action was filed with the Chilean Supreme Court seeking to reverse such approval, but the action was dismissed on March 10, 2005. We, CristalChile and UGC are currently negotiating the terms of the definitive agreements for the combination.

Due to increased competition, losses in subscribers and a decrease in operating income in 2002, we determined that the carrying value of our investment in Metrópolis including allocated enterprise-level goodwill, exceeded the estimated fair value of this investment, which fair value was based on a per-subscriber valuation. Accordingly, we recorded an other-than-temporary decline in value of $66,555,000, which is included in share

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of losses of affiliates in 2002, and an impairment of long-lived assets of $39,000,000 related to the allocated enterprise-level goodwill for Metrópolis.

UGC

On January 30, 2002, our company and UGC completed a transaction (the 2002 UGC Transaction) pursuant to which UGC was formed to own Old UGC, Inc. (Old UGC) (formerly known as UGC Holdings, Inc.). Upon consummation of the 2002 UGC Transaction, all shares of Old UGC common stock were exchanged for shares of common stock of UGC. In addition, we contributed (i) cash consideration of $200,000,000, (ii) a note receivable from Belmarken Holding B.V., (Belmarken) an indirect subsidiary of Old UGC, with an accreted value of $891,671,000 and a carrying value of $495,603,000 (the Belmarken Loan) and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V. (UPC), a subsidiary of Old UGC, with an aggregate carrying amount of $270,398,000 to UGC in exchange for 281.3 million shares of UGC Class C common stock with a fair value of $1,406,441,000. We accounted for the 2002 UGC Transaction as the acquisition of an additional noncontrolling interest in UGC in exchange for monetary financial instruments. Accordingly, we calculated a $440,440,000 gain on the transaction based on the difference between the estimated fair value of the financial instruments and their carrying value. Due to our continuing indirect ownership in the assets contributed to UGC, our company limited the amount of gain it recognized to the minority shareholders attributable share (approximately 28%) of such assets or $122,618,000 (before deferred tax expense of $47,821,000).

Also on January 30, 2002, UGC acquired from our company our debt and equity interests in IDT United, Inc. and $751 million principal amount at maturity of UGC s $1,375 million 10 3/4% senior secured discount notes due 2008 (2008 Notes), which had been distributed to us in redemption of a portion of our interest in IDT United and repayment of a portion of IDT United s debt to our company. IDT United was formed as an indirect subsidiary of IDT Corporation for purposes of effecting a tender offer for all outstanding 2008 Notes at a purchase price of $400 per $1,000 principal amount at maturity, which tender offer expired on February 1, 2002. The aggregate purchase price for our interest in IDT United of $448 million equaled the aggregate amount we had invested in IDT United, plus interest. Approximately $305 million of the purchase price was paid by the assumption by UGC of debt owed by our company to a subsidiary of Old UGC, and the remainder was credited against our company s $200 million cash contribution to UGC described above. In connection with the 2002 UGC Transaction, a subsidiary of our company made loans to a subsidiary of UGC aggregating $103 million. Such loans accrued interest at 8% per annum.

At December 31, 2003, we owned approximately 296 million shares of UGC common stock, or an approximate 50% economic interest and an 87% voting interest in UGC. Pursuant to certain voting and standstill arrangements, we were unable to exercise control of UGC, and accordingly, we used the equity method of accounting for our investment through December 31, 2003.

Because we had no commitment to make additional capital contributions to UGC, we suspended recording our share of UGC s losses when the carrying value of our investment in UGC was reduced to zero in 2002.

On September 3, 2003, UPC completed a restructuring of its debt instruments and emerged from bankruptcy. Under the terms of the restructuring, approximately $5.4 billion of UPC s debt was exchanged for equity of UGC Europe, Inc., a new holding company of UPC (UGC Europe). Upon consummation, UGC received approximately 65.5% of UGC Europe s equity in exchange for UPC debt securities that it owned; third-party noteholders received approximately 32.5% of UGC Europe s equity; and existing preferred and ordinary shareholders, including UGC, received 2% of UGC Europe s equity.

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On December 18, 2003, UGC completed its offer to exchange its Class A common stock for the outstanding shares of UGC Europe common stock that it did not already own. Upon completion of the exchange offer, UGC owned 92.7% of the outstanding shares of UGC Europe common stock. On December 19, 2003, UGC effected a short-form merger with UGC Europe. In the short-form merger, each share of UGC Europe common stock not tendered in the exchange offer was converted into the right to receive the same consideration offered in the exchange offer, and UGC acquired the remaining 7.3% of UGC Europe. In connection with UGC s acquisition of the minority interest in UGC Europe, we calculated a $680,488,000 gain due to the dilutive effect on our investment in UGC and the implied per share value of the exchange offer. However, as we had suspended recording losses of UGC in 2002 and these suspended losses exceeded the aforementioned gain, we did not recognize the gain in our consolidated financial statements.

As discussed in detail in note 5, on January 5, 2004, we completed a transaction pursuant to which we gained voting control of UGC. Accordingly, UGC has been accounted for as a consolidated subsidiary and included in our financial position and results of operations since January 1, 2004.

Summarized financial information for UGC as of December 31, 2003 and for 2003 and 2002 is as follows:

	December 31, 2003	
	amounts in thousands	
Financial Position		
Current assets	$	622,321
Property and equipment, net		3,342,743
Intangible and other assets, net		3,134,607
Total assets	$	7,099,671
Debt, including liabilities subject to compromise	$	4,351,905
Other liabilities		1,252,513
Minority interest		22,761
Shareholders equity		1,472,492
Total liabilities and equity	$	7,099,671

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	Year ended December 31,	
	2003	**2002**
	amounts in thousands	
Results of Operations		
Revenue	$ 1,891,530	1,515,021
Operating, selling, general and administrative expenses	(1,262,648)	(1,218,647)
Depreciation and amortization	(808,663)	(730,001)
Impairment of long-lived assets, restructuring charges and stock-based compensation	(476,233)	(465,655)
Operating loss	(656,014)	(899,282)
Interest expense	(327,132)	(680,101)
Gain on extinguishment of debt	2,183,997	2,208,782
Share of earnings (losses) of affiliates	294,464	(72,142)
Foreign currency transaction gains, net	153,808	485,938
Minority interest in losses (earnings) of subsidiaries	183,182	(67,103)
Other, net	163,063	12,176
Net income from continuing operations	$ 1,995,368	988,268

(7) Other Investments

The following table sets forth the carrying amount of our other investments:

	December 31,	
	2004	**2003**
	amounts in thousands	
ABC Family	$ 387,380	
SBS Broadcasting S.A. (SBS)	241,500	
News Corp.	102,630	
Sky Latin America	85,846	94,347
Telewest Global, Inc., the successor to Telewest Communications plc (Telewest)		281,392
Cable Partners Europe (CPE)		74,068
Other	21,252	327
Total other investments	$ 838,608	450,134

Our investments in ABC Family, SBS and News Corp. are all accounted for as available-for-sale securities. We accounted for our investments in Telewest and CPE as available-for-sale securities during the periods in which we held those investments.

ABC Family

At December 31, 2004, we owned a 99.9% beneficial interest in 345,000 shares of the 9% Series A preferred stock of ABC Family with an aggregate liquidation value of $345 million. The issuer is required to redeem the ABC Family preferred stock at its liquidation value on August 1, 2027, and has the option to redeem the ABC Family preferred stock at its liquidation value at any time after August 1, 2007. We have the right to require

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the issuer to redeem the ABC Family preferred stock at its liquidation value during the 30 day periods commencing upon August 2 of the years 2017 and 2022. Liberty contributed this interest to our company in connection with the spin off. We recognized dividend income on the ABC Family preferred stock of $18,217,000 during the period from the Spin Off Date through December 31, 2004.

SBS

At December 31, 2004, UGC owned 6,000,000 shares or approximately 19% of the outstanding shares of SBS, a European commercial television and radio broadcasting company. UGC records these marketable equity securities at fair value using quoted market prices.

News Corp.

Liberty contributed 10,000,000 shares of News Corp. Class A common stock to our company in connection with the spin off. During the fourth quarter of 2004, we sold 4,500,000 shares of News Corp. Class A common stock for aggregate cash proceeds of $83,669,000 ($29,770,000 of which was received in 2005), resulting in a pre-tax gain of $37,174,000. Accordingly, we owned 5,500,000 shares of News Corp. Class A common stock at December 31, 2004.

Sky Latin America

Prior to October 2004, we held a 10% ownership interest in each of three direct-to-home satellite providers that operate in Brazil (Sky Brasil), Mexico (Sky Mexico) and Chile and Colombia (Sky Multi-Country) (collectively, Sky Latin America), which were accounted for as cost investments. Prior to August 2004, we also held an investment in public debt securities issued by Sky Brasil and accounted for this investment as an available-for-sale security.

In October 2004, we sold our interest in the Sky Multi-Country DTH platform in exchange for reimbursement by the purchaser of $1,500,000 of funding provided by us in the previous few months and the release from certain guarantees described below. We were deemed to owe the purchaser $6,000,000 in respect of the Sky Multi-Country platform, which amount was offset against a separate payment we received from the purchaser as explained below. We also agreed to sell our interest in the Sky Brasil DTH platform and granted the purchaser an option to purchase our interest in the Sky Mexico DTH platform.

On October 28, 2004, we received $54 million in cash from the purchaser, which consisted of $60 million consideration payable for our Sky Brasil interest less the $6 million we were deemed to owe the purchaser in respect of the Sky Multi-Country DTH platform. The $60 million is refundable by us if the Sky Brasil transaction is terminated. It may be terminated by us or the purchaser if it has not closed by October 8, 2007 or by the purchaser if certain conditions are incapable of being satisfied.

We will receive $88 million in cash upon the transfer of our Sky Mexico interest to the purchaser. The Sky Mexico interest will not be transferred until certain Mexican regulatory conditions are satisfied. If the purchaser does not exercise its option to purchase our Sky Mexico interest on or before October 8, 2006 (or in some cases an earlier date), then we have the right to require the purchaser to purchase our interest if certain conditions, including the absence of Mexican regulatory prohibition of the transaction, have been satisfied or waived.

In light of the contingencies involved, we have not treated either of the Sky Mexico or Sky Brasil transactions as a sale for accounting purposes until such time as the necessary regulatory approvals are obtained and, in the case of Sky Mexico, the cash is received.

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In connection with these transactions our guarantees of the obligations of the Sky Multi-Country, Sky Brasil and Sky Mexico platforms under certain transponder leases were terminated and the purchaser agreed to obtain releases of our guarantees of obligations under certain equipment leases no later than December 31, 2004. All but one of such guarantees have been released. The purchaser has agreed to indemnify us for any amounts we are required to pay under our remaining guarantee until such guarantee is terminated.

In 2002, we determined that due to, among other factors, economic conditions in the countries in which Sky Latin America operates, our investment in Sky Latin America experienced an other-than-temporary decline in value. As a result, the investment in each of the Sky Latin America entities was adjusted to its respective fair value based on a discounted cash flow model and per subscriber values. In the case of Sky Multi-Country, we determined that because of low subscriber counts, lack of economies of scale and the future projected cash needs of Sky Multi-Country, the entire investment should be written off at December 31, 2002. In addition, all amounts funded to Sky Multi-Country in 2003 were expensed when paid. The total amount of impairment for Sky Latin America in 2003 and 2002 was $6,884,000 and $105,250,000, respectively.

Telewest

During 2002, we purchased $370,177,000 and £67,222,000 ($128,965,000) of Telewest bonds for cash proceeds of $204,087,000. At December 31, 2002, we determined that the Telewest bonds had experienced an other-than-temporary decline in value. As a result, the carrying values of the Telewest bonds were adjusted to their respective estimated fair values based on quoted market prices at the balance sheet date, and LMC recognized an other-than-temporary decline in value of $141,271,000.

On July 19, 2004, our investment in Telewest Communications plc Senior Notes and Senior Discount Notes was converted into 18,417,883 shares or approximately 7.5% of the issued and outstanding common stock of Telewest. In connection with this transaction, we recognized a pre-tax gain of $168,301,000, representing the excess of the fair value of the Telewest common stock received over our cost basis in the Senior Notes and Senior Discount Notes. During the third and fourth quarters of 2004, we sold all of the acquired Telewest shares for aggregate cash proceeds of $215,708,000, resulting in a pre-tax loss of $16,407,000. Based on our third quarter 2004 determination that we would dispose of all remaining Telewest shares during the fourth quarter of 2004, the $12,429,000 excess of the carrying value over the fair value of the Telewest shares that we held as of September 30, 2004 was included in other-than-temporary declines in fair values of investments in our consolidated statement of operations. Consistent with our classification of the Senior Notes and Senior Discount Notes and the Telewest common stock as available-for-sale securities, the above-described gains and losses were reflected as components of our accumulated other comprehensive loss account prior to their reclassification into our consolidated statements of operations.

Unrealized holding gains and losses

Unrealized holding gains and losses related to investments in available-for-sale securities that are included in accumulated other comprehensive earnings (loss), net of tax, are summarized as follows:

	December 31,			
	2004		2003	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in thousands			
Gross unrealized holding gains	$ 92,195	18,516	156	210,925

Gross unrealized holding losses	$

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(8) Derivative Instruments

The following table provides detail of the fair value of our derivative instrument assets (liabilities), net:

	December 31,		
		2004	2003
	amounts in thousands		
Foreign exchange derivatives	$	(5,305)	(18,594)
Total return debt swaps		23,731	22,983
Interest rate caps		2,384	
Cross-currency and interest rate swaps		(25,648)	
Variable forward transaction		(3,305)	
Call agreements on LMI Series A common stock		49,218	
Other			(2,416)
Total	$	41,075(1)	1,973
Current asset	$	73,507	
Current liability		(14,636)	(21,010)
Long-term asset		2,568	22,983
Long-term liability		(20,364)	
Total	$	41,075(1)	1,973

(1) Excludes embedded equity derivative component of the UGC Convertible Notes as amount is presented in long-term debt in the accompanying consolidated balance sheet.

Realized and unrealized gains (losses) on derivative instruments are comprised of the following amounts:

	Year ended December 31,			
		2004	2003	2002
		as restated (note 23)		
	amounts in thousands			
Foreign exchange derivatives	$	196	(22,626)	(11,239)
Total return debt swaps		2,384	37,804	(1,088)
Cross-currency and interest rate swaps		(43,779)		
Interest rate caps		(20,318)		
Embedded equity and other derivatives		23,032		
Variable forward transaction		1,013		

Call agreements on LMI Series A common stock		1,713		
Other		(16)	(2,416)	(4,378)
Total	$	(35,775)	12,762	(16,705)

Foreign Exchange Contracts

We generally do not enter into derivative transactions that are designed to reduce our long-term exposure to foreign currency exchange risk. However, in order to reduce our foreign currency exchange risk related to our cash balances that are denominated in Japanese yen and our investment in J-COM, we have entered into

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collar agreements with respect to ¥15 billion ($146,470,000). These collar agreements have a weighted average remaining term of approximately 2^{1}/2 months, an average call price of ¥105/U.S. dollar and an average put price of ¥109/U.S. dollar. In the past, we have also entered into forward sales contracts with respect to the Japanese yen. During 2004, we paid $17,001,000 to settle yen forward sales and collar contracts.

Total Return Debt Swaps

At December 31, 2004, we were a party to total return debt swaps in connection with (i) bank debt of a subsidiary of UPC, and (ii) public debt of Cablevisión S.A. (Cablevisión), the largest cable television company in Argentina, in terms of basic cable subscribers. Through March 2, 2005, Liberty owned an indirect 78.2% economic and non-voting interest in a limited liability company that owns 50% of the outstanding capital stock of Cablevisión. Under the total return debt swaps, a counterparty purchases a specified amount of the underlying debt security for the benefit of our company. We have posted collateral with the counterparties equal to 30% of the counterparty s purchase price for the purchased indebtedness of the UPC subsidiary and 90% of the counterparty s purchase price for the purchased indebtedness of Cablevisión. We record a derivative asset equal to the posted collateral and such asset is included in other assets in the accompanying consolidated balance sheets. We earn interest income based upon the face amount and stated interest rate of the underlying debt securities, and pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying purchased indebtedness of the UPC subsidiary declines by 10% or more, we are required to post cash collateral for the decline, and we record an unrealized loss on derivative instruments. The cash collateral related to the UPC subsidiary indebtedness is further adjusted up or down for subsequent changes in the fair value of the underlying indebtedness or for foreign currency exchange rate movements involving the euro and U.S. dollar. During the fourth quarter of 2004, we received cash proceeds of $35,800,000 in connection with the termination of a portion of the UPC total return swap related to the debt of the UPC subsidiary. At December 31, 2004, the aggregate purchase price of debt securities underlying our total return debt swap arrangements involving the indebtedness of the UPC subsidiary and Cablevisión was $29,532,000. As of such date, we had posted cash collateral equal to $19,868,000 ($2,930,000 with respect to the UPC subsidiary and $16,938,000 with respect to Cablevisión). If the fair value of the purchased debt securities had been zero at December 31, 2004, we would have been required to post additional cash collateral of $8,972,000.

During the first quarter of 2005, we received cash proceeds of $22,642,000 upon termination of the Cablevisión and UPC subsidiary total return swaps.

UGC Interest Rate and Cross-currency Derivative Contracts

During the first quarter of 2003, UGC purchased interest rate caps related to the UPC Broadband Bank Facility (see note 10) that capped the variable Euro Interbank Offered Rate (EURIBOR) interest rate at 3.0% on a notional amount of 2.7 billion in 2003 and 2004. As UGC was able to fix its variable interest rates below 3.0% on the UPC Broadband Bank Facility during 2003 and 2004, all of these caps expired without being exercised. During the first and second quarter of 2004, UGC purchased interest rate caps for a total of $21,442,000, capping the variable interest rate at 3.0% and 4.0% in 2005 and 2006, respectively, on notional amounts totaling 2.25 billion to 2.6 billion.

In June 2003, UGC entered into a cross currency and interest rate swap pursuant to which a notional amount of $347.5 million was swapped at an average rate of 1.133 euros per U.S. dollar until July 2005, with the variable LIBOR interest rate (including margin) swapped into a fixed interest rate of 7.85%. Following the prepayment of part of Facility C in December 2004, UGC paid down this swap with a cash payment of $59,100,000 and unwound a notional amount of $171,480,000. The remainder of the swap is for a notional

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amount of $176,020,000, and the euro to U.S. dollar exchange rate has been reset at 1.3158 to 1. In connection with the refinancing of the UPC Broadband Bank Facility in December 2004, UGC entered into a seven-year cross currency and interest rate swap pursuant to which a notional amount of $525 million was swapped at a rate of 1.3342 euros per U.S. dollar until December 2011, with the variable interest rate of LIBOR + 300 basis points swapped into a variable rate of EURIBOR + 310 basis points for the same time period.

Embedded Equity Derivative

For a description of the equity derivative instrument embedded in the UGC Convertible Notes, see note 10. Changes in the fair value of this equity derivative instrument are reported in our consolidated statement of operations.

Variable Forward Transaction

Prior to the spin off, Liberty contributed to our company 10,000,000 shares of News Corp. Class A common stock, together with a related variable forward transaction. In connection with the sale of 4,500,000 shares of News Corp. Class A common stock during the fourth quarter of 2004, we paid $3,429,000 to terminate the portion of the variable forward transaction that related to the shares that were sold. After giving effect to the fourth quarter termination transaction, the forward, which expires on September 17, 2009, provides (i) us with the right to effectively require the counterparty to buy 5,500,000 News Corp. Class A common stock at a price of $15.72 per share, or an aggregate price of $86,460,000 (the Floor Price), and (ii) the counterparty with the effective right to require us to sell 5,500,000 shares of News Corp. Class A common stock at a price of $26.19 per share.

At any time during the term of the forward, we can require the counterparty to advance the full Floor Price. Provided we do not draw an aggregate amount in excess of the present value of the Floor Price, as determined in accordance with the forward, we may elect to draw such amounts on a discounted or undiscounted basis. As long as the aggregate advances are not in excess of the present value of the Floor Price, undiscounted advances will bear interest at prevailing three-month LIBOR and discounted advances will not bear interest. Amounts advanced up to the present value of the Floor Price are secured by the underlying shares of News Corp. Class A common stock. If we elect to draw amounts in excess of the present value of the Floor Price, those amounts will be unsecured and will bear interest at a negotiated interest rate. During the third quarter of 2004, we received undiscounted advances aggregating $126,000,000 under the forward. Such advances were subsequently repaid during the quarter.

Call Agreements on LMI Series A common stock

During the fourth quarter of 2004, we entered into call option contracts pursuant to which we contemporaneously (i) sold call options on 1,210,000 shares of LMI Series A common stock at exercise prices ranging from $39.5236 to $41.7536, and (ii) purchased call options on 1,210,000 shares with an exercise price of zero. As structured with the counterparty, these instruments have similar financial mechanics to prepaid put option contracts. Under the terms of the contracts, we can elect cash or physical settlement. All of the contracts expired during the first quarter of 2005 and were settled for cash.

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(9) Long-lived Assets

Property and Equipment

The details of property and equipment and the related accumulated depreciation are set forth below:

	December 31,	
	2004	**2003**
	amounts in thousands	
Cable distribution systems	$ 5,280,307	116,962
Support equipment, buildings and land	23,601	11,051
	5,303,908	128,013
Accumulated depreciation	(1,000,809)	(30,436)
Net property and equipment	$ 4,303,099	97,577

During the second quarter of 2004, UGC recorded an impairment of $16,111,000 on certain tangible fixed assets of its wholly owned subsidiary, Priority Telecom. The impairment assessment was triggered by competitive factors in 2004 that led to a greater than expected price erosion and the inability to reach forecasted market share. Fair value of the tangible assets was estimated using a discounted cash flow analysis, along with other available market data. In the fourth quarter of 2004, UGC recorded an impairment of $10,955,000 related to certain tangible fixed assets in The Netherlands. In addition, during 2004 UGC recorded several minor impairments for long-lived assets which had no future service potential due to changes in management s plans.

Depreciation expense related to our property and equipment was $894,789,000, $14,642,000 and $13,037,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Goodwill

Changes in the carrying amount of goodwill for 2004 were as follows:

	January 1, 2004	**Acquisitions**	**Release of pre-acquisition valuation allowance**	**Impairments**	**Foreign currency translation adjustments**	**December 31, 2004**
			amounts in thousands			
UGC Broadband The Netherlands	$	680,349	(6,374)		55,960	729,935
UGC Broadband Austria		460,810	(2,893)		37,416	495,333
		506,854	(34,133)		56,869	529,590

UGC Broadband Other Europe						
UGC Broadband Chile (VTR)		191,785	(4,575)		11,876	199,086
J-COM	203,000					203,000
All other	322,576	211,590	(10,105)	(29,000)	15,274	510,335
Total LMI	$ 525,576	2,051,388	(58,080)	(29,000)	177,395	2,667,279

During 2004, we recorded a $26,000,000 impairment of certain enterprise level goodwill associated with Pramer and a $3,000,000 impairment of the enterprise level goodwill associated with one or our equity affiliates. The impairment assessment for Pramer was triggered by our determination that it was more-likely-than-not that we will sell Pramer.

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Accordingly, the fair value used to assess the recoverability of the enterprise level goodwill associated with Pramer was based on the value that we would expect to receive upon any sale of Pramer.

During the year ended December 31, 2004, UGC reversed valuation allowances for deferred tax assets in various tax jurisdictions due to the realization or expected realization of tax benefits from these assets. The valuation allowances were originally recorded as part of the purchase accounting adjustments related to the UGC Founders Transaction and the UGC Europe exchange offer and merger and were therefore reversed against goodwill.

Prior to January 1, 2004, when we began consolidating UGC, all of our goodwill was enterprise level goodwill. During 2002 we recorded impairment charges aggregating $45,928,000 to reduce the carrying value of the enterprise level goodwill, including $39,000,000 related to our investment in Metrópolis (see note 6). There were no changes in our goodwill balances during 2003.

Intangible Assets Subject to Amortization, Net

The details of our amortizable intangible assets are set forth below:

	December 31,	
	2004	2003
	amounts in thousands	
Gross carrying amount		
Customer relationships	$ 426,213	
Other	31,420	6,083
	$ 457,633	6,083
Accumulated amortization		
Customer relationships	$ (71,311)	
Other	(3,723)	(1,579)
	$ (75,034)	(1,579)
Net carrying amount		
Customer relationships	$ 354,902	
Other	27,697	4,504
	$ 382,599	4,504

Amortization of intangible assets with finite useful lives was $66,099,000 and $472,000 in 2004 and 2003, respectively. Based on our current amortizable intangible assets, we expect that amortization expense will be as follows for the next five years and thereafter (amounts in thousands):

2005	$ 78,803
2006	73,235
2007	68,935

2008		65,601
2009		65,601
Thereafter		30,424
Total	$	382,599

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(10) Debt

The components of debt were as follows:

	December 31,	
	2004	2003
	as restated (note 23)	
	amounts in thousands	
UPC Broadband Bank Facility	$ 3,927,830	
UGC Convertible Notes	655,809	
Other UGC debt	269,269	
Other subsidiary debt and capital lease obligations	139,838	54,126
Total debt	4,992,746	54,126
Current maturities	(36,827)	(12,426)
Total long-term debt	$ 4,955,919	41,700

UPC Broadband Bank Facility

The UPC Broadband Bank Facility is the senior secured credit facility of UPC Broadband Holding B.V. (UPC Broadband), formerly known as UPC Distribution Holding B.V., an indirect wholly owned subsidiary of UPC. The UPC Broadband Bank Facility, originally executed in October 2000, is secured by the assets of UPC Broadband s majority-owned operating companies, and is senior to other long-term debt obligations of UPC.

The indenture governing the UPC Broadband Bank Facility contains covenants that limit among other things, UPC Broadband s ability to merge with or into another company, acquire other companies, incur additional debt, dispose of any assets unless in the ordinary course of business, enter or guarantee a loan and enter into a hedging arrangement. The indenture also restricts UPC Broadband from transferring funds to its parent company (and indirectly to UGC) through loans, advances or dividends. If a change of control exists with respect to UGC s ownership of UGC Europe, UGC Europe s ownership of UPC Broadband or UPC Broadband s ownership of its respective subsidiaries, the facility agent may cancel each Facility and demand full payment. The covenants also provide for the following ratios (which vary depending on the period used for the calculation): (i) senior debt to annualized earnings before interest taxes and depreciation, as defined in the indenture for the UPC Broadband Bank Facility, (EBITDA) ranging from 4.00:1 to 7.75:1 (ii) EBITDA to total cash ranging from 2.00:1 to 3.00:1 (iii) EBITDA to senior debt service ranging from 0.65:1 to 2.25:1 (iv) EBITDA to senior interest ranging from 2.10:1 to 3.40:1; and (v) total debt to annualized EBITDA ranging from 5.75:1 to 7.50:1.

In January 2004, the UPC Broadband Bank Facility was amended to permit indebtedness under a new tranche (Facility D). Facility D had substantially the same terms as the then existing facilities, and consisted of five different tranches totaling 1.072 billion ($1.462 billion). The proceeds of Facility D were limited in use to fund the scheduled payments of Facility B between December 2004 and December 2006.

In June 2004, UPC Broadband amended the UPC Broadband Bank Facility to add a new Facility E term loan to replace the undrawn Facility D term loan. Proceeds from Facility E totaled 1.022 billion ($1.394 billion), which, in conjunction with cash contributed indirectly by us, was used to: (i) repay some of the indebtedness borrowed under

the other Facilities; (ii) redeem the UPC Polska senior notes due 2007; and (iii) provide funding for the Noos Acquisition.

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In December 2004, the UPC Broadband Bank Facility was amended to add a new Facility F term loan that: (i) increased the average debt maturity under the UPC Broadband Bank Facility; (ii) increased the available liquidity under the Facility; and (iii) reduced the average interest margin under the Facility. The amendment consisted of a $525,000,000 tranche and a 140,000,000 ($190,918,000) tranche, totaling 535,019,000 ($729,605,000) in gross borrowings. The proceeds from these borrowings were applied to: (i) repay 245,000,000 ($334,106,000) under Facility A (representing all then outstanding amounts); (ii) prepay 101,224,000 ($138,039,000) of Facility B that were scheduled to mature in June 2006; (iii) prepay 177,013,000 ($241,393,000) of Facility C; and (iv) pay transaction fees of 11,782,000 ($16,067,000).

The following table provides detail of the UPC Broadband Bank Facility:

		December 31, 2004		**December 31, 2003**		
Facility	**Currency**	**Euros**	**US dollars**	**Euros**	**US dollars**	**Interest rate(3)**
			amounts in thousands			
A(1)(2)	Euro		$	230,000	$ 289,946	EURIBOR + 2.25% 4.0%
B(1)	Euro	1,160,026	1,581,927	2,333,250	2,941,380	EURIBOR + 2.25% 4.0%
C1	Euro	44,338	60,464	95,000	119,760	EURIBOR + 5.5%
C2	USD		176,020		347,500	LIBOR + 5.5%
E	Euro	1,021,853	1,393,501			EURIBOR + 3.0%
F1(1)	Euro	140,000	190,918			EURIBOR + 3.25% 4.0%
F2(1)	USD		525,000			LIBOR + 3.00% 3.5%
Total		2,366,217	$ 3,927,830	2,658,250	$ 3,698,586	

(1) The interest rate margin is variable based on certain leverage ratios.

(2) Facility A is a revolving credit facility that has availability of 666,750,000 ($909,247,000) as of December 31, 2004, which can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance. Facility A provides for an annual commitment fee of 0.5% for the unused portion of this facility.

(3) As of December 31, 2004, six month EURIBOR and LIBOR rates were approximately 2.2% and 2.8%, respectively. The weighted-average interest rate on all Facilities in 2004 was approximately 6.0%.

On March 8, 2005, the UPC Broadband Bank Facility was further amended to permit indebtedness under: (i) Facility G, a new   1.0 billion term loan facility maturing in full on April 1, 2010; (ii) Facility H, a new   1.5 billion ($2.05 billion) term loan facility maturing in full on September 1, 2012, of which $1.25 billion was denominated in U.S. dollars and then swapped into euros through a 7.5 year cross-currency swap; and (iii) Facility I, a new   500 million ($682 million) revolving credit facility maturing in full on April 1, 2010. In connection with this amendment,   167 million ($228 million) of Facility A, the existing revolving credit facility, was cancelled, reducing Facility A to a maximum amount of   500 million ($682 million). The proceeds from Facilities G and H were used primarily to prepay all amounts outstanding under existing term loan Facilities B, C and E, to fund certain acquisitions and pay transaction fees. The aggregate availability of

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1.0 billion ($1.36 billion) under Facilities A and I can be used to fund acquisitions and for general corporate purposes. As a result of this amendment, the weighted average maturity of the UPC Broadband Bank Facility was extended from approximately 4 years to approximately 6 years, with no amortization payments required until 2010, and the weighted average interest margin on the UPC Broadband Bank Facility was reduced by approximately 0.25% per annum. The amendment also provided for additional flexibility on certain covenants and the funding of acquisitions.

UGC Convertible Notes

On April 6, 2004, UGC completed the offering and sale of 500 million ($604,595,000 based on the April 6, 2004 exchange rate) 1 3/4% euro-denominated convertible senior notes (the UGC Convertible Notes) due April 15, 2024. Interest is payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2004. The UGC Convertible Notes are senior unsecured obligations that rank equally in right of payment with all of UGC s existing and future senior unsubordinated and unsecured indebtedness and ranks senior in right to all of UGC s existing and future subordinated indebtedness. The UGC Convertible Notes are effectively subordinated to all existing and future indebtedness and other obligations of UGC s subsidiaries. The indenture governing the UGC Convertible Notes (the Indenture) does not contain any financial or operating covenants. The UGC Convertible Notes may be redeemed at UGC s option, in whole or in part, on or after April 20, 2011 at a redemption price in euros equal to 100% of the principal amount, together with accrued and unpaid interest. Holders of the UGC Convertible Notes have the right to tender all or part of their notes for purchase by UGC on April 15, 2011, April 15, 2014 and April 15, 2019, for a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest. If a change in control (as defined in the Indenture) has occurred, each holder of the UGC Convertible Notes may require UGC to purchase their notes, in whole or in part, at a price equal to 100% of the principal amount, plus accrued and unpaid interest. The UGC Convertible Notes are convertible into 51,250,000 shares of UGC Class A common stock at an initial conversion price of 9.7561 per share, which was equivalent to a conversion price of $12.00 per share and a conversion rate of 102.5 shares per 1,000 principal amount of the UGC Convertible Notes on the date of issue. Holders of the UGC Convertible Notes may surrender their notes for conversion prior to maturity in the following circumstances: (i) the price of UGC Class A common stock issuable upon conversion of a UGC Convertible Note reaches a specified threshold, (ii) UGC has called the UGC Convertible Notes for redemption, (iii) the trading price for the UGC Convertible Notes falls below a specified threshold or (iv) UGC makes certain distributions to holders of UGC Class A common stock or specified corporate transactions occur.

The UGC Convertible Notes represent a compound financial instrument that contains a foreign currency debt component and an equity component that is indexed to both UGC s Class A common stock and to currency exchange rates (euro to U.S. dollar). We account for the embedded equity component separately at fair value, with changes in fair value reported in our consolidated statement of operations. The fair value of the embedded equity component ($193,645,000 at December 31, 2004) and the debt host contract ($462,164,000 at December 31, 2004) are presented together in long-term debt in our consolidated balance sheet.

Other UGC Debt

VTR Bank Facility. On December 17, 2004, VTR completed the refinancing of its existing bank facility with a new Chilean peso-denominated six-year amortizing term senior secured credit facility (the VTR Bank Facility at December 17, 2004). The facility consists of two tranches a 54.7675 billion Chilean peso ($95 million at December 17, 2004) committed Tranche A and an uncommitted Tranche B. At December 31, 2004, the U.S. dollar equivalent of the amount outstanding under Tranche A of the VTR Bank Facility was $97,941,000. The VTR Bank Facility bears interest at variable rates (5.19% at December 31, 2004) that are

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subject to reduction depending on VTR s solvency rating and debt to EBITDA ratio. The VTR Bank Facility is secured by VTR s assets and the assets and capital stock of its subsidiaries, is senior to the subordinated debt owed to UGC and ranks pari passu to future senior indebtedness of VTR. The VTR Bank Facility credit agreement contains customary financial covenants and allows for the distribution by VTR of certain restricted payments, such as dividends to its shareholders, as long as no default exists under the facility and VTR maintains certain minimum levels of cash. VTR is in compliance with its loan covenants.

InvestCos Notes (Telenet). At December 31, 2004, UGC s debt included $87,821,000 related to mandatorily redeemable securities of the InvestCos, the consolidated subsidiaries of UGC that own a direct investment in Telenet. These securities are subject to mandatory redemption on March 30, 2050. Upon an initial public offering of Telenet or the occurrence of certain other events, these securities will become immediately redeemable. Given the mandatory redemption feature, UGC has classified these securities as debt and has recorded these securities at their estimated fair value at December 31, 2004 in conjunction with the preliminary purchase price allocation for the acquisition of Belgium Cable Investors and its indirect interest in Telenet. See note 6. Once the purchase price allocation is finalized, subsequent changes in fair value will be reported in earnings.

UPC Polska Notes. UPC Polska, Inc. (UPC Polska) is an indirect subsidiary of UGC. On February 18, 2004, in connection with the consummation of UPC Polska s plan of reorganization and emergence from its U.S. bankruptcy proceeding, third-party holders of UPC Polska Notes and other claimholders received a total of $87,361,000 in cash, $101,701,000 in new 9% UPC Polska Notes due 2007 and approximately 2,011,813 shares of UGC Class A common stock in exchange for the cancellation of their claims. UGC recognized a gain of $31,916,000 from the extinguishment of the UPC Polska Notes and other liabilities subject to compromise, equal to the excess of their respective carrying amounts over the fair value of consideration given. During 2004, UPC Polska incurred costs associated with its reorganization aggregating $5,951,000. Such costs are included in other income (expense), net in the accompanying consolidated statement of operations. As noted above, UGC redeemed the new 9% UPC Polska Notes due 2007 for a cash payment of $101,701,000 during the third quarter of 2004.

Other Subsidiary Debt

Liberty Cablevision Puerto Rico. On December 23, 2004, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility with a new $140 million facility consisting of a $125 million six-year term loan facility and a $15 million six-year revolving credit facility (the Liberty Cablevision Puerto Rico Facility). In connection with the closing of the Liberty Cablevision Puerto Rico Facility, (i) Liberty Cablevision Puerto Rico made a $63,500,000 cash distribution to our company and (ii) the $50,542,000 cash collateral for Liberty Cablevision Puerto Rico s previous bank facility was released to our company. At December 31, 2004, the aggregate amount outstanding under this facility was $127,500,000. The Liberty Cablevision Puerto Rico Facility bears interest at LIBOR plus a 2.25% margin (5.0% at December 31, 2004). The LIBOR margin is subject to reduction depending on Liberty Cablevision Puerto Rico s debt to EBITDA ratio, as defined by the Liberty Cablevision Puerto Rico Facility. The Liberty Cablevision Puerto Rico Facility is secured by a pledge of the capital stock of Liberty Cablevision Puerto Rico and by Liberty Cablevision Puerto Rico s assets, including the capital stock of its subsidiaries. The Liberty Cablevision Puerto Rico Facility contains customary financial covenants.

Pramer. At December 31, 2004, Pramer s U.S. dollar denominated bank borrowings aggregated $12,338,000. During 2002, following the devaluation of the Argentine peso, Pramer failed to make certain required payments due under its bank credit facility, resulting in a technical default. However, the bank lenders did not provide notice of default or request acceleration of the payments due under the facility. On

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December 29, 2004, Pramer and the banks signed definitive documents for the refinancing of this credit facility (the New Pramer Facility) and the closing occurred on January 28, 2005. At closing, Pramer made an approximate $1.8 million payment to the banks. The remaining outstanding principal of $10.5 million amortizes over the next 4 years. The New Pramer Facility is denominated in U.S. dollars and bears interest at LIBOR plus a 3.5% margin during 2005 (6.1% at January 28, 2005). The LIBOR margin is subject to annual increases of 0.5% per year. The New Pramer Facility credit agreement contains customary financial covenants.

General

Our debt maturities for the next five years and thereafter are as follows (amounts in thousands):

2005	$ 36,827
2006	571,464
2007	745,004
2008	588,484
2009	1,533,182
Thereafter	1,543,826
Total debt maturities	5,018,787
Unamortized discount on UGC Convertible Notes, net of fair value of embedded equity derivative (as restated note 23)	(26,041)
Total debt (as restated note 23)	$ 4,992,746

We believe that the fair value and the carrying value of our debt were approximately equal at December 31, 2004.

(11) Income Taxes

Prior to the Spin Off Date, LMC International and its 80%-or-more-owned domestic subsidiaries (the LMC International Tax Group) are included in the consolidated federal and state income tax returns of Liberty. LMC International s income taxes included those items in the consolidated income tax calculation applicable to the LMC International Tax Group (intercompany tax allocation) and any taxes on income of LMC International s consolidated foreign or domestic subsidiaries that are excluded from the consolidated federal and state income tax returns of Liberty. The intercompany tax amounts owed to Liberty as a result of these allocations were contributed to our equity in connection with the spin off.

In connection with the spin off, LMI (together with its 80%-or-more-owned domestic subsidiaries, the LMI Tax Group), (i) became a separate tax paying entity, and (ii) entered into a Tax Sharing Agreement with Liberty. Under the Tax Sharing Agreement, Liberty is responsible for U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes the LMI Tax Group, on the one hand, and Liberty or one of its subsidiaries on the other hand, subject to certain limited exceptions. We are responsible for all other taxes that are attributable to the LMI Tax Group, whether accruing before, on or after the spin off. The Tax Sharing Agreement requires that we will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction. Moreover, we will indemnify Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the spin off from qualifying as a tax-free transaction.

As a result of the LMI Tax Group becoming a separate tax paying entity in connection with the spin off, we re-evaluated the estimated blended state tax rate used to compute certain of our deferred tax balances, and

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concluded that our estimate of this blended state tax rate should be reduced. As a result, we recorded a $22,938,000 deferred tax benefit during the third quarter of 2004 to reflect the impact of the reduced rate on our net deferred tax liabilities.

Income tax benefit (expense) consists of:

	Current	Deferred	Total
		amounts in thousands	
Year ended December 31, 2004:			
Federal	$ (51,851)	75,974	24,123
State and local	(4,554)	13,694	9,140
Foreign	(10,295)	(5,519)	(15,814)
	$ (66,700)	84,149	17,449
Year ended December 31, 2003:			
Federal	$ 14,774	(28,630)	(13,856)
State and local		(5,589)	(5,589)
Foreign	(471)	(8,059)	(8,530)
	$ 14,303	(42,278)	(27,975)
Year ended December 31, 2002:			
Federal	$ (3,988)	140,533	136,545
State and local		26,527	26,527
Foreign	503	2,546	3,049
	$ (3,485)	169,606	166,121

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Income tax benefit (expense) attributable to our company s pre-tax loss or earnings differs from the amounts computed by applying the U.S. federal income tax rate of 35%, as a result of the following:

	Year ended December 31,		
	2004	2003	2002
	as restated (note 23)		
	amounts in thousands		
Computed expected tax benefit (expense)	$ 70,995	(17,111)	173,593
State and local income taxes, net of federal income taxes	(774)	(4,315)	15,472
Foreign taxes	(308)	(7,922)	1,841
Enacted tax law changes, case law and rate changes	(149,294)		
Gain on extinguishment of debt	107,863		
Losses on sale of investments, affiliates and other assets	78,693		
Non-deductible interest and other expenses	(74,966)		(16,153)
Non-deductible or taxable foreign currency exchange results	(27,702)		
Income recognized for tax purposes, but not for financial reporting purposes	(25,820)		(2,679)
Change in valuation allowance	(22,131)		
Change in estimated blended state tax rate	22,938		
Non-taxable investment income	20,481		
Financial instruments	6,711		
International rate differences	6,511		
Other, net	4,252	1,373	(5,953)
	$ 17,449	(27,975)	166,121

The current and non-current components of our deferred tax assets (liabilities) are as follows:

	December 31,	
	2004	2003
	amounts in thousands	
Current deferred tax assets	$ 38,355	9,697
Non-current deferred tax assets	77,313	583,945
Non-current deferred tax liabilities	(458,138)	(135,811)
Deferred tax assets (liabilities), net	$ (342,470)	457,831

Our deferred income tax valuation allowance increased $2,281,253,000 in 2004, including a $22,131,000 charge to tax expense, with the remaining net increase resulting from the January 1, 2004 consolidation of UGC, acquisitions, foreign currency translation adjustments and other items. Approximately $546 million of the valuation allowance recorded as of December 31, 2004 was attributable to deferred tax assets for which any subsequently recognized tax benefits will be allocated to reduce goodwill related to various business combinations.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

	December 31,	
	2004	**2003**
	amounts in thousands	
Deferred tax assets:		
Investments	$ 66,862	499,214
Net operating loss carryforwards	1,770,957	7,263
Property and equipment, net	556,507	
Intangible assets, net	44,303	
Deferred compensation and severance	41,686	7,315
Other future deductible amounts	100,596	8,508
Deferred tax assets	2,580,911	522,300
Valuation allowance	(2,281,253)	
Deferred tax assets, net of valuation allowance	299,658	522,300
Deferred tax liabilities:		
Investments	(344,871)	
Property and equipment	(53,124)	(14,749)
Intangible assets	(127,712)	(19,038)
Unrealized gains on investments	(25,287)	
Other future taxable amounts	(91,134)	(30,682)
Deferred tax liabilities	(642,128)	(64,469)
Net deferred tax asset (liability)	$ (342,470)	457,831

The significant components of our tax loss carryforwards and related tax assets are as follows (amounts in thousands):

Country	Tax loss carryforward	Related tax asset	Expiration date
France	$ 2,425,612	835,138	Indefinite
The Netherlands	1,910,476	574,542	Indefinite
Ireland	293,686	36,711	Indefinite
Austria	249,025	62,257	Indefinite
Luxembourg	243,936	74,108	Indefinite
Chile	241,232	41,009	Indefinite
Norway	117,856	33,000	2007-2012

Poland	69,901	13,281	2005-2008
United States	23,193	8,118	2021-2024
Other	401,906	92,793	Various
Total	$ 5,976,823	1,770,957	

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Our tax loss carryforwards in The Netherlands are associated with various different tax groups, which are limited in their ability to offset taxable income of other Dutch tax groups. We intend to indefinitely reinvest earnings from certain foreign operations except to the extent the earnings are subject to current U.S. income taxes. Accordingly, U.S. and non-U.S. income and withholding taxes for which a deferred tax might otherwise be required have not been provided on a cumulative amount of temporary differences (including, for this purpose, any difference between the tax basis in stock of a consolidated subsidiary and the amount of the subsidiary s net equity determined for financial reporting purposes) related to investments in foreign subsidiaries are estimated to be approximately $2.7 billion at December 31, 2004. The determination of the additional U.S. and non-U.S. income and withholding tax that would arise upon a reversal of the temporary differences is subject to offset by available foreign tax credits, subject to certain limitations, and it is impractical to estimate the amount of income and withholding tax that might be payable.

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be controlled foreign corporations (CFC) under U.S. tax law. In general, our pro rata share of certain income earned by these subsidiaries that are CFCs during a taxable year when such subsidiaries have positive current or accumulated earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred to as Subpart F income, generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income.

In addition, a U.S. corporation that is a shareholder in a CFC may be required to include in its income its pro rata share of the CFC s increase in the average adjusted tax basis of any investment in U.S. property held by a wholly or majority owned CFC to the extent that the CFC has positive current or accumulated earnings and profits. This is the case even though the U.S. corporation may not have received any actual cash distributions from the CFC. Although we intend to take reasonable tax planning measures to limit our tax exposure, there can be no assurance we will be able to do so.

In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend.

Our ability to claim a foreign tax credit for dividends received from our foreign subsidiaries or foreign taxes paid or accrued is subject to various significant limitations under U.S. tax laws including a limited carry back and carry forward period. Some of our operating companies are located in countries with which the United States does not have income tax treaties. Because we lack treaty protection in these countries, we may be subject to high rates of withholding taxes on distributions and other payments from these operating companies and may be subject to double taxation on our income. Limitations on the ability to claim a foreign tax credit, lack of treaty protection in some countries, and the inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal tax rate on our earnings. Since substantially all of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the U.S., these risks are proportionately greater for us than for companies that generate most of their revenue in the U.S. or in jurisdictions that have these treaties.

We, through our subsidiaries, maintain a presence in many foreign countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the United States. We have accounted for the effect of foreign taxes based on what we believe is reasonably expected to apply to us and our subsidiaries based on tax laws currently in effect and/or reasonable interpretations of these laws. Because some foreign jurisdictions do not have systems of taxation that are as well established as the system of income taxation used in the United States or tax regimes used in other major industrialized countries, it may

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be difficult to anticipate how foreign jurisdictions will tax our and our subsidiaries current and future operations.

(12) Stockholders Equity

Capitalization

Our authorized capital stock consists of (i) 1,050,000,000 shares of common stock, par value $.01 per share, of which 500,000,000 shares are designated LMI Series A Common Stock 50,000,000 shares are designated LMI Series B Common Stock and 500,000,000 shares are designated LMI Series C Common Stock and (ii) 50,000,000 shares of LMI preferred stock, par value $.01 per share. LMI s restated certificate of incorporation authorizes the board of directors to authorize the issuance of one or more series of preferred stock.

Under LMI s restated certificate of incorporation, holders of LMI Series A common stock are entitled to one vote for each share of such stock held, and holders of LMI Series B common stock are entitled to ten votes for each share of such stock held, on all matters submitted to a vote of LMI stockholders at any annual or special meeting. Holders of LMI Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders of LMI Series C common stock are entitled to 1/100th of a vote per share).

Each share of LMI Series A common stock is convertible into one share of LMI Series B common stock. At December 31, 2004, there were 1,701,538 shares of LMI Series A common stock and 3,066,716 shares of LMI Series B common stock reserved for issuance pursuant to outstanding stock options. In addition to these amounts, one share of LMI Series A common stock is reserved for issuance for each share of LMI Series B common stock that is either issued (7,264,300 shares) or subject to future issuance pursuant to outstanding stock options (3,066,716 shares).

Subject to any preferential rights of any outstanding series of our preferred stock, the holder of LMI Series A, LMI Series B and LMI Series C common stock will be entitled to such dividends as may be declared from time to time by our board from funds available therefor. Except with respect to certain share distributions, whenever a dividend is paid to the holder of one of our series of common stock, we shall also pay to the holders of the other series of our common stock an equal per share dividend. Pursuant to the Liberty Global merger agreement, neither we nor UGC may pay any cash dividends on our respective common stocks until the mergers contemplated thereby are completed or the merger agreement is terminated. Except for the foregoing, there are currently no restrictions on our ability to pay dividends in cash or stock.

In the event of our liquidation, dissolution and winding up, after payment or provision for payment of our debts and liabilities and subject to the prior payment in full of any preferential amounts to which our preferred stockholders may be entitled, the holders of LMI Series A, LMI Series B and LMI Series C common stock will share equally, on a share for share basis, in our assets remaining for distribution to the holders of LMI common stock.

Treasury Stock

On December 7, 2004, we purchased 3,000,000 shares of LMI Series A common stock from Comcast Corporation in a private transaction for a cash purchase price of $127,890,000.

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Spin Off and LMI Rights Offering

For information concerning the spin off transaction and the subsequent LMI Rights Offering, see note 2.

Issuance of Shares by Subsidiaries

During 2004, we recorded an aggregate increase to additional paid-in capital of $11,126, 000 as a result of the dilution of our ownership interest in UGC.

In addition, UGC recorded a loss of approximately 9,679,000 ($11,776,000) associated with the dilution of its ownership interest in UPC Broadband France as a result of the Noos transaction. Our $6,102,000 share of this loss is reflected as a reduction of additional paid-in capital in our consolidated statement of stockholders equity.

Restricted Net Assets

At December 31, 2004, approximately $1.8 billion of our net assets represented net assets of certain of our subsidiaries that were not available to be transferred to our company in the form of dividends, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

(13) Stock Incentive Awards

LMI

Stock Incentive Plans

As discussed in more detail in note 2, certain terms of the then outstanding LMI stock options were modified in connection with the LMI Rights Offering. All references herein to the number of outstanding LMI stock options and the related exercise prices reflect these modified terms.

As a result of the spin off and related adjustments to Liberty s stock incentive awards, options to acquire an aggregate of 1,595,709 shares of LMI Series A common stock and 1,498,154 shares of LMI Series B common stock were issued to our and Liberty s employees at exercise prices of $33.92 and $37.88, respectively, pursuant to the LMI Transitional Stock Adjustment Plan (the Transitional Plan). Such options have remaining terms and vesting provisions equivalent to those of the respective Liberty stock incentive awards that were adjusted. At the spin off date, such options to purchase shares of LMI Series A common stock had a remaining weighted average term of 7.03 years and a remaining weighted average vesting period of 1.76 years. Options to purchase shares of LMI Series B common stock had a remaining weighted average term of 6.73 years and a remaining weighted average vesting period of 1.73 years.

Subsequent to the spin off, options to acquire an aggregate of 438,054 shares of LMI Series A common stock were issued to our employees pursuant to the Liberty Media International, Inc. 2004 Incentive Plan (LMI 2004 Incentive Plan) at a weighted average exercise price of $33.45 per share. In addition, 22,152 shares of LMI Series A common stock were issued to our non-employee directors pursuant to the Liberty Media International, Inc. 2004 Non-employee Director Incentive Plan (LMI 2004 Directors Incentive Plan) at a weighted average exercise price of $33.95 per share. The employee stock options will vest at the rate of 20% per year on each anniversary of the grant date. The non-employee director stock options will vest on the first anniversary of the grant date. All stock options granted in 2004 expire ten years after the grant date.

In 2004, LMI entered into an option agreement with John C. Malone, LMI s Chairman of the Board, Chief Executive Officer and President, pursuant to which LMI granted to Mr. Malone, under the LMI 2004 Incentive Plan, options to acquire 1,568,562 shares of LMI Series B common stock at an exercise price per

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share of $36.75. The options are fully exercisable; however, Mr. Malone s rights with respect to the options and any shares issued upon exercise will vest at the rate of 20% per year on each anniversary of the Spin Off Date, provided that Mr. Malone continues to have a qualifying relationship (whether as a director, officer, employee or consultant) with LMI or any successor to LMI. (Liberty Global would be the successor to LMI under the option agreement.) If Mr. Malone ceases to have such a qualifying relationship (subject to certain exceptions for his death or disability or termination without cause), his unvested options will be terminated and/or LMI will have the right to require Mr. Malone to sell to LMI, at the exercise price of the options, any shares of LMI Series B common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with LMI.

The LMI 2004 Incentive Plan is administered by the compensation committee of our board of directors. The compensation committee of our board has full power and authority to grant eligible persons the awards described below and determine the terms and conditions under which any awards are made. The incentive plan is designed to provide additional remuneration to certain employees and independent contractors for exceptional service and to encourage their investment in our company. The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards).

The maximum number of shares of LMI common stock with respect to which awards may be issued under the incentive plan is 20 million, subject to anti-dilution and other adjustment provisions of the LMI 2004 Incentive Plan. With limited exceptions, no person may be granted in any calendar year awards covering more than 2 million shares of our common stock. In addition, no person may receive payment for cash awards during any calendar year in excess of $10 million. Shares of our common stock issuable pursuant to awards made under the incentive plan are made available from either authorized but unissued shares or shares that have been issued but reacquired by our company.

The LMI 2004 Directors Incentive Plan is designed to provide a method whereby non-employee directors may be awarded additional remuneration for the services they render on our board and committees of our board, and to encourage their investment in capital stock of our company. The LMI 2004 Directors Incentive Plan is administered by our full board of directors. Our board has the full power and authority to grant eligible non-employee directors the awards described below and determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to our employees.

Our board may grant non-qualified stock options, stock appreciation rights, restricted shares, stock units or any combination of the foregoing under the director plan (collectively, awards). Only non-employee members of our board of directors are eligible to receive awards under the LMI 2004 Directors Incentive Plan. The maximum number of shares of our common stock with respect to which awards may be issued under the director plan is 5 million, subject to anti-dilution and other adjustment provisions of the LMI 2004 Directors Incentive Plan. Shares of our common stock issuable pursuant to awards made under the LMI 2004 Directors Incentive Plan will be made available from either authorized but unissued shares or shares that have been issued but reacquired by our company.

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A summary of stock option activity in 2004 is as follows:

	LMI 2004 Incentive Plan		LMI 2004 Directors Incentive Plan		Transitional Plan		Total	
LMI Series A common stock:	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
Outstanding at January 1, 2004		NA		NA		NA		NA
Issued in connection with the spin-off and related adjustments to Liberty s stock incentive awards		NA		NA	1,595,709	$ 33.92	1,595,709	$ 33.92
Granted	438,054	$ 33.45	22,152	$ 33.95		NA	460,206	$ 33.47
Canceled		NA		NA	(892)	$ 33.92	(892)	$ 33.92
Exercised		NA		NA	(353,485)	$ 33.92	(353,485)	$ 33.92
Outstanding at December 31, 2004	438,054	$ 33.45	22,152	$ 33.95	1,241,332	$ 33.92	1,701,538	$ 33.82
Exercisable at December 31, 2004		NA		NA	794,245	$ 33.92	794,245	$ 33.92

	LMI 2004 Incentive Plan		Transitional Plan		Total	
LMI Series B common stock:	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
Outstanding at January 1, 2004		NA		NA		NA
Issued in connection with the spin-off and related adjustments to Liberty s stock incentive awards		NA	1,498,154	$ 37.88	1,498,154	$ 37.88
Granted	1,568,562	$ 36.75		NA	1,568,562	$ 36.75
Canceled		NA		NA		NA
Exercised		NA		NA		NA
Outstanding at December 31, 2004	1,568,562	$ 36.75	1,498,154	$ 37.88	3,066,716	$ 37.30

Exercisable at December 31, 2004	1,568,562(1)	$ 36.75	973,800	$ 37.88	2,542,362	$ 37.18

(1) Amount represents Mr. Malone s options that are fully exercisable, but not vested as of December 31, 2004. The options or shares issued upon exercise vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone meets certain conditions regarding his relationship with LMI. See discussion above.

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The following table summarizes information about our stock options outstanding and exercisable at December 31, 2004:

	Options outstanding			Options exercisable	
Exercise price range	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
LMI Series A common stock					
$33.41	453,206	9.47	$ 33.41		$ 33.41
$33.92	1,241,332	6.60	$ 33.92	794,245	$ 33.92
$37.42	7,000	9.86	$ 37.42		$ 37.42
	1,701,538	7.38	$ 33.82	794,245	$ 33.92
LMI Series B common stock					
$36.75	1,568,562	9.47	$ 36.75	1,568,562(1)	$ 36.75
$37.88	1,498,154	6.16	$ 37.88	973,800	$ 37.88
	3,066,716	7.86	$ 37.30	2,542,362	$ 37.18

(1) Amount represents Mr. Malone s options that are fully exercisable, but not vested as of December 31, 2004. The options or shares issued upon exercise vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone meets certain conditions regarding his relationship with LMI. See discussion above.

The fair value of options granted pursuant to the LMI 2004 Incentive Plan and the LMI 2004 Directors Incentive Plan in 2004 has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

Risk-free interest rate	4.09%
Expected lives	6 years
Expected volatility	25%
Expected dividend yield	0%

Based on the above assumptions, the total fair value of options granted under the LMI 2004 Incentive Plan and the LMI 2004 Directors Incentive Plan during 2004 was $24,872,000. The weighted average fair value per share of LMI

Series A and B options granted in 2004 was $11.39 and $12.51, respectively. All such options exercise prices were equal to their market prices at the date of grant, except for the exercise price for 1,568,562 LMI Series B options granted in June 2004. The exercise price for these options was equal to 110% of the market price of the LMI Series A common stock on June 22, 2004 ($39.10 before considering the impact of the LMI Rights Offering), the date that definitive terms were established for such options. The closing market price of the LMI Series B common stock on that date was $40.05 (before considering the impact of the LMI Rights Offering).

Junior Stock Plan

In April 2000, four individuals, including two of our executive officers and one of our directors, purchased a 20% common stock interest in Liberty Jupiter, Inc., which owned an approximate 5.4% interest in J-COM at December 31, 2004. The individuals paid a total purchase price of $800,000 for the 20% common stock

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interest. We, one of our subsidiaries and these individuals are parties to an amended and restated shareholders agreement under which the individuals can require us to purchase, after five years from the date of purchase, all or part of their common stock interest in exchange for LMI Series A common stock at its then-fair market value. The shareholders agreement also provides that, if an individual terminates his or her employment or consulting arrangement with us or with LMC within five years from the date of purchase, we have the right to purchase from that individual certain non-vested shares (currently equal to 25% of the common shares originally purchased by him or her) at the original purchase price plus 6% per year. In addition, we have the right at any time to purchase, in exchange for LMI Series A common stock, the common stock interests of the individuals at fair market value. Compensation charges (credits) with respect to the interests held by the aforementioned executive officers and directors were $6,318,000, $1,164,000 and $(113,000) in 2004, 2003 and 2002, respectively.

UGC

UGC Equity Incentive Plan

In August 2003 UGC s board of directors (the UGC Board) adopted an equity incentive plan (the UGC Incentive Plan). UGC s stockholders approved the UGC Incentive Plan, which was effective as of September 1, 2003 and will terminate on August 31, 2013. The UGC Incentive Plan permits the grant of stock options, restricted stock awards, SARs, stock bonuses, stock units, and other grants of stock (collectively, the UGC Awards) covering up to 59,000,000 shares, as amended, of UGC Class A or Class B common stock. The number of shares increases on January 1 of each calendar year (beginning with calendar year 2004) during the duration of the UGC Incentive Plan by 1% of the aggregate number of shares of UGC Class A and Class B common stock outstanding on December 31 of the immediately preceding calendar year. No more than 5,000,000 shares of UGC Class A and Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the UGC Incentive Plan as UGC Class B common stock. Employees, consultants, and other non-employee directors of UGC and affiliated entities designated by the UGC Board may receive UGC Awards under the UGC Incentive Plan, provided, however, that incentive stock options may not be granted to consultants or non-employee directors.

The UGC Incentive Plan is generally administered by the compensation committee of the UGC Board, which has the discretion to determine the employees and consultants to whom the UGC Awards are granted, the number and type of shares subject to the UGC Awards, the exercise price of the UGC Awards (which may be at, below, or above the fair market value of UGC Class A or Class B common stock on the date of grant), the period over which the UGC Awards vest, the term of the UGC Awards, and certain other provisions relating to the UGC Awards. The compensation committee of the UGC Board may, under certain circumstances, delegate to officers of UGC the authority to grant UGC Awards to specified groups of employees and consultants. The UGC Board has the sole authority to grant UGC Awards under the UGC Incentive Plan to non-employee directors.

As a result of the dilution caused by UGC s subscription rights offering in February 2004, the exercise or base prices of all awards outstanding pursuant to the UGC Incentive Plan were reduced by $0.87.

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A summary of activity for the UGC Incentive Plan options, restricted stock and SARs for the year ended December 31, 2004 is as follows:

	Options(1)		Restricted stock(1)		SARs(1)	
	Number of stock options	Weighted average exercise price	Number of restricted stock awards	Weighted average stock price	Number of SARs	Weighted average base price
Outstanding at January 1		$		$	32,087,270	$ 3.82
Granted	4,780,000	$ 7.72	224,587	$ 8.24	5,062,138	$ 7.31
Canceled	(80,000)	$ 7.48		$	(1,851,904)	$ 4.39
Exercised		$		$	(5,215,510)	$ 3.66
Outstanding at December 31	4,700,000	$ 7.72	224,587	$ 8.24	30,081,994	$ 4.43
Exercisable at December 31		$		$	1,972,906	$ 4.39

(1) These UGC options and restricted stock awards vest over 5 years, with quarterly vesting beginning six months from date of grant. The UGC SARs that were outstanding at January 1, 2004 vest in 5 equal annual increments from the date of grant. The UGC SARs granted in 2004 vest over 5 years, with quarterly vesting beginning six months from the date of grant.

The following table summarizes information about UGC options and restricted stock granted under the UGC Incentive Plan during the year ended December 31, 2004:

	Options			Restricted stock		
Exercise/Stock price	Number	Fair value	Exercise price	Number	Fair value	Exercise price
Less than market price		$	$		$	$
Equal to market price	4,780,000	$ 6.19	$ 7.72	224,587	$ 8.24	$ 8.24
Greater than market price		$	$		$	$
Total	4,780,000	$ 6.19	$ 7.72	224,587	$ 8.24	$ 8.24

The weighted-average fair value and weighted-average base price of SARs granted under the UGC Incentive Plan in 2004 are as follows:

Base price	Number	Fair value	Base price
Less than market price(1)	154,500	$ 4.57	$ 2.87
Equal to market price	154,500	$ 8.31	$ 4.57
Equal to market price	4,753,138	$ 6.02	$ 7.55
Greater than market price		$	$
Total	5,062,138	$ 6.17	$ 7.31

(1) UGC originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will only receive the difference between $2.87 and the lesser of $4.57 or the market price of UGC Class A common stock on the date of exercise.

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The following summarizes information about UGC s options, SARs and restricted stock outstanding and exercisable as of December 31, 2004:

	Options outstanding			Options exercisable	
Exercise price range	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
$7.48	3,215,000	9.84	$ 7.48		$
$8.24	1,485,000	9.90	$ 8.24		$
Total	4,700,000	9.86	$ 7.72		$

	SARs outstanding			SARs exercisable	
Base price range	Number	Weighted average remaining contractual life (years)	Weighted average base price	Number	Weighted average base price
$2.87	11,523,022	8.49	$ 2.87	507,378	$ 2.87
$4.57	12,084,784	8.37	$ 4.57	1,069,140	$ 4.57
$5.26-$6.33	1,981,050	8.86	$ 5.38	268,250	$ 5.26
$7.10-$8.24	4,493,138	9.83	$ 7.63	128,138	$ 7.10
Total	30,081,994	8.67	$ 4.43	1,972,906	$ 4.39

	Restricted stock outstanding		
Base price range	Number	Weighted average remaining contractual	Weighted average stock price

		life (years)	
$8.24	224,587	4.95	$ 8.24

A total of 11,523,022 SARs outstanding as of December 31, 2004 represent capped SARs, where the holder will only receive the difference between $2.87 and the lesser of $4.57 or the market price of UGC Class A common stock on the date of exercise.

Fair Value of Grants in 2004. The fair value of options granted pursuant to the UGC Incentive Plan in 2004 has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

Risk-free interest rate	3.61%
Expected lives	6 years
Expected volatility	100%
Expected dividend yield	0%

Based on the above assumptions, the total fair value of options granted under the UGC Incentive Plan was $29,580,000 in 2004.

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UGC Stock Option Plans

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by UGC on January 30, 2002 (the UGC Employee Plan). The UGC Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of UGC Class A common stock, of which options for up to 3,000,000 shares of UGC Class B common stock were available to be granted in lieu of options for shares of UGC Class A common stock. The UGC Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the UGC Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the UGC Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. The UGC Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made. All options outstanding on January 5, 2004 pursuant to the UGC Employee Plan became fully vested as a result of the change of control due to the UGC Founders Transaction. As of December 31, 2004, 9,881,029 and 3,000,000 shares of UGC Class A common stock and UGC Class B common stock, respectively, were outstanding and exercisable pursuant to the UGC Employee Plan.

Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by UGC on January 30, 2002 (the UGC 1993 Director Plan). The UGC 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of UGC Class A common stock to each member of the UGC Board of Directors who was not also an employee of UGC (a UGC non-employee director) on June 1, 1993, and to each person who is newly elected to the UGC Board of Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by UGC on January 30, 2002 (the UGC 1998 Director Plan, and together with the UGC 1993 Director Plan, the UGC Director Plans). Options under the UGC 1998 Director Plan were granted at the discretion of UGC s Board of Directors. The maximum term of options granted under the UGC Director Plans was ten years. Effective March 14, 2003, the UGC Board of Directors terminated the UGC 1993 Director Plan. Options outstanding prior to the date of termination shall continue to be recognized, but no new grants of options will be made.

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A summary of stock option activity for the UGC Employee Plan and the UGC Director Plans in 2004 is as follows:

	UGC Employee Plan		UGC Director Plans	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at January 1	13,745,692	$ 7.49	920,000	$ 10.66
Granted		$	200,000	$ 5.94
Canceled	(247,586)	$ 14.63	(130,000)	$ 47.75
Exercised	(617,077)	$ 4.94	(260,000)	$ 3.94
Outstanding at December 31	12,881,029	$ 7.52	730,000	$ 5.11
Exercisable at December 31	12,881,029	$ 7.52	492,498	$ 5.01

The combined weighted-average fair value and weighted-average exercise price of options granted under the UGC Employee Plan and the UGC Director Plans in 2004 are as follows:

Exercise price	Number	Fair value	Exercise price
Less than market price	200,000	$ 7.22	$ 5.94
Equal to market price		$	$
Greater than market price		$	$
Total	200,000	$ 7.22	$ 5.94

The following table summarizes information about the UGC Employee Plan and the UGC Director Plans stock options outstanding and exercisable as of December 31, 2004:

	Options outstanding			Options exercisable	
Exercise price range	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
$3.29-$3.88	258,282	4.68	$ 3.44	258,282	$ 3.44

$4.13	10,426,709	6.71	$	4.13	10,266,291	$	4.13
$4.25-$67.51	2,914,038	4.41	$	19.08	2,836,954	$	19.39
$85.63	12,000	5.23	$	85.63	12,000	$	85.63
Total	13,611,029	6.17	$	7.39	13,373,527	$	7.43

UPC Stock Option Plan. UPC adopted a stock option plan on June 13, 1996, as amended (the UPC Plan), for certain of its employees and those of its subsidiaries. As a result of UPC s reorganization under Chapter 11 of the U.S. Bankruptcy Code, the UPC Plan was cancelled.

(14) Related Party Transactions

During the 2004 period prior to the spin off, a subsidiary of our company borrowed $116,666,000 from Liberty pursuant to certain notes payable. Interest expense accrued on the amounts borrowed pursuant to such notes payable was $1,534,000 in 2004. In connection with the spin off, Liberty also entered into a Short-Term Credit

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Facility with our company. Pursuant to the Short-Term Credit Facility, Liberty had agreed to make loans to us from time to time up to an aggregate principal amount of $383,334,000. Amounts borrowed under the Short-Term Credit Facility and the notes payable accrued interest at 6% per annum, compounded semi-annually, and were due and payable no later than March 31, 2005. During 2004, all amounts due to Liberty under the notes payable were repaid with proceeds from the LMI Rights Offering and the Short-Term Credit Facility was terminated.

For periods prior to the spin off, corporate expenses were allocated from Liberty to us based upon the cost of general and administrative services provided. We believe such allocations were reasonable and materially approximate the amount that we would have incurred on a stand-alone basis. Amounts allocated to us prior to the spin off pursuant to these arrangements aggregated $10,833,000, $10,873,000 and $10,794,000 in 2004, 2003 and 2002, respectively. The 2004 amount includes costs associated with the spin off aggregating $2,952,000. Pursuant to the Reorganization Agreement, we and Liberty each agreed to pay 50% of such spin off costs. Excluding our share of such spin off costs, the intercompany amounts owed to Liberty as a result of these allocations were contributed to our equity in connection with the spin off. The amounts allocated by Liberty are included in SG&A expenses in the accompanying consolidated statements of operations.

In connection with the spin off, we and Liberty entered into a Facilities and Services Agreement that sets forth the terms that apply to services and other benefits provided by Liberty to us following the spin off. Pursuant to the Facilities and Services Agreement, Liberty provides us with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. We reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for our allocable portion of facilities costs and costs associated with any shared services or personnel. Amounts charged to us pursuant to this agreement aggregated $1,324,000 for the period from the Spin Off Date through December 31, 2004 and are included in SG&A expenses in the accompanying consolidated statements of operations.

Prior to the spin off, Liberty transferred to our company a 25% ownership interest in two of Liberty s aircraft. In connection with the transfer, we and Liberty entered into certain agreements pursuant to which, among other things, we and Liberty share the costs of Liberty s flight department and the costs of maintaining and operating the jointly owned aircraft. Costs are allocated based upon either our actual usage or our ownership interest, depending on the type of costs. Amounts charged to us pursuant to these agreements aggregated $230,000 for the period from the Spin Off Date through December 31, 2004 and are included in SG&A expenses in the accompanying consolidated statements of operations.

Other agreements between our company and Liberty that were entered into in connection with the spin off our described in note 2 (the Reorganization Agreement) and note 11 (the Tax Sharing Agreement).

At December 31, 2004, John C. Malone beneficially owned shares of Liberty common stock representing approximately 29.7% of Liberty s voting power and beneficially owned shares of LMI common stock which may represent up to approximately 33.2% of the voting power in our company, assuming the exercise in full of certain options to acquire shares of LMI Series B common stock granted to Mr. Malone at the time of the spin off. In addition, six of our eight directors are also directors of Liberty. By virtue of Mr. Malone s voting power in Liberty and our company, as well as his position as Chairman of the Board of Liberty and positions as Chairman of the Board, President and Chief Executive Officer of our company, and the aforementioned common directors, Liberty may be deemed an affiliate of our company.

Certain key employees of our company hold stock options and options with tandem SARs with respect to certain common stock of Liberty. For additional information, see note 3.

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In the normal course of business, Pramer provides programming and uplink services to equity method affiliates of LMI. Total revenue for such services from the LMI affiliates aggregated $195,000, $862,000 and $569,000 in 2004, 2003 and 2002, respectively.

In the normal course of business, Liberty Cablevision Puerto Rico purchases programming services from subsidiaries of Liberty. In 2004, 2003 and 2002, the charges for such services aggregated $2,053,000, $1,867,000 and $632,000, respectively.

In 2004, 2003 and 2002, we recognized income from guarantee fees charged to J-COM aggregating $641,000, $244,000 and $3,420,000, respectively. See note 19.

During 2004, 2003 and 2002, we recognized interest income from equity method affiliates (including J-COM in all periods and UGC in 2003 and 2002) and other related parties aggregating $11,166,000, $18,180,000 and $17,864,000, respectively. See note 6.

UGC s 2004 related party revenue was $7,982,000, which consisted primarily of management, advisory and license fees, call center charges and uplink services. UGC s 2004 related party operating expenses were $15,325,000, which consisted primarily of programming costs and interconnect fees.

In addition, in 2002 we recognized $1,891,000 of aggregate interest expense on indebtedness owed to UGC and its subsidiaries.

(15) Transactions with Officers and Directors

VLG Acquisition Corp.

Prior to March 2, 2005, Liberty owned a 78.2% economic and non-voting interest in VLG Argentina LLC (VLG Argentina), an entity that owns a 50% interest in Cablevisión. VLG Acquisition Corp. (VLG Acquisition), an entity in which neither Liberty nor our company has any ownership interests, owned the remaining 21.8% economic interest and all of the voting power in VLG Argentina LLC. An executive officer and an officer of our company were shareholders of VLG Acquisition. Prior to joining our company, they sold their equity interests in VLG Acquisition to the remaining shareholder, but each retained a contractual right to 33% of any proceeds in excess of $100,000 from the sale of VLG Acquisition Corp. s interest in VLG Argentina, or from distributions to VLG Acquisition Corp. by VLG Argentina in connection with a sale of VLG Argentina s interest in Cablevisión. Although we have no direct or indirect equity interest in Cablevisión, we had the right and obligation pursuant to Cablevisión s debt restructuring agreement to contribute $27,500,000 to Cablevisión in exchange for newly issued Cablevisión shares representing approximately 40.0% of Cablevisión s fully diluted equity (the Subscription Right).

On November 2, 2004, Liberty, VLG Acquisition, VLG Argentina, a subsidiary of our company and the then sole shareholder of VLG Acquisition entered into an agreement with a third party to transfer all of the equity in VLG Argentina and all of our rights and obligations with respect to the Subscription Right to the third party for aggregate consideration of $65 million. This agreement provided that $40,527,000 of such proceeds would be allocated to our company for the Subscription Right. We received 50% of such proceeds as a down payment in November 2004 and we received the remainder in March 2005. We will recognize a gain of $40,527,000 during the first quarter of 2005 in connection with the closing of this transaction.

As a result of the foregoing transactions, the executive officer and officer of our company who retained the above-described contractual rights with respect to VLG Acquisition received aggregate cash distributions of $7.3 million in respect of such rights during the fourth quarter of 2004 and the first quarter of 2005.

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(16) Reorganization of Old UGC

Old UGC is a wholly owned subsidiary of UGC that owns VTR and an approximate 34% interest in Austar United Communications Ltd. Certain information concerning the consolidated operating performance and total assets of VTR are set forth in note 20.

On January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. On September 21, 2004, UGC and Old UGC filed with the Bankruptcy Court a plan of reorganization, which was subsequently amended on October 5, 2004. The plan of reorganization provided for the acquisition by Old UGC of $638,008,000 face amount of certain senior notes of Old UGC (Old UGC Senior Notes) held by UGC (following cancellation of certain offsetting obligations) for common stock of Old UGC and $599,173,000 face amount of Old UGC Senior Notes held by IDT United, another consolidated subsidiary of UGC for preferred stock of Old UGC. Old UGC Senior Notes held by third parties ($24,627,000 face amount) would be left outstanding (after cure, through the repayment of approximately $5,073,000 in unpaid interest, and reinstatement). In addition, Old UGC would make a payment of approximately $3,114,000 in settlement of certain outstanding guarantee obligations. The Bankruptcy Court confirmed the plan of reorganization on November 10, 2004. Following an appeal period, the plan of reorganization was consummated on November 24, 2004.

On November 24, 2004, immediately following the consummation of the plan of reorganization, UGC executed a stock purchase agreement with two shareholders of IDT United whereby UGC acquired all of the remaining capital stock of IDT United not previously owned by UGC for approximately $22,711,000 in cash. As a result of this transaction, IDT United became UGC s wholly owned subsidiary.

In connection with the Old UGC Reorganization, a total of $24,627,000 was deposited into an escrow account for the purpose of repayment of the Old UGC Senior Notes. On February 15, 2005, the Old UGC Senior Notes were redeemed in full for total cash consideration of $25,068,000 plus accrued interest from August 15, 2004 through the redemption date totaling $1,324,000.

(17) Restructuring and Other Charges

Restructuring Charges

A summary of UGC s restructuring charge activity in 2004 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
		amounts in thousands			
Restructuring liability as of January 1, 2004	$ 8,405	16,821	34,399	2,442	62,067
Restructuring charges	8,176	16,862		794	25,832
Cash paid	(6,938)	(5,741)	(7,566)	(1,057)	(21,302)
Foreign currency translation adjustments	980	1,983	3,695	(657)	6,001
Restructuring liability as of December 31, 2004	$ 10,623	29,925	30,528	1,522	72,598
Short-term portion	$ 4,973	5,271	3,817	345	14,406

Long-term portion		5,650	24,654	26,711	1,177	58,192
Total	$	10,623	29,925	30,528	1,522	72,598

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In May and September 2004, UGC s Netherlands operations recorded an aggregate charge of $5,690,000 for severance benefits as a result of a restructuring plan to change its management structure from a three-region model to a centralized management organization, eliminating certain redundancies and vacating space under an office lease. In December 2004, UGC s Netherlands operations changed its estimate regarding the timing and amount of sub-lease income related to a restructuring plan that was finalized in 2001. While the office space under lease remains vacated, UGC has been unable to sub-lease this space and cannot predict that it will be able to for the foreseeable future. Accordingly, the restructuring liability has been adjusted by approximately $15,970,000 to reflect UGC s best estimate regarding future sub-lease income for the vacated property. The remaining $4,172,000 of restructuring charges in 2004 related to various redundancy eliminations and other streamlining efforts at chellomedia BV (chellomedia) an indirect wholly owned subsidiary of UGC, and Priority Telecom.

Other Charges

In January 2004, UGC s Chief Executive Officer resigned and received certain benefits totaling $3,186,000.

(18) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in our company s consolidated balance sheets and statements of stockholders equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on securities classified as available-for-sale. The change in the components of accumulated other comprehensive earnings (loss), net of taxes, is summarized as follows:

	Foreign currency translation adjustment	Unrealized gains (losses) on securities	Other comprehensive earnings (loss)
		amounts in thousands	
Balance at January 1, 2002	$ (102,988)	(30,400)	(133,388)
Other comprehensive earnings (loss)	(173,715)	46,649	(127,066)
Balance at December 31, 2002	(276,703)	16,249	(260,454)
Other comprehensive earnings	102,294	111,594	213,888
Balance at December 31, 2003	(174,409)	127,843	(46,566)
Other comprehensive earnings (loss)	129,141	(122,292)	6,849
Effect of change in estimated blended state income tax rate (note 11)	2,222	523	2,745
Spin off transaction (note 2)		50,982	50,982
Balance at December 31, 2004	$ (43,046)	57,056	14,010

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The components of other comprehensive earnings (loss) are reflected in our company s consolidated statements of comprehensive earnings (loss), net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss):

	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
		amounts in thousands	
Year ended December 31, 2004:			
Foreign currency translation adjustments	$ 204,392	(75,251)	129,141
Unrealized holding losses arising during period	(189,465)	67,173	(122,292)
Effect of change in estimated blended state income tax rate (note 11)		2,745	2,745
Other comprehensive earnings	$ 14,927	(5,333)	9,594
Year ended December 31, 2003:			
Foreign currency translation adjustments	$ 168,239	(65,945)	102,294
Unrealized holding gains arising during period	182,941	(71,347)	111,594
Other comprehensive earnings	$ 351,180	(137,292)	213,888
Year ended December 31, 2002:			
Foreign currency translation adjustments	$ (284,779)	111,064	(173,715)
Unrealized holding gains arising during period	76,474	(29,825)	46,649
Other comprehensive loss	$ (208,305)	81,239	(127,066)

(19) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable leases, programming contracts, purchases of customer premise equipment, construction activities, network maintenance, and upgrade and other commitments arising from our agreements with local franchise authorities. As of December 31, 2004, the U.S. dollar equivalent (based on December 31, 2004 exchange rates) of such commitments is as follows:

	Payments due during years ended December 31,						
	2005	2006	2007	2008	2009	Thereafter	Total
				amounts in thousands			
Operating Leases	$ 101,440	74,519	68,111	49,892	44,919	124,092	462,973

Purchase obligations:							
Programming	95,911	23,877	10,304	6,191	2,647	17,086	156,016
Other	22,717	1,957					24,674
Other commitments	53,697	9,753	5,883	3,953	3,972	14,313	91,571
Total contractual payments	$ 273,765	110,106	84,298	60,036	51,538	155,491	735,234

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Rental costs under non-cancelable lease arrangements amounted to $88,588,000, $2,934,000 and $1,701,000 in 2004, 2003 and 2002, respectively. It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by similar leases.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us inasmuch as we have agreed to pay minimum fees, regardless of the actual number of subscribers or whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems.

Other purchase obligations consist of commitments to purchase customer premise equipment that are enforceable and legally binding on us. Other commitments consist of commitments to rebuild or upgrade cable systems and to extend the cable network to new developments, network maintenance, and other fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities. The amount and timing of the payments included in the table with respect to our rebuild, upgrade and network extension commitments are estimated based on the remaining capital required to bring the cable distribution system into compliance with the requirements of the applicable franchise agreement specifications.

In addition to the commitments set forth in the table above, we have commitments under agreements with programming vendors, franchise authorities and municipalities, and other third parties pursuant to which we expect to make payments in future periods. Such amounts are not included in the above table because they are not fixed or determinable due to various factors.

Contingent Obligations

Various partnerships and other affiliates of our company accounted for using the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash provided by their operating activities. Notwithstanding the foregoing, certain of our affiliates may require additional capital to finance their operating or investing activities. In addition, we are a party to stockholder and partnership agreements that provide for possible capital calls on stockholders and partners. In the event our affiliates require additional financing and we fail to meet a capital call, or other commitment to provide capital or loans to a particular company, such failure may have adverse consequences to our company. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us.

In addition to the foregoing, the agreement governing our investment in Mediatti contains a put-call arrangement whereby we could be required to purchase another investor s ownership interest at fair value. We have similar put-call arrangements with the minority shareholders of Belgium Cable Investors and Zone Vision. For additional information concerning these contingent obligations, see notes 6 and 22.

For a description of certain put obligations that we assumed in connection with the Noos acquisition, see note 5.

We and UGC have entered into indemnification agreements with each of our respective directors, our respective named executive officers and certain other officers. Pursuant to such agreements and as permitted by our and UGC s Bylaws, we each will indemnify our respective indemnities to the fullest extent permitted by law against any and all expenses, judgments, fines, penalties and settlements incurred as a result of being a party or threatened to be a party in a legal proceeding as a result of their service to or on behalf of our company or UGC, as applicable.

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Guarantees and Other Credit Enhancements

At December 31, 2004, Liberty guaranteed ¥4,695 million ($45,842,000) of the bank debt of J-COM. Liberty s guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2019. In connection with the spin off, we have agreed to indemnify Liberty for any amounts Liberty is required to fund under these arrangements.

In the ordinary course of business, we have provided indemnifications to (i) purchasers of certain of our assets, (ii) our lenders, (iii) our vendors and (iv) other parties. In addition, we have provided performance and/or financial guarantees to our franchise authorities, customers and vendors. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.

Legal Proceedings

We have contingent liabilities related to legal proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible we may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In our opinion, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Cignal. On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications (Cignal) filed a lawsuit against UPC in the District Court of Amsterdam, The Netherlands, claiming $200 million on the basis that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful completion of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering. A hearing was held on March 8, 2005, and a decision is expected in April 2005.

Class Action Lawsuits Relating to the Merger Transaction with UGC. Since January 18, 2005, twenty-one lawsuits have been filed in the Delaware Court of Chancery and one lawsuit in the Denver District Court, State of Colorado, all purportedly on behalf of UGC s public stockholders, regarding the announcement on January 18, 2005 of the execution by UGC and us of the agreement and plan of merger for the combination of our companies under a new parent company. The defendants named in these actions include UGC, Gene W. Schneider, Michael T. Fries, David B. Koff, Robert R. Bennett, John C. Malone, John P. Cole, Bernard G. Dvorak, John W. Dick, Paul A. Gould and Gary S. Howard (directors of UGC) and our company. The allegations in each of the complaints, which are substantially similar, assert that the defendants have breached their fiduciary duties of loyalty, care, good faith and candor and that various defendants have engaged in self-dealing and unjust enrichment, affirmed an unfair price, and impeded or discouraged other offers for UGC or its assets in bad faith and for improper motives. In addition to seeking to enjoin the transaction, the complaints seek remedies, including damages for the public holders of UGC s stock and an award of attorney s fees to plaintiffs counsel. On February 11, 2005, the Delaware Court of Chancery consolidated the Delaware lawsuits. In connection with the Delaware lawsuits, defendants have been served with one request for production of documents. The defendants believe the lawsuits are without merit.

The Netherlands 2004 Rate Increases. The Dutch competition authority (NMA) is currently investigating the price increases that UGC made with respect to its video services in 2004 to determine whether it abused

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its dominant position. If the NMA were to find that the price increases amount to an abuse of a dominant position, the NMA could impose fines of up to 10% of UGC s 2003 video revenue in The Netherlands and UGC would be obliged to reconsider the price increases. Historically, in many parts of The Netherlands, UGC is a party to contracts with local municipalities that seek to control aspects of its Dutch business including, in some cases, pricing and package composition. Most of these contracts have been eliminated by agreement, although some contracts are still in force and under negotiation. In some cases there is litigation ongoing where some municipalities have resisted UGC s attempts to move away from the contracts.

We and UGC operate in numerous countries around the world and accordingly we are subject to, and pay annual income taxes under, the various income tax regimes in the countries in which we operate. We have historically filed, and continue to file, all required income tax returns and pay income taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time we may be subject to a review of our historic income tax filings. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. We have accrued income taxes (and related interest and penalties, if applicable) for amounts that represent income tax exposure items in tax years for which additional income taxes may be assessed.

(20) Information About Operating Segments

We own a variety of international subsidiaries and investments that provide broadband distribution services and video programming services. We identify our reportable segments as (i) those consolidated subsidiaries that represent 10% or more of our revenue, operating cash flow (as defined below), or total assets, and (ii) those equity method affiliates where our investment or share of operating cash flow represents 10% or more of our total assets or operating cash flow, respectively. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and operating cash flow. In addition, we review non-financial measures such as subscriber growth and penetration, as appropriate.

Operating cash flow is the primary measure used by our chief operating decision makers to evaluate segment operating performance and to decide how to allocate resources to segments. As we use the term, operating cash flow is defined as revenue less operating and selling, general and administrative expenses (excluding depreciation and amortization, impairment of long-lived assets, restructuring and other charges and stock-based compensation). We believe operating cash flow is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within operating cash flow distorts the ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of operating cash flow is important because analysts and investors use it to compare our performance to other companies in our industry. A reconciliation of total consolidated operating cash flow to our consolidated pre-tax earnings (loss) is presented below. Investors should view operating cash flow as a supplement to, and not a substitute for, operating income, net income, cash flow from operating activities and other GAAP measures of income as a measure of operating performance.

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For 2004 we have identified the following consolidated subsidiaries and equity method affiliates as our reportable segments:

UGC Broadband The Netherlands
UGC Broadband France
UGC Broadband Austria
UGC Broadband Other Europe
UGC Broadband Chile (VTR)
Super Media/ J-COM

UGC, a majority-owned subsidiary of our company, is an international broadband communications provider of video, voice, and Internet services with operations in 16 countries. UGC s operations are located primarily in Europe and Latin America. UGC Broadband The Netherlands, UGC Broadband France and UGC Broadband Austria represent UGC s three largest operating segments in Europe in terms of revenue. UGC Broadband Other Europe includes broadband operations in Norway, Sweden, Belgium, Ireland, Hungary, Poland, Czech Republic, Slovak Republic, Slovenia and Romania. None of the components of UGC Broadband Other Europe constitute a reportable segment. UGC Broadband Chile (VTR) represents UGC s operating segment in Latin America. J-COM provides broadband communication services in Japan. Prior to the December 28, 2004 transaction in which our 45.45% ownership interest in J-COM and a 19.78% interest in J-COM owned by Sumitomo were combined in Super Media, we accounted for J-COM using the equity method of accounting. As a result of these transactions, we held a 69.68% noncontrolling interest in Super Media, and Super Media held a 65.23% controlling interest in J-COM at December 31, 2004. At December 31, 2004, we accounted for our 69.68% interest in Super Media using the equity method. As a result of a change in the corporate governance of Super Media that occurred on February 18, 2005, we will begin accounting for Super Media as a consolidated subsidiary effective January 1, 2005. For additional information concerning J-COM and Super Media, see note 6.

The amounts presented below represent 100% of each business revenue and operating cash flow. These amounts are combined and are then adjusted to remove the amounts related to UGC during the 2003 and 2002 periods and J-COM during all periods to arrive at the reported consolidated amounts. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with GAAP since the results of equity method investments are required to be reported on a net basis. Further, we could not, among

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other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate:

Performance Measures

	Year Ended December 31,					
	2004		2003		2002	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	amounts in thousands					
UGC Broadband The Netherlands	$ 716,932	361,265	592,223	267,075	459,044	119,329
UGC Broadband France	312,792	53,690	113,946	13,920	92,441	(10,446)
UGC Broadband Austria	299,874	111,950	260,162	98,278	198,189	64,662
UGC Broadband Other Europe	752,900	281,398	561,737	203,495	461,149	131,882
UGC Broadband Chile (VTR)	299,951	108,752	229,835	69,951	186,426	41,959
J-COM	1,504,709	589,597	1,233,492	428,318	930,736	211,146
Corporate and all other	261,835	(28,907)	242,017	(6,090)	218,027	(36,957)
Elimination of equity affiliates	(1,504,709)	(589,597)	(3,125,022)	(1,057,200)	(2,445,757)	(507,520)
Total consolidated LMI	$ 2,644,284	888,148	108,390	17,747	100,255	14,055

	Investments in affiliates		Long-lived assets		Total assets	
	December 31,		December 31,		December 31,	
	2004	2003	2004	2003	2004	2003
	amounts in thousands					
UGC Broadband The Netherlands	$	222	1,099,118	1,334,294	2,024,365	2,458,724
UGC Broadband France			1,065,874	246,307	1,198,372	274,180
			302,820	307,758	827,506	700,209

UGC Broadband Austria						
UGC Broadband Other Europe	11,797	16,757	1,026,989	873,221	1,832,761	1,845,202
UGC Broadband Chile (VTR)			351,314	322,606	682,270	602,762
Super Media/J-COM	36,846	26,027	2,441,196	2,274,632	4,289,536	3,929,190
Corporate and all other	1,853,845	1,818,811	456,984	356,134	7,137,089	4,905,631
Elimination of equity affiliates	(36,846)	(121,265)	(2,441,196)	(5,617,375)	(4,289,536)	(11,028,861)
Total consolidated LMI	$ 1,865,642	1,740,552	4,303,099	97,577	13,702,363	3,687,037

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The following table provides a reconciliation of total segment operating cash flow to earnings (loss) before income taxes and minority interests:

	Year ended December 31,		
	2004	2003	2002
	as restated (note 23)		
	amounts in thousands		
Total segment operating cash flow	$ 888,148	17,747	14,055
Stock-based compensation credits (charges)	(142,762)	(4,088)	5,815
Depreciation and amortization	(960,888)	(15,114)	(13,087)
Impairment of long-lived assets	(69,353)		(45,928)
Restructuring and other charges	(29,018)		
Operating loss	(313,873)	(1,455)	(39,145)
Interest expense	(307,015)	(2,178)	(3,943)
Interest and dividend income	65,607	24,874	25,883
Share of earnings (losses) of affiliates, net	38,710	13,739	(331,225)
Realized and unrealized gains (losses) on derivative instruments, net	(35,775)	12,762	(16,705)
Foreign currency transaction gains (losses), net	117,657	5,412	(8,267)
Gains on exchanges of investment securities	178,818		122,618
Other-than-temporary declines in fair values of investments	(18,542)	(6,884)	(247,386)
Gains on extinguishment of debt	35,787		
Gains (losses) on disposition of investments, net	43,714	(4,033)	(287)
Other income (expense), net	(7,931)	6,651	2,476
Earnings (loss) before income taxes and minority interests	$ (202,843)	48,888	(495,981)

		Capital expenditures		
		Year ended December 31,		
		2004	2003	2002
		amounts in thousands		
UGC Broadband	The Netherlands	$ (84,698)	(63,451)	(97,841)
UGC Broadband	France	(65,435)	(48,810)	(19,688)
UGC Broadband	Austria	(53,660)	(43,751)	(38,388)

UGC Broadband Other Europe	(146,965)	(75,873)	(53,142)
UGC Broadband Chile (VTR)	(41,685)	(41,391)	(80,006)
J-COM	(295,914)	(279,841)	(383,913)
Corporate and all other	(115,904)	(82,717)	(71,037)
Elimination of equity affiliates	295,914	612,965	719,105
Total consolidated LMI	$ (508,347)	(22,869)	(24,910)

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(21) Quarterly Financial Information (Unaudited)

	1st quarter	2nd quarter as restated (note 23)	3rd quarter as restated (note 23)	4th quarter as restated (note 23)
	amounts in thousands, except per share amounts			
2004:				
Revenue	$ 576,303	580,659	708,807	778,515
Operating loss	$ (83,627)	(34,192)	(43,061)	(152,993)
Net earnings (loss):				
As previously reported	$ (83,951)	(1,040)	74,365	(21,132)
Restatement adjustment		30,066	4,184	(20,550)
As restated	$ (83,951)	29,026	78,549	(41,682)
Historical and pro forma earnings (loss) per common share (note 3)				
Basic and diluted:				
As previously reported	$ (0.55)	(0.01)	0.44	(0.12)
Restatement adjustment		0.20	0.02	(0.12)
As restated	$ (0.55)	0.19	0.46	(0.24)
2003:				
Revenue	$ 24,947	27,076	28,031	28,336
Operating income (loss)	$ 1,777	(787)	1,625	(4,070)
Net earnings (loss)	$ 6,802	10,499	9,051	(5,463)
Historical and pro forma earnings (loss) per common share (note 3)				
Basic and diluted	$ 0.04	0.07	0.06	(0.04)

(22) Subsequent Events

Movieco Settlement

On December 3, 2002, Europe Movieco Partners Limited (Movieco) filed a request for arbitration against UPC with the International Court of Arbitration of the International Chamber of Commerce. The request contained claims that were based on a cable affiliation agreement entered into between the parties on December 21, 1999. In the

proceedings, Movieco claimed (1) unpaid license fees due under the affiliation agreement, plus interest, (2) an order for specific performance of the affiliation agreement or, in the alternative, damages for breach of that agreement, and (3) legal and arbitration costs plus interest. On January 13, 2005, the Arbitral Tribunal rendered an award in which Movieco s claim for the unpaid license fees, as described above, was sustained and determined that UPC must pay $39.3 million of unpaid license fees, plus interest and legal fees of £1.5 million ($2.9 million). We paid a total amount of $49.3 million in settlement of the award during the first quarter of 2005. Such amount was accrued in our December 31, 2004 consolidated balance sheet. All other claims and counterclaims were dismissed.

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Zone Vision

In January 2005, chellomedia acquired an 87.5% interest in Zone Vision Networks Ltd. (Zone Vision) from its current shareholders. Zone Vision is a programming company that owns three pay television channels and represents over 30 international channels. The consideration for the transaction consisted of $50 million in cash and 1.6 million shares of UGC Class A common stock, which are subject to a five-year vesting period. As part of the transaction, chellomedia will contribute to Zone Vision the 49% interest it already holds in Reality TV Ltd. and chellomedia s Club channel business. Zone Vision s minority shareholders have the right to put 60% of their 12.5% shareholding in Zone Vision to chellomedia on the third anniversary of the completion of the acquisition, and 100% of their shareholding on the fifth anniversary of the completion of the acquisition. Chellomedia has corresponding call rights. The price payable upon exercise of the put or call will be the then fair market value of the shareholdings purchased.

EWT Holding GmbH

In December 2004, a subsidiary of chellomedia entered into an agreement to sell its 28.7% interest in EWT Holding GmbH to other investors for 30 million ($40.9 million) in cash. Chellomedia received 90% of the purchase price on January 31, 2005 and the remaining 10% is due and payable no later than June 30, 2005.

Telemach

On February 10, 2005, UPC Broadband Holding, UGC s wholly owned subsidiary, acquired 100% of the shares in Telemach d.o.o., a broadband communications provider in Slovenia, for cash consideration of approximately $89.4 million.

(23) Restatement of Consolidated Financial Statements

In our consolidated financial statements for the year ended December 31, 2004, we accounted for the issuance of the euro-denominated UGC Convertible Notes as convertible debt, with changes in the euro to U.S. dollar exchange rate recorded as foreign currency transaction gains/losses in our consolidated statement of operations. Previously we concluded that generally accepted accounting principles did not require the separation of the embedded equity component based on our interpretation of certain scope exceptions prescribed by SFAS No. 133, *Accounting For Derivative Instruments* (Statement 133). Based on information that came to our attention in April 2005 and further research and analysis, we determined that the scope exceptions of Statement 133 did not apply, as the equity component of this financial instrument is indexed to both UGC Class A common stock price (traded in U.S. dollars) and to currency exchange rates (euro to U.S. dollar) related to the host debt instrument. Statement 133 and related interpretations preclude a scope exception for contracts where the settlement in shares of an entity s stock is indexed in part or in full to something other than the entity s stock price. As a result, we revised our conclusion to account for the embedded equity derivative separately at fair value, with changes in the fair value of the derivative recorded in our consolidated statement of operations.

As a result of our revised accounting, we have also recorded adjustments to (i) interest expense to reflect accretion of the debt component of this instrument at the issuance date to the aggregate principal amount that will be due and payable on April 15, 2011, the first date that the holders of the UGC Convertible Notes have the right to tender all or a part of the UGC Convertible Notes to UGC; (ii) foreign currency transaction gains to reflect the fact that a portion of the previously reported foreign currency transaction gains and losses with respect to the UGC Convertible Notes are now included in the determination of the fair value of the equity component of the UGC Convertible Notes; and (iii) minority interests in losses of subsidiaries to reflect the UGC minority interest owners share of the net restatement adjustments. The fair value of the embedded

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equity derivative and the accreted value of the debt host contract are presented together in long-term debt in our consolidated balance sheet. This restatement affected our previously issued consolidated financial statements as follows:

	December 31, 2004		
	Previously reported	Adjustment	As restated
	amounts in thousands		
Balance Sheet			
Long-term debt	$ 4,981,960	(26,041)	4,955,919
Total liabilities	$ 7,271,188	(26,041)	7,245,147
Minority interests in subsidiaries	$ 1,204,369	12,341	1,216,710
Accumulated deficit	$ (1,662,707)	13,700	(1,649,007)
Total stockholders equity	$ 5,226,806	13,700	5,240,506

	Year Ended December 31, 2004		
	Previously reported	Adjustment	As restated
	amounts in thousands, except per share amounts		
Statement of Operations			
Interest expense	$ (288,532)	(18,483)	(307,015)
Realized and unrealized losses on derivative instruments, net	$ (54,947)	19,172	(35,775)
Foreign currency transaction gains, net	$ 92,305	25,352	117,657
Loss before income taxes and other items	$ (228,884)	26,041	(202,843)
Minority interests in losses of subsidiaries	$ 179,677	(12,341)	167,336
Net loss	$ (31,758)	13,700	(18,058)
Pro forma basic and diluted loss per common share	$ (0.20)	0.09	(0.11)

The restatement had no effect on total cash flows from operating, investing or financing activities.
See note 21 for the impact of the restatement on our net earnings (loss) for each of the three-month periods ended June 30, 2004, September 30, 2004 and December 31, 2004.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF LMI

The name, date of birth and present principal occupation of each of our executive officers and directors is set forth below.

Name	Positions
John C. Malone Born March 7, 1941	President, Chief Executive Officer, Chairman of the Board and a director of LMI since March 2004. Mr. Malone has served as Chairman of the Board of Liberty Media Corporation (Liberty) since 1990. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc. from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of TCI from November 1996 to March 1999 and as Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is also a director of The Bank of New York, Cablevision Systems Corporation, Liberty and UnitedGlobalCom, Inc. (UGC).
Miranda Curtis Born November 26, 1955	Senior Vice President of LMI and President of its Asia division since March 2004. Ms. Curtis has served as a Senior Vice President of LMI s subsidiary, Liberty Media International Holdings, LLC (Old LMINT), since June 2004, and she served as President of Old LMINT and its predecessors from February 1999 to June 2004.
Bernard G. Dvorak Born April 19, 1960	Senior Vice President and Controller of LMI since March 2004. Mr. Dvorak served as Senior Vice President, Chief Financial Officer and Treasurer of On Command Corporation, a subsidiary of Liberty, from July 2002 until May 17, 2004. Mr. Dvorak was the Chief Executive Officer and a member of the board of directors of Formus Communications, Inc., a provider of fixed wireless services in Europe, from September 2000 until June 2002, and, from April 1999 until September 2000, he served as Chief Financial Officer of Formus. Mr. Dvorak is a director of UGC.
Graham Hollis Born January 9, 1952	Senior Vice President and Treasurer of LMI and Executive Vice President of its Asia division since March 2004. Mr. Hollis has served as a Senior Vice President of Old LMINT since June 2004, and he served as Executive Vice President and Chief Financial Officer of Old LMINT and its predecessors from May 1995 to June 2004.
David B. Koff Born December 26, 1958	Senior Vice President of LMI and President of its Europe division since March 2004. Mr. Koff served as a Senior Vice President of Liberty from February 1998 through May 2004. Mr. Koff is a director of UGC.
David J. Leonard Born March 28, 1953	Senior Vice President of LMI and President of its Latin America division since March 2004. Mr. Leonard served as the President of Liberty s Latin America Group, a subgroup of Liberty s International Group, from January 2004 through June 2004. From May 2002 through December 2003, Mr. Leonard was the founder and managing director of VLG Acquisition Corp., which owned interests in selected telecommunications companies

	in Latin America. From 1998 to 2002, Mr. Leonard was the founder, president and Chief Executive Officer of VeloCom Inc., a competitive local exchange carrier which provided wireless communications services throughout Brazil and Argentina.
Elizabeth M. Markowski Born October 26, 1948	Senior Vice President, General Counsel and Secretary of LMI since March 2004. Ms. Markowski served as a Senior Vice President of Liberty from November 2000 through December 2004. Prior to joining Liberty, Ms. Markowski was a partner in the law firm of Baker Botts L.L.P. for more than five years.

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Name	Positions
Robert R. Bennett Born April 19, 1958	A director of LMI and Vice-Chairman of the Board since March 2004. Mr. Bennett has served as President and Chief Executive Officer of Liberty since April 1997, and he held various other executive positions with Liberty since its inception in 1990. Mr. Bennett served as Executive Vice President of TCI from April 1997 to March 1999. Mr. Bennett is also a director of Liberty, OpenTV Corp. and UGC.
Donne F. Fisher Born May 24, 1938	A director of LMI since May 2004. Mr. Fisher has served as President of Fisher Capital Partners, Ltd., a venture capital partnership, since December 1991. Mr. Fisher is also a director of General Communication, Inc. and Liberty.
David E. Rapley Born June 22, 1941	A director of LMI since May 2004. Mr. Rapley served as Executive Vice President Engineering of VECO Corp. Alaska from January 1998 to December 2001. Mr. Rapley is also a director of Liberty.
M. LaVoy Robison Born September 6, 1935	A director of LMI since June 2004. Mr. Robison has served as an executive director and board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is also a director of Liberty.
Larry E. Romrell Born December 30, 1939	A director of LMI since May 2004. Mr. Romrell served as an Executive Vice President of TCI from January 1994 to March 1999. Mr. Romrell also served, from December 1997 to March 1999, as Executive Vice President and Chief Executive Officer of TCI Business Alliance and Technology Co.; and from December 1997 to March 1999, as Senior Vice President of TCI Ventures Group. Mr. Romrell is also a director of Liberty.
J. C. Sparkman Born September 12, 1931	A director of LMI since November 2004. Mr. Sparkman served as the Chairman of the Board of Broadband Services, Inc. from September 1999 through December 2003. Mr. Sparkman is also a director of Shaw Communications Inc. and Universal Electronics, Inc.
J. David Wargo Born October 1, 1953	A director of LMI since May 2004. Mr. Wargo has served as the President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is also a director of OpenTV Corp. and Strayer Education, Inc.

There are no family relations among the above named individuals, by blood, marriage or adoption.

Involvement in Certain Proceedings

Except as stated below, during the past five years, none of the above persons has had any involvement in such legal proceedings as would be material to an evaluation of his or her ability or integrity.

On March 28, 2001, an involuntary petition under Chapter 7 of the U.S. Bankruptcy Code was filed against Formus in the United States Bankruptcy Court for the District of Colorado. Mr. Dvorak was a director and the Chief Executive Officer of Formus from September 2000 until June 2002.

Audit Committee

Our board of directors has established an audit committee, whose members are Donne F. Fisher, David E. Rapley, M. LaVoy Robison and J. David Wargo. Our board of directors has determined that Messrs. Fisher, Rapley, Robison and Wargo are independent, as independence for audit committee members is defined in the rules of the Nasdaq Stock Market as well as the rules and regulations adopted by the SEC. In addition, our board of directors has determined that M. LaVoy Robison qualifies as an audit committee financial expert under applicable SEC rules and regulations.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16 forms they file.

Based solely on a review of the copies of the Forms 3, 4 and 5 and amendments to those forms furnished to us with respect to our most recent fiscal year, or written representations that no Forms 5 were required, we believe that, during the year ended December 31, 2004, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than ten-percent beneficial owners were complied with, except that one Form 4 on behalf of Larry Romrell was not timely filed.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our employees, directors and officers. Our code of business conduct and ethics constitutes our code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act and is available on our website at *www.libertymediainternational.com.* In addition, we will provide a copy of our code of business conduct and ethics, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media International, Inc., 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (800) 783-7676.

Item 11. EXECUTIVE COMPENSATION

The table below sets forth information for the year ended December 31, 2004 relating to compensation paid to our Chief Executive Officer and our four other most highly compensated executive officers, who we refer to as our named executive officers, for services rendered to our company and our subsidiaries. Prior to June 7, 2004, we were a subsidiary of Liberty. Accordingly, all compensation earned by our named executive officers from January 1, 2004 through the date of the spin off was paid by Liberty. All compensation earned by our named executive officers (other than by Elizabeth M. Markowski, see note (2) below) after the date of the spin off was paid by our company. Although certain of the individuals who are our named executive officers were performing services in connection with our businesses prior to January 1, 2004, those individuals were employed by Liberty during that period, were not dedicated exclusively to our businesses (with the exception of Miranda Curtis), and devoted substantial time and effort to other Liberty businesses or to the Liberty organization in general. Accordingly, no information on the compensation of our named executive officers for periods prior to January 1, 2004 is reported.

Summary Compensation Table
Annual Compensation

				Long-Term Compensation		
			Other Annual	Restricted Stock	Securities Underlying	All Other
Name and Principal Position with Our Company	**Year**	**Salary ($)**	**Compensation**	**Awards**	**Options/SARs**	**Compensation ($)**
John C. Malone President and Chief Executive Officer	2004	$	$	$	1,568,562(4)	$
Miranda Curtis Senior Vice President	2004	$ 716,330(1)	$	$	63,830(4)	$ 22,019(5)
David B. Koff Senior Vice President	2004	$ 595,808	$ 742,003(3)	$	53,192(4)	$ 21,256(6)
David J. Leonard	2004	$ 403,077	$	$	42,554(4)	$ 16,756(6)

Senior Vice President								
Elizabeth M. Markowski Senior Vice President, General Counsel and Secretary	2004	$	676,866(2)	$	$	63,830(4)	$	20,500(6)

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(1) Ms. Curtis compensation is paid in U.K. pounds, which, for purposes of the foregoing presentation, has been converted to U.S. Dollars based upon the average exchange rate in effect during 2004.

(2) Ms. Markowski continued to be an officer and employee of Liberty through December 31, 2004, and during the period from the date of the spin off through December 31, 2004, we reimbursed Liberty for 75% of Ms. Markowski s compensation expenses. This allocation was based upon the amount of time she spent on the respective businesses of our company and Liberty. The numbers in the table represent 100% of Ms. Markowski s compensation for 2004, rather than our allocable share.

(3) Represents reimbursement for housing and other costs incurred by Mr. Koff as an expatriate working in London, England.

(4) The numbers of shares reflect adjustments for our July 2004 rights offering which concluded in August 2004.

(5) Amounts represent contributions made during 2004 to a pension fund maintained for the benefit of Ms. Curtis under applicable United Kingdom law. With respect to these contributions, Ms. Curtis is fully vested.

(6) Amounts represent contributions to the Liberty Media 401(k) Savings Plan (the Liberty 401(k) Savings Plan) during 2004 prior to the date of the spin off and, in the case of Messrs. Koff and Leonard, premiums paid for term life insurance under UGC s group policy. The Liberty 401(k) Savings Plan provides employees with an opportunity to save for retirement. The Liberty 401(k) Savings Plan participants may contribute up to 10% of their compensation, and Liberty makes a matching contribution of 100% of the participants contributions. Participant contributions to the Liberty 401(k) Savings Plan are fully vested upon contribution.

Generally, participants acquire a vested right in Liberty contributions as follows:

Years of Service	Vesting Percentage
Less than 1	0%
1-2	33%
2-3	66%
3 or more	100%

With respect to Liberty contributions made to the Liberty 401(k) Savings Plan in 2004, Mr. Koff and Ms. Markowski were fully vested and Mr. Leonard was not vested as of December 31, 2004.

Under UGC s group term life insurance benefits plan, each employee is provided with employer-paid coverage equal to twice the employee s annual salary up to maximum coverage of $400,000 for employees with an annual salary of less than $266,000, and, upon an employee s election, 1.5 times the employee s annual salary up to maximum coverage of $1 million for employees with an annual salary of $266,000 or more. We reimburse UGC for the premiums paid with respect to our employees.

Option and SAR Grants in Last Fiscal Year

The table below sets forth certain information concerning stock options granted to our named executive officers during the year ended December 31, 2004.

Name	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/sh)(2)	Expiration Date	Grant Date Present Value(3)
John C. Malone					
Series A					
Series B	1,568,562(4)	100%	$ 36.75	June 7, 2014	$ 20,881,827
Miranda Curtis					
Series A	63,830	14.6%	$ 33.41	June 22, 2014	$ 772,600
Series B					
David B. Koff					
Series A	53,192	12.1%	$ 33.41	June 22, 2014	$ 640,837
Series B					
David J. Leonard					
Series A	42,554	9.7%	$ 33.41	June 22, 2014	$ 515,074
Series B					
Elizabeth M. Markowski					
Series A	63,830	14.6%	$ 33.41	June 22, 2014	$ 772,600
Series B					

(1) The numbers of shares reflect adjustments for our July 2004 rights offering which concluded in August 2004.

(2) The exercise prices reflect adjustments for our July 2004 rights offering which concluded in August 2004. The exercise prices for our Series A options were equal to the closing sale price of our Series A common stock on their respective grant dates. The exercise price for our Series B options was equal to 110% of the closing sale price of our Series A common stock on June 22, 2004 ($39.10 before considering the impact of the July 2004 rights offering), the date that definitive terms were established for such options. The closing market price of our Series B common stock on that date was $40.05 (before considering the impact of the July 2004 rights offering).

(3) The value shown is based upon (i) the number of options granted, as adjusted for our July 2004 rights offering and (ii) the per share present value, as determined using the Black-Scholes model. The key assumptions used in the model for purposes of this calculation include the following: (a) a 4.09% discount rate; (b) a 25.25% volatility factor; (c) the 6-year expected option life; (d) the fair value of the applicable series of our common stock on the grant date; and (e) a per share exercise price of $33.41, in the case of our Series A options, and a per share exercise price of $36.75, in the case of our Series B options (in each case, as adjusted for the July 2004 rights offering). The actual value realized will depend upon the extent to which the stock price exceeds the exercise price on the date the option is exercised. Accordingly, the realized value, if any, will not necessarily be the value

determined by the model.

(4) The options granted to Mr. Malone were awarded as the primary form of compensation to be paid to Mr. Malone by our company. See Employment Contracts and Termination of Employment and Change in Control Arrangements.

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Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

The following table sets forth certain information concerning exercises of our options by our named executive officers during the year ended December 31, 2004:

Aggregated Option/ SAR Exercises in the Last Fiscal Year and Fiscal Year-End Option/ SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at December 31, 2004 (#) Exercisable/ Unexercisable(1)	Value of Unexercised In-the-Money Options/SARs at December 31, 2004 Exercisable/ Unexercisable ($)
John C. Malone				
Series A				
Exercisable		$	221	$ 2,721
Unexercisable		$		
Series B				
Exercisable		$	1,965,665	$ 23,630,664(2)
Unexercisable		$	213,824	$ 2,377,728
Miranda Curtis				
Series A				
Exercisable		$	81,361	$ 1,001,558
Unexercisable		$	76,713	$ 976,949
Series B				
Exercisable		$		
Unexercisable		$		
David B. Koff				
Series A				
Exercisable	100,551	$ 657,101	21,594	$ 265,822
Unexercisable		$	127,872	$ 1,601,232
Series B				
Exercisable		$		
Unexercisable		$		
David J. Leonard				
Series A				
Exercisable		$	1,596	$ 19,644
Unexercisable		$	48,937	$ 624,119
Series B				
Exercisable		$		
Unexercisable		$		
Elizabeth M. Markowski				
Series A				
Exercisable		$	53,804	$ 662,331

Unexercisable	$	92,199	$	1,167,520
Series B				
Exercisable	$			
Unexercisable	$			

(1) Includes options to acquire our common stock that were issued to our named executive officers as a result of adjustments made, in connection with the spin off, to their outstanding Liberty stock incentive awards, all of which were granted to them by Liberty prior to January 1, 2004. Each option and stock appreciation right with respect to Liberty common stock outstanding as of the record date for the spin off was adjusted by the incentive plan committee of Liberty s board of directors in connection with the spin off. Liberty options held, as of the spin off record date, by our named executive officers, among others, were divided

into two options: (1) an option to purchase the number and series of shares of our common stock that would have been issued in the spin off in respect of the shares of Liberty common stock subject to the applicable Liberty option, as if such Liberty option had been exercised in full immediately prior to the record date for the spin off, and (2) an adjusted Liberty option. The aggregate exercise price of each such outstanding Liberty option was allocated between our option and the adjusted Liberty option. Stock appreciation rights related to Liberty Series A common stock held, as of the spin off record date, by our named executive officers, among others, were divided into two awards (in a manner similar to the adjustment made to outstanding Liberty options): (1) an LMI option and (2) an adjusted Liberty stock appreciation right. The aggregate base price of each outstanding Liberty stock appreciation right was allocated between the LMI option and the adjusted Liberty stock appreciation right. Each option issued as a result of these adjustments had an exercise price per share equal to the fair market value per share of the applicable series of our common stock, which, in the case of Series A options, was $33.92 (as adjusted for our July 2004 rights offering) and, in the case of Series B options, was $37.88 (as adjusted for our July 2004 rights offering).

(2) These options were fully exercisable as of December 31, 2004, but are subject to forfeiture. See Employment Contracts and Termination of Employment and Change in Control Arrangements for more information.

Compensation of Directors

Cash Compensation

Each of our directors who is not an employee of our company is entitled to a fee of $1,000 for each board meeting he attends. In addition, the chairman and each other member of the audit committee of our board of directors is entitled to a fee of $5,000 and $2,000, respectively, for each audit committee meeting he attends. Each member of the compensation committee and each member of the nominating and corporate governance committee is entitled to a fee of $1,000 for each committee meeting he attends. Fees to our directors are payable in cash. We also reimburse members of our board for travel expenses incurred to attend any meetings of our board or any committee thereof.

Option Awards

Each of our directors who is not an employee of our company (other than J.C. Sparkman) was granted options to acquire 3,000 shares of our Series A common stock on June 22, 2004. All of these options were granted pursuant to the Liberty Media International, Inc. 2004 Nonemployee Director Incentive Plan (As Amended and Restated Effective April 1, 2005), vest on the first anniversary of the grant date (provided that the director who is not an employee of our company continues to serve as a director of our company on the first anniversary of the grant date) and were granted at a per share exercise price of $35.55, which was the closing price of our Series A common stock on the grant date. These options, together with all of our then-outstanding stock incentive awards, were adjusted in connection with our July 2004 rights offering. As a result, these options now represent the right to acquire 3,192 shares of our Series A common stock at a per share exercise price of $33.41. All other terms of these options remained the same.

Mr. Sparkman, who is also not an employee of our company, joined our board of directors on November 9, 2004 and, consistent with our director compensation policy, Mr. Sparkman was granted options to acquire 3,000 shares of our Series A common stock on that date. The options were granted pursuant to the director plan, vest on the first anniversary of the grant date (provided that Mr. Sparkman continues to serve as a director of our company on the first anniversary of the grant date) and were granted at a per share exercise price of $37.42, which was the closing price of our Series A common stock on the grant date.

On March 9, 2005, in connection with the agreement and plan of merger we entered into with UGC on January 17, 2005, our board determined to amend the Non Qualified Stock Option Agreements, dated as of June 22, 2004, that we had entered into with each of Robert R. Bennett, Donne F. Fisher and M. LaVoy Robison. Pursuant to these amendments if the proposed mergers contemplated by our agreement and plan of merger with UGC are completed before June 22, 2005 (the first anniversary of the grant date of their 2004 option grants), and solely as a result of the completion of the mergers, Messrs. Bennett, Fisher and Robison

cease to serve as directors of our company, their 2004 option grants will vest on the date on which the mergers are completed rather than on June 22, 2005.

Following each annual meeting of our stockholders, each of our directors who is not an employee of our company will be granted options to acquire an additional 3,000 shares of our Series A common stock. All of these options will be granted pursuant to the director plan, will vest on the first anniversary of the applicable grant date and will be granted at an exercise price equal to the fair market value of our Series A common stock. If the mergers pursuant to which we and UGC would become wholly owned subsidiaries of a new parent company named Liberty Global are completed, the options granted to our nonemployee directors following our annual meeting will terminate in accordance with their terms on the day on which the mergers are completed.

Employment Contracts and Termination of Employment and Change in Control Arrangements

Except as described below, we have no employment contracts, termination of employment agreements or change of control agreements with any of our named executive officers.

We have entered into an option agreement with John C. Malone, our Chairman of the Board, Chief Executive Officer and President, pursuant to which we granted to Mr. Malone, under the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005), options to acquire 1,568,562 shares of our Series B common stock (as adjusted for our July 2004 rights offering) at an exercise price per share of $36.75 (as adjusted for our July 2004 rights offering). The options represent the primary form of compensation to be paid to Mr. Malone by our company. The options are fully exercisable; however, Mr. Malone s rights with respect to the options and any shares issued upon exercise will vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone continues to have a qualifying relationship (whether as a director, officer, employee or consultant) with our or any successor to our company. If Mr. Malone ceases to have such a qualifying relationship (subject to certain exceptions for his death or disability or termination without cause), his unvested options will be terminated and/or we will have the right to require Mr. Malone to sell to us, at the exercise price of the options, any shares of our Series B common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with our company.

Compensation Committee Interlocks and Insider Participation

Donne F. Fisher, Larry E. Romrell and J. David Wargo each served on our compensation committee during the year ended December 31, 2004. None of them was, during 2004, an officer or employee of our company or any of our subsidiaries, was formerly an officer of our company or any of our subsidiaries or had any relationship requiring disclosure under the securities laws.

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Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2004, with respect to shares of LMI common stock authorized for issuance under our equity compensation plans. Information concerning outstanding awards reflects adjustments made to these awards in connection with our July 2004 rights offering.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders:			
Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)(1)			
Series A common stock	438,054	$ 33.45	18,113,552(2)
Series B common stock	1,568,562	$ 36.75	
Liberty Media International, Inc. 2004 Nonemployee Director Incentive Plan (As Amended and Restated Effective April 1, 2005)(1)			
Series A common stock	22,152	$ 33.95	4,979,000(2)
Series B common stock			
Liberty Media International, Inc. Transitional Stock Adjustment Plan(1)(3)			
Series A common stock	1,241,332	$ 33.92	
Series B common stock	1,498,154	$ 37.88	
Equity compensation plans not approved by security holders: None			
Totals:			
Series A common stock	1,701,538		23,092,552(2)
Series B common stock	3,066,716		

(1)

Prior to our spin off from Liberty, Liberty approved each plan in its capacity as the then-sole stockholder of our company.

(2) Each plan permits grants of, or with respect to, shares of our Series A common stock or our Series B common stock subject to a single aggregate limit. The total number of shares available for future issuances under each plan is calculated based upon the number of shares subject to the original awards granted under each plan, prior to giving effect to any anti-dilution adjustments to such awards (such as the adjustments made in connection with our July 2004 rights offering).

(3) The transitional plan was adopted in connection with our spin off from Liberty to provide for the supplemental award of options to purchase shares of our common stock and restricted shares of our Series A common stock, in each case, pursuant to adjustments made to Liberty stock incentive awards in accordance with the anti-dilution provisions of Liberty s stock incentive plans.

Security Ownership of Certain Beneficial Owners

The following table sets forth information, to the extent known by us or ascertainable from public filings, concerning shares of our common stock beneficially owned by each person or entity (excluding any of our

directors and executive officers) known by us to own more than five percent of the outstanding shares of our common stock.

The security ownership information is given as of March 31, 2005, and in the case of percentage ownership information, is based upon (1) 165,555,331 shares of our Series A common stock, and (2) 7,264,300 shares of our Series B common stock.

Name and Address of Beneficial Owner	Series of Stock	Number of Shares	Percent of Class	Voting Power
		(In thousands)		
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	LMI Series A LMI Series B	8,418*	5.0%	*

* The number of shares of common stock in the table is based upon the Schedule 13G dated December 31, 2004, filed by Capital Research and Management Company with respect to our Series A common stock. Capital Research, an investment advisor, is the beneficial owner of 8,417,960 shares of our Series A common stock, as a result of acting as investment advisor to various investments companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has no voting power over and sole dispositive power over these shares.

Security Ownership of Management

The following table sets forth information with respect to the beneficial ownership by each of our directors and each of our named executive officers and by all of our directors and executive officers as a group of (1) shares of our Series A common stock, (2) shares of our Series B common stock and (3) shares of UGC Class A common stock.

The security ownership information for our common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon (1) 165,555,331 shares of our Series A common stock, and (2) 7,264,300 shares of our Series B common stock, in each case, outstanding on that date. The security ownership information for UGC Class A common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon 401,894,352 shares of UGC Class A common stock outstanding on that date.

Shares of our common stock issuable upon exercise or conversion of options that were exercisable or convertible on or within 60 days after March 31, 2005, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Shares of UGC common stock issuable upon exercise or conversion of options that were exercisable or convertible on or within 60 days after March 31, 2005, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

For purposes of the following presentation, beneficial ownership of shares of our Series B common stock, though convertible on a one-for-one basis into shares of our Series A common stock, is reported as beneficial ownership of our Series B common stock only, and not as beneficial ownership of our Series A common stock. In addition, although outstanding shares of UGC Class B common stock and UGC Class C common stock are convertible into UGC Class A common stock, share data set forth in the following presentation with respect to UGC Class A common stock excludes any dilution associated with the potential conversion of UGC Class B common stock or UGC Class C common stock into UGC Class A common stock.

So far as is known to us, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table. The number of shares indicated as owned by the executive officers and directors of our company includes interests in shares held by UGC s defined contribution 401(k) plan (the UGC 401(k) Plan) and shares held by the Liberty 401(k)

Savings Plan, in each case as of March 31, 2005. The shares held by the trustees of these 401(k) plans for the benefit of these persons are voted as directed by such persons.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership (In thousands)	Percent of Class	Voting Power
John C. Malone	LMI Series A	953(1)(2)(4)(5)	*	33.2%
	LMI Series B	8,510(1)(3)(5)	91.1%	
	UGC Class A	95(6)	*	*
Miranda Curtis	LMI Series A	85(7)	*	*
	LMI Series B	0		
	UGC Class A	0		
David B. Koff	LMI Series A	65(8)(9)(10)	*	*
	LMI Series B	0		
	UGC Class A	1(11)		
David J. Leonard	LMI Series A	2(12)(13)	*	*
	LMI Series B	0		
	UGC Class A	8(14)		
Elizabeth M. Markowski	LMI Series A	62(15)(16)(17)(18)	*	*
	LMI Series B	0		
	UGC Class A	0(19)		
Robert R. Bennett	LMI Series A	240(20)(21)(22)	*	3.1%
	LMI Series B	732(20)(22)	9.2%	
	UGC Class A	212(23)	*	*
Donne F. Fisher	LMI Series A	15(24)	*	*
	LMI Series B	32	*	
	UGC Class A	0		
David E. Rapley	LMI Series A	1(24)	*	*
	LMI Series B	0		
	UGC Class A	0		
M. LaVoy Robison	LMI Series A	1(24)	*	*
	LMI Series B	0		
	UGC Class A	0		
Larry E. Romrell	LMI Series A	13(24)	*	*
	LMI Series B	0		
	UGC Class A	0		
J.C. Sparkman	LMI Series A	14	*	*
	LMI Series B	0	*	*
	UGC Class A	0	*	*
J. David Wargo	LMI Series A	8(25)	*	*
	LMI Series B	0		
	UGC Class A	921(26)	*	*
All directors and executive officers as a group (14 persons)	LMI Series A	1,500(2)(20)(25)(27)(28)(29)(30)	*	35.4%
	LMI Series B	9,274(3)(20)(27)(30)	92.1%	

UGC Class A	1,242(26)(31)(32)	*	*

* Less than one percent

(1) Includes 90,303 shares of our Series A common stock and 204,566 shares of our Series B common stock held by Mr. Malone s wife, Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.

(2) Includes 198 shares of our Series A common stock held by a trust with respect to which Mr. Malone is the sole trustee and, with his wife, Leslie Malone, retains a unitrust interest in the trust.

(3) Includes 1,046,546 shares of our Series B common stock held by a trust with respect to which Mr. Malone is the sole trustee and holder of a unitrust interest in the trust.

(4) Includes 46,907 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(5) Includes 221 shares of our Series A common stock and 2,072,577 shares of our Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. Mr. Malone has the right to convert options to purchase 504,015 shares of our Series B common stock into options to purchase shares of our Series A common stock.

(6) Includes 95,416 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(7) Includes 85,143 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(8) Includes 639 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(9) Includes 1,250 restricted shares of our Series A common stock, none of which were vested at March 31, 2005.

(10) Includes 53,615 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(11) Includes 1,458 shares of UGC Class A common stock held by the UGC 401(k) Plan.

(12) Includes 7 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(13) Includes 1,596 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(14) Includes 3,182 shares of UGC Class A common stock held by the UGC 401(k) Plan.

(15) Includes 136 shares of our Series A common stock held by Mrs. Markowski s husband, Thomas Markowski, as to which shares Mrs. Markowski disclaims beneficial ownership.

(16) Includes 259 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(17) Includes 44 restricted shares of our Series A common stock, none of which were vested at March 31, 2005.

(18) Includes 57,214 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(19) Includes 496 shares of UGC Class A common stock held by the UGC 401(k) Plan.

(20) Includes 75,084 shares of our Series A common stock and 24 shares of our Series B common stock held by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his wife, Deborah Bennett.

(21) Includes 1,577 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(22)

Includes 12,002 shares of our Series A common stock and 731,962 shares of our Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. Mr. Bennett has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.

(23) Includes 83,332 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(24) Includes 586 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

(25) Includes 7,142 shares of our Series A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo disclaims beneficial ownership.

(26) Includes 498,757 shares of UGC Class A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo disclaims beneficial ownership.

(27) Includes 96,003 shares of our Series A common stock and 204,566 shares of our Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers is disclaimed.

(28) Includes 50,144 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(29) Includes 1,294 restricted shares of our Series A common stock, none of which were vested at March 31, 2005.

(30) Includes 247,102 shares of our Series A common stock and 2,804,539 shares of our Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. The options to purchase 1,235,977 shares of our Series B common stock may be converted into options to purchase shares of our Series A common stock.

(31) Includes 7,701 shares of UGC Class A common stock held by the UGC 401(k) Plan.

(32) Includes 178,748 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

One of our directors and two of our executive officers also hold interests in Liberty Jupiter, Inc., one of our privately held subsidiaries. Mr. Bennett, Ms. Curtis, another executive officer and another individual hold 180, 320, 200 and 100 shares, respectively, of Class A common stock of Liberty Jupiter, representing a 20% aggregate common equity interest and less than 1% aggregate voting interest in Liberty Jupiter, based upon 800 shares of Liberty Jupiter Class A common stock, 3,198 shares of Liberty Jupiter Class B common stock, 2 shares of Liberty Jupiter Class C common stock and approximately 93,379 shares of Liberty Jupiter preferred stock outstanding, as of March 31, 2005. Pursuant to a stockholders agreement among our company, Liberty Jupiter and certain of Liberty Jupiter s stockholders, we have the right to cause all or any part of the Liberty Jupiter Class A common stock to be converted into shares of our Series A common stock. On or after April 24, 2005, each holder of Liberty Jupiter Class A common stock will have the right to cause all of the shares of Liberty Jupiter Class A common stock held by such holder to be converted into shares of our Series A common stock. Each share of Liberty Jupiter Class A common stock that is converted will be converted into that number of shares of our Series A common stock having an aggregate market price that is equal to the fair market value of the Liberty Jupiter Class A common stock so converted, as of the time of conversion. Liberty Jupiter owns an approximate 7.96% interest in our consolidated subsidiary, LMI/ Sumisho SuperMedia, LLC.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Agreements with Liberty

In connection with our spin off from Liberty, we and Liberty entered into a series of agreements, under which we have certain rights and liabilities. The following is a summary of the terms of the material agreements we entered into with Liberty.

Reorganization Agreement

On June 7, 2004, we, Liberty and certain subsidiaries of Liberty entered into a reorganization agreement to provide for, among other things, the principal corporate transactions required to effect our spin off. Pursuant to the reorganization agreement, Liberty transferred to our company, or caused its subsidiaries to transfer to our company, substantially all of the assets comprising Liberty s International Group not already held by our company, cash and certain financial assets. The reorganization agreement provides for mutual indemnification obligations, which are designed to make our company financially responsible for substantially all of the liabilities relating to the businesses of Liberty s International Group prior to the spin off, as well as for all liabilities incurred by our company after the spin off, and to make Liberty financially responsible for all of our potential liabilities which are not related to our businesses, including, for example, liabilities arising as a result of our company having been a subsidiary of Liberty.

In addition, the reorganization agreement provides for each of us and Liberty to preserve the confidentiality of all confidential or proprietary information of the other party for three years following the spin off, subject to customary exceptions, including disclosures required by law, court order or government regulation.

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Liberty Services Agreement

On June 7, 2004, we and Liberty entered into a facilities and services agreement pursuant to which Liberty provides our company with specified services and benefits, including:

- the lease of office space at Liberty s executive headquarters, including furniture and furnishings and the use of building services;
- telephone, utilities, technical assistance (including information technology, management information systems, network maintenance and data storage), computers, office supplies, postage, courier service, cafeteria access and other office and administrative services;
- insurance administration and risk management services;
- other services typically performed by Liberty s accounting, treasury, engineering, legal, investor relations and tax department personnel; and
- such other services as we and Liberty may from time to time mutually determine to be necessary or desirable.

We make payments to Liberty under the Liberty services agreement based upon an annual per-square foot occupancy charge and an allocated portion of Liberty s personnel costs (taking into account wages and fringe benefits) of the departments expected to provide services to our company. The allocated portion of these personnel costs will be based upon the anticipated percentages of time to be spent by Liberty personnel in each department performing services for our company under the Liberty services agreement. We also reimburse Liberty for direct out-of-pocket costs incurred by Liberty for third party services provided to our company that are not included in our occupancy charge. We and Liberty evaluate all charges for reasonableness semi-annually and make any adjustments to these charges as we mutually agree upon. We paid Liberty approximately $1.325 million in fees under the Liberty services agreement for the period beginning on the date of the spin off and ending on December 31, 2004.

The Liberty services agreement will continue in effect for two years, unless earlier terminated (1) by us at any time on at least 30 days prior written notice, (2) by Liberty at any time on at least 180 days prior notice, (3) by Liberty upon written notice to us, following certain changes in control of our company or our company being the subject of certain bankruptcy or insolvency-related events, or (4) by us upon written notice to Liberty, following certain changes in control of Liberty or Liberty being the subject of certain bankruptcy or insolvency-related events.

Agreements for Aircraft Joint Ownership and Management

Prior to the spin off, Liberty transferred to our company a 25% ownership interest in two of Liberty s aircraft. In connection with the transfer, we and Liberty entered into certain agreements pursuant to which, among other things, we and Liberty share the costs of Liberty s flight department and the costs of maintaining and operating the jointly owned aircraft. Costs are allocated based upon either our and Liberty s respective usage or ownership of such aircraft, depending on the type of cost. Our allocable share of costs under these agreements amounted to approximately $229,000 for the period beginning on the date of the spin off and ending on December 31, 2004.

Tax Sharing Agreement

Prior to the spin off, we entered into a tax sharing agreement with Liberty that governs Liberty s and our respective rights, responsibilities and obligations with respect to taxes and tax benefits, the filing of tax returns, the control of audits and other tax matters. References in this summary description of the tax sharing agreement to the terms tax or taxes mean taxes as well as any interest, penalties, additions to tax or additional amounts in respect of such taxes.

Prior to the spin off, we and our eligible subsidiaries joined with Liberty in the filing of a consolidated return for U.S. federal income tax purposes and also joined with Liberty in the filing of certain consolidated,

combined, and unitary returns for state, local, and foreign tax purposes. However, for periods (or portions thereof) beginning after the spin off, we no longer join with Liberty in the filing of any federal, state, local or foreign consolidated, combined or unitary tax returns.

Under the tax sharing agreement, except as described below, Liberty is responsible for all U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes our company or one of our subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand. In addition, except for certain liabilities relating to dual consolidated losses and gain recognition agreements that are described below, Liberty will indemnify us and our subsidiaries against any liabilities arising under its tax sharing agreement with AT&T Corp. We are responsible for all other taxes (including income taxes not reported on a consolidated, combined, or unitary return by Liberty or its subsidiaries) that are attributable to us or one of our subsidiaries, whether accruing before, on or after the spin off. We have no obligation to reimburse Liberty for the use, in any period following the spin off, of a tax benefit created before the spin off, regardless of whether such benefit arose with respect to taxes reported on a consolidated, combined or unitary basis.

Notwithstanding the tax sharing agreement, under U.S. Treasury Regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Accordingly, with respect to periods in which we (or our subsidiaries) have been included in Liberty s, AT&T Corp. s or Tele-Communications, Inc. s consolidated group, we (or our subsidiaries) could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not discharged, by any other member of such consolidated group. However, if any such liability were imposed, we would generally be entitled to be indemnified by Liberty for tax liabilities allocated to Liberty under the tax sharing agreement.

Our ability to obtain a refund from a carryback of a tax benefit to a year in which we and Liberty (or any of their respective subsidiaries) joined in the filing of a consolidated, combined or unitary return will be at the discretion of Liberty. Moreover, any refund that we may obtain will be net of any increase in taxes resulting from the carryback for which Liberty is otherwise liable under the tax sharing agreement.

The tax sharing agreement provides that we will enter into a closing agreement with the Internal Revenue Service with respect to unrecaptured dual consolidated losses attributable to us or any of our subsidiaries under Section 1503(d) of the Internal Revenue Code of 1986, as amended (the Code). Moreover, we agreed to be liable for any deemed adjustment to taxes resulting from the recapture of any dual consolidated loss so attributed to us, if such loss is required to be recaptured as a result of one or more specified events described in the U.S. Treasury Regulations occurring after the distribution date. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the recaptured dual consolidated loss multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. We must also indemnify and hold harmless Liberty and its subsidiaries against any liability arising under Liberty s tax sharing agreement with AT&T Corp. with respect to such recaptured dual consolidated loss.

The tax sharing agreement provides that we are liable for any deemed adjustment to taxes resulting from the recognition of gain pursuant to a gain recognition agreement entered into by Liberty (or any parent of a consolidated group of which our company or any of our subsidiaries was formerly a member) in accordance with Treasury Regulations Section 1.367(a)-8(b), but only if the recognition of such gain results in an adjustment to the basis of any property held by our company or any of our subsidiaries. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. We must also indemnify and hold harmless Liberty and its subsidiaries against any liability arising under its tax sharing agreement with AT&T Corp. with respect to such recognition of gain. However, the amount we are required to indemnify Liberty and its subsidiaries for any deemed adjustment to taxes or any liability arising under Liberty s tax sharing agreement with AT&T Corp. will be reduced by any amount that Liberty or any of its subsidiaries receives pursuant to any indemnification arrangement with any other person arising from or relating to recognition of gain under such gain recognition agreement.

To the extent permitted by applicable tax law, we and Liberty will treat any payments made under the tax sharing agreement as a capital contribution or distribution (as applicable) made immediately prior to the spin off, and accordingly, as not includible in the taxable income of the recipient. However, if any payment causes, directly or indirectly, an increase in the taxable income of the recipient (or its affiliates), the payor s payment obligation will be grossed up to take into account the deemed taxes owed by the recipient (or its affiliates).

We are responsible for preparing and filing all tax returns that include us or one of our subsidiaries other than any consolidated, combined or unitary income tax return that includes us or one of our subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand, and we have the authority to respond to and conduct all tax proceedings, including tax audits, involving any taxes or any deemed adjustment to taxes reported on such tax returns. Liberty is responsible for preparing and filing all consolidated, combined or unitary income tax returns that include us or one of our subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand, and Liberty has the authority to respond to and conduct all tax proceedings, including tax audits, relating to taxes or any deemed adjustment to taxes reported on such tax returns. Liberty also has the authority to respond to and conduct all tax proceedings relating to any liability arising under its tax sharing agreement with AT&T Corp. We are entitled to participate in any tax proceeding involving any taxes or deemed adjustment to taxes, or any liabilities under Liberty s tax sharing agreement with AT&T Corp., for which we are liable under the tax sharing agreement. The tax sharing agreement further provides for cooperation between Liberty and our company with respect to tax matters, the exchange of information and the retention of records that may affect the tax liabilities of the parties to the agreement. Finally, the tax sharing agreement requires that neither we nor any of our subsidiaries will take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to Liberty and to Liberty s stockholders as of the record date for the spin off under Section 355 of the Code. Moreover, we must indemnify Liberty and its subsidiaries, officers and directors for any loss, including any deemed adjustment to taxes of Liberty, resulting from (1) such action or failure to act, if such action or failure to act precludes the spin off from qualifying as a tax-free transaction or (2) any breach of any representation or covenant given by us or one of our subsidiaries in connection with the tax opinion delivered to Liberty by Skadden, Arps, Slate, Meagher & Flom LLP and any other tax opinion delivered to Liberty, in each case relating to the qualification of the spin off as a tax-free distribution described in Section 355 of the Code. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized by Liberty multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties.

Transfer of Interests in Cablevisión S.A.

On November 2, 2004, Liberty, VLG Acquisition LLC, Liberty Media International Holdings, LLC (a subsidiary of our company) and Mr. Fred A. Vierra, the then-sole shareholder of VLG Acquisition, entered into an agreement with a third party to transfer to the third party, for aggregate cash consideration of $65 million, all outstanding equity interests in VLG Argentina and all of our indirect rights and obligations pursuant to Cablevisión S.A. s debt restructuring agreement to contribute $27,500,000 to Cablevisión in exchange for newly issued Cablevisión shares representing approximately 40.0% of Cablevisión s fully diluted post-restructuring equity. Liberty owned a 78.2% economic and non-voting interest in VLG Argentina, and VLG Acquisition owned a 21.8% economic interest and all of the voting interests in VLG Argentina. VLG Argentina owns a 50% interest in Cablevisión. Of the aggregate consideration deliverable by the third party under this agreement, we were allocated $40.5 million, Liberty was allocated $13.4 million and VLG Acquisition was allocated $11.1 million. Each of us, Liberty and VLG Acquisition received 50% of its allocable amount in November 2004 upon signing of the agreement and the remaining 50% of its allocable amount in March 2005 upon consummation of the transaction.

David J. Leonard is an executive officer of our company, and John H. Gowen is an officer of our company. Prior to joining our company, Messrs. Leonard and Gowen held indirect equity interests in VLG Acquisition, which they sold to Mr. Vierra. In connection with this sale, Messrs. Leonard and Gowen each retained a contractual right to 33% of any proceeds in excess of $100,000 from the sale of VLG Acquisition s interest in VLG Argentina or from distributions to VLG Acquisition by VLG Argentina in connection with a sale of

VLG Argentina s interest in Cablevisión. As a result of these rights, Messrs. Leonard and Gowen each received approximately $3.64 million in cash consideration in connection with the transfer to the third party by VLG Acquisition of its interests in VLG Argentina, as described above.

Interests of Certain Directors and Executive Officers Relating to the Agreement and Plan of Merger with UGC

Certain of our directors and executive officers have the following material interests, that are in addition to or different from those of our public stockholders, relating to the proposed mergers contemplated by the agreement and plan of merger we entered into with UGC on January 17, 2005.

Participation on Board and in Management of Liberty Global

If the proposed mergers are completed, we and UGC will become wholly owned subsidiaries of a new, publicly traded parent company named Liberty Global. John C. Malone, our President, Chief Executive Officer and Chairman of the Board and a director of our company, would become the Chairman of the Board and a director of Liberty Global. Four other directors of our company, David E. Rapley, Larry E. Romrell, J.C. Sparkman and J. David Wargo, would also become directors of Liberty Global. In addition, it is expected that shortly before the completion of the mergers other executive officers of our company will be appointed as executive officers of Liberty Global.

Amendment of Certain Option Agreements

In anticipation of the completion of the proposed mergers, we amended the option award agreements of three of our directors. For information regarding these amendments, please see Item 11. Executive Compensation Compensation of Directors above.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents fees for professional audit services rendered by KPMG LLP and its international affiliates for the audit of our 2004 consolidated financial statements and the separate consolidated financial statements of our subsidiaries, including UGC, and fees billed for other services rendered by KPMG LLP and its international affiliates. Fees for KPMG LLP s international affiliates are largely billed in local currencies, primarily euros. Fees billed in currencies other than U.S. dollars were translated into U.S. dollars at the average exchange rate in effect during 2004. No fees are presented for periods prior to our spin off from Liberty, which occurred on June 7, 2004.

	2004	2003
	(amounts in thousands)	
Audit fees(1)	$ 11,796	N/A
Audit related fees(2)	256	N/A
Audit and audit related fees	12,052	N/A
Tax fees(3)	805	N/A
All other fees	153	N/A
Total fees(4)	$ 13,010	N/A

(1) Audit fees include fees for the audit of the consolidated financial statements and fees for professional consultations with respect to accounting issues, services related to reviews of quarterly financial statements, registration statement filings and issuance of consents, statutory audits, audits of internal control over financial reporting and similar matters.

(2) Audit related fees include fees for due diligence related to potential business combinations and audits of certain employee benefit plans.

(3) Tax fees include fees for tax compliance and consultations regarding the tax implications of certain transactions.

(4) Total fees include $11,996,000 incurred by UGC.

Our audit committee has considered whether the provision of services by KPMG LLP to our company other than auditing is compatible with KPMG LLP maintaining its independence and does not believe that the provision of such other services is incompatible with KPMG LLP maintaining its independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Effective August 2, 2004, our audit committee adopted a policy regarding the pre-approval of all audit and certain permissible audit-related and non-audit services provided by our independent auditor. Pursuant to this policy, our audit committee has approved the engagement of our independent auditor to provide (a) audit services as specified in the policy, including (i) statutory and financial audits of our company and its subsidiaries, (ii) services associated with our registration statements, periodic reports and other documents filed with the SEC such as consents, comfort letters and responses to comment letters, (iii) attestations of management reports on internal controls, and (iv) consultations with management with respect to the accounting or disclosure treatment of transactions or events and the potential impact of final or proposed rules of applicable regulatory and standard setting bodies (when such consultations are considered audit services under the SEC rules promulgated pursuant to the Exchange Act), (b) audit-related services as specified in the policy, including (i) due diligence services relating to potential business acquisitions and dispositions, (ii) financial audits of employee benefit plans, (iii) consultations with management with respect to the accounting or disclosure treatment of transactions or events and the potential impact of final or proposed rules of applicable regulatory and standard setting bodies (when such consultations are considered audit-related services and not audit services under the SEC rules promulgated pursuant to the Exchange Act), (iii) attestation services not required by statute or regulation, (iv) closing balance sheet audits pertaining to dispositions, and (v) assistance with implementation of the requirements of SEC rules or listing standards promulgated pursuant to the Sarbanes-Oxley Act of 2002; and (c) tax services as specified in the policy, including (i) planning, advice and compliance services in connection with the preparation and filing of U.S. federal, state, local or international taxes, (ii) reviews of federal state, local and international income, franchise and other tax returns, (iii) assistance with tax audits and appeals before the IRS or similar agencies, (iv) tax advice regarding the potential impact of statutory, regulatory or administrative developments, (v) expatriate tax due diligence assistance, (vi) mergers and acquisition tax due diligence assistance and (vii) tax advice and assistance regarding structuring of mergers and acquisitions (all of the foregoing, which we refer to as Pre-Approved Services). Notwithstanding the foregoing general pre-approval, any individual project involving the provision of Pre-Approved Services that is expected to result in fees in excess of $50,000 requires the specific pre-approval of our audit committee. In addition, any engagement of our independent auditors for services other than the Pre-Approved Services requires the specific approval of our audit committee. Our audit committee has delegated the authority for the foregoing approvals to its chairman. M. LaVoy Robison currently serves as the Chairman of our audit committee. At each audit committee meeting, the Chairman s approval of services provided by our independent auditors is subject to ratification by the entire audit committee.

Our pre-approval policy prohibits the engagement of our independent auditor to provide any services that are subject to the prohibition imposed by Section 201 of the Sarbanes-Oxley Act.

All services provided by our independent auditor subsequent to the adoption of our pre-approval policy were approved in accordance with the terms of the policy.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) FINANCIAL STATEMENTS

The financial statements required under this Item begin on page II-38 of this Annual Report.

(a) (2) FINANCIAL STATEMENT SCHEDULES

The financial statement schedules required under this Item are as follows:

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2004 Incentive Plan (As Amended and Restated)
2004 Non-Employee Director Incentive Plan (As Amended and Restated)
2004 Incentive Plan (as Amended and Restated)
2004 Non-Employee Director Incentive Plan (As Amended and Restated)
Consent of KPMG LLP
Consent of KPMG AZSA & Co.
Consent of KPMG AZSA & Co.
Consent of Finsterbusch Pickenhayn Sibille
Consent of KPMG LLP
Consent of KPMG LLP
Consent of Ernst & Young LTDA
Certification of President & CEO
Certification of Senior VP & Treasurer
Certification of Senior VP & Controller
Section 1350 Certification

Fox Pan American Sports, LLC

We indirectly own a 10.6% economic interest in Fox Sports Pan American Sports, LLC (FPAS), a producer of Spanish language television sports programming, and we account for this investment using the equity method of accounting. SEC Rule 3-09 of Regulation S-X requires that we include or incorporate by reference FPAS financial statements in this Annual Report on Form 10-K/A since our investment in FPAS is considered to be significant in the context of Rule 3-09 for the year ended December 31, 2004.

LMI expects to file an amendment to this Annual Report on Form 10-K/A to include the audited consolidated financial statements of FPAS.

(a) (3) EXHIBITS

Listed below are the exhibits filed as part of this Annual Report (according to the number assigned to them in Item 601 of Regulation S-K):

2 Plan of Acquisition Reorganization, Arrangement, Liquidation or Succession:

2.1 Agreement and Plan of Merger, dated as of January 17, 2005, among New Cheetah, Inc. (now known as Liberty Global, Inc.), the Registrant, UnitedGlobalCom, Inc. (UGC), Cheetah Acquisition Corp. and Tiger Global Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K, dated January 17, 2005)

3 Articles of Incorporation and Bylaws:

3.1

Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement on Form 10, dated April 2, 2004 (File No. 000-50671) (the Form 10))

3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registrant s Registration Statement on Form 10, dated May 25, 2004 (File No. 000-50671) (the Form 10 Amendment))

4 Instruments Defining the Rights of Securities Holders, including Indentures:

4.1 Specimen certificate for shares of Series A common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.1 to the Form 10)

4.2 Specimen certificate for shares of Series B common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.2 to the Form 10)

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4.3	Indenture, dated as of April 6, 2004, between UGC and The Bank of New York (incorporated by reference to Exhibit 4.1 to UGC s Current Report on Form 8-K, dated April 6, 2004 (File No. 000-496-58) (the UGC April 2004 8-K))
4.4	Registration Rights Agreement, dated as of April 6, 2004, between UGC and Credit Suisse First Boston (incorporated by reference to Exhibit 10.1 to the UGC April 2004 8-K)
4.5	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding B.V. (UPC Broadband) and UPC Financing Partnership (UPC Financing), as Borrowers, the guarantors listed therein, and TD Bank Europe Limited, as Facility Agent and Security Agent, including as Schedule 3 thereto the Restated 1,072,000,000 Senior Secured Credit Facility, originally dated January 16, 2004, among UPC Broadband, as Borrower, the guarantors listed therein, the banks and financial institutions listed therein as Initial Facility D Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and the facility agents under the Existing Facility (as defined therein) (the 2004 Credit Agreement) (incorporated by reference to Exhibit 10.32 to UGC s Annual Report on Form 10-K, dated March 14, 2005 (File No. 000-496-58) (the UGC 2004 10-K))
4.6	Additional Facility Accession Agreement, dated June 24, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility E Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.2 to UGC s Current Report on Form 8-K, dated June 29, 2004 (File No. 000-496-58))
4.7	Additional Facility Accession Agreement, dated December 2, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility F Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.1 to UGC s Current Report on Form 8-K, dated December 2, 2004 (File No. 000-496-58))
4.8	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility G Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.39 to the UGC 2004 10-K)
4.9	Additional Facility Accession Agreement, dated March 7, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility H Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.40 to the UGC 2004 10-K
4.10	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K)
4.11	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, TD Bank Europe Limited and Toronto Dominion (Texas), Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent, including as Schedule 3 thereto the Restated Credit Agreement, 3,500,000,000 and US$347,500,000 and 95,000,000 Senior Secured Credit Facility, originally dated October 26, 2000, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, the Lead Arrangers listed therein, the banks and financial institutions listed therein as Original Lenders, TD Bank Europe Limited and Toronto-Dominion (Texas) Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent (incorporated by reference to Exhibit 10.33 to the UGC 2004 10-K)
4.12	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith

10 Material Contracts:

10.1	Reorganization Agreement, dated as of May 20, 2004, among Liberty Media Corporation (Liberty), the Registrant and the other parties named therein (incorporated by reference to Exhibit 2.1 to the Form 10 Amendment)
10.2	Form of Facilities and Services Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.3 to the Form 10 Amendment)

10.3	Agreement for Aircraft Joint Ownership and Management, dated as of May 21, 2004, between Liberty and the Registrant (incorporated by reference to Exhibit 10.4 to the Form 10 Amendment)
10.4	Form of Tax Sharing Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.5 to the Form 10 Amendment)
10.5	Form of Credit Facility between Liberty and the Registrant (terminated in accordance with its terms) (incorporated by reference to Exhibit 10.6 to the Form 10 Amendment)
10.6	Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)**
10.7	Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005)**
10.8	Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (incorporated by reference to Exhibit 7(A) to Mr. Malone s Schedule 13D/ A (Amendment No. 1) with respect to the Registrant s common stock, dated July 14, 2004 (File No. 005-79904))
10.9	Form of Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) Non-Qualified Stock Option Agreement**
10.10	Form of Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005) Non-Qualified Stock Option Agreement**
10.11	Liberty Media International, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 4.5 to the Registrant s Registration Statement on Form S-8, dated June 23, 2004 (File No. 333-116790))
10.12	Description of Director Compensation Policy*
10.13	Form of Indemnification Agreement between the Registrant and its Directors*
10.14	Form of Indemnification Agreement between the Registrant and its Executive Officers*
10.15	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to UGC s Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58) (the UGC 2003 10-K))
10.16	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
10.17	2003 Equity Incentive Plan of UGC, effective September 1, 2003 (incorporated by reference to Exhibit 10.9 to the UGC 2003 10-K)
10.18	Amended and Restated Stockholders Agreement, dated as of May 21, 2004, among the Registrant, Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty (incorporated by reference to Exhibit 10.23 to the Form 10 Amendment)
10.19	Standstill Agreement between UGC and Liberty, dated as of January 5, 2004 (incorporated by reference to Exhibit 10.2 to UGC s Current Report on Form 8-K, dated January 5, 2004 (File No. 000-496-58))
10.20	Standstill Agreement among UGC, Liberty and the parties named therein, dated January 30, 2002 (terminated except as to (i) UGC s obligations under the final sentence of Section 9(b) and (ii) Section 7B and the related definitions in Section 1 as set forth in, and as modified by, the Letter Agreement referenced in Exhibit 10.21)(incorporated by reference to Exhibit 10.9 to UGC s Registration Statement on Form S-1, dated February 14, 2002 (File No. 333-82776))
10.21	Letter Agreement, dated November 12, 2003, between UGC and Liberty (incorporated by reference to Exhibit 10.1 to UGC s Current Report on Form 8-K, dated November 12, 2003 (File No. 000-496-58))
10.22	Share Exchange Agreement, dated as of August 18, 2003, among Liberty and the Stockholders of UGC named therein (incorporated by reference to Exhibit 7(j) to Liberty s Schedule 13D/ A with

	respect to UGC s Class A common stock, dated August 21, 2003)
10.23	Amendment to Share Exchange Agreement, dated as of December 22, 2003, among Liberty and the Stockholders of UGC named on the signature pages thereto (incorporated by reference to Exhibit 4.5 to Liberty s Registration Statement on Form S-3, dated December 24, 2003 (File No. 333-111564))

10.24 Stock and Loan Purchase Agreement, dated as of March 15, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.1 to UGC s Current Report on Form 8-K, dated July 1, 2004 (File No. 000-496-58) (the UGC July 2004 8-K))

10.25 Amendment to the Purchase Agreement, dated as of July 1, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.2 to the UGC July 2004 8-K)

10.26 Shareholders Agreement, dated as of July 1, 2004, among UGC, UPC France Holding BV and Suez SA (incorporated by reference to Exhibit 10.3 to the UGC July 2004 8-K)

10.27 Amended and Restated Operating Agreement dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant*

21 List of Subsidiaries*

23 Consent of Experts and Counsel:

23.1 Consent of KPMG LLP**

23.2 Consent of KPMG AZSA & Co.**

23.3 Consent of KPMG AZSA & Co.**

23.4 Consent of Finsterbusch Pickenhayn Sibille**

23.5 Consent of KPMG LLP**

23.6 Consent of Ernst & Young LTDA.**

23.7 Information regarding absence of consent of Arthur Andersen LLP**

31 Rule 13a-14(a)/15d-14(a) Certification:

31.1 Certification of President and Chief Executive Officer**

31.2 Certification of Senior Vice President and Treasurer**

31.3 Certification of Senior Vice President and Controller**

32 Section 1350 Certification**

* Filed with the Registrant s Form 10-K, dated March 14, 2005

** Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Liberty Media Corporation

By /s/ Bernard G. Dvorak

Bernard G. Dvorak
Senior Vice President and Controller

Dated: April 28, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ John C. Malone John C. Malone	Chairman of the Board, Chief Executive Officer, President and Director	April 28, 2005
/s/ Robert R. Bennett Robert R. Bennett	Vice Chairman	April 28, 2005
/s/ Donne F. Fisher Donne F. Fisher	Director	April 28, 2005
/s/ David E. Rapley David E. Rapley	Director	April 28, 2005
/s/ M. LaVoy Robison M. LaVoy Robison	Director	April 28, 2005
/s/ Larry E. Romrell Larry E. Romrell	Director	April 28, 2005
/s/ J. C. Sparkman J. C. Sparkman	Director	April 28, 2005
/s/ J. David Wargo J. David Wargo	Director	April 28, 2005
/s/ Graham E. Hollis		

Graham E. Hollis	Senior Vice President and Treasurer (Principal Financial Officer)	April 28, 2005
/s/ Bernard G. Dvorak Bernard G. Dvorak	Senior Vice President and Controller (Principal Accounting Officer)	April 28, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media International, Inc.:

Under date of March 11, 2005, except as to Note 23, which is as of April 27, 2005, we reported on the consolidated balance sheets of Liberty Media International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004, which are included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2004. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules I and II in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2004. These financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 23, the consolidated financial statements as of and for the year ended December 31, 2004 have been restated.

KPMG LLP

Denver, Colorado
March 11, 2005, except as to Note 23
which is as of April 27, 2005

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LIBERTY MEDIA INTERNATIONAL, INC.
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)
CONDENSED BALANCE SHEET
(Parent Company Only)
amounts in thousands

	December 31, 2004 as restated(1)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,069,996
Derivative instruments	56,011
Other current assets	621
Total current assets	1,126,628
Investments in consolidated subsidiaries	4,146,985
Property and equipment, at cost	7,597
Accumulated depreciation	(387)
	7,210
Total assets	$ 5,280,823
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Accrued liabilities	$ 3,927
Derivative instruments	5,257
Total current liabilities	9,184
Other long-term liabilities	31,133
Total liabilities	40,317
Commitments and contingencies	
Stockholders Equity:	
Series A common stock, $.01 par value. Authorized 500,000,000 shares; issued and outstanding; 168,514,962 and nil shares at December 31, 2003 and 2004, respectively	1,685
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding; 7,264,300 and nil shares at December 31, 2003 and 2004, respectively	73

Series C common stock, $.01 par value. Authorized 500,000,000 shares; no shares issued at December 31, 2004 or 2003		
Additional paid-in capital		7,001,635
Accumulated deficit		(1,649,007)
Accumulated other comprehensive loss, net of taxes		14,010
Treasury stock, at cost		(127,890)
Total stockholders equity		5,240,506
Total liabilities and stockholders equity	$	5,280,823

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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LIBERTY MEDIA INTERNATIONAL, INC.
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)
CONDENSED STATEMENT OF OPERATIONS
(Parent Company Only)
amounts in thousands

	Seven months ended December 31, 2004 as restated(1)
Operating costs and expenses:	
Selling, general and administrative (SG&A)	$ 8,535
Stock-based compensation charges	20,382
Depreciation and amortization	387
Operating loss	(29,304)
Other income (expense):	
Interest and dividend income	8,673
Realized and unrealized losses on derivative instruments, net	(4,146)
Other income, net	1,465
	5,992
Loss before income taxes and equity in income of consolidated subsidiaries, net	(23,312)
Equity in income of consolidated subsidiaries, net	90,443
Income tax benefit	5,763
Net income	$ 72,894

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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LIBERTY MEDIA INTERNATIONAL, INC.
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)
CONDENSED STATEMENT OF STOCKHOLDERS EQUITY
(Parent Company Only)
For the seven months ended December 31, 2004

	Common stock			Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Treasury stock, at cost	Total stockholders equity
	Series A	Series B	Series C					
	amounts in thousands							
Balance at June 1, 2004	$ 1,399	61		6,227,851	(1,721,901)	(56,388)		4,451,022
Net earnings (as restated)(1)					72,894			72,894
Other comprehensive earnings						70,398		70,398
Adjustment due to issuance of stock by subsidiaries and affiliates and other changes in subsidiary equity, net of taxes				6,049				6,049
Common stock issued in rights offering	283	12		735,366				735,661
Stock issued for stock option exercises	3			11,987				11,990
Repurchase of common stock							(127,890)	(127,890)
Stock-based compensation				20,382				20,382
Balance at December 31, 2004 (as restated)(1)	$ 1,685	73		7,001,635	(1,649,007)	14,010	(127,890)	5,240,506

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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LIBERTY MEDIA INTERNATIONAL, INC.
SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)
CONDENSED STATEMENT OF CASH FLOWS
(Parent Company Only)
amounts in thousands

	Seven months ended December 31, 2004 as restated (1)
Cash flows from operating activities:	
Net earnings	$ 72,894
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Equity in income of consolidated subsidiaries, net	(90,443)
Stock-based compensation charges	20,382
Realized and unrealized losses on derivative instruments, net	4,146
Deferred income tax expense	(4,417)
Other noncash items, net	30,582
Changes in operating assets and liabilities	
Receivables, prepaids and other	(329)
Payables and accruals	2,242
Net cash provided by operating activities	35,057
Cash flows from investing activities:	
Investments in and loans to consolidated subsidiaries, affiliates and others	400,281
Net cash paid to purchase or settle derivative instruments	(35,653)
Other investing activities, net	(36)
Net cash used by investing activities	364,592
Cash flows from financing activities:	
Net proceeds received from rights offering	735,661
Treasury stock purchase	(127,890)
Proceeds from stock option exercises	11,990
Net cash provided by financing activities	619,761
Net increase in cash and cash equivalents	1,019,410
Cash and cash equivalents:	
Beginning of period	50,586
End of period	$ 1,069,996

Cash paid for interest		
Net cash paid for taxes	$	4,383

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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LIBERTY MEDIA INTERNATIONAL, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts						
	Balance at beginning of period	Additions to costs and expenses	Acquisition	Deductions or write-offs	FCTA	Other	Balance at end of period
	amounts in thousands						
Year ended December 31:							
2002	$ 11,208	6,689		(1,162)	(3,631)		13,104
2003	$ 13,104	1,450		(2,076)	1,469		13,947
2004	$ 13,947	22,663	51,400	(30,765)	3,644	501	61,390

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Jupiter Telecommunications Co., Ltd. (a Japanese corporation) and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jupiter Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

KPMG AZSA & Co.
Tokyo, Japan
February 14, 2005

CONSOLIDATED BALANCE SHEETS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	December 31,	
	2003	2004
	(Yen in thousands)	
Current assets:		
Cash and cash equivalents	¥ 7,785,978	¥ 10,420,109
Restricted cash	1,773,060	
Accounts receivable, less allowance for doubtful accounts of ¥229,793 thousand in 2003 and ¥245,504 thousand in 2004	7,907,324	8,823,311
Loans to related party (Note 5)		4,030,000
Prepaid expenses and other current assets (Note 8)	1,596,150	4,099,032
Total current assets	19,062,512	27,372,452
Investments:		
Investments in affiliates (Notes 3 and 5)	2,794,533	3,773,360
Investments in other securities, at cost	2,891,973	2,901,566
	5,686,506	6,674,926
Property and equipment, at cost (Notes 5 and 7):		
Land	1,826,787	1,796,217
Distribution system and equipment	312,330,187	344,207,670
Support equipment and buildings	11,593,849	12,612,896
	325,750,823	358,616,783
Less accumulated depreciation	(81,523,580)	(108,613,916)
	244,227,243	250,002,867
Other assets:		
Goodwill, net (Notes 2 and 4)	139,853,596	140,658,718
Other (Note 4 and 8)	13,047,229	14,582,383
	152,900,825	155,241,101
	¥ 421,877,086	¥ 439,291,346

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

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CONSOLIDATED BALANCE SHEETS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	December 31,	
	2003	2004
	(Yen in thousands)	
Current liabilities:		
Short-term loans	¥	¥ 250,000
Long-term debt current portion (Notes 6 and 12)	2,438,480	5,385,980
Capital lease obligations current portion (Notes 5, 7 and 12):		
Related parties	7,673,978	8,237,323
Other	1,800,456	1,291,918
Accounts payable	17,293,932	17,164,463
Accrued expenses and other liabilities	3,576,708	6,155,380
Total current liabilities	32,783,554	38,485,064
Long-term debt, less current portion (Notes 6 and 12):		
Related parties	149,739,250	
Other	72,092,465	194,088,485
Capital lease obligations, less current portion (Notes 5, 7 and 12):		
Related parties	17,704,295	19,714,799
Other	3,951,900	2,560,511
Deferred revenue	41,635,426	41,699,497
Severance and retirement allowance (Note 9)	2,023,706	2,718,792
Redeemable preferred stock of consolidated subsidiary (Note 10)	500,000	500,000
Other liabilities	3,411,564	180,098
Total liabilities	323,842,160	299,947,246
Minority interest	1,266,287	974,227
Commitments and contingencies (Note 14)		
Shareholders equity (Note 11):		
Ordinary shares no par value	63,132,998	78,133,015
Authorized 15,000,000 shares; issued and outstanding 4,684,535.74 shares at December 31, 2003 and 5,146,074.74 shares at December 31, 2004		
Additional paid-in capital	122,837,273	137,930,774
Accumulated deficit	(88,506,887)	(77,685,712)
Accumulated other comprehensive loss	(694,745)	(8,204)
Total shareholders equity	96,768,639	138,369,873
	¥ 421,877,086	¥ 439,291,346

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

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CONSOLIDATED STATEMENTS OF OPERATIONS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Year ended December 31,		
	2002	2003	2004
	(Yen in thousands, except share and per share amounts)		
Revenue (Note 5):			
Subscription fees	¥ 97,144,356	¥ 123,214,958	¥ 140,826,446
Other	19,486,170	19,944,074	20,519,825
	116,630,526	143,159,032	161,346,271
Operating costs and expenses:			
Operating and programming costs (Note 5)	45,967,220	49,895,426	53,869,646
Selling, general and administrative (inclusive of stock compensation expense of ¥61,902 thousand in 2002, ¥120,214 thousand in 2003 and ¥84,267 thousand in 2004) (Notes 5 and 11)	44,266,444	43,650,593	44,311,685
Depreciation and amortization	30,079,753	36,410,894	40,573,166
	120,313,417	129,956,913	138,754,497
Operating income (loss)	(3,682,891)	13,202,119	22,591,774
Other income (expense):			
Interest expense, net:			
Related parties (Note 5)	(2,847,551)	(4,562,594)	(4,055,343)
Other	(1,335,400)	(3,360,674)	(6,045,939)
Other income, net	147,639	316,116	37,574
Income (loss) before income taxes and other items	(7,718,203)	5,594,967	12,528,066
Equity in earnings of affiliates (inclusive of stock compensation expense of ¥2,156 thousand in 2002, ¥(2,855) thousand in 2003 and ¥9,217 thousand in 2004) (Note 11)	235,792	414,756	610,110
Minority interest in net (income) losses of consolidated subsidiaries	196,498	(448,668)	(458,624)
Income (loss) before income taxes	(7,285,913)	5,561,055	12,679,552
Income taxes (Note 8)	(256,763)	(209,805)	(1,858,377)
Net income (loss)	¥ (7,542,676)	¥ 5,351,250	¥ 10,821,175
Per share data:			
Net income (loss) per share basic and diluted	¥ (1,917)	¥ 1,214	¥ 2,221

Weighted average number of ordinary shares outstanding basic and diluted	3,934,286	4,407,046	4,871,169

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Ordinary Shares	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
	(Yen in thousands, except per share amounts)					
Balance at January 1, 2002	¥ 47,002,623	¥ 106,525,481		¥ (86,315,461)	¥	¥ 67,212,643
Net loss			¥ (7,542,676)	(7,542,676)		(7,542,676)
Other comprehensive income						
Comprehensive loss			¥ (7,542,676)			
Stock compensation (Notes 1 and 11)		64,058				64,058
Balance at December 31, 2002	¥ 47,002,623	¥ 106,589,539		¥ (93,858,137)	¥	¥ 59,734,025
Net income			¥ 5,351,250	5,351,250		5,351,250
Other comprehensive loss:						
Unrealized loss on cash flow hedge			(694,745)		(694,745)	(694,745)
Comprehensive income			¥ 4,656,505			
Stock compensation (Notes 1 and 11)		117,359				117,359
Ordinary shares issued upon conversion of long-term debt; 750,250 shares at ¥43,000 per share (Note 6)	16,130,375	16,130,375				32,260,750

Balance at December 31, 2003	¥ 63,132,998	¥ 122,837,273		¥ (88,506,887)	¥ (694,745)	¥ 96,768,639
Net income			¥ 10,821,175	10,821,175		10,821,175
Other comprehensive gain:						
Unrealized gain on cash flow hedge			686,541		686,541	686,541
Comprehensive income			¥ 11,507,716			
Stock compensation (Notes 1 and 11)		93,484				93,484
Ordinary shares issued; 461,539 shares at ¥65,000 per share (Note 1)	15,000,017	15,000,017				30,000,034
Balance at December 31, 2004	¥ 78,133,015	¥ 137,930,774		¥ (77,685,712)	¥ (8,204)	¥ 138,369,873

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Year ended December 31,		
	2002	2003	2004
	(Yen in thousands)		
Cash flows from operating activities:			
Net income (loss)	¥ (7,542,676)	¥ 5,351,250	¥ 10,821,175
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on forgiveness of subsidiary debt		(400,000)	
Depreciation and amortization	30,079,753	36,410,894	40,573,166
Equity in earnings of affiliates	(235,792)	(414,756)	(610,110)
Minority interest in net income (losses) of consolidated subsidiaries	(196,498)	448,668	458,624
Stock compensation expense	61,902	120,214	84,267
Deferred income taxes			45,591
Provision for retirement allowance	412,692	417,335	647,592
Changes in operating assets and liabilities, excluding effects of business combinations:			
Decrease/(increase) in accounts receivable, net	1,368,081	1,712,904	(431,162)
Decrease in prepaid expenses and other current assets	553,192	349,147	4,866
(Increase)/decrease in other assets	(1,651,599)	(325,769)	2,443,960
(Decrease)/increase in accounts payable	(3,124,486)	171,705	(1,184,539)
Increase in accrued expenses and other liabilities	188,537	2,665,162	39,279
Increase/(decrease) in deferred revenue	2,768,512	458,315	(380,578)
Net cash provided by operating activities	22,681,618	46,965,069	52,512,131
Cash flows from investing activities:			
Capital expenditures	(48,108,176)	(32,478,389)	(31,792,956)
Acquisition of new subsidiaries, net of cash acquired	1,856,230		(442,910)
Investments in and advances to affiliates	(665,575)	(172,500)	(359,500)
(Increase)/decrease in restricted cash		(1,773,060)	1,773,060
Loans to related party			(4,030,000)
Acquisition of minority interest in consolidated subsidiaries	(164,590)	(25,565)	(4,960,484)
Other investing activities	(650,729)	(76,891)	(69,427)

Net cash used in investing activities		(47,732,840)		(34,526,405)		(39,882,217)
Cash flows from financing activities:						
Proceeds from issuance of common stock						30,000,034
Net increase/(decrease) in short-term loans		36,984,965		(228,785,000)		250,000
Proceeds from long-term debt		2,620,000		239,078,000		185,302,000
Principal payments of long-term debt		(2,082,335)		(8,184,980)		(210,097,730)
Principal payments under capital lease obligations		(9,293,487)		(10,843,024)		(11,887,363)
Other financing activities		(738,854)		(3,464,440)		(3,562,724)
Net cash provided by (used in) financing activities		27,490,289		(12,199,444)		(9,995,783)
Net increase in cash and cash equivalents		2,439,067		239,220		2,634,131
Cash and cash equivalents at beginning of year		5,107,691		7,546,758		7,785,978
Cash and cash equivalents at end of year	¥	7,546,758	¥	7,785,978	¥	10,420,109

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Business and Organization

Jupiter Telecommunications Co., Ltd. (Jupiter) and its subsidiaries (the Company) own and operate cable telecommunication systems throughout Japan and provide cable television services, telephony and high-speed Internet access services (collectively, Broadband services). The telecommunications industry in Japan is highly regulated by the Ministry of Internal Affairs and Communications (MIC). In general, franchise rights granted by the MIC to the Company s subsidiaries for operation of cable telecommunications systems in their respective localities are not exclusive. Currently, cable television services account for a majority of the Company s revenue. Telephony operations accounted for approximately 10%, 13% and 15% of total revenue for the years ended December 31, 2002, 2003 and 2004, respectively. Internet operations accounted for approximately 23%, 24% and 25% of total revenue for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company s beneficial ownership at December 31, 2004 was as follows:

LMI/ Sumisho Super Media, LLC (SM)	65.23%
Microsoft Corporation (Microsoft)	19.46%
Sumitomo Corporation (SC)	12.25%
Mitsui & Co., Ltd.	1.53%
Matsushita Electric Industrial Co., Ltd.	1.53%

In August 2004, Liberty Media International, Inc. (LMI), SC and Microsoft made capital contributions to the Company in the following amounts: LMI: ¥14,065 million for 216,382 shares: SC: ¥9,913 million for 152,505 shares; and Microsoft ¥6,022 million for 92,652 shares. The shares of common stock issued in exchange for the capital contributions were based on fair value at the date of the transaction. As a result of the transaction, their beneficial ownership in the Company increased to 45.45%, 32.03% and 19.46%, respectively. The proceeds from the capital contributions were used to repay subordinated debt owed to each of LMI, SC and Microsoft in the same amounts as contributed by each shareholder respectively (see Note 6).

On December 28, 2004, LMI contributed all of its then 45.45% beneficial ownership interest and SC contributed 19.78% of its then ownership interest in the Company to SM, a company owned 69.7% by LMI and 30.3% by SC. As a result, SM became a 65.23% shareholder of the Company while SC s direct ownership interest was reduced to 12.25%. SC is obligated to contribute its remaining 12.25% direct ownership interest in the Company to SM within six months of an initial public offering (IPO) in Japan by the Company.

The Company has historically relied on financing from its principle shareholders to meet liquidity requirements. However, in December 2004, the Company entered into a new syndicated facility and repaid all outstanding debt with its principal shareholders. For additional information concerning the 2004 refinancing, see Note 6.

Basis of Financial Statements

The Company maintains its books of account in conformity with financial accounting standards of Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America (U.S. GAAP). These adjustments include those related to the scope of consolidation, accounting for business combinations, accounting for income taxes, accounting for leases, accounting for stock-based compensation, revenue recognition of certain revenues, post-retirement benefits, depreciation and amortization and accruals for certain expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

Summary of Significant Accounting Policies

(a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries which are primarily cable system operators (SOs). All significant intercompany balances and transactions have been eliminated. For the consolidated subsidiaries with a negative equity position, the Company has recognized the entire amount of cumulative losses of such subsidiaries regardless of its ownership percentage.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an initial maturity of three months or less.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on analysis of certain individual accounts, including claims in bankruptcy.

(d) Investments

For those investments in affiliates in which the Company s voting interest is 20% to 50% and the Company has the ability to exercise significant influence over the affiliates operation and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and adjusted to recognize the Company s share of the net earnings or losses of its affiliates. Prior to the adoption on January 1, 2002 of Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets,* the excess of the Company s cost over its percentage interest in the net assets of each affiliate was amortized, primarily over a period of 20 years. Subsequent to the adoption of SFAS No. 142, such excess is no longer amortized. All significant intercompany profits from these affiliates have been eliminated.

Investments in other securities carried at cost represent non-marketable equity securities in which the Company s ownership is less than 20% and the Company does not have the ability to exercise significant influence over the entities operation and financial policies.

The Company evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, the Company utilizes various information, as available, including cash flow projections, independent valuations, industry multiples and, as applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

(e) Property and Equipment

Property and equipment, including construction materials, are carried at cost, which includes all direct costs and certain indirect costs associated with the construction of cable television transmission and distribution systems, and the costs of new subscriber installations. Depreciation is computed on a straight-line method using estimated useful lives ranging from 10 to 15 years for distribution systems and equipment, from 15 to 60 years for buildings and structures and from 8 to 15 years for support equipment. Equipment under capital leases is stated at the present value of minimum lease payments. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which ranges from 2 to 21 years.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the cost and related

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥1,315,484 thousand, ¥2,041,347 thousand and ¥2,558,513 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

During the first quarter of 2000, the Company and its subsidiaries approved a plan to upgrade substantially all of its 450 MHz distribution systems to 750 MHz during the years ending December 31, 2000 and 2001. The Company identified certain electronic components of their distribution systems that were replaced in connection with the upgrade and, accordingly, adjusted the remaining useful lives of such electronics in accordance with the upgrade schedule. The effect of such changes in the remaining useful lives resulted in additional depreciation expense of approximately ¥484 million for the year ended December 31, 2002. Additionally, after giving effect to the accelerated depreciation, the net loss per share increased by approximately ¥(123) per share for the year ended December 31, 2002. Such upgrades had been substantially completed by December 31, 2002.

(f) Goodwill

Goodwill represents the difference between the cost of the acquired cable television companies and amounts allocated to the estimated fair value of their net assets. The Company performs an assessment of goodwill for impairment at least annually, and more frequently if an indicator of impairment has occurred, using a two-step process. The first step requires identification of reporting units and determination of the fair value for each individual reporting unit. The fair value of each reporting unit is then compared to the reporting unit s carrying amount including assigned goodwill. To the extent a reporting unit s carrying amount exceeds its fair value, the second step of the impairment test is performed by comparing the implied fair value of the reporting unit s goodwill to its carrying amount. If the implied fair value of a reporting unit s goodwill is less than its carrying amount, an impairment loss is recorded. The Company performs its annual impairment test on the first day of October in each year. The Company has determined its reporting units to be the same as its reportable segments. The Company had no impairment charges of goodwill for the years ended December 31, 2002, 2003 and 2004.

(g) Long-Lived Assets

The Company and its subsidiaries long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. The standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company and its subsidiaries adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(h) Other Assets

Other assets include certain development costs associated with internal-use software capitalized, including external costs of material and services, and payroll costs for employees devoting time to the software projects.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

These costs are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred. Other assets also include deferred financing costs, primarily legal fees and bank facility fees, incurred to negotiate and secure the facility. These costs are amortized to interest expense using the effective interest method over the term of the facility. For additional information concerning the Company s debt facilities, see Note 6.

(i) Derivative Financial Instruments

The Company uses certain derivative financial instruments to manage its foreign currency and interest rate exposure. The Company may enter into forward contracts to reduce its exposure to short-term (generally no more than one year) movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen. The Company uses interest rate risk management derivative instruments, such as interest rate swap and interest cap agreements, to manage interest costs to achieve an overall desired mix of fixed and variable rate debt. As a matter of policy, the Company does not enter into derivative contracts for trading or speculative purposes.

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133*. SFAS No. 133, as amended, requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in other comprehensive income until it is recognized in earnings in the same period in which the hedged item affects earnings. The ineffective portion of all hedges will be recognized in current earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge will be recorded each period in current earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment, or (5) management determines that the designation of the derivative as a hedge instrument is no longer appropriate. Ongoing assessments of effectiveness are being made every three months.

The Company had several outstanding forward contracts with a commercial bank to hedge foreign currency exposures related to U.S. dollar-denominated equipment purchases and other firm commitments. As of December 31, 2002, 2003 and 2004, such forward contracts had an aggregate notional amount of ¥1,553,053 thousand, ¥3,134,242 thousand and ¥5,658,147 thousand, respectively, and expire on various dates through December 2005. The forward contracts have not been designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such forward contracts are closely related with the firm commitments designated in U.S. dollars, thus managing associated currency risk. Forward contracts not designated as hedges are marked to market each period. Included in other income, net, in the accompanying consolidated statements of operations are losses on forward contracts not designated as hedges of ¥11,589 thousand, ¥65,195 thousand and ¥72,223 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

In May 2003, the Company entered into several interest rate swap agreements and an interest rate cap agreement to manage variable rate debt as required under the terms of its facility agreement (see Note 6). These interest rate exchange agreements effectively convert ¥60 billion of variable rate debt based on TIBOR into fixed rate debt and mature on June 30, 2009. These interest rate exchange agreements are considered cash flow hedging instruments as they are expected to effectively convert variable interest payments on certain debt instruments into fixed payments. Changes in fair value of these interest rate agreements designated as cash flow hedges are reported in accumulated other comprehensive loss. The amounts will be subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the variable rate debt affects earnings. The counterparties to the interest rate exchange agreements are banks participating in the facility agreement, therefore the Company does not anticipate nonperformance by any of them on the interest rate exchange agreements. In December 2004, the Company entered into a new debt facility, which replaced its former facility (see Note 6). Under the terms of the new facility, the Company was required to cancel certain interest rate swap agreements and an interest rate cap agreement with an aggregate notional amount of ¥24 billion, as the counterparties elected not to participate in the new facility. Such agreements were canceled in January 2005. As a result, these agreements are no longer considered cash flow hedging instruments and their respective fair value changes were reclassified into interest expense, net in the accompanying consolidated statements of operations for the year ended December 31, 2004. The remaining aggregate notional amount of ¥36 billion of interest rate swap agreements have been permitted to be carried over to the new facility as the counterparties are participants in the new facility. The Company has re-designated such interest swap agreements as cash flow hedging instruments.

(j) Severance and Retirement Plans

The Company and its subsidiaries have unfunded noncontributory defined benefit severance and retirement plans which are accounted for in accordance with SFAS No. 87, *Employers Accounting for Pensions*.

(k) Income Taxes

The Company and its subsidiaries account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Cable Television System Costs, Expenses and Revenues

The Company and its subsidiaries account for costs, expenses and revenues applicable to the construction and operation of cable television systems in accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies*. Currently, there is no significant system that falls in a prematurity period as defined by SFAS No. 51. Operating and programming costs in the Company s consolidated statements of operations include, among other things, cable service related expenses, billing costs, technical and maintenance personnel and utility expenses related to the cable television network.

(m) Revenue Recognition

The Company and its subsidiaries recognize cable television, high-speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed.
The Company and its subsidiaries provide poor reception rebroadcasting services to noncable television viewers suffering from poor reception of television waves caused by artificial obstacles. The Company and its subsidiaries enter into agreements with parties that have built obstacles causing poor reception for construction and maintenance of cable facilities to provide such services to the affected viewers at no cost to them during the agreement period. Under these agreements, the Company and its subsidiaries receive up-front, lump-sum compensation payments for construction and maintenance. Revenues from these agreements have been deferred and are being recognized in income on a straight-line basis over the agreement periods which are generally 20 years. Such revenues are included in revenue other in the accompanying consolidated statements of operations.
See Note 5 for a description of revenue from affiliates related to construction-related sales and programming fees which are recorded in revenue other in the accompanying consolidated statements of operations.

(n) Advertising Expense

Advertising expense is charged to income as incurred. Advertising expense amounted to ¥4,425,004 thousand, ¥3,921,229 thousand and ¥2,915,403 thousand and for the years ended December 31, 2002, 2003 and 2004, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(o) Stock-Based Compensation

The Company and its subsidiaries account for stock-based compensation plans to employees using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB No. 25*. (FIN No. 44). As such, compensation expense is measured on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company accounts for its stock-based compensation plans to nonemployees and employees of unconsolidated affiliated companies using the fair market value based method prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force Issue 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee* (EITF 00-12). Under SFAS No. 123, the fair value of the stock based award is determined using the Black-Scholes option pricing method, which is remeasured each period end until a commitment date is reached, which is generally the vesting date. The fair value of the subscription rights and stock purchase warrants granted each year was calculated using the Black-Scholes option-pricing model with the following assumptions: no dividends, volatility of 40%, risk-free rate of 3.0% and an expected life of three years. Expense associated with stock-based compensation for certain management employees is amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Otherwise, compensation expense is generally amortized evenly over the vesting period. Compensation expense is recorded in operating costs and expenses for the Company s employees and nonemployees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.
SFAS No. 123 allows companies to continue to apply the provisions of APB No. 25, where applicable, and provide pro forma disclosure for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

for stock-based compensation plans to its employees and provide the pro forma disclosure required by SFAS No. 123. The following table illustrates the effect on net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2003 and 2004, if the Company had applied the fair value recognition provisions of SFAS No. 123 (Yen in thousands, except share and per share amounts):

	2002	2003	2004
Net income (loss), as reported	¥ (7,542,676)	¥ 5,351,250	¥10,821,175
Add stock-based compensation expense included in reported net income (loss)			
Deduct stock-based compensation expense determined under fair value based method for all awards, net of applicable taxes	(510,246)	(454,172)	(607,655)
Pro forma net income (loss)	¥ (8,052,922)	¥ 4,897,078	¥10,213,520
Basic and diluted per share data:			
Net income (loss) per share, as reported (Yen)	(1,917)	1,214	2,221
Net income (loss) per share, pro forma (Yen)	(2,047)	1,111	2,097

(p) Earnings Per Share

Earnings per share (EPS) is presented in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. Under SFAS No. 128, basic EPS excludes dilution for potential ordinary shares and is computed by dividing net income (loss) by the weighted average number of ordinary shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Basic and diluted EPS are the same in 2002, 2003 and 2004, as all potential ordinary share equivalents, consisting of stock options, are anti-dilutive.

(q) Segments

The Company reports operating segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 defined operating segments as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision-maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company has determined that each individual consolidated subsidiary and unconsolidated managed equity affiliate SO is an operating segment because each SO represents a legal entity and serves a separate geographic area. The Company has evaluated the criteria for aggregation of the operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of its respective criteria. Accordingly, management has determined that the Company has one reportable segment, Broadband services.

(r) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant judgments and estimates include derivative financial instruments, depreciation and amortization costs, impairments of property and equipment and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

(s) Recent Accounting Pronouncements

The FASB issued SFAS No. 123 (Revised 2004) (SFAS No. 123R) in December 2004. SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and its related implementation guidance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We have not yet determined the impact SFAS No. 123R will have on our results of operations.

2. Acquisitions

The Company acquired varying interests in cable television companies during the periods presented. The Company utilized the purchase method of accounting for all such acquisitions and, accordingly, has allocated the purchase price based on the estimated fair value of the assets and liabilities of the acquired companies. The assets, liabilities and operations of such companies have been included in the accompanying consolidated financial statements since the dates of their respective acquisitions.

In January 2002, the Company purchased additional shares of its affiliate J-COM Media Saitama during a capital call for ¥500,000 thousand and purchased shares from existing shareholders of its affiliate J-COM Urawa-Yono for ¥10,080 thousand. After the purchases, the Company s equity ownership increased to a 50.2% controlling interest in J-COM Media Saitama and a 50.10% controlling interest in J-COM Urawa-Yono. These transactions have been treated as step-acquisitions. The results of operations for both J-COM Media Saitama and J-COM Urawa-Yono have been included as a consolidated entity from January 1, 2002.

In March 2002, the Company purchased additional shares in its affiliate, @NetHome Co., Ltd (@NetHome), from SC at a price per share of ¥55,000 or ¥527,670 thousand and all of the shares held by At Home Asia-Pacific for ¥1.4 billion. After the purchases, the Company had an 87.4% equity interest in @NetHome. The purchases have been accounted for as a step-acquisition. The operations for @NetHome have been included as a consolidated entity from April 1, 2002. In March 2004, the Company purchased from SC the remaining outstanding shares of @NetHome for ¥4,860 million. After the purchase, @NetHome became a wholly owned subsidiary of the Company. The purchase has been accounted for as a step-acquisition. The Company recorded approximately ¥4.0 billion of goodwill for the excess consideration over the fair value of the net assets and liabilities acquired in the 2004 step-acquisition.

In March 2004, the Company purchased a controlling interest in Izumi Otsu from certain of its shareholders. The total purchase price of such Izumi Otsu shares was ¥160,000 thousand and gave the Company a 66.7% interest. The results of Izumi Otsu have been included as a consolidated subsidiary from April 1, 2004. In August 2004, the Company and certain shareholders entered into an agreement and merged Izumi Otsu into the Company s 84.2% consolidated subsidiary, J-COM Kansai. After the merger, the Company has an 84.0% equity interest in J-COM Kansai.

In July 2004, the Company purchased a 100% controlling interest in Cable System Engineering Corporation (CSE), whose business is cable network construction and installation. The total purchase price of CSE was ¥577,210 thousand. No goodwill was recognized in connection with this acquisition. The result of operations for CSE have been included from August 1, 2004.

The impact to revenue, net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2003 and 2004, as if the transactions were completed as of the beginning of those years, is not significant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

The aggregate purchase price of the business combinations during the years ended December 31, 2002 and 2004 was allocated based upon fair values as follows (Yen in thousands):

	2002	2004
Cash, receivables and other assets	¥ 7,039,726	¥ 2,073,191
Property and equipment	16,565,501	791,856
Goodwill	3,690,538	4,228,117
Debt and capital lease obligations	(15,881,589)	
Other liabilities	(6,110,058)	(1,395,471)
	¥ 5,304,118	¥ 5,697,693

3. Investments in Affiliates

The Company s affiliates are engaged primarily in the Broadband services business in Japan. At December 31, 2004, the Company held investments in J-COM Shimonoseki (50.0%), J-COM Fukuoka (45.0%), Jupiter VOD Co. Ltd. (50.0%), Kansai Multimedia Service Co., Ltd. (Kansai Multimedia) (25.8%), CATV Kobe (20.4%) and Green City Cable TV Corporation (20.0%).

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥730,910 thousand and ¥761,053 thousand of unamortized excess cost of investments over the Company s equity in the net assets of the affiliates. All significant intercompany profits from these affiliates have been eliminated according to the equity method of accounting.

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥2,019,000 thousand and ¥1,945,000 thousand of short-term loans the Company made to certain managed affiliates. The interest rate on these loans was 3.23% and 2.48% as of December 31, 2003 and 2004.

Condensed financial information of the Company s unconsolidated affiliates at December 31, 2003, and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Combined Financial Position:		
Property and equipment, net	¥ 29,696,602	¥ 29,578,096
Other assets, net	6,201,251	7,545,469
Total assets	¥ 35,897,853	¥ 37,123,565
Debt	¥ 17,998,825	¥ 15,577,345
Other liabilities	16,030,950	17,224,152
Shareholders equity	1,868,078	4,322,068
Total liabilities and equity	¥ 35,897,853	¥ 37,123,565

	2002	2003	2004

Combined Operations:			
Total revenue	¥ 18,218,205	¥ 19,776,603	¥ 21,784,795
Operating, selling, general and administrative expenses	(13,001,409)	(13,430,881)	(15,080,471)
Depreciation and amortization	(3,180,977)	(3,682,641)	(4,164,827)
Operating income	2,035,819	2,663,081	2,539,497
Interest expense, net	(410,278)	(478,609)	(427,400)
Other expense, net	(558,636)	(1,013,158)	(428,107)
Net income	¥ 1,066,905	¥ 1,171,314	¥ 1,683,990

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4. Goodwill and Other Assets

The changes in the carrying amount of goodwill, net, for the years ended December 31, 2003 and 2004 consisted of the following (Yen in thousands):

		2003		2004
Goodwill, net, beginning of year	¥	139,827,277	¥	139,853,596
Goodwill acquired during the year		26,319		4,228,117
Initial recognition of acquired tax benefits allocated to reduce goodwill of acquired entities (Note 8)				(3,422,995)
Goodwill, net, end of year	¥	139,853,596	¥	140,658,718

Other assets, excluding goodwill, at December 31, 2003 and 2004, consisted of the following (Yen in thousands):

		2003		2004
Lease and other deposits	¥	4,295,947	¥	4,313,742
Deferred financing costs		3,763,785		3,540,302
Capitalized computer software, net		3,022,557		3,351,115
Long-term loans receivable, net		300,380		270,885
Deferred tax assets				1,308,582
Other		1,664,560		1,797,757
Total other assets	¥	13,047,229	¥	14,582,383

5. Related Party Transactions

The Company purchases cable system materials and supplies from third-party suppliers and resells them to its subsidiaries and affiliates. The sales to unconsolidated affiliates amounted to ¥3,484,288 thousand, ¥2,888,046 thousand and ¥2,385,495 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue other in the accompanying consolidated statements of operations.

The Company provides programming services to its subsidiaries and affiliates. The revenue from unconsolidated affiliates for such services provided and the related products sold amounted to ¥815,287 thousand, ¥1,092,724 thousand and ¥1,379,744 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue other in the accompanying consolidated statements of operations.

The Company provides management services to its subsidiaries and managed affiliates. Fees for such services related to managed affiliates amounted to ¥390,434 thousand, ¥468,219 thousand and ¥521,670 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue other in the accompanying consolidated statements of operations.

In July 2002, the Company began providing management services to Chofu Cable Inc. (J-COM Chofu), an affiliated company that is 92% jointly owned by LMI, Microsoft and SC. Fees for such services amounted to ¥29,590 thousand, ¥60,882 thousand and ¥87,446 thousand for the years ended December 31, 2002, 2003 and 2004 respectively, and are included in revenue other in the accompanying consolidated statements of operations. As part of the 2004 refinancing, J-COM Chofu became party to the Company s new debt facility (see Note 6). At December 31, 2004, the Company had advanced ¥4,030 million of short term loans to J-COM Chofu and the interest rate on these loans were

2.48%.

The Company purchases certain cable television programs from Jupiter Programming Co., Ltd. (JPC), an affiliated company jointly owned by SC and a wholly owned subsidiary of LMI. Such purchases, including purchases from JPC s affiliates, amounted to ¥2,879,616 thousand, ¥3,155,139 thousand and ¥3,915,345 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in operating and

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programming costs in the accompanying consolidated statements of operations. Additionally, the Company receives a distribution fee to carry the Shop Channel, a majority owned subsidiary of JPC, for the greater of a fixed rate per subscriber or a percentage of revenue generated through sales in the Company s territory. Such fees amounted to ¥614,224 thousand, ¥939,438 thousand and ¥1,063,678 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included as revenue other in the accompanying consolidated statements of operations.
The Company purchased stock of affiliated companies from SC in the amounts of ¥1,112,750 thousand, ¥0 thousand, and ¥5,091,864 thousand in the years ended December 31, 2002, 2003 and 2004, respectively.
AJCC K.K. (AJCC) is a subsidiary of SC and its primary business is the sale of home terminals and related goods to cable television companies. Sumisho Lease Co., Ltd. and Sumisho Auto Leasing Co., Ltd. (collectively Sumisho leasing) are a subsidiary and affiliate, respectively, of SC and provide to the Company various office equipment and vehicles. The Company and its subsidiaries purchases of such goods, primarily as capital leases, from both AJCC and Sumisho leasing, amounted to ¥10,074,639 thousand, ¥6,087,645 thousand and ¥12,621,284 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.
The Company pays monthly fees to its affiliates, @NetHome and Kansai Multimedia, based on an agreed-upon percentage of subscription revenue collected by the Company from its customers for the @NetHome and Kansai Multimedia services. Payments made to @NetHome under these arrangements, prior to it becoming a consolidated subsidiary, amounted to ¥1,585,691 thousand for the years ended December 31, 2002. Payments made to Kansai Multimedia under these arrangements amounted to ¥2,882,494 thousand, ¥3,226,764 thousand and ¥3,380,148 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. Such payments are included in operating and programming costs in the accompanying consolidated statements of operations. In March 2002, @Net Home became a consolidated subsidiary of the Company (see Note 2). Therefore, since April 1, 2002, through @NetHome, the Company receives the monthly fee from its unconsolidated affiliates. Such service fees amounted to ¥480,356 thousand, ¥1,071,891 thousand and ¥1,242,550 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue-subscription fees in the accompanying consolidated statements of operations.
The Company has management service agreements with SC and LMI under which officers and management level employees are seconded from SC and LMI to the Company, whose services are charged as service fees to the Company based on their payroll costs. The service fees paid to SC amounted to ¥571,319 thousand, ¥706,303 thousand and ¥784,122 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. The service fees paid to LMI amounted to ¥761,009 thousand, ¥714,986 thousand and ¥665,354 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.
SC, LMI and Microsoft had long-term subordinated loans to the Company of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. In December 2004, the Company refinanced and replaced these subordinated shareholder loans under a new facility. See Note 6.
The Company pays fees on debt guaranteed by SC, LMI and Microsoft. The guarantee fees incurred were ¥413,128 thousand to SC, ¥361,627 thousand to LMI and ¥285,042 thousand to Microsoft for the year ended December 31, 2002. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMI and ¥51,890 thousand to Microsoft for the year ended December 31, 2003. The guarantee fees incurred were ¥41,071 thousand to SC, ¥41,071 thousand to LMI and ¥16,332 thousand to Microsoft for the year ended December 31, 2004. Such fees are included in interest expense, net-related parties in the accompanying

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consolidated statements of operations. In December 2004 these guarantees were replaced by a guarantee facility with a syndicate of lenders. See Note 6.

6. Long-term Debt

A summary of long-term debt as of December 31, 2003 and 2004 is as follows (Yen in thousands):

	2003	2004
¥140 billion Facility term loans, due fiscal 2005 2009	¥ 53,000,000	¥
¥175 billion Facility term loans, due fiscal 2005 2011		130,000,000
Mezzanine Facility Subordinated loan due fiscal 2012		50,000,000
8 yr Shareholder Subordinated loans, due fiscal 2011	117,739,250	
8 yr Shareholder Tranche B Subordinated loans, due fiscal 2011	32,000,000	
0% unsecured loans from Development Bank of Japan, due fiscal 2005 2019	12,223,720	
Unsecured loans from Development Bank of Japan, due fiscal 2005 2019, interest from 0.65% to 6.8%	3,895,400	
0% secured loans from Development Bank of Japan, due fiscal 2005 2019	5,354,735	15,810,095
Secured loans from Development Bank of Japan, due fiscal 2005 2019, interest at 0.95% to 6.8%		3,614,200
0% unsecured loans from others, due fiscal 2012	57,090	50,170
Total	224,270,195	199,474,465
Less: current portion	(2,438,480)	(5,385,980)
Long-term debt, less current portion	¥ 221,831,715	¥ 194,088,485

2003 Financing

On January 31, 2003, the Company entered into a ¥140 billion bank syndicated facility for certain of its managed subsidiaries and affiliates (¥140 billion Facility). In connection with the ¥140 billion Facility, on February 6, 2003, the Company entered into eight-year subordinated loans with each of SC, LMI and Microsoft (Principal Shareholders), which initially aggregated ¥182 billion (Shareholder Subordinated Loans).

The ¥140 billion Facility was for the financing of Jupiter, sixteen of its consolidated managed affiliates and one managed affiliate accounted for under the equity method of accounting. The financing was used for permitted general corporate purposes, capital expenditures, financing costs and limited purchase of minority shares and capital calls of the affiliates participating in the ¥140 billion Facility.

The ¥140 billion Facility provided for term loans of up to ¥120 billion and a revolving loan facility up to ¥20 billion with the final maturity of June 30, 2009. ¥32 billion of the total term loan portion of the ¥140 billion Facility was considered provided by the shareholders under the Tranche B Subordinated Loans.

Interest was based on TIBOR, as defined in the ¥140 billion Facility, plus margin which changed based upon a leverage ratio of Total Debt to EBITDA as set forth in the ¥140 billion Facility agreement. At December 31, 2003, the interest rate was 2.83%. The Shareholder Subordinated Loans, which were subordinated to the ¥140 billion Facility, consisted of eight-year subordinated loans and eight-year Tranche B Subordinated Loans. The ¥140 billion Facility had requirements to make mandatory prepayments under specific circumstances as defined in the agreements. Such prepayments are designated as restricted cash on the consolidated balance sheets.

In May 2003, LMI and SC converted ¥32 billion of Shareholder Subordinated Loans for 750,250 shares of common stock of the company. At December 31, 2003, the interest rate was 2.08%.

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In December 2003, a consolidated subsidiary of the Company became party to the ¥140 billion Facility. Immediately prior to this transaction, the consolidated subsidiary had outstanding ¥3,686,090 thousand to third-party creditors. In connection with this transaction, a third-party debt holder forgave ¥400,000 thousand of debt owed to it. As a result, the Company recorded a gain of ¥400,000 thousand in other non-operating income in the accompanying consolidated statement of operations for the year ended December 31, 2003. Additionally, the third-party debt holder was issued ¥500,000 thousand of preferred stock of the consolidated subsidiary in exchange for ¥500,000 thousand of debt owed to it (see Note 10). The remaining ¥2,686,090 thousand of third-party debt was repaid from proceeds of the ¥140 billion Facility.

In March 2004, the Company entered into additional shareholder subordinated loans of ¥2,431,000 thousand each with SC and LMI. The aggregate ¥4,862,000 thousand of loan proceeds were used for the purchase of the remaining shares of @NetHome (see Note 2). These additional shareholder subordinated loans had identical terms to the Shareholder Subordinated Loans discussed above.

In August 2004, LMI, SC and Microsoft made a capital contribution to the Company in the aggregate amount of ¥30,000 million. The proceeds of this contribution were used to repay an aggregate of ¥30,000 million of Shareholder Subordinated Loans owed respectively in the same amounts as contributed by LMI, SC and Microsoft (see Note 1).

2004 Refinancing

On December 15, 2004, for the purpose of the refinancing the ¥140 billion Facility, the Company entered into a ¥175 billion senior syndicated facility (¥175 billion Facility) which consists of a ¥130 billion term loan facility (Term Loan Facility), a ¥20 billion revolving facility (Revolving Facility) and a ¥25 billion guarantee facility (Guarantee Facility). Concurrently the Company entered into a ¥50 billion subordinated syndicated loan facility (Mezzanine Facility). Consistent with the ¥140 billion Facility, the ¥175 billion Facility will be utilized for the financing of Jupiter, sixteen of its consolidated managed affiliates, one managed affiliate under the equity method accounting and one managed affiliate, which the Company has no equity investment (Jupiter Combined Group). On December 21, 2004, the Company made full drawdowns from each of the ¥130 billion Term Loan Facility and the ¥50 billion Mezzanine Facility. The proceeds from the December 2004 drawdown were used to repay all outstanding loans under the ¥140 billion Facility and all outstanding Shareholder Subordinated Loans.

The ¥130 billion Term Loan Facility consists of a five year ¥90 billion Tranche A Term Loan Facility (Tranche A Facility) and a seven year ¥40 billion Tranche B Term Loan Facility (Tranche B Facility). Final maturity dates of the Tranche A Facility and Tranche B Facility are December 31, 2009 and December 31, 2011, respectively. Loan repayment of the Tranche A Facility and the Tranche B Facility commence on September 30, 2005 and March 31, 2009, respectively, each based on a defined rate reduction each quarter thereafter until maturity.

The ¥20 billion Revolving Facility will be available for drawdown until one month prior to its final maturity of December 31, 2009. A commitment fee of 0.50% per annum is payable on the unused available Revolving Facility during its availability period.

The ¥25 billion Guarantee Facility provides for seven years of bank guarantees on loans from the Development Bank of Japan owed by affiliates of the Jupiter Combined Group. The Guarantee Facility commitment reduces gradually according to the amount and schedule as defined in the ¥175 billion Facility agreement until final maturity at December 31, 2011. As of December 31, 2004 the guarantee commitment is ¥25 billion. Such guarantee commitment will be reduced to ¥23.1 billion by December 2005; ¥21.6 billion by December 2006; ¥20.0 billion by December 2007; ¥18.6 billion by December 2008; ¥17.2 billion by December 2009; ¥15.8 billion by December 2010; and to ¥13.2 billion by December 2011. A commitment fee of 0.50% per annum is payable on the unused available Guarantee Facility during its availability period.

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Interest on the Tranche A Facility, Tranche B Facility and the Revolving Facility is based on TIBOR, as defined in the agreement, plus the applicable margin. Each facility s applicable margin is reducing based upon a leverage ratio of Senior Debt to EBITDA as such terms are defined in the ¥175 billion Facility agreement. When the leverage ratio is greater than or equal to 4.0:1, the margin on the Tranche A Facility and the Revolving Facility is 1.50% per annum and the margin of the Tranche B Facility ranges from 1.80% to 2.00% per annum; when less than 4.0:1 but greater than or equal to 2.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.38% per annum and the margin of the Tranche B Facility ranges from 1.69% to 1.88% per annum; when less than 2.5:1 but greater than or equal to 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.25% per annum and the margin of the Tranche B Facility ranges from 1.58% to 1.75% per annum; and when less than 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.00% per annum and the margin of the Tranche B Facility ranges from 1.35% to 1.50% per annum. In regards to the fees due on the Guarantee Facility, when the leverage ratio is greater than 4.00:1, the interest rate is 3.00% per annum; when less than 4.00:1 but greater than or equal to 3.75:1 the interest rate is 2.00%; when less than 3.75:1 but greater than or equal to 3.50:1 the interest rate is 1.50%; when less than 3.50:1 but greater than or equal to 3.00:1 the interest rate is 1.00%; when less than 3.00:1 but greater than or equal to 2.00:1 the interest rate is 0.75%; and when less than 2.00:1, the interest rate is 0.50% per annum. As of December 31, 2004 the interest rates for the outstanding Tranche A Facility, Tranche B Facility, and Guarantee Facility, were 1.6%, 1.9%, and 1.0% respectively.

The ¥175 billion Facility has requirements to make mandatory prepayments in the amount equal to (1) 50% of the Group Free Cash Flow, as defined in the agreement, until the later of (a) March 31, 2007 and (b) the first quarter for which the ratio of Senior Debt to EBITDA, as defined in the agreement, is less than 2.50:1.00; (2) 50% of third party contributions received when the ratio of Senior Debt to EBITDA is greater than 4.00:1.00; (3) proceeds from the sale of assets exceeding ¥500 million that are not reinvested within six months; (4) insurance proceeds exceeding ¥500 million that are not used to repair or replace the damaged assets within twelve months; and (5) proceeds of any take-out securities as defined in the ¥175 billion Facility agreement. The ¥175 billion Facility requires the Jupiter Combined Group to comply with various financial covenants, such as Maximum Senior Debt to EBITDA Ratio, Maximum Senior Debt to Combined Total Capital Ratio, Minimum Debt Service Coverage Ratio and Minimum Interest Coverage Ratio as such terms are defined in the ¥175 billion Facility agreement. In addition, the ¥175 billion Facility contains certain limitations or prohibitions on additional indebtedness. Additionally, the ¥175 billion Facility requires the Company to maintain interest hedging agreements on at least 50% of the outstanding amounts under the Tranche A Facility. Due to the ¥175 billion Facility closing on December 15, 2004, the Company was not required to calculate financial covenants for the fiscal year 2004.

The Mezzanine Facility contains a bullet repayment upon final maturity at June 30, 2012. However, in the event of an IPO by the Company, there is a mandatory prepayment of the Mezzanine Facility of 100% from the proceeds of such IPO. Interest on the Mezzanine Facility is based on TIBOR, as defined in the agreement, plus an increasing margin. The initial margin is 3.25% per annum and increases 0.25% each successive three month period from closing up to a maximum margin of 9.00% per annum. The Mezzanine Facility has identical financial covenants as the ¥175 billion Facility.

As of December 31, 2004 the Company had ¥20 billion revolving loans available for immediate borrowing under the ¥175 billion Facility.

Development Bank of Japan Loans

The loans represent institutional loans from the Development Bank of Japan, which have been made available to telecommunication companies operating in specific local areas designated as Teletopia by the MIC to facilitate development of local telecommunication network. Requirements to qualify for such financing include use of optical fiber cables, equity participation by local/municipal government and guarantee by third parties,

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among other things. These loans are obtained by the Company s subsidiaries and were primarily guaranteed, directly or indirectly, by SC, LMI and Microsoft. In connection with the 2004 refinancing described above, the guarantees by SC, LMI and Microsoft have been cancelled and replaced with guarantees pursuant to the Guarantee Facility.

Securities on Long-term Debt

At December 31, 2004, subsidiaries shares owned by the Company, trademark and franchise rights held by the Company and substantially all equipment held by the Company s subsidiaries were pledged to secure the loans from the Development Bank of Japan and the Company s bank facilities. The aggregate annual maturities of long-term debt outstanding at December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 5,385,980
2006	11,648,720
2007	20,461,660
2008	31,474,610
2009	42,981,060
Thereafter	87,522,435
	¥ 199,474,465

7. Leases

The Company and its subsidiaries are obligated under various capital leases, primarily for home terminals, and other noncancelable operating leases, which expire at various dates during the next seven years. See Note 5 for further discussion of capital leases from subsidiaries and affiliates of SC.

At December 31, 2003 and 2004, the amount of equipment and related accumulated depreciation recorded under capital leases were as follows (Yen in thousands):

	2003	2004
Distribution system and equipment	¥ 45,170,512	¥ 48,061,224
Support equipment and buildings	6,656,913	6,594,499
Less: accumulated depreciation	(22,111,664)	(24,129,460)
Other assets, at cost, net of depreciation	292,511	209,669
	¥ 30,008,272	¥ 30,735,932

Depreciation of assets under capital leases is included in depreciation and amortization in the accompanying consolidated statements of operations.

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Future minimum lease payments under capital leases and noncancelable operating leases as of December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,	Capital Leases	Operating Leases
2005	¥ 10,479,258	¥ 901,131
2006	8,298,826	750,754
2007	5,997,212	626,332
2008	4,102,122	399,496
2009	2,810,622	383,100
More than five years	2,686,635	703,288
Total minimum lease payments	34,374,675	¥ 3,764,101
Less: amount representing interest (rates ranging from 1.10% to 5.99%)	(2,570,124)	
Present value of net minimum payments	31,804,551	
Less: current portion	(9,529,241)	
Noncurrent portion	¥ 22,275,310	

The Company and its subsidiaries occupy certain offices under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2002, 2003 and 2004, totaled ¥4,115,628 thousand, ¥4,134,249 thousand and ¥3,970,228 thousand, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Also, the Company and its subsidiaries occupy certain transmission facilities and use poles and other equipment under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2002, 2003 and 2004, totaled ¥7,323,538 thousand, ¥8,542,845 thousand and ¥8,943,602 thousand, respectively, and are included in operating costs and programming costs in the accompanying consolidated statements of operations.

8. Income Taxes

The Company and its subsidiaries are subject to Japanese national corporate tax of 30%, an inhabitant tax of 6% and a deductible enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the enterprise tax from 10.08% to 7.2%. The amendments to the tax rates will be effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate will be lowered to approximately 40% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005 for the Company.

All pretax income/loss and related tax expense/benefit are derived solely from Japanese operations. Income tax expense for the years ended December 31, 2002, 2003 and 2004 is as follows (Yen in thousand):

	2002	2003	2004
Current	¥ 256,763	¥ 209,805	¥ 1,812,786
Deferred			45,591

Income tax expense	¥ 256,763	¥ 209,805	¥ 1,858,377

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The effective rates of income tax (benefit) expense relating to losses (income) incurred differs from the rate that would result from applying the normal statutory tax rates for the years ended December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	2004
Normal effective statutory tax rate	(42.0)%	42.0%	42.0%
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates			0.1
Increase/(decrease) in valuation allowance	42.0	(41.2)	(27.4)
Other	3.5	3.0	
Effective tax rate	3.5%	3.8%	14.7%

The effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Deferred tax assets:		
Operating loss carryforwards	¥ 29,921,448	¥ 21,649,833
Deferred revenue	14,165,581	14,455,010
Lease obligation	12,452,252	12,721,820
Retirement and other allowances	1,390,741	1,459,068
Investment in affiliates	794,896	567,766
Accrued expenses and other	2,485,228	3,978,505
Total gross deferred tax assets	61,210,146	54,832,002
Less: valuation allowance	(45,846,086)	(35,240,909)
Deferred tax assets	15,364,060	19,591,093
Deferred tax liabilities:		
Property and equipment	12,680,631	13,796,923
Tax deductible goodwill	633,155	
Other	2,050,274	2,416,766
Total gross deferred tax liabilities	15,364,060	16,213,689
Net deferred tax assets	¥	¥ 3,377,404

The net changes in the total valuation allowance for the years ended December 31, 2002, 2003 and 2004 were decreases of ¥8,985,905 thousand, ¥6,543,162 thousand and ¥10,605,177 thousand, respectively.
Current deferred tax assets in the amount of ¥2,068,822 thousand are included in prepaid expenses and non-current deferred tax assets in the amount of ¥1,308,582 thousand are included in other in non-current assets in the

accompanied consolidated balance sheet at December 31, 2004.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management expects to realize its deferred tax assets net of existing valuation allowance. The Company had ¥343,918 thousand of tax deductible goodwill as of December 31, 2004.

The amount of unrecognized tax benefits at December 31, 2003 and 2004 acquired in connection with business combinations were ¥12,000 million and ¥7,267 million (net of ¥3,423 million recognized during 2004),

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respectively. If the deferred tax assets are realized or the valuation allowance is reversed, the tax benefit realized is first applied to i) reduce to zero any goodwill related to acquisition, ii) second to reduce to zero other non-current intangible assets related to the acquisition and iii) third to reduce income tax expense. See Note 4.

At December 31, 2004, the Company and its subsidiaries had net operating loss carryforwards for income tax purposes of ¥54,124,581 thousand which were available to offset future taxable income. Net operating loss carryforwards, if not utilized, will expire in each of the next five years as follows (Yen in thousands):

Year ending December 31,		
2005	¥	17,501,242
2006		20,094,037
2007		
2008		55,494
2009		10,751,591
2010-2011		5,722,217
	¥	54,124,581

9. Severance and Retirement Plans

Under unfunded severance and retirement plans, substantially all full-time employees terminating their employment after the three year vesting period are entitled, under most circumstances, to lump-sum severance payments determined by reference to their rate of pay at the time of termination, years of service and certain other factors. No assumptions are made for future compensation levels as the plans have flat-benefit formulas. As a result, the accumulated benefit obligation and projected benefit obligation are the same. December 31, 2004 was used as the measurement date.

Net periodic cost of the Company and its subsidiaries plans accounted for in accordance with SFAS No. 87 for the years ended December 31, 2002, 2003 and 2004, included the following components (Yen in thousands):

		2002		2003		2004
Service cost benefits earned during the year	¥	205,094	¥	257,230	¥	265,608
Interest cost on projected benefit obligation		35,074		40,159		40,120
Recognized actuarial loss		232,507		158,371		463,216
Net periodic cost	¥	472,675	¥	455,760	¥	768,944

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries plans accounted for in accordance with SFAS No. 87 are as follows (Yen in thousands):

		2003		2004
Change in benefit obligation:				
Benefit obligation, beginning of year	¥	1,606,371	¥	2,006,011
Service cost		257,230		265,608
Interest cost		40,159		40,120

Acquisitions (Note 2)				30,630
Actuarial loss		158,371		432,586
Benefits paid		(56,120)		(93,288)
Benefit obligation, end of year	¥	2,006,011	¥	2,681,667

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

The weighted-average discount rate used in the determination of projected benefit obligation and net pension cost of the Company and its subsidiaries plans as of and for the year ended December 31, 2002, 2003, and 2004 is as follows:

	2002	2003	2004
Projected benefit obligation			
Discount rate	2.5%	2.0%	2.0%
Net pension cost			
Discount rate	3.0%	2.0%	2.0%

The estimated future benefit payments are (Yen in thousands):

Estimated Future Benefit Payments		
2005	¥	105,753
2006		116,145
2007		172,494
2008		138,000
2009		167,641
2010 to 2014		996,298
	¥	1,696,331

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit plan. The Company contributions to this plan amounted to ¥324,521 thousand, ¥342,521 thousand and ¥292,546 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in provision for retirement allowance in selling, general and administrative expenses in the accompanying consolidated statements of operations.

10. Redeemable Preferred Stock

On December 29, 2003, in connection with being included as a party to the ¥140 billion Facility, a consolidated subsidiary of the Company issued ¥500,000 thousand of preferred stock to a third-party in exchange for debt owed to that third party. All or a part of the preferred stock can be redeemed after 2010, up to a half of the preceding year s net income, at the holder s demand. The holder of the preferred stock has a priority to receive dividends, however, the amount of such dividends will be decided by the subsidiary s board of directors and such dividend will not exceed ¥1,000 per preferred stock for any fiscal year and will not accumulate.

11. Shareholders Equity

Dividends

Under the Japanese Commercial Code (the Code), the amount available for dividends is based on retained earnings as recorded on the books of the Company maintained in conformity with financial accounting standards of Japan. Certain adjustments not recorded on the Company s books are reflected in the consolidated financial statements for reasons described in Note 1. At December 31, 2004, the accumulated deficit recorded on the Company s books of account was ¥16,024,828 thousand. Therefore, no dividends may be paid at the present time.

The Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve and the additional paid-in capital equal 25% of the issued capital. The Code also provides that neither additional paid-in capital nor the legal reserve are to be used for cash dividends, but may be either (i) used to reduce a capital deficit, by resolution of the

shareholders; (ii) capitalized, by resolution of the Board of Directors; or (iii) used

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

for purposes other than those provided in (i) and (ii), such as refund made to shareholders or acquisition of treasury stocks, but only up to an amount equal to the additional paid-in capital and the legal reserve less 25% of the issued capital, by resolution of the shareholders. The Code provides that at least one-half of the issue price of new shares be included in capital.

Stock-Based Compensation Plans

The Company maintains subscription-rights option plans and stock purchase warrant plans for certain directors, corporate auditors and employees of the Company s consolidated managed franchises and to directors, corporate auditors and employees of the Company s unconsolidated managed franchises and other non-employees (collectively the Jupiter Option Plans). The Company s board of directors and shareholders approved the grant of the Company s ordinary shares at an initial exercise price of ¥92,000 per share. The exercise price is subject to adjustment upon an effective IPO to the lower of ¥92,000 per share or the IPO offering price.

Under Jupiter Option Plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations and the subscription rights will not be exercisable until the Company s ordinary shares are registered with the Japan Securities Dealers Association or listed on a stock exchange. Non-management employees will, unless the grant agreement provides otherwise, vest in two years from date of grant. Management employees will, unless the grant agreement provides otherwise, vest in four equal installments from date of grant. Options under the Jupiter Option Plans generally expire 10 years from date of grant, currently ranging from August 23, 2010 to August 23, 2012.

The Company has accounted for awards granted to the Company s and its consolidated managed franchises directors, corporate auditors and employees under APB No. 25 and FIN No. 44. Based on the Company s estimated fair value per ordinary share, there was no intrinsic value at the date of grant under the Jupiter Option Plans. As the exercise price at the date of grant is uncertain, the Jupiter Option Plans are considered variable awards. Under APB No. 25 and FIN 44, variable awards will have stock compensation recognized each period to the extent the market value of the ordinary shares granted exceeds the exercise price. The Company will be subject to variable accounting for grants to employees under the Jupiter Option Plans until all options granted are exercised, forfeited, or expired. At December 31, 2002, 2003 and 2004, the market value of the Company s ordinary shares did not exceed the exercise price and no compensation expense was recognized.

The Company has accounted for awards granted to directors, corporate auditors and employees of the Company s unconsolidated managed franchises and to other non-employees, in accordance with SFAS No. 123 and EITF 00-12. As a result of cancellations, options outstanding to directors, corporate auditors and employees of the Company s unconsolidated managed franchises and to other non-employees were 23,338 ordinary shares, 21,916 ordinary shares and 11,476 ordinary shares at December 31, 2002, 2003 and 2004, respectively. The Company recorded compensation expense related to the directors, corporate auditors and employees of the Company s unconsolidated managed franchises and other non-employees of ¥64,058 thousand, ¥117,359 thousand and ¥93,484 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, which has been included in selling, general and administrative expense for the Company s non-employees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

The following table summarizes activity under the Jupiter Option Plans:

	2002	2003	2004
Outstanding at beginning of the year	132,712	159,004	191,764
Granted	30,576	41,958	29,730
Canceled	(4,284)	(9,198)	(8,418)
Outstanding at end of the year	159,004	191,764	213,076
Weighted average exercise price	¥ 92,000	¥ 92,000	¥ 92,000
Weighted average remaining contractual life	8.0 years	7.4 years	6.6 years
Options exercisable, end of period			
Weighted average fair value of options granted	¥ 14,604	¥ 18,340	¥ 24,545

12. Fair Value of Financial Instruments

For financial instruments other than long-term loans, lease obligations and interest rate swap agreements, the carrying amount approximates fair value because of the short maturity of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt and capital lease obligations at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	¥ 224,270,195	¥ 220,114,532	¥199,474,465	¥199,127,222
Lease obligation	31,130,629	32,328,048	31,804,551	30,125,734
Interest rate swap agreements	694,745	694,745	8,204	8,204

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

	2002	2003	2004
		(Yen in thousands)	
Cash paid during the year for:			
Interest	¥ 4,696,332	¥ 4,408,426	¥ 8,588,285
Income tax	¥	¥ 378,116	¥ 323,144
Cash acquisitions of new subsidiaries:			
Fair value of assets acquired	¥ 20,135,417	¥	¥ 1,688,442
Liabilities assumed	21,991,647		1,245,532

Cash paid, net of cash acquired	¥	(1,856,230)	¥		¥	442,910
Property acquired under capital leases during the year	¥	10,990,909	¥	6,057,250	¥	12,561,285
Conversion of long-term debt into equity	¥		¥	32,260,750	¥	

14. Commitments

In connection with the September 1, 2000 acquisition of Titus Communications Corporation (Titus), Microsoft and the Company entered into a gain recognition agreement with respect to the Titus shares and assets acquired. The Company agreed not to sell during any 18-month period, without Microsoft consent, any shares of Titus, or sell any of Titus assets, valued at $35 million or more, in a transaction that would result in taxable income to Microsoft. Microsoft will retain this consent right until the earlier of June 30, 2006 or the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)

date Microsoft owns less than 5% of the Company s ordinary shares and Microsoft has sold, in taxable transactions, 80% of the Company s ordinary shares issued to it in connection with the Titus acquisition.

The Company has guaranteed payment of certain bank loans for its equity method affiliate investee, CATV Kobe, and its cost method investee Bay Communications Inc. The guarantees are based on an agreed-upon proportionate share of the bank loans among certain of the entities shareholders, considering each of their respective equity interest. The term of the guarantee ranges from 5 to 12 years and the aggregate guaranteed amounts were ¥796,233 thousand, ¥722,531 thousand and ¥179,072 thousand as of December 31, 2002, 2003 and 2004, respectively. Management believes that the likelihood the Company would be required to perform or otherwise incur any significant losses associated with any of these guarantees is remote.

15. Subsequent Events

On February 9, 2005, the Company entered into a share purchase agreement to purchase from Microsoft, LMI, and SC all of their interest in J-COM Chofu, as well as all of the equity interest owned by Microsoft in Tu-Ka Cellular Tokyo, Inc. and Tu-Ka Cellular Tokai, Inc. (Tu-Ka) on or about February 25, 2005. The Company will pay approximately $24 million (approximately ¥2,500 million) to Microsoft, approximately ¥972 million to LMI and approximately ¥940 million to SC for their respective Chofu or Tu-Ka shares. Consideration for J-COM Chofu shares will be in cash at closing, and the Tu-Ka shares will be transferred in exchange for a non-interest-bearing promissory note to Microsoft that is payable 5 business days after a successful IPO in Japan by the Company.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Jupiter Programming Co. Ltd.:

We have audited the accompanying consolidated balance sheets of Jupiter Programming Co. Ltd. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jupiter Programming Co., Ltd. and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

KPMG AZSA & Co.
Tokyo, Japan
March 4, 2005

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2004

	2003	2004
	(Yen in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents:		
Related party	¥ 2,350,000	¥ 3,100,000
Other	2,554,768	2,252,611
Accounts receivable (less allowance for doubtful accounts of ¥10,618 thousand in 2003 and ¥7,723 thousand in 2004):		
Related party	307,160	380,826
Other	3,036,190	4,298,811
Retail inventories	2,235,952	2,999,404
Program rights and language versioning, net (Note 3)	646,758	599,480
Deferred income taxes (Note 13)	1,165,550	1,334,560
Prepaid and other current assets	378,606	401,840
Total current assets	12,674,984	15,367,532
Investments (Note 4)	3,359,563	6,929,961
Property and equipment, net (Note 5)	2,012,286	5,327,068
Software development costs, net (Note 6)	1,450,388	1,902,244
Program rights and language versioning, excluding current portion, net (Note 3)	140,372	86,289
Goodwill (Note 8)	188,945	470,131
Other intangible assets, net (Note 7)	59,393	251,959
Deferred income taxes (Note 13)	236,975	357,606
Other assets, net	506,321	680,365
Total assets	¥ 20,629,227	¥ 31,373,155

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

	2003	2004
	(Yen in thousands)	
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (Note 12)	¥ 46,000	¥
Obligations under capital leases, current installments (related party) (Note 11)	329,764	290,031
Accounts payable:		
Related party	485,416	557,851
Other	3,722,456	4,848,307
Accrued liabilities		
Related party	232,172	276,938
Other	1,228,563	1,515,453
Income taxes payable	1,516,200	2,191,203
Advances from affiliate		938,000
Other current liabilities	517,910	512,501
Total current liabilities	8,078,481	11,130,284
Long-term debt (Note 12):		
Related party	2,016,000	1,000,000
Other	4,000,000	4,000,000
Obligations under capital leases, excluding current installments (related party) (Note 11)	174,946	823,170
Accrued pension and severance cost (Note 14)	216,611	284,796
Deferred income taxes (Note 13)		81,380
Total liabilities	14,486,038	17,319,630
Minority interests	1,539,900	3,055,893
Shareholders equity (Note 15):		
Common stock, no par value; 2003 authorized 450,000 shares; issued and outstanding 336,680 shares 2004 authorized 460,000 shares; issued and outstanding 360,680 shares	16,834,000	11,434,000
Additional paid-in capital		6,788,054
Accumulated deficit	(12,230,711)	(7,207,717)
Accumulated other comprehensive loss		(16,705)
Total shareholders equity	4,603,289	10,997,632
Total liabilities and shareholders equity	¥ 20,629,227	¥ 31,373,155

See accompanying notes to consolidated financial statements.

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2002, 2003 and 2004

	2002	2003	2004
	(unaudited)		
		(Yen in thousands)	
Revenues:			
Retail sales, net	¥ 27,432,871	¥ 38,699,329	¥ 50,010,854
Television programming revenue:			
Related party	1,457,731	1,655,215	1,762,782
Other	4,247,036	5,802,030	6,664,584
Services and other revenue:			
Related party	524,849	755,244	866,157
Other	634,336	906,453	1,176,418
Total revenues	34,296,823	47,818,271	60,480,795
Operating costs and expenses:			
Cost of retail sales:			
Related party	1,251,413	1,597,880	2,212,430
Other	15,141,176	21,658,902	28,038,763
Cost of programming and distribution:			
Related party	851,475	2,487,545	2,742,401
Other	5,417,193	6,271,783	7,482,238
Selling, general and administrative expenses:			
Related party	895,979	943,439	1,318,449
Other	6,728,610	8,532,952	10,084,322
Depreciation and amortization	1,107,040	1,210,163	1,380,432
Total operating expenses	31,392,886	42,702,664	53,259,035
Operating income	2,903,937	5,115,607	7,221,760
Other income (expense):			
Interest expense:			
Related party	(77,899)	(60,073)	(45,258)
Other	(74,482)	(66,204)	(77,245)
Foreign exchange (loss) gain	(309,017)	(141,368)	126,572
Equity in (losses) income of equity method affiliates (Note 4)	(163,758)	(64,472)	22,888
Other (expense) income, net	(214,087)	9,763	(9,241)
Total other (expense) income	(839,243)	(322,354)	17,716
Income before income taxes and minority interests	2,064,694	4,793,253	7,239,476
Income tax expense (Note 13)	(703,947)	(1,519,225)	(2,951,446)
Minority interests in earnings, net of tax	(343,027)	(608,738)	(1,077,972)

Net income	¥ 1,017,720	¥ 2,665,290	¥ 3,210,058

See accompanying notes to consolidated financial statements.

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
AND COMPREHENSIVE INCOME
Years ended December 31, 2002, 2003 and 2004

	2002	2003	2004
	(unaudited)		
		(Yen in thousands)	
Common stock (Note 15):			
Balance at beginning of year	¥ 16,834,000	¥ 16,834,000	¥ 16,834,000
Transfer from common stock			(8,400,000)
Issuance of common stock			3,000,000
Balance at end of year	16,834,000	16,834,000	11,434,000
Additional paid-in capital (Note 15):			
Balance at beginning of year			
Transfer from common stock			6,587,064
Issuance of common stock			3,000,000
Carryover basis adjustment related to LJS acquisition (Note 2)			(2,799,010)
Balance at end of year			6,788,054
Accumulated deficit:			
Balance at beginning of year	(15,913,721)	(14,896,001)	(12,230,711)
Transfer from common stock			1,812,936
Net income	1,017,720	2,665,290	3,210,058
Balance at end of year	(14,896,001)	(12,230,711)	(7,207,717)
Accumulated other comprehensive income:			
Balance at beginning of year			
Unrecognized losses on derivative instruments (Note 9):			
Unrealized holding losses arising during the year, net of tax benefit, ¥11,460 thousand in 2004			(16,705)
Balance at end of year			(16,705)
Treasury stock at cost:			
Balance at beginning of year			
Redemption of common stock, to be held as treasury stock (Note 15)			(6,000,000)
Issuance of treasury stock related to LJS acquisition (Note 2)			6,000,000

Balance at end of year						
Total shareholders equity	¥	1,937,999	¥	4,603,289	¥	10,997,632
Comprehensive income:						
Net income for the year	¥	1,017,720	¥	2,665,290	¥	3,210,058
Other comprehensive loss for the year, net of tax benefit, ¥11,460 thousand in 2004						(16,705)
Total comprehensive income	¥	1,017,720	¥	2,665,290	¥	3,193,353

See accompanying notes to consolidated financial statements.

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2003 and 2004

	2002	2003	2004
	(unaudited)		
		(Yen in thousands)	
Cash flows from operating activities:			
Net income	¥ 1,017,720	¥ 2,665,290	¥ 3,210,058
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,107,040	1,210,163	1,380,432
Amortization of program rights and language versioning	1,298,054	1,570,670	1,732,435
Provision for doubtful accounts	1,501	1,975	(3,519)
Equity in losses (income) of equity method affiliates	163,758	64,472	(22,888)
Write-down of cost method investment	215,650		
Deferred income taxes	(536,017)	(553,039)	(278,181)
Minority interest in earnings	343,027	608,738	1,077,972
Changes in assets and liabilities, net of effects of acquisitions:			
Purchase of program rights and language versioning	(1,433,219)	(1,608,392)	(1,631,074)
Increase in accounts receivable	(515,809)	(740,650)	(1,307,561)
(Increase) decrease in retail inventories, net	(777,383)	252,870	(763,453)
Increase (decrease) in accounts payable	1,242,235	777,510	883,283
Increase in accrued liabilities	169,642	425,674	263,015
Increase in income taxes payable	939,964	369,587	674,288
Other, net	457,341	210,947	(22,218)
Net cash provided by operating activities	3,693,504	5,255,815	5,192,589
Cash flows from investing activities:			
Capital expenditures	(1,378,218)	(1,299,228)	(3,886,668)
Acquisition of subsidiary, net of cash acquired	(188,844)		(391,887)
Investments in affiliates	(626,050)	(1,259,945)	(748,500)
Other, net	(113,998)	4,500	
Net cash used in investing activities	(2,307,110)	(2,554,673)	(5,027,055)
Cash flows from financing activities:			
Proceeds (repayments) on short-term debt		46,000	(46,000)
Proceeds from advances from affiliate			938,000
Proceeds from issuance of long-term debt	60,000	4,040,000	
Principal payments on long-term debt		(4,000,000)	(176,000)
Principal payments on obligations under capital leases	(527,935)	(460,262)	(429,014)
Proceeds from issuance of common stock			6,000,000
Payments to acquire treasury stock			(6,000,000)

Net cash used in financing activities		(467,935)		(374,262)		286,986
Net effect of exchange rate changes on cash and cash equivalents		(25,895)		(23,095)		(4,677)
Net increase in cash and cash equivalents		892,564		2,303,785		447,843
Cash and cash equivalents at beginning of year		1,708,419		2,600,983		4,904,768
Cash and cash equivalents at end of year	¥	2,600,983	¥	4,904,768	¥	5,352,611
Supplemental information:						
Cash paid during the year for:						
Income taxes	¥	299,999	¥	1,702,678	¥	2,551,301
Interest		152,381		126,277		90,711
Acquisition of BBF (Note 2)						
Fair value of assets acquired (including cash acquired of ¥158,113 thousand)						705,657
Fair value of liabilities assumed						(87,657)
Accrued estimated additional purchase consideration						(68,000)
Non-cash activities:						
Assets acquired under capital leases		5,457		142,644		1,037,505
Acquisition of LJS through issuance of treasury stock (Note 2)						3,200,990
Elimination of long-term loan from LJS						840,000

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

Jupiter Programming Co. Ltd. (the Company) and its subsidiaries (hereafter collectively referred to as JPC) invest in, develop, manage and distribute television programming to cable and satellite systems in Japan. Jupiter Shop Channel Co., Ltd (Shop Channel), through which JPC markets and sells a wide variety of consumer products and accessories, is JPC s largest channel in terms of revenue, comprising approximately 80%, 81%, and 83%, of total revenues for the years ended December 31, 2002, 2003 and 2004, respectively. JPC s business activities are conducted in Japan and serve the Japanese market.

The Company is owned 50% by Liberty Media International, Inc. (LMI) through its wholly owned subsidiaries Liberty Programming Japan, Inc. (43%) and Liberty Programming Japan II LLC (7%), and 50% by Sumitomo Corporation. The Company was incorporated in 1996 in Japan under the name Kabushiki Kaisha Jupiter Programming, Jupiter Programming Co. Ltd. in English.

(b) Basis of Consolidated Financial Statements

The consolidated statements of operations, shareholders equity and comprehensive income and cash flows for the year ended December 31, 2002, as well as the related footnote disclosures for that year, are unaudited. These consolidated financial statements for 2002 have been prepared on a consistent basis with the 2003 and 2004 consolidated financial statements and reflect all adjustments that in the opinion of management are necessary to present the results of operations and cash flows for 2002 in accordance with the accounting principles generally accepted in the United States of America.

The Company and its subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform them to accounting principles generally accepted in the United States of America. The major areas requiring such adjustment are accounting for derivative instruments and hedging activities, accounting for assets held under finance lease arrangements, accounting for goodwill and other intangible assets, employers accounting for pensions, accounting for compensated absence, accounting for deferred taxes, accounting for cooperative marketing arrangements and certain customer discounts, and accounting for the non-cash contribution of Liberty J Sports, Inc., from LMI.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

JPC accounts for investments in variable interest entities in accordance with the provisions of the Revised Interpretation of the FASB Interpretation (FIN) No. 46 Consolidation of Variable Interest Entities , issued in December 2003. The Revised Interpretation of FIN No. 46 provides guidance on how to identify a variable interest entity (VIE), and determines when the assets, liabilities, non-controlling interests, and results of operations of a VIE must be included in a company s consolidated financial statements. A company that holds variable interests in an entity is required to consolidate the entity if the company s interest in the VIE is such that the company will absorb a majority of the VIE s expected losses and/or receive a majority of the entity s expected residual returns, if any. VIEs created after December 31, 2003 must be accounted for under FIN No. 46R. For nonpublic companies, FIN No. 46R must be applied to all VIEs created before January 1, 2004 that are subject to this Interpretation by the beginning of the first annual period beginning after December 15, 2004. There has been no material effect to JPC s consolidated financial statements from potential VIEs entered into after December 31, 2003 and there was no impact from the adoption of the deferred provisions effective January 1, 2005.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with an initial maturity of three months or less from the date of purchase.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on an analysis of certain individual accounts, including claims in bankruptcy.

(f) Retail Inventories

Retail Inventories, consisting primarily of products held for sale on Shop Channel, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

(g) Program Rights and Language Versioning

Rights to programming acquired for broadcast on the programming channels and language versioning are stated at the lower of cost and net realizable value. Program right licenses generally state a fixed time period within which a program can be aired, and generally limit the number of times a program can be aired. The licensor retains ownership of the program upon expiration of the license. Programming rights and language versioning costs are amortized over the license period for the program rights based on the nature of the contract or program. Where airing runs are limited, amortization is generally based on runs usage, where usage is unlimited, a straight line basis is used as an estimate of actual usage for amortization purposes. Certain sports programs are amortized fully upon first airing. Such amortization is included in programming and distribution expense in the accompanying consolidated statements of operations.

The portion of unamortized program rights and language versioning costs expected to be amortized within one year is classified as a current asset in the accompanying consolidated balance sheets.

(h) Investments

For those investments in affiliates in which JPC s voting interest is 20% to 50% and JPC has the ability to exercise significant influence over the affiliates operations and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and is adjusted to recognize JPC s share of the net earnings or losses of its affiliates. JPC recognizes its share of losses of an equity method affiliate until its investment and net advances, if any, are reduced to zero and only provides for additional losses in the event that it has guaranteed obligations of the equity method affiliate or is otherwise committed to provide further financial support.

The difference between the carrying value of JPC s investment in the affiliate and the underlying equity in the net assets of the affiliate is recorded as equity method intangible assets where appropriate and amortized over a relevant period of time, or as residual goodwill. Equity method goodwill is not amortized but continues to be reviewed for impairment in accordance with APB No. 18, which requires that an other than temporary decline in value of an investment be recognized as an impairment loss.

Investments in other securities carried at cost represent non-marketable equity securities in which JPC s ownership is less than 20% and JPC does not have the ability to exercise significant influence over the entities operation and financial policies.

JPC evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, JPC utilizes various sources of information, as available, including cash flow projections, independent valuations and, as applicable, stock

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

price analysis. In the event of a determination that a decline in value is other than temporary, a charge to income is recorded for the loss, and a new cost basis in the investment is established.

(i) Derivative Financial Instruments

Under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in income in the period of change.

JPC uses foreign exchange forward contracts to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JPC enters into these contracts to hedge its U.S. dollar denominated net monetary exposures. Hedges relating to purchase commitments for contracted programming rights and other contract costs may qualify for hedge accounting under the hedging criteria specified by SFAS No. 133. However prior to January 1, 2004, JPC elected not to designate any qualifying transactions as hedges. For certain qualifying transactions entered into since January 1, 2004, JPC has designated the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss. For JPC s foreign exchange forward contracts that do not qualify for hedge accounting under the hedging criteria specified by SFAS No. 133, changes in the fair value of derivatives are recorded in the consolidated statement of operations in the period of the change.

JPC does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

(j) Property and Equipment

Property and equipment are stated at cost.

Depreciation and amortization is generally computed using the straight line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	2-20 years
Leasehold and building improvements	3-18 years
Equipment and vehicles	2-15 years
Buildings	37-50 years

Equipment under capital leases is initially stated at the present value of minimum lease payments. Equipment under capital leases is amortized using the straight line method over the shorter of the lease term and the estimated useful lives of the respective assets, which generally range from three to nine years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(k) Software Development Costs

JPC capitalizes certain costs incurred to purchase or develop software for internal use. Costs incurred to develop software for internal use are expensed as incurred during the preliminary project stage, including costs associated with making strategic decisions and determining performance and system requirements regarding the project, and vendor demonstration costs. Labor costs incurred subsequent to the preliminary project stage through implementation are capitalized. JPC also expenses costs incurred for internal use software projects in the post implementation stage such as costs for training and maintenance. The capitalized cost of software is amortized straight-line over the estimated useful life, which is generally two to five years.

(l) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

JPC performs its annual impairment test for goodwill and indefinite-life intangible assets at the end of each year. JPC completed its annual impairment tests at December 31, 2002, 2003 and 2004, respectively, with no indication of impairment identified.

(m) Long-Lived Assets and Long-Lived Assets to Be Disposed Of

JPC accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined by independent third party appraisals, projected discounted cash flows, or other valuation techniques as appropriate.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. JPC adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(n) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries provide a Retirement Allowance Plan (RAP) for eligible employees. The RAP is an unfunded retirement allowance program in which benefits are based on years of service which in turn determine a multiple of final monthly compensation. JPC accounts for the RAP in accordance with the provisions of SFAS No. 87, Employers Accounting for Pensions .

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, JPC employees participate in an Employees Pension Fund (EPF) Plan. The EPF Plan is a multi-employer plan consisting of approximately 120 participating companies, mainly affiliates of Sumitomo Corporation. The plan is composed of substitutional portions based on the pay-related part of the old age pension benefits prescribed by the Welfare Pension Insurance Law in Japan, and corporate portions based on contributory defined benefit pension arrangements established at the discretion of the Company and its subsidiaries. Benefits under the EPF Plan are based on years of service and the employee s compensation during the five years before retirement.

The assets of the EPF Plan are co-mingled and no assets are separately identifiable for any one participating company. JPC accounts for the EPF Plan in accordance with the provisions of SFAS No. 87, governing multi-employer plans. Under these provisions, JPC recognizes a net pension expense for the required contribution for each period and recognizes a liability for any contributions due but unpaid at the end of each period. Any shortfalls in plan funding are charged to participating companies on a share-of-contribution basis through special contributions spread over a period of years determined by the EPF Plan as being appropriate.

(o) Revenue Recognition

Retail sales. Revenue from sales of products by Shop Channel is recognized when the products are delivered to customers, which is when title and risk of loss transfers. Shop Channel s retail sales policy allows merchandise to be returned at the customers discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

Television Programming Revenue. Television programming revenue includes subscription and advertising revenue. Subscription revenue is recognized in the periods in which programming services are provided to cable and satellite subscribers. JPC s channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual subscribers pay a monthly fee for programming channels under the terms of rolling one-month subscription contracts. Cable service providers generally pay a per-subscriber fee for the right to distribute JPC s programming on their systems under the terms of generally annual distribution contracts. Subscription revenue is recognized net of satellite platform commissions and certain cooperative marketing and advertising funds paid to cable system operators. Satellite platform commissions for the years ended December 31, 2002, 2003 and 2004 were ¥843,335 thousand, ¥1,580,945 thousand and ¥1,639,055 thousand, respectively. Cooperative marketing and advertising funds paid to cable system operators for the years ended December 31, 2002, 2003 and 2004 were ¥80,289 thousand, ¥174,432 thousand and ¥225,572 thousand, respectively.

The Company generates advertising revenue on all of its programming channels except Shop Channel. Advertising revenue is recognized, net of agency commissions, when advertisements are broadcast on JPC s programming channels.

Services and Other Revenue. Services and other revenue mainly comprises cable and advertising sales fees and commissions, and technical broadcast facility and production services provided by the Company and certain subsidiaries, and is recognized in the periods in which such services are provided to customers.

(p) Cost of Retail Sales

Cost of retail sales consists of the cost of products marketed to customers by Shop Channel, including write-downs for inventory obsolescence, shipping and handling costs and warehouse costs. Product costs are recognized as cost of retail sales in the accompanying consolidated statements of operations when the products are delivered to customers and the corresponding revenue is recognized.

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(q) Cost of Programming and Distribution

Cost of programming and distribution consists of costs incurred to acquire or produce programs airing on the channels distributed to cable and satellite subscribers. Distribution costs include the costs of delivering the programming channels via satellite, including the costs incurred for uplink services and use of satellite transponders, and payments made to cable and satellite platforms for carriage of Shop Channel.

(r) Advertising Expense

Advertising expense is recognized as incurred and is included in selling, general and administrative expenses or, if appropriate, as a reduction of subscription revenue. Cooperative marketing costs are recognized as an expense to the extent that an identifiable benefit is received and the fair value of the benefit can be reasonably measured, otherwise as a reduction of subscription revenue. Advertising expense included in selling, general and administrative expenses for the years ended December 31, 2002, 2003 and 2004 was ¥1,062,757 thousand, ¥1,003,836 thousand and ¥1,333,596 thousand, respectively.

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(t) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet dates. All revenue and expenses denominated in foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of operations.

(u) Use of Estimates

Management of JPC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, retail inventories, investments, deferred tax assets, retail sales returns, and obligations related to employees retirement plans. Actual results could differ from estimates.

(v) New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, Inventory Costs-an amendment of ARB No. 43. This Statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ... under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges... . This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires

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that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during annual periods beginning after June 15, 2005. JPC does not expect the adoption of this statement will have a material effect on its consolidated financial statements.

(w) Reclassification

Certain prior year amounts have been reclassified for comparability with the current year presentation.

(2) Acquisitions

On May 1, 2002, JPC acquired 100% of the outstanding common stock of Misawa Satellite Broadcasting Ltd. (MSB), a television programming company. The aggregate purchase price was ¥188,844 thousand and was paid in cash. The acquisition was accounted for as a purchase. On January 1, 2003, JPC merged the business operations of MSB with its wholly-owned subsidiary, Jupiter Satellite Broadcasting Co., Ltd. MSB operated Home Channel and as a result of the acquisition, JPC is expected to increase direct-to-home revenue from the packages in which Home Channel was carried. The results of operations of MSB are included in the accompanying consolidated statements of operations from May 1, 2002 onward. Goodwill from the acquisition of MSB is not deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition of MSB (Yen in thousands):

Current assets	¥	139,787
Goodwill		183,655
Total assets acquired		323,442
Current liabilities assumed		(134,598)
Net assets acquired	¥	188,844

In addition to the goodwill recognized from the MSB transaction, ¥7,827 thousand of other goodwill was recorded in 2002.

In April 2004, JPC acquired all of the issued and outstanding common stock of Liberty J Sports, Inc. (LJS) from LMI, in exchange for 24,000 shares of JPC s common stock held in treasury having a fair value, as determined by independent appraisal, of ¥250,000 per share. The aggregate purchase price amounted to ¥6,000,000 thousand. Immediately prior to the acquisition, LJS held 33.3% of the issued and outstanding shares of voting common stock of Jupiter Sports, Inc., with JPC holding the remaining 66.7%. Jupiter Sports Inc. is a holding company with its only principal asset, an investment, representing approximately 42.8% of the issued and outstanding voting common stock, in JSports Broadcasting Corporation (JSB). JSB is a sports channel broadcasting company currently operating three channels of various sports related contents. Jupiter Sports Inc. accounts for its investment in JSB using the equity method of accounting as it is able to exercise significant influence over the operations of JSB. As a result of the acquisition of LJS, JPC has increased its indirect ownership in JSB from 28.5% to 42.8%. Upon consummation of the acquisition, LJS was converted to a limited liability company with the Certificate of Conversion filed with the Secretary of State of Delaware, and renamed J Sports LLC.

The acquisition was consummated in concert with a series of capital transactions as described in Note 15 to the consolidated financial statements.

The Company has accounted for the acquisition to the extent of the ¥3,000,000 thousand cash paid to LMI in an earlier redemption of shares of common stock (see Note 15) in a manner similar to a partial step acquisition, reflecting the culmination of an earnings process on the part of LMI. Accordingly, the excess of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

¥3,000,000 thousand over 50% of the fair value of the assets acquired and liabilities assumed with respect to the underlying investment in JSB has been recorded as a component of JPC s investment in JSB and accordingly has been classified as equity method goodwill. Management has determined that the fair value of the assets acquired and liabilities assumed approximated their respective carrying values at the date of acquisition, and that there were no material intangible assets applicable to the underlying investment in JSB. The balance of the underlying investment acquired in JSB has been accounted for at historical cost using carryover basis with the difference of ¥3,000,000 thousand over such historical cost amount being reflected as a deduction from additional paid in capital. Goodwill from the acquisition is not deductible for tax purposes.

The following table summarizes the allocation of the acquisition consideration (Yen in thousands):

Purchase accounting:		
50% of acquisition consideration	¥	3,000,000
Fair value of 50% of underlying net assets acquired		200,990
Equity method goodwill	¥	2,799,010
Carryover basis:		
50% of acquisition consideration	¥	3,000,000
Historical cost of 50% of underlying net assets acquired		200,990
Carryover basis adjustment to additional paid in capital	¥	2,799,010

On December 28, 2004, JPC acquired 100% of the outstanding shares of BB Factory Corporation Ltd. (BBF), a television programming company. The aggregate purchase price is estimated to be ¥618,000 thousand, of which ¥550,000 thousand was paid in cash on December 28, 2004. The estimated additional purchase consideration of ¥68,000 has been accrued at December 31, 2004. The amount was determined with reference to the net asset value of BBF at January 31, 2005, pending final approval by both parties to the transaction. The additional purchase amount for BBF shall be settled in cash no later than March 31, 2005. The acquisition was accounted for as a purchase. JPC intends to sell access rights to the BBF broadcasting infrastructure to a new joint venture in which the JPC will hold a 50% interest. The new joint venture will be named Reality TV Japan, and was incorporated on January 26, 2005. BBF operated Channel BB and as a result of the acquisition, JPC expects to decrease funding requirements for Reality TV Japan due to its access to direct-to-home revenue from the packages in which Channel BB was carried. JPC has recognized intangible assets in the amount of ¥200,000 thousand representing estimated financial benefits from taking over Channel BB s position in those packaging alliances, which it will amortize over a ten year period from 2005. The results of operations of BBF will be included in JPC s consolidated statements of operations from January 1, 2005. Goodwill from the acquisition of BBF is not deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition of BBF (Yen in thousands).

Current assets	¥	224,471
Intangible assets		200,000
Goodwill		281,186
Total assets acquired		705,657
Current liabilities assumed		(6,277)
Deferred tax liabilities		(81,380)

Net assets acquired	¥	618,000

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
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(3) Program Rights and Language Versioning

Program rights and language versioning as of December 31, 2003 and 2004 were composed of the following (Yen in thousands):

	2003	2004
Program rights	¥ 1,616,603	¥ 1,308,623
Language versioning	206,884	116,910
	1,823,487	1,425,533
Less accumulated amortization 557,638	(1,036,357)	(739,764)
	787,130	685,769
Less current portion	(646,758)	(599,480)
	¥ 140,372	¥ 86,289

Amortization expense related to program rights and language versioning for the years ended December 31, 2002, 2003 and 2004 was ¥1,298,054 thousand, ¥1,570,670 thousand and ¥1,732,435 thousand, respectively, which is included in cost of programming and distribution in the consolidated statements of operations in respective years.

(4) Investments

Investments, including advances, as of December 31, 2003 and 2004 were composed of the following (Yen in thousands):

	2003		2004	
	percentage ownership	carrying amount	percentage ownership	carrying amount
Investments accounted for under the equity method:				
Discovery Japan, Inc.	50.0%	¥ 281,692	50.0%	¥ 580,455
Animal Planet Japan, Co. Ltd.	33.3%	342,423	33.3%	223,510
InteracTV Co., Ltd.	42.5%	38,805	42.5%	38,586
JSports Broadcasting Corporation	28.5%	1,110,431	42.8%	4,045,414
AXN Japan, Inc.	35.0%	825,112	35.0%	879,630
Jupiter VOD Co., Inc.			50.0%	401,266
Total equity method investments		2,598,463		6,168,861
Investments accounted for at cost:				
NikkeiCNBC Japan, Inc.	9.8%	100,000	9.8%	100,000
Kids Station, Inc.	15.0%	304,500	15.0%	304,500
AT-X, Inc.	12.3%	266,000	12.3%	266,000
Nihon Eiga Satellite Broadcasting Corporation	10.0%	66,600	10.0%	66,600

Satellite Service Co. Ltd.	12.0%		24,000	12.0%		24,000
Total cost method investments			761,100			761,100
		¥	3,359,563		¥	6,929,961

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The following investments represent participation in programming businesses:

Discovery Japan, Inc., a general documentary channel;
Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
JSports Broadcasting Corporation, a sports channel business currently operating three channels;
AXN Japan, Inc., an action and adventure channel;
NikkeiCNBC Japan, Inc., a news service channel;
Kids Station, Inc., a children s entertainment channel;
AT-X, Inc., an animation genre channel;
Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels; and
Jupiter VOD Co., Inc. a multi-genre video on demand programming service

The following investments represent participation in broadcast license-holding companies through which channels are consigned to subscribers to the CS110 degree East Direct-to-home satellite service:

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;
Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

The following reflects JPC s share of earnings (losses) of investments accounted for under the equity method for the years ended December 31, 2002, 2003 and 2004 (Yen in thousands):

	2002	2003	2004
	(unaudited)		
Discovery Japan, Inc.	¥ (92,949)	¥ 143,445	¥ 298,763
Animal Planet Japan, Co. Ltd.	(260,929)	(311,673)	(283,913)
InteracTV Co., Ltd.	(1,142)	(1,272)	(219)
JSports Broadcasting Corporation	191,262	143,227	135,973
AXN Japan, Inc.		(38,199)	(43,982)
Jupiter VOD Co., Inc.			(83,734)
	¥ (163,758)	¥ (64,472)	¥ 22,888

In August 2003, the Company invested ¥863,311 thousand to acquire a 35% interest in AXN Japan, Inc. (AXN). During 2004 JPC provided cash loans in the amount of ¥98,500 thousand to AXN. AXN is an action and adventure entertainment channel that complements JPC s channel businesses.

In December 2004, the Company invested ¥485,000 thousand and acquired a 50% voting interest in Jupiter VOD Co., Ltd. (JVOD). JVOD is a video on demand service that will begin providing on-demand video services primarily to digitized cable systems capable of receiving its service from January 2005.

The carrying amount of investments in affiliates as of December 31, 2003, included ¥751,940 thousand of excess cost of the investments over the Company s equity in the net assets of AXN. The carrying amount of investments in affiliates as of December 31, 2004, included ¥751,940 thousand and ¥2,799,010 thousand of excess cost of the investments over the Company s equity in the net assets of AXN and JSB, respectively. The amount of that excess cost represents equity method goodwill.

JPC holds 33.3% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company has funding obligations in accordance with its ordinary shareholding ratio up to a maximum of ¥1,295,250 thousand. During the years ended December 31, 2003

and 2004, the Company invested ¥370,000 thousand and ¥165,000 thousand, respectively, and had made an aggregate investment of ¥1,295,000 thousand as of December 31, 2004, in

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
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Animal Planet Japan, Co. Ltd. JPC s funding obligations for this investment have been substantially fulfilled. JPC and Animal Planet Japan, Co. Ltd. s other shareholders are currently preparing a revised business plan and funding agreement for this investment.

The aggregate cost of JPC s cost method investments totaled ¥761,100 thousand at December 31, 2004. JPC estimated that the fair value of each of those investments exceeded the cost of the investment, and therefore concluded that no impairment had occurred.

Financial information for the companies in which the Company has an investment accounted for under the equity method is presented as combined as the companies are similar in nature and operate in the same business area. Condensed combined financial information is as follows (Yen in thousands):

	2003	2004
Combined financial position at December 31,		
Current assets	¥ 6,747,882	¥ 8,533,233
Other assets	1,780,915	634,175
Total assets	¥ 8,528,797	¥ 9,167,408
Current liabilities	¥ 2,983,359	¥ 3,056,756
Other liabilities	2,543,293	1,413,948
Shareholders equity	3,002,145	4,696,704
Total liabilities and shareholders equity	¥ 8,528,797	¥ 9,167,408

	2002	2003	2004
	(unaudited)		
Combined operations for the year ended December 31,			
Revenues	¥ 16,034,608	¥ 15,256,112	¥ 21,682,192
Operating expenses	15,720,997	15,270,229	21,998,685
Operating income (loss)	313,611	(14,117)	(316,493)
Other income, net, including income taxes	364,935	319,099	783,921
Net income	¥ 678,546	¥ 304,982	¥ 467,428

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(5) Property and Equipment

Property and equipment as of December 31, 2003 and 2004 were comprised of the following (Yen in thousands):

	2003	2004
Furniture and fixtures	¥ 143,364	¥ 187,233
Leasehold and building improvements	671,028	1,362,537
Equipment and vehicles	2,698,152	4,295,113
Buildings		851,485
Land	437,147	437,147
Construction in progress	253,678	183,254
	4,203,369	7,316,769
Less accumulated depreciation and amortization	(2,191,083)	(1,989,701)
	¥ 2,012,286	¥ 5,327,068

Property and equipment include assets held under capitalized lease arrangements (Note 11). Depreciation and amortization expense related to property and equipment for the years ended December 31, 2002, 2003 and 2004 was ¥699,332 thousand, ¥734,930 thousand and ¥772,907 thousand, respectively.

(6) Software Development Costs

Capitalized software development costs for internal use as of December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Software development costs	¥ 2,722,942	¥ 3,773,137
Less accumulated amortization	(1,272,554)	(1,870,893)
	¥ 1,450,388	¥ 1,902,244

Significant software development additions during 2003 and 2004 included development of Shop Channel core system and e-commerce infrastructure, and further development of a sales receivables management system, all of which are for internal use.

Aggregate amortization expense for the years ended December 31, 2002, 2003 and 2004 was ¥355,727 thousand, ¥451,327 thousand and ¥584,340 thousand, respectively.

(7) Intangibles

Intangible assets acquired during the year ended December 31, 2004 totaled ¥214,936 thousand. The weighted average amortization period is ten years. (Note 2)

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The details of intangible assets other than software and goodwill at December 31, 2003 and 2004 were as follows (Yen in thousands):

	2003	2004
Intangible assets subject to amortization, net of accumulated amortization of ¥6,420 thousand in 2003 and ¥28,417 thousand in 2004:		
Channel packaging arrangements	¥	¥ 200,000
Other	54,525	46,886
	54,525	246,886
Other intangible assets not subject to amortization:	4,868	5,073
Total other intangible assets	¥ 59,393	¥ 251,959

Channel packaging arrangements represent estimated value to be derived from existing channel position in packaging alliances on the direct-to-home satellite distribution platform, and are being amortized over their estimated useful life of ten years. The aggregate amortization expense of other intangible assets subject to amortization for the years ended December 31, 2002, 2003 and 2004 was ¥36,177 thousand, ¥1,802 thousand and ¥22,257 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 45,892
2006	26,146
2007	22,466
2008	22,466
2009	22,466

(8) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2002, 2003 and 2004 were as follows (Yen in thousands):

	2002	2003	2004
	(unaudited)		
Balance at beginning of year	¥	¥ 191,482	¥ 188,945
Acquisitions	191,482		281,186
Adjustment		(2,537)	
Balance at end of year	¥ 191,482	¥ 188,945	¥ 470,131

A breakdown of the goodwill recorded during 2002 and 2004 is provided in note 2 and is summarized as follows:

2002	Misawa Satellite Broadcasting Co	¥191,482 thousand

2004	BB Factory	¥281,186 thousand

(9) Derivative Instruments and Hedging Activities

JPC uses foreign exchange forward contracts that extend 3 to 52 months to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JPC enters into these contracts to hedge its U.S. dollar denominated monetary exposures.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JPC does not enter into derivative financial transactions for trading or speculative purposes.

JPC is exposed to credit-related losses in the event of non-performance by the counterparties to derivative financial instruments, but they do not expect the counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

For certain qualifying transactions entered into from January 1, 2004, JPC designates the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other accumulated comprehensive loss. The amount of hedge ineffectiveness recognized currently in foreign exchange gain was not material for the year ended December 31, 2004. These amounts are reclassified into earnings through loss (gain) on forward exchange contracts when the hedged items impact earnings. Accumulated losses, net of taxes, of ¥16,705 thousand are included in accumulated other comprehensive loss at December 31, 2004, and will be reclassified into earnings within twelve months. No cash flow hedges were discontinued during the year ended December 31, 2004 as a result of forecasted transactions that are no longer probable to occur.

JPC has entered into foreign exchange forward contracts designated but not qualified as hedging instruments under SFAS No. 133 as a means of hedging certain foreign currency exposures. JPC records these contracts on the balance sheet at fair value. The changes in fair value of such instruments are recognized currently in earnings and are included in foreign exchange (loss) gain.

At December 31, 2003, the fair value of forward exchange contracts not designated as hedging instruments recognized in the balance sheet was a liability of ¥241,507 thousand. At December 31, 2004, the fair value of forward exchange contracts recognized in the balance sheet was a liability of ¥174,959 thousand and an asset of ¥18,813 thousand.

(10) Fair Value of Financial Instruments

The carrying amounts for financial instruments in JPC s consolidated financial statements at December 31, 2003 and 2004 approximate to their estimated fair values. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, accrued liabilities, and other current liabilities (non-derivatives): The carrying amounts approximate fair value because of the short duration of these instruments.

Foreign exchange forward contracts: The carrying amount is reflective of fair value. The fair value of currency forward contracts is estimated based on quotes obtained from financial institutions. As at December 31, 2003, fair value of foreign exchange forward contracts of ¥241,507 thousand was included in the consolidated balance sheet under other current liabilities. As at December 31, 2004, fair value of foreign exchange forward contracts of ¥18,813 thousand was included in the consolidated balance sheet under other current assets, and ¥174,959 thousand was included under other current liabilities.

Long-term debt, including current maturities and short-term debt: The fair value of JPC s long-term debt is estimated by discounting the future cash flows of each instrument by a proxy for rates expected to be incurred on similar borrowings at current rates. Borrowings bear interest based on certain financial ratios that determine a margin over Euroyen TIBOR, and are therefore variable. JPC believes the carrying amount approximates fair value based on the variable rates and currently available terms and conditions for similar debt.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capital lease obligations, including current installments: The carrying amount is reflective of fair value. The fair value of JPC s capital lease obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to JPC by leasing companies.

(11) Leases

JPC is obligated under various capital leases for certain equipment and other assets that expire at various dates, generally during the next five years. At December 31, 2003 and 2004, the gross amount of equipment and the related accumulated amortization recorded under capital leases were as follows (Yen in thousands):

	2003	2004
Equipment and vehicles	¥ 1,794,097	¥ 1,839,215
Others	99,667	126,368
Less accumulated amortization	(1,417,805)	(865,908)
	¥ 475,959	¥ 1,099,675

Amortization of assets held under capital leases is included with depreciation and amortization expense. Leased equipment is included in property and equipment (note 5).

Future minimum capital lease payments as of December 31, 2004 were as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 313,917
2006	247,663
2007	224,818
2008	190,961
2009	170,756
Thereafter	24,479
Total minimum lease payments	1,172,594
Less amount representing interest (at rates ranging from 1.25% to 2.6%)	(59,393)
Present value of future minimum capital lease payments	1,113,201
Less current installments	(290,031)
	¥ 823,170

JPC also has several operating leases, primarily for office space, that expire over the next 10 years and a 30-year lease for land that expires in 29 years. Rent expense for the years ended December 31, 2002, 2003 and 2004 was ¥238,621 thousand, ¥275,264 thousand and ¥332,530 thousand, respectively.

The Company leases two principle office premises. JPC headquarters has a three-year lease agreement from August 2004, with a rolling two-year right of renewal that provides for annual rental costs of ¥245,118 thousand. Shop Channel has a 10-year agreement expiring in October 2013 with an annual rental cost of ¥185,905 thousand. These and other leases for office space are mainly cancelable upon six months notice. Accordingly, the schedule below detailing future minimum lease payments under non-cancelable operating leases includes the lease costs for the

Company s premises for only a six-month period.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments for the noncancelable portion of operating leases as of December 31, 2004 were as follows (Yen in thousands):

Year ending December 31,		
2005	¥	293,418
2006		4,980
2007		4,980
2008		4,980
2009		4,980
Thereafter		111,635
Total minimum lease payments	¥	424,973

(12) Debt

Short-term debt at December 31, 2003 and 2004 consisted of the following (Yen in thousands):

		2003		2004
Promissory note	¥	46,000	¥	

Short-term debt in 2003 represented a promissory note in the amount of ¥46,000 thousand due to Sony Pictures Entertainment (Japan) Inc. which was repaid by the due date of March 31, 2004.

Long-term debt at December 31, 2003 and 2004 consisted of the following (Yen in thousands):

		2003		2004
Borrowings from banks	¥	4,000,000	¥	4,000,000
Loans from shareholders		1,000,000		1,000,000
Loans from subsidiary minority shareholders		1,016,000		
Total long-term debt		6,016,000		5,000,000
Less: current maturities				
Long-term debt	¥	6,016,000	¥	5,000,000

At December 31, 2004, the Company had a ¥10,000,000 thousand credit facility (the Facility) available for immediate and full borrowing with a group of banks. The Facility, which is guaranteed by certain of the Company s subsidiaries, comprises an ¥8,000,000 thousand five-year term loan and a ¥2,000,000 thousand 364-day revolving facility. Outstanding borrowings under the five-year term loan at December 31, 2003 and 2004 were ¥4,000,000 thousand. There were no borrowings outstanding under the 364-day revolving facility as of December 31, 2003 and 2004. The Company pays a commitment fee of 0.20% on undrawn borrowings of the Facility. Interest on outstanding borrowings is based on certain financial ratios and can range from Euroyen TIBOR + 0.75% to TIBOR + 2.00% for the five-year term loan and from TIBOR + 0.70% to TIBOR + 1.00% for the 364-day revolving facility. The interest rates charged at December 31, 2003 and 2004 for the five-year term loan and for the 364-day revolving facility were 0.83% and

0.835% and 0.78% and 0.785%, respectively.

The term loan portion of the Facility is available for immediate and full borrowing to be drawn upon until December 25, 2005. Repayment by installments begins on March 31, 2006, on a quarterly basis, equal to 10% of the outstanding balance at the end of the availability period, until fully repaid on June 25, 2008. The 364-day revolving facility was renewed on June 22, 2004 and is available for immediate and full borrowing until June 22, 2005, and repayment in full is due on that date.

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Facility contains certain financial and other restrictive covenants. The financial covenants consist of: (i) EBITDA, as defined by the Facility agreement and reported on a Commercial Code of Japan basis, shall be equal to or exceed; for year 2004, ¥3,000,000 thousand; for year 2005, ¥3,500,000 thousand; for year 2006, ¥4,000,000 thousand; for year 2007, ¥5,000,000 thousand; and (ii) Actual Amount of Investment , as defined by the Facility agreement, shall not exceed Maximum Amount of Investment as defined, provided that, in respect of a year, an amount equal to the excess of Maximum over Actual amount of investment shall be added to the Maximum Amount of Investment of the next following year. Maximum amounts of investment are defined relative to prior year EBITDA and other specified amounts.

Restrictive covenants contained in the Facility agreement include certain restrictions on: (i) creation of contractual security interests over the Company s assets; (ii) sale of assets that would result in material adverse effect, or would comprise over 10% of total assets; (iii) corporate reorganization that would result in material adverse effect; (iv) sale of shares in principal subsidiaries; (v) distribution of dividends, repurchase of own shares, and repayment of subordinated loans; (vi) amendment of subordinated loan agreements; (vii) transactions with related parties other than in normal course of business, (viii) changes in fundamental nature of business; (ix) incursion of interest-bearing debt not contemplated in the Facility agreement; (x) transfer, creation of security interests on, or otherwise disposal of the Company s shares; (xi) changes in control of the Company management by parent companies; (xii) purchase of shares in companies in unrelated business areas; and (xiii) changes in scope of the business of a particular subsidiary. JPC was in compliance with these covenants at December 31, 2004.

JPC has outstanding term borrowings of ¥500,000 thousand from each of LMI and Sumitomo Corporation. The borrowings are subordinated to the Facility described above. The borrowings bear interest at the higher of the rate applicable to the term loan portion of the Facility, and Japan Long Term Prime rate (1.85% and 1.55% at December 31, 2003 and 2004, respectively), and are due in full on July 26, 2008.

JPC had the following debt of certain subsidiaries due to minority shareholders in those subsidiaries:

As of December 31, 2003 JPC had outstanding borrowings of ¥836,000 thousand by Jupiter Sports Inc. due to Liberty J Sports, Inc., an indirect wholly owned subsidiary of LMI. The borrowings bore interest at the higher of the rate applicable to the term loan portion of the Facility and Japan Long Term Prime rate (1.85% at December 31, 2003), and was due in full on December 31, 2007. In April 2004, JPC acquired all of the issued and outstanding shares of Liberty J Sports, Inc. from LMI. Upon acquiring control, the outstanding borrowings were eliminated in consolidation of Liberty J Sports, Inc., which was subsequently renamed J Sports LLC. Note 2 provides further details of this acquisition.

As of December 31, 2003 JPC had outstanding borrowings of ¥180,000 thousand by Jupiter Shop Channel Co., Ltd. due to Home Shopping Network Inc. The borrowings bore interest at the Japan Short Term Prime rate (1.375% at December 31, 2003). The borrowings were due in full on December 31, 2005 and were repaid early in full in December 2004. No gain or loss was recognized on this repayment transaction.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2004 were as follows (Yen in thousands):

		2004
Year ending December 31,		
2005	¥	
2006		1,600,000
2007		1,600,000
2008		1,800,000
2009		
Total debt	¥	5,000,000

(13) Income Taxes

The components of the provision for income taxes for the years ended December 31, 2002, 2003 and 2004 recognized in the consolidated statements of operations were as follows (Yen in thousands):

		2002		2003		2004
		(unaudited)				
Current taxes	¥	1,239,964	¥	2,072,264	¥	3,229,627
Deferred taxes		(536,017)		(553,039)		(278,181)
Income tax expense	¥	703,947	¥	1,519,225	¥	2,951,446

All pre-tax income and income tax expense is related to operations in Japan. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2004 were presented below (Yen in thousands).

		2003		2004
Deferred tax assets:				
Retail inventories	¥	617,970	¥	811,289
Property and equipment		195,223		297,238
Accrued liabilities		372,529		330,995
Enterprise tax payable		142,709		195,588
Unrealized foreign exchange		101,371		62,581
Equity method investments		711,645		944,389
Operating loss carryforwards		1,892,339		895,097
Others		270,394		320,361
		4,304,180		3,857,538
Less valuation allowance		(2,901,655)		(2,165,372)

Total deferred tax assets		1,402,525		1,692,166
Deferred tax liabilities:				
Intangibles				(81,380)
Net deferred tax assets	¥	1,402,525	¥	1,610,786

The net changes in the total valuation allowance for the years ended December 31, 2002, 2003 and 2004 were decreases of ¥1,003,452 thousand, ¥1,970,667 thousand, and ¥736,283 thousand, respectively.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which the operating losses are available for use. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

At December 31, 2004, JPC and its subsidiaries had total net operating loss carryforwards for income tax purposes of approximately ¥2,199,795 thousand, which are available to offset future taxable income, if any. JPC s subsidiaries are subject to taxation on a stand-alone basis and net operating loss carryforwards may not be utilized against other group company profits. Aggregated net operating loss carryforwards, if not utilized, expire as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,116,701
2006		143,308
2007		
2008		
2009		351,540
2010		229,485
2011		358,761
	¥	2,199,795

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42.1%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates became effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate was lowered to approximately 40.7% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005. As a result of the decrease in the statutory tax rate, when compared with the amounts based on the tax rate applied before this revision, the net deferred tax assets decreased by approximately ¥47,119 thousand at December 31, 2004. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

percentage of income before income taxes for the years ended December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	2004
	(unaudited)		
Statutory tax rate	42.1%	42.1%	42.1%
Non-deductible expenses	2.8	1.9	1.4
Change in valuation allowance	(27.1)	(9.9)	(1.2)
Income tax credits			(0.8)
Reduction of tax net operating loss due to intercompany transfer of assets	19.6		
Additional tax deduction due to intercompany transfer of assets	(3.9)	(1.7)	(1.1)
Effect of tax rate change			0.7
Others	0.6	(0.7)	(0.3)
Effective income tax rate	34.1%	31.7%	40.8%

(14) Accrued Pension and Severance Cost

Net periodic cost of the Company and its subsidiaries unfunded RAP accounted for in accordance with SFAS No. 87 for the years ended December 31, 2002, 2003 and 2004, included the following components (Yen in thousands):

	2002	2003	2004
	(unaudited)		
Service cost benefits earned during the year	¥ 43,652	¥ 44,743	¥ 49,768
Interest cost on projected benefit obligation	2,625	3,951	4,332
Recognized actuarial loss	10,341	15,972	24,317
Net periodic cost	¥ 56,618	¥ 64,666	¥ 78,417

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries plans accounted for in accordance with SFAS No. 87 are as follows (Yen in thousands):

	2003	2004
Change in projected benefit obligations:		
Benefit obligations, beginning of year	¥ 158,031	¥ 216,611
Service cost	44,743	49,768
Interest cost	3,951	4,332
Actuarial loss	15,973	24,317
Benefits paid	(6,087)	(10,232)
Projected benefit obligations, end of year	¥ 216,611	¥ 284,796
Accumulated benefit obligations, end of year	¥ 164,662	¥ 210,159

Actuarial gains and losses are recognized fully in the year in which they occur. The weighted-average discount rate used in determining net periodic cost of the Company and its subsidiaries plans was 2.50%, 2.00% and 2.00% for the years ended December 31, 2002, 2003 and 2004, respectively. The weighted-average discount rate used in determining benefit obligations as of December 31, 2003 and 2004 was 2.00%. Assumed salary

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

increases ranged from 1% to 4.1% depending on employees age for the years ended December 31, 2002, 2003 and 2004.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (Yen in thousands):

Year ending December 31,		
2005	¥	16,206
2006		25,570
2007		25,291
2008		29,482
2009		34,715
Years 2010-2014		174,596

JPC uses a measurement date of December 31 for all of its unfunded Retirement Allowance Plans.

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit EPF plan. The Company contributions to this plan amounted to ¥56,976 thousand, ¥60,322 thousand, and ¥44,510 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(15) Shareholders Equity

The Commercial Code of Japan, provides that an amount equal to at least 10% of cash dividends and other cash appropriations paid be appropriated as a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the issued capital.

The Company paid no cash dividends for the years ended December 31, 2002, 2003 and 2004. The amount available for dividends under the Commercial Code of Japan is based on the unappropriated retained earnings recorded in the Company s books of account and amounted to nil at December 31, 2004.

On January 30, 2004, the total number of JPC s ordinary shares authorized to be issued was increased from 450,000 to 460,000 shares.

On March 5, 2004, JPC transferred ¥8,400,000 thousand of common stock to additional paid-in capital (¥6,587,064 thousand) and accumulated deficit (¥1,812,936 thousand). The transfer was approved by the Company s stockholders in accordance with the Commercial Code of Japan, which allows a company to make a purchase of its own shares, as contemplated in the further transaction noted below, only from specified additional paid-in capital or retained earnings reserves. JPC purchased its own shares using the resulting additional paid-in capital, and elected at the same time to eliminate its accumulated deficit and generate positive retained earnings on a single entity basis. On a consolidated basis, JPC continued to show an accumulated deficit immediately after that transfer. Such transfer did not impact JPC s total equity, cash position or liquidity. Had the Company been subject to corporate law generally applicable to United States companies for similar transactions, the accumulated deficit at December 31, 2004 would be ¥1,812,936 thousand more than the amount included in the accompanying consolidated financial statements.

During March and April 2004 the following capital transactions occurred and were based on an independent third party valuation of the common stock of JPC:

1) Issuance of 24,000 newly issued shares of common stock to Sumitomo Corporation at a rate of ¥250,000 per common share (¥6,000,000 thousand), ¥3,000,000 thousand of which was allocated to common stock with the remaining ¥3,000,000 thousand allocated to additional paid-in capital;

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2) Redemption of 12,000 shares of common stock from Sumitomo Corporation at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

3) Redemption of 12,000 shares of common stock from Liberty Programming Japan at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

4) Issuance of 24,000 shares of common stock held in treasury shares to Liberty Programming Japan II Inc. in return for 1,000 shares of common stock in Liberty J Sports Inc. Liberty J Sports Inc. was then converted to a limited liability company with the Certificate of Conversion filed with the Delaware Secretary of State, and was subsequently renamed J Sports LLC. J Sports LLC is a wholly owned subsidiary of JPC.

(16) Related Party Transactions

JPC engages in a variety of transactions in the normal course of business. Significant related party balances, income and expenditures have been separately identified in the consolidated balance sheets and statements of operations. A list of related parties and a description of main types of transactions with each party follows:

Sumitomo Corporation, shareholder, and its subsidiaries: television programming advertising revenues, cost of retail sales, costs of programming and distribution, selling, general and administrative expenses for staff secondment fees, cash deposits, property and equipment capital leases, subordinated loans and interest thereon;

LMI, shareholder, and its subsidiaries: selling, general and administrative expenses for staff secondment fees and recharge of project development costs, subordinated loans and interest thereon;

Discovery Japan, Inc., and Animal Planet Japan, Co. Ltd, affiliate companies: services and other revenues from cable and advertising sales activities and broadcasting, marketing and office support services; costs of programming, distribution relating to direct-to-home subscription revenue and receipt of cash advances;

JSports Broadcasting Corporation, affiliate company: services and other revenues from cable and advertising sales activities and recovery of staff costs for seconded staff;

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to JPC, costs of programming and distribution payments for transponder services;

Minority interests in Jupiter Golf Network, Co. Ltd, four companies holding total of 10.6%: television programming advertising revenues;

Home Shopping Network Inc.: minority shareholder loans and interest thereon;

Jupiter Telecommunications Co., Ltd, an affiliated company of LMI and Sumitomo Corporation at December 31, 2004, and an indirect consolidated subsidiary of LMI effective January 1, 2005: television programming cable subscription revenues, costs of programming and distribution for carriage of Shop Channel by cable systems.

(17) Concentration of credit risk

As of December 31, 2003 and 2004, SkyPerfecTV, an unrelated party, and Jupiter Telecommunications Co., Ltd (JCom), a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company. For the years ended December 31, 2002, 2003 and 2004, subscription revenues of ¥1,688,119 thousand, ¥2,888,163 thousand and ¥3,095,526 thousand, respectively, received through SkyPerfect TV, accounted for approximately 35%, 45% and 44%, respectively, of subscription revenues, and 5%, 6% and 5%, respectively, of total revenues. As of

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2002, 2003 and 2004, SkyPerfect TV accounted for approximately 7%, 5% and 6%, respectively, of accounts receivable.

For the years ended December 31, 2002, 2003 and 2004, subscription revenues of ¥1,207,749 thousand, ¥1,361,897 thousand and ¥1,464,167 thousand, respectively, received through JCom, accounted for approximately 25%, 21% and 21%, respectively, of subscription revenues, and 4%, 3% and 2%, respectively, of total revenues. As of December 31, 2002, 2003 and 2004, JCom accounted for approximately 7%, 6% and 3%, respectively, of accounts receivable.

(18) Commitments, Other Than Leases

At December 31, 2004, JPC has commitments to purchase various program rights as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,131,527
2006		822,490
2007		37,864
2008		14,205
Total program rights purchase commitments	¥	2,006,086

At December 31, 2004, JPC has commitments for transponder and uplink services as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,217,059
2006		1,265,173
2007		642,872
2008		523,984
2009		403,459
Thereafter		140,142
Total transponder and uplink services commitments	¥	4,192,689

JPC contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. JPC channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Transponder service contracts are generally ten years in duration. Service fees are based on fixed rates or a fixed portion plus a variable portion based on platform subscriber numbers. Termination is possible on a channel-by-channel basis. One transponder service provider charges termination penalty fees, the other does not charge a fee until the last channel from one licensed broadcaster terminates. Due to the unclear nature of the responsibility for termination fees, commitments are disclosed for the full minimum commitment amounts under the service contracts.

JPC has capital equipment purchase commitments amounting to ¥2,024,206 thousand at December 31, 2004 that must be expended by December 31, 2005.

INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders
Torneos y Competencias S.A.:

We have audited the accompanying consolidated balance sheets of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders equity and of cash flows for each of the years in the three-year period ended December 31, 2004. 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 the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the consolidated financial statements, the Company is in default with respect to two bank loans and certain loans are past due. In addition, at December 31, 2004, the Company has a net working capital deficiency. These matters raise substantial doubt about the Company s ability to continue as a going concern. Management s plans with regards to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Finsterbusch Pickenhayn Sibille(*)
Buenos Aires, Argentina
March 11, 2005

(*) Finsterbusch Pickenhayn Sibille is the Argentine member firm of KPMG International, a Swiss cooperative.

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TORNEOS Y COMPETENCIAS S.A.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(In thousands of Argentine pesos)	
ASSETS		
Current Assets		
Cash	A$ 2,641	A$ 2,224
Accounts receivable, net	19,007	15,116
Related party receivables (Note 6)	15,426	9,087
Programming rights, net	3,210	7,268
Advances to soccer clubs	1,180	2,216
Tax receivables	2,805	5,877
Building held for sale (Notes 6.d and 11.a)	2,940	
Prepaid expenses and other current assets	3,466	2,375
Total current assets	50,675	44,163
Related party receivables (Note 6)	2,885	774
Programming rights, net	19,050	9,291
Advances to soccer clubs	2,421	4,660
Deferred income taxes (Note 9)	1,360	2,054
Investments in affiliates accounted for under the equity method (Note 4)	21,132	19,185
Property and equipment, net (Note 5)	15,690	15,914
Other assets	1,214	1,165
Assets associated with discontinued operations (Note 6.d)		5,909
TOTAL ASSETS	A$ 114,427	A$ 103,115
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	A$ 28,532	A$ 11,743
Related party liabilities (Note 6)	6,216	15,880
Debt (Note 7)		
Related party debt	8,419	8,306
Third party debt	8,333	9,024
Taxes payable	6,588	5,331
Deferred income	6,906	16,133
Other liabilities	4,816	4,203
Total current liabilities	69,810	70,620
Investments in affiliates accounted for under the equity method (Note 4)		3,715
Other liabilities	2,076	3,476

Liabilities associated with discontinued operations (Note 6.d)		3,700		3,208
TOTAL LIABILITIES	A$	75,586	A$	81,019
Commitments and contingencies (Note 10)				
Minority interest in subsidiaries		(31)		8
Stockholders equity:				
Common stock, A$1 par value. 50,160,000 shares authorized, issued and outstanding		50,160		50,160
Additional paid-in capital				107,812
Accumulated other comprehensive losses, net of taxes		(6,768)		(6,717)
Legal reserve				1,597
Accumulated deficit		(4,520)		(130,764)
Total stockholders equity	A$	38,872	A$	22,088
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	A$	114,427	A$	103,115

See accompanying notes to consolidated financial statements.

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TORNEOS Y COMPETENCIAS S.A.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
	2004	2003	2002
	(In thousands of Argentine pesos, except number of shares and per share amounts)		
Revenue			
Related party (Note 6)	A$ 74,941	A$ 76,977	A$ 69,974
Third party	28,126	18,553	10,729
Operating costs and expenses			
Operating (other than depreciation)			
Related party (Note 6)	(814)	(1,676)	(1,253)
Third party	(58,948)	(44,970)	(36,490)
Selling, general and administrative			
Related party (Note 6)	(70)	(143)	(400)
Third party	(25,565)	(23,360)	(20,003)
Provision for doubtful accounts and other receivables	(3,798)	(709)	(7,293)
Depreciation	(1,404)	(1,424)	(1,719)
Impairment of goodwill (Note 2)			(95,663)
Operating income (loss)	12,468	23,248	(82,118)
Share of earnings (losses) from equity affiliates (Note 4)	12,901	9,427	(10,589)
Interest expense	(7,215)	(10,042)	(18,321)
Foreign currency transaction gains (losses)	4,167	5,365	(9,236)
Other income (expenses), net	(709)	459	(2,082)
Income (loss) from continuing operations before income tax and minority interest	21,612	28,457	(122,346)
Income tax expense (Note 9)	(5,027)	(7,886)	(1,698)
Minority interest in losses (earnings) of subsidiaries	11	(16)	116
Income (loss) from continuing operations	16,596	20,555	(123,928)
Discontinued operations, net of tax (including gain on disposal of A$239 during 2004 and impairment of goodwill of A$6,074 during 2002) (Note 6.d)	239	(604)	(9,658)
Net income (loss)	A$ 16,835	A$ 19,951	A$ (133,586)
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustment	(51)	1,136	(6,222)

Comprehensive income (loss)	A$	16,784	A$	21,087	A$	(139,808)
Income (loss) per share from continuing operations		0.33		0.41		(2.47)
Income (loss) per share from discontinued operations		0.01		(0.01)		(0.19)
Net income (loss) per share		0.34		0.40		(2.66)
Weighted average number of common shares outstanding		50,160,000		50,160,000		50,160,000

See accompanying notes to consolidated financial statements.

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TORNEOS Y COMPETENCIAS S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Common stock	Additional paid-in capital	Accumulated other comprehensive losses, net of taxes	Legal reserve	Accumulated deficit	Total stockholders equity
	(In thousands of Argentine pesos)					
Balance as of January 1, 2002	A$ 50,160	A$ 107,812	A$ (1,631)	A$ 1,597	A$ (17,129)	A$ 140,809
Foreign currency translation adjustment			(6,222)			(6,222)
Net loss					(133,586)	(133,586)
Balance as of December 31, 2002	50,160	107,812	(7,853)	1,597	(150,715)	1,001
Foreign currency translation adjustment			1,136			1,136
Net income					19,951	19,951
Balance as of December 31, 2003	50,160	107,812	(6,717)	1,597	(130,764)	22,088
Foreign currency translation adjustment			(51)			(51)
Absorption of accumulated deficit as required under Argentine law (Note 8)		(107,812)		(1,597)	109,409	
Net income					16,835	16,835
Balance as of December 31, 2004	A$ 50,160	A$	A$ (6,768)	A$	A$ (4,520)	A$ 38,872

See accompanying notes to consolidated financial statements.

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TORNEOS Y COMPETENCIAS S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	(In thousands of Argentine pesos)		
Cash flows from operating activities:			
Income (loss) from continuing operations	A$ 16,596	A$ 20,555	A$ (123,928)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Provision for doubtful accounts and other receivables	3,798	709	7,293
Depreciation	1,404	1,424	1,719
Share of (earnings) losses from equity affiliates	(12,901)	(9,427)	10,589
Impairment of goodwill			95,663
Minority interest in losses (earnings) of subsidiaries	(11)	16	(116)
Deferred tax expense	694	4,170	1,698
Changes in operating assets and liabilities, net of the effect of dispositions:			
Receivables, programming rights and others	(17,098)	13,847	3,775
Payable and other current liabilities	2,194	(24,639)	30,019
Net cash provided by (used in) operating activities	(5,324)	6,655	26,712
Cash flows from investing activities:			
Capital expenditures	(1,430)	(1,162)	
Cash distribution from equity affiliates	7,500		2,718
Proceeds from the sale of property and equipment	250		732
Net cash provided by (used in) investing activities	6,320	(1,162)	3,450
Cash flows from financing activities:			
Debt proceeds	4,338	1,213	10,537
Repayment of debt	(4,917)	(5,063)	(43,649)
Net cash used in financing activities	(579)	(3,850)	(33,112)
Net cash provided by (used in) discontinued operations		(26)	172
Net increase (decrease) in cash	417	1,617	(2,778)
Cash at beginning of year	2,224	607	3,385
Cash at end of year	A$ 2,641	A$ 2,224	A$ 607

See accompanying notes to consolidated financial statements.

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TORNEOS Y COMPETENCIAS S.A.
December 31, 2004, 2003 and 2002
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos, except as otherwise mentioned)

1. Description of business, liquidity and basis of presentation

Description of business

Torneos y Competencias S.A. (TyC or the Company) is an independent producer of Argentine sports and entertainment programming that, through various affiliates, operates a sports programming cable channel; commercializes rights to televise sporting events via cable, satellite and broadcast television; and manages two sports magazines and several thematic soccer bars. TyC s emphasis is on soccer, and it has an exclusive agreement (except for certain cable broadcast rights held by an affiliate) with the *Asociación de Fútbol Argentino,* or AFA , to produce and distribute programs related to matches between clubs in the Argentine professional soccer leagues. This agreement expires in 2010 unless extended to 2014 at TyC s request. TyC produces or co-produces, with its three television studios and the production facilities of its production partners, a number of soccer-based programs, such as *Fútbol de Primera, El clásico del Domingo and Fútbol de Verano.*

TyC has interests in two magazines: El Grafico, which covers Argentine and international sports, with special emphasis on soccer; and Golf Digest, the Argentine and Chilean editions of the American golf magazine.

TyC also has the rights to broadcast friendly summer season tournaments in different Argentine cities through 2007.

The Company s principal shareholders are:

Shareholders	Ownership percentage
ACH Acquisitions Co.	20%
Telefónica de Contenidos S.A. Unipersonal	20%
A y N Argentina LLC	20%
Liberty Argentina, Inc, a subsidiary of Liberty Media International, Inc (LMI)	40%

TyC s 50% owned affiliate, *Televisión Satelital Codificada S.A.,* or TSC holds the commercial rights in Argentina, with certain exceptions, to televise selected official soccer matches of AFA s Premier Ligue. TSC sells the rights to televise specific matches to cable operators, to an over-the-air broadcast television channel in and around Buenos Aires and, in certain cases, exclusively to the TyC Sports Channel.

Another 50% owned affiliate of TyC, *TELE-RED Imagen S.A.*, or TRISA owns the TyC Sports Channel, the first dedicated sports cable channel in Argentina, which packages soccer programming co produced by Torneos and other sporting events to which TRISA holds commercial rights. TRISA also holds commercial rights to produce and distribute certain motor car racing, basketball and boxing events.

T&T Sports Marketing Inc. (T&T), a 50% owned affiliate of the Company, has entered into agreements with the *Confederación Sudamericana de Fútbol (Conmebol)* for the acquisition of the *Copa Libertadores* and *Copa Sudamericana* broadcasting rights up to 2010. See Notes 4 and 6.

Liquidity

The Company is in default with respect to two bank loans. In addition, the Company s loans from LMI are past due. Principal and interest under these bank and LMI loans of A$13,346 and A$4,088, respectively, have been classified as current liabilities at December 31, 2004. See Note 7. In addition, at December 31, 2004, current liabilities exceed current assets by A$19,135. The Company plans to renegotiate these loans to extend the repayment terms. Although the Company expects that it will be able to successfully renegotiate the bank loans that are in default and the past due loans from LMI, no assurance can be given that the Company will be

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

successful. In the event that the Company s efforts in this regard are not successful, the Company s ability to continue as a going concern could be adversely affected in that the Company may not have sufficient funds available to meet its current liabilities as they become due and payable, particularly if payment is demanded under the aforementioned bank or LMI loans.

Basis of presentation

The accompanying consolidated financial statements include the accounts of TyC and all voting interest entities where TyC exercises a controlling interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which TyC is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. TyC management concluded that the Company holds no interest in entities that meet the definition of variable interest entities pursuant to Financial Accounting Standards Board Interpretation No. 46(R). TyC s operating subsidiaries and TyC s most significant equity affiliates as of December 31, 2004 are set forth below:

Operating subsidiaries as of December 31, 2004
Avilacab S.A. (Avilacab)
South American Sports S.A. (SAS)
TyC Minor S.A. (TyC Minor)

Significant equity affiliates as of December 31, 2004
TSC
TRISA
T&T

For additional information concerning TyC s equity affiliates, see Note 4.

In the following notes, references to the Company refer to TyC and its consolidated subsidiaries.

2. Summary of significant accounting policies

The Company maintains its books of account in conformity with financial accounting standards of the City of Buenos Aires, Argentina. The accompanying consolidated statements have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America (US GAAP).

Use of estimates

The preparation of these consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values and useful lives of long-lived assets and any related impairment. Actual results could differ from those estimates.

The Company does not control the decision making process or business management practices of TyC s equity affiliates. Accordingly, the Company relies on management of these affiliates and their independent auditors to provide us with accurate financial information prepared in accordance with US GAAP that we use in the application of the equity method. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by TyC s equity affiliates that would have a material effect on Company s financial statements. For information concerning TyC s equity method investments, see Note 4.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inflation adjustment

Argentine generally accepted accounting principles require the restatement of assets and liabilities into constant Argentine pesos.

Under US GAAP, account balances and transactions are stated in the units of currency of the period when the transactions originated. This accounting model is commonly known as the historical cost basis of accounting. The Company has excluded the effect of the general price level restatement for the preparation of these financial statements in accordance with US GAAP.

Accounts receivable, net

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance amounted to A$6,810 and A$4,521 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon the Company s assessment of probable loss related to uncollectible accounts receivable. A number of factors are used in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued.

The Company has five clients whose balances aggregate approximately 40% and 79% of the total balances of accounts receivable, net, as of December 31, 2004 and 2003, respectively, and approximately 75%, 80% and 87% of the revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

Programming rights, net

The Company and certain equity investees have multi-year contracts for telecast rights of sporting events and rights to the image and sound archives related to all of the country s national soccer teams. Pursuant to these contracts, an asset is recorded for the rights acquired and a liability is recorded for the obligation incurred when the programs or sporting events are available for telecast. Program rights for sporting events which are for a specified number of games are amortized on an event-by-event basis, and those which are for a specified season or period are amortized over the term of such period on a straight-line basis.

Non-current programming rights represent telecast and production rights of sporting events available for telecast beyond one year from the balance sheet date.

Investments in affiliates accounted for under the equity method

Investments in affiliates in which TyC has the ability to exercise significant influence are accounted for using the equity method. Under this method, the investment, originally recorded at cost, is adjusted to recognize TyC s share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of TyC s investment in, and advances and commitments to, the investee. If the investment in the common stock of an affiliate is reduced to zero as a result of the prior recognition of the affiliate s net losses, TyC would continue to record losses from the affiliate to the extent of its commitments to the affiliate and would include the negative investment in other liabilities.

Impairment of investments

The Company continually reviews its investments in affiliates to determine whether a decline in fair value below the cost basis is other than non-temporary. The primary factors that the Company considers in its determination are the length of time that the fair value of the investment is below Company s carrying value and the financial condition, operating performance and near term prospects of the investee, industry specific or investee specific changes in stock price or valuation subsequent to the balance sheet date, and Company s intent and ability to hold the investment for a period of time sufficient to allow for recovery in fair value. In

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. Writedowns for equity method investments are included in Share of earning (losses) from equity affiliates, and a new cost basis in the investment is established.

Property and equipment, net

Property and equipment is recorded at cost, net of the respective accumulated depreciation.

Depreciation has been calculated on the straight-line method over the assets estimated useful lives as follows:

	Estimated useful life (years)
Buildings	50
Furniture and fixtures	10
Technical equipment, vehicles and TV studio	5
Computer hardware	2 to 3

Additions, replacements and improvements that extend the asset life are capitalized. Repairs and maintenance are charged to operation expenses.

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144) requires the Company to periodically review the carrying amount of property and equipment, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the assets is greater than the expected undiscounted cash flow to be generated by such assets, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sales prices for similar assets or discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of the carrying amount or fair value less costs to sell.

Building held for sale

Represents a building received in connection with the transaction related to the sale of Red Celeste y Blanca S.A. (La Red), which is available for sale. It is recorded at its fair value at the date of the disposition of La Red, which does not exceed its fair value as of December 31, 2004. See Note 6.d.

Goodwill

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired, in acquisitions of equity interests in subsidiaries and affiliates.

Impairment of Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (Statement 142). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, indefinite lived intangible assets) no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Equity method goodwill is also no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement 144.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires the Company to consider equity method affiliates as separate reporting units.

The Company determined the fair value of its reporting units using discounted cash flows. The Company then compared the fair value of each reporting unit to the reporting unit s carrying amount. To the extent a reporting unit s carrying amount exceeded its fair value, the Company performed the second step of the transitional impairment test. In the second step, the Company compared the implied fair value of the reporting unit s goodwill, determined by allocating the reporting unit s fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Based on this analysis, the Company recorded an impairment loss of A$101,737 for the year ended December 31, 2002 to write-off all of its then existing goodwill, including A$6,074 related to La Red that has been included in Discontinued operations, net of tax in the accompanying consolidated financial statements. Since this analysis used projections made during the time of unfavorable economic events in Argentina in early 2002, the adjustment was recognized as a component of operating costs and expenses and not as a transition adjustment.

As noted above, the Company s enterprise-level goodwill is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. The following table summarizes the allocation of the impairment loss recorded for the year ended December 31, 2002, corresponding to continuing operations.

Entity		**Impairment loss**
SAS	A$	7,132
Sobre Golf S.A.		420
TSC		50,317
TRISA and Tele Net Image Corp.		37,794
Total enterprise-level goodwill	A$	95,663

Income Taxes

The Company accounts for income taxes in accordance with the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Net deferred tax assets are reduced by a valuation allowance calculated based on the estimation of future results prepared by the Company s management. Deferred tax liabilities related to investments in equity investees that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future. See Note 9.

Minority interest

Recognition of the minority interest s share of losses of subsidiaries is generally limited to the amount of such minority interest s allocable portion of the common equity of those subsidiaries.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency translation

The functional currency of the Company is the Argentine Peso. The functional currency of the Company s foreign equity affiliate T&T is the United States dollar. The Company s share of the assets and liabilities of T&T is translated at the spot rate in effect at the applicable reporting date and the Company s share of the results of operations of T&T is determined based on results translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of Accumulated other comprehensive losses, net of taxes, in the Company s statements of stockholders equity.

Transactions denominated in currencies other than the Company s functional currency are recorded at the exchange rates prevailing at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations.

Revenue recognition

The Company s principal sources of revenue are:

Broadcasting Program rights: Broadcast program rights revenue are recognized when the matches are broadcasted.

Sport TV programs production: Revenue from sports TV programs production services are recognized when the services are rendered.

Others: Other revenue includes, among others, advertising and sports event organization. Advertising revenue, including the stadium based advertising, are recognized in the period during which underlying advertisements are broadcast. Sports events organization revenue are recognized when services are rendered.

Deferred income: corresponds to revenue collected by TyC in advance, whose recognition is deferred until matches or related advertising are available for telecast.

Earnings per share

The Company computes net income (loss) per share by dividing net income (loss) for the year by the weighted average number of common shares outstanding. There were no potential common shares outstanding during any of the periods presented.

3. Supplemental consolidated statements of cash flows disclosures

a) Income tax, minimum presumed income tax and interests

During the years ended December 31, 2004, 2003 and 2002, the Company paid A$4,352, A$3,716 and A$0 for income tax and minimum presumed income tax, respectively. Additionally, during the years ended December 31, 2004, 2003 and 2002 the Company paid A$732, A$498 and A$13,891, respectively, in interest related to operating activities.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

b) Noncash investing and financing activities

The Company sold all of its interest in La Red to Avila Inversora S.A. (AISA) and Carlos Avila Enterprise S.A. (CAE) (related companies, see Note 6) for consideration of A$6,640. In conjunction with the sale, receivables were originated and a building was received as follows:

Related party receivable	A$	3,700(1)
Building		2,940(2)
	A$	6,640

(1) The accounts receivable will be settled by AISA by effectively assuming the obligation to repay up to A$3,700 of principal and interest of a financial debt payable by TyC, currently in default. See Notes 6.d and 7. If as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V. S.A. (América TV), a related company of the purchasers.

(2) Fair value was determined based on an option held by TyC to return the building to CAE for an amount of US$1 million as per the related sales agreement signed between the parties. See note 6.d.

4. Investments in affiliates accounted for under the equity method

The following table includes TyC s carrying value and percentage ownership of its investments in affiliates:

	December 31, 2004		December 31, 2003
	Percentage ownership	Carrying amount	Carrying amount
TSC	50%	A$ 10,062	A$ 7,196
TRISA	50%	9,162	11,983
T&T	50%	1,902	(3,715)(1)
Others		6	6
Total		A$ 21,132	A$ 15,470

(1) As the Company s investment in T&T was negative as of December 31, 2003, it has been classified in Non-current liabilities-Investments in affiliates accounted for under the equity method because the Company is ready to provide financial support, as may be necessary, to allow T&T to continue operating as going concern.

The following table reflects TyC s share of earnings (losses) from equity affiliates:

	Year Ended December 31,		
	2004	2003	2002

TSC	A$ 2,868	A$ 3,502	A$ (193)
TRISA	4,678	8,539	(10,084)
T&T	5,668	4,055	2,492
Sale of Pro Entertainment S.A.(1)		(5,706)	
Others	(313)	(963)	(2,804)
Total	A$ 12,901	A$ 9,427	A$ (10,589)

(1) Relates to TyC forgiveness in 2003 of an accounts receivable maintained with Pro Entertainment S.A., as a result of the sale of such company by T&T in fiscal year 2002.

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December, 31, 2004, 2003 and 2002, the Company s share of earnings (losses) from equity affiliates includes losses related to other-than-temporary declines in the fair value of equity method investments of A$0, A$0 and A$2,493, respectively.

During the years ended December 31, 2004, 2003 and 2002, TRISA distributed cash dividends, of which the Company collected A$7,500, A$0 and A$2,718, respectively.

TSC

Summarized financial information for TSC follows:

	December 31,	
	2004	2003
Financial Position		
Current assets(1)	A$ 50,111	A$ 45,716
Non-current assets	10,487	8,661
Total assets	A$ 60,598	A$ 54,377
Current portion of long term debt	A$ 11,500	A$ 5,728
Other current liabilities(2)	24,863	30,905
Non current liabilities	4,111	3,352
Stockholders equity	20,124	14,392
Total liabilities and stockholders equity	A$ 60,598	A$ 54,377

(1) Includes outstanding amounts receivable from Cablevisión S.A. (Cablevisión), a related party, of A$2,497 and A$2,497 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,893 and A$5,466 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,		
	2004	2003	2002
Results of Operations			
Revenue(1)	A$ 127,023	A$ 128,762	A$ 117,833
Operating, selling, general and administrative expense(2)	(118,149)	(113,599)	(104,423)
Operating income	8,874	15,163	13,410
Interest expense	(2,459)	(4,638)	(14,773)
Interest income	56	984	680
Foreign exchange gain (loss)	35	(671)	2,370

Other, net		(123)		91		(1,701)
Income tax expense		(647)		(3,925)		(372)
Net income (loss)	**A$**	**5,736**	**A$**	**7,004**	**A$**	**(386)**

(1) Includes revenue from Cablevisión, a related party, for an amount of A$39,172, A$39,899 and A$29,052 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$10,468, A$10,205 and A$8,456 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

TRISA

Summarized financial information for TRISA follows:

	December 31,	
	2004	2003
Financial Position		
Current assets(1)	A$ 68,196	A$ 80,357
Property and equipment, net	11,813	9,812
Investments	853	794
Other non-current assets	28,621	17,827
Total assets	A$ 109,483	A$ 108,790
Current portion of long term debt	A$ 4,348	A$ 4,272
Other current liabilities(2)	43,721	43,384
Non-current debt	25,986	29,808
Other non-current liabilities	17,105	7,359
Stockholders equity	18,323	23,967
Total liabilities and stockholders equity	A$ 109,483	A$ 108,790

(1) Includes outstanding amounts receivable from Cablevisión, a related party, of A$3,136 and A$3,036 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,202 and A$2,173 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,		
	2004	2003	2002
Results of Operations			
Revenue(1)	A$ 125,011	A$ 109,598	A$ 98,041
Operating, selling, general and administrative expenses(2)	(115,732)	(97,707)	(81,911)
Operating income	9,279	11,891	16,130
Interest expense	(5,490)	(3,451)	(2,291)
Interest income	2,367	4,487	4,379
Foreign exchange gain (loss)	(636)	5,379	(31,575)
Share of earnings (losses) from equity affiliates	61	(356)	(1,462)
Other, net	926	509	4,234

Income tax benefit (expense)		2,849		(1,381)		(9,583)
Net income (loss)	A$	9,356	A$	17,078	A$	(20,168)

(1) Includes revenues from Cablevisión, a related party, for an amount of A$32,938, A$34,126 and A$25,902 and from TyC for an amount of A$532, A$184 and A$149 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$14,272, A$10,119 and A$5,713 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

T&T

In December 2004, the Company sold its ownership interest (50%) in T&T to an unrelated third party for cash proceeds of US$270 thousand. In connection with this sale, the Company retained a call right to repurchase the 50% interest in T&T for a price of US$285 thousand during the one-year period ended December 29, 2005. Due to the Company s unilateral ability to repurchase this interest and the favorable call price relative to the fair value of the interest, the Company did not meet the criteria for treating this transaction as a sale, and accordingly, has recorded the cash received as a current liability in the accompanying balance sheet as of December 31, 2004.

Summarized financial information for T&T follows:

	December 31,	
	2004	2003
Financial Position		
Current assets(1)	A$ 10,441	A$ 11,987
Non-current assets	60	1,411
Total assets	A$ 10,501	A$ 13,398
Current portion of long term debt	A$	288
Other current liabilities(2)	6,697	19,806
Non-current liabilities		735
Stockholders equity	3,804	(7,431)
Total liabilities and stockholders equity	A$ 10,501	A$ 13,398

(1) Includes outstanding amounts receivable from Fox Sports Latin America S.A. (Fox Sports), a related party, of A$0 and A$374 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to Fox Sports, a related party, of A$3,675 and A$5,438 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,		
	2004	2003	2002
Results of Operations			
Revenue(1)	A$ 117,713	A$ 110,962	A$ 127,827
Operating, selling, general and administrative expenses(2)	(106,351)	(103,556)	(126,113)
Operating income	A$ 11,362	A$ 7,406	A$ 1,714
Share of earnings from equity affiliates			3,312
Other, net	(26)	705	(42)

Net income	A$	11,336	A$	8,111	A$	4,984

(1) Includes revenues from Fox Sports, a related party, for an amount of A$93,933, A$85,689 and A$115,254 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$9,239, A$2,938 and A$3,227, for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property and Equipment

The details of property and equipment and the related accumulated depreciation are set forth below:

	December 31,	
	2004	2003
Buildings	A$ 14,544	A$ 14,794
Furniture and fixtures	7,267	5,311
Technical equipment, vehicles and TV studio	7,339	6,109
Computer hardware	1,367	1,429
Total property and equipment	30,517	27,643
Less: Accumulated depreciation	(14,827)	(11,729)
Net property and equipment	A$ 15,690	A$ 15,914

Loans amounting to A$2,856 are secured by certain of the Company s premises. See Note 7.

6. Related Party Transactions

(a) Company s affiliated entities:

Detailed information about Company s affiliated entities is provided in Note 4.

(b) Balances and transactions with related parties

Entities in which TyC has significant influence: TSC, TRISA, T&T and Theme Bar Management S.A.

Companies with common shareholders or directors: Cablevisión, Pramer S.C.A. and the following companies pertaining to the Fox Group: Fox Pan American Sports LLC, Fox Sports, International Sports Programming LLC and Fox Sports International Distribution Ltd. (hereinafter referred to individually or together as FPAS).

Companies with equity interests in TyC, either direct or indirect: LMI.

Companies where TyC s chairman has an equity interest, either direct or indirect: CAE, AISA and América TV.

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company entered into transactions in the normal course of business with related parties. The following is a summary of the balances and transactions with related parties:

	December 31,			
	2004		2003	
Receivables Current:				
América TV	A$	1,458	A$	1,091
TRISA		3,202		2,173
TSC		3,893		5,466
FPAS		5,047		
AISA		1,550(1)		357
Others		276		
	A$	**15,426**	**A$**	**9,087**
Receivables Non Current:				
América TV	A$	735	A$	774
AISA		2,150(1)		
	A$	**2,885**	**A$**	**774**
Payables Current:				
América TV	A$	1,297	A$	312
FPAS		4,207		14,921
Others		712		647
	A$	**6,216**	**A$**	**15,880**

(1) Accounts receivable related to the sale of La Red See item (d) below in this note.
See Note 7 regarding Related Party Loans.

		Year ended December 31,		
Revenue	**Transaction description**	**2004**	**2003**	**2002**
TRISA	Advertising, Production, Rights and Others	A$ 14,272	10,119	5,713
TSC	Production and Rights	10,468	10,205	8,456
T&T	Production and Rights	9,239	2,938	3,227
América TV	Production	1	855	343
FPAS	Advertising, Production, Rights and Others	40,918	52,679	51,783

Others	43	181	452
	A$ 74,941	A$ 76,977	A$ 69,974

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

		Year ended December 31,		
Services received	**Transaction Description**	**2004**	**2003**	**2002**
Operating (other than depreciation) expenses				
América TV		A$ (282)	(1,477)	(849)
TRISA	Production and rights	(532)	(184)	(149)
Pramer S.C.A.	Production		(15)	(255)
	Total operating (other than depreciation) expenses	A$ (814)	(1,676)	(1,253)
Selling, general and administrative expenses				
CAE	Other	A$ (39)	(100)	(296)
Others	Rights and others	(31)	(43)	(104)
	Total selling, general and administrative expenses	A$ (70)	A$ (143)	A$ (400)

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

(c) Agreement with FPAS

In April 2003, TyC agreed with FPAS to forgive four monthly payments that were due from April to July 2004 pursuant to a contract that expired in July 2004. TyC has recognized the forgiven payments as a reduction of revenue from the date of the agreement through July 2004 on a straight-line basis.

(d) Discontinued operations Sale of La Red

On January 7, 2004, TyC sold its interest in La Red to CAE and AISA.

As stated in the sales agreement, the sales price was A$8.7 million, comprised of: a) A$5.0 million through the transfer of a building (see Building held for sale Note 2), and b) A$3.7 million, which will be paid by AISA through the assumption of a financial debt held by TyC, currently in default (see Note 7). As provided in such agreement, if as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V., a related company of the purchasers, as determined based on fair market value. As collateral for payment, all transferred shares were pledged in favor of the seller.

Additionally, as per the agreement, TyC had the option to return the building to CAE for consideration of US$1 million, equivalent to A$2,940 as of the date of the transaction, in the event that during the one-year period ending January 7, 2005, TyC was not able to sell such building. TyC considered this amount to be the fair value of the building as of the date of the transaction.

The difference between the book value of the Company s equity interest in La Red as of the date of disposition and the fair value of the total consideration received amounts to A$3,939. The Company considered the earnings process was not substantially complete with respect to the uncollected A$3.7 million related party receivable. Consequently, the Company recognized a gain of A$239, which is included in Discontinued operations, net of tax; and deferred a gain of A$3,700, which is included in Liabilities associated with discontinued operations, in the accompanying consolidated

balance sheet as of December 31, 2004.

As mentioned in Note 11, in January 2005, the building was sold for cash consideration of A$6.0 million.

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of this transaction, the Company has disposed of its entire radio broadcasting business. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of La Red have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operation and statements of cash flows and have been reported separately in such consolidated financial statements. In addition, unless specifically noted, amounts disclosed in the notes to the accompanying consolidated financial statements are for continuing operations. The following table summarizes certain information related to discontinued operations:

	December 31, 2003	
Current assets	A$	4,357
Non-current assets		1,552
Total assets	A$	5,909
Current liabilities	A$	2,790
Non-current liabilities		418
Total liabilities	A$	3,208
Stockholders equity	A$	2,701

	Year ended December 31,			
	2003		2002	
Revenue	A$	5,672	A$	3,820
Pre-tax loss (including impairment of goodwill of A$6,074 in 2002)	A$	(253)	A$	(9,658)
Loss from discontinued operations, net of tax	A$	(604)	A$	(9,658)

7. Debt

The Company s debt as of December 31, 2004 and 2003 is summarized below:

	2004		2003	
Bank loans	A$	8,333	A$	9,024
Related Party		8,419		8,306
Total	A$	16,752	A$	17,330

Bank Loans:

The bank debt is denominated in Argentine pesos with interest rates ranging from 9% to 11% and maturities as follows:

Past due	A$	4,927
2005	A$	3,406
Total debt	A$	8,333(1)

(1) Includes A$2,635 for which one of the purchasers of La Red has effectively assumed the obligation to repay up to A$3,700 of principal and interest. See Note 6.

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total amount of loans denominated in Argentine pesos at December 31, 2004 includes A$4,927 corresponding to loans that are in default and are being renegotiated. Such loans are classified as current liabilities.

Loans amounting to A$2,856 are secured by certain of the Company s premises.

Related Party Loans:

Represents loans primarily from LMI. The loans from LMI, which bear interest at 9% and are denominated in US dollars, are past due. Such loans are classified as current liabilities.

TyC believes that the carrying amount of debt approximates fair value at December 31, 2004, with the exception of related party loans and bank loans in default, for which TyC considers that it is not practical to estimate fair value.

8. Stockholders equity

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock accounts, and additional Paid-in Capital). This legal reserve may be used only to absorb accumulated deficits.

Additionally, under Argentine Commercial Law, in the event that accumulated deficit is higher than 50% of common stock, plus 100% of additional paid-in-capital and legal reserve, the Company is required to absorb the related accumulated deficit against such equity accounts. Consequently on July 8, 2004, TyC stockholders approved the absorption of accumulated deficit in the amount of A$109,409, by offsetting such balance against additional paid-in-capital and legal reserve outstanding as of that date.

9. Income tax

Income tax expense for the years ended December 31, 2004, 2003 and 2002 consists of the following:

	Year ended December 31,		
	2004	**2003**	**2002**
Current tax expense	A$ (4,231)	A$ (3,611)	A$
Deferred tax expense	(694)	(4,170)	(1,698)
Sub-total	(4,925)	(7,781)	(1,698)
Minimum presumed income tax	(102)	(105)	
Income tax expense	A$ (5,027)	A$ (7,886)	A$ (1,698)

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TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the Company s deferred tax assets and liabilities are presented below:

	December 31,	
	2004	**2003**
Allowance for doubtful accounts	A$ 2,506	A$ 1,467
Directors fees		660
Accumulated tax losses	499	567
Accumulated tax losses from the sale of controlled subsidiaries	5,754	
Items accrued not yet deducted	597	884
Deferred income		1,202
Programming rights	(2,133)	(1,623)
Unpaid interest on foreign loans from related parties	1,290	
Others	48	91
Sub-total	8,561	3,248
Less: Valuation allowance on deferred tax asset	(7,201)	(1,194)
Net deferred tax asset at tax rate (35%)	A$ 1,360	A$ 2,054

Income tax expense (benefit) for the years ended December 31, 2004, 2003 and 2002 differ from the amounts computed by applying the Company s statutory income tax rate to pre-tax income (loss) as a result of the following:

	2004	**2003**	**2002**
Income (loss) before taxes and discontinued operations	A$ 21,623	A$ 28,441	A$ (122,230)
Prevailing tax rate	35%	35%	35%
Expected tax benefit (expense) from continuing operations	(7,568)	(9,954)	42,781
Impairment of intangible assets			(33,482)
Increase in accumulated tax losses from the sale of controlled subsidiaries	5,754		
Imputed interest		(246)	(1,075)
Directors fees			(1,268)
Share of earnings (losses) from equity affiliates	4,515	3,299	(3,706)
Non-recoverable receivables	(236)	(363)	(1,824)
Non-deductible expenses	(1,485)	(467)	(2,747)
Change in valuation allowance on deferred tax assets	(6,007)	(155)	(377)
Income tax expense from continuing operations	A$ (5,027)	A$ (7,886)	A$ (1,698)

As of December 31, 2004, the Company has accumulated tax loss carryforwards of A$17.9 million (equivalent to A$6.3 million at prevailing tax rate), which expire through year 2009.

The Company is subject to a minimum presumed income tax. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on certain production assets valued according to the tax regulations in effect as of the end of each year. The Company s tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the minimum presumed income tax exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

minimum presumed income tax that may arise in the next ten fiscal years. Each of TyC and its controlled companies file separate tax returns. The minimum presumed income tax charge for the years ended December 31, 2004 and 2003 correspond to controlled companies that generate tax losses.

10. Commitments and contingencies

(a) Long-term Rights Contracts

The Company has long-term rights contracts which require payments through 2010. Future minimum payments, including unrecorded amounts, by year are as follows at December 31, 2004:

Year ending December 31:

2005	A$ 8,625
2006	A$ 16,755
2007	A$ 5,589
2008	A$ 1,589
2009	A$ 1,589
Thereafter	A$ 723

Additionally, TyC has long-term rights contracts which require, for the period from 2007 to 2014, payments of 50% of the revenue derived form the related rights.

(b) Litigation

The Company has contingent liabilities related to legal and other matters arising in the ordinary course of business. A liability of A$2,664 has been included in the Company s consolidated balance sheet as of December 31, 2004 to provide for probable and estimable potential losses under these claims.

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company s management based upon the information available at this time and consultation with external legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company s financial position or results of operations. Accordingly, no additional liabilities have been established for the outcome of these matters.

11. Subsequent Events

(a) Sale of building held for sale

On January 6, 2005 the Company sold to a third party the building held for sale included in current assets in the accompanying consolidated financial statements, for cash consideration of A$6 million.

(b) Agreement with FPAS

The Company s contracts with FPAS for the provision of production of content, advertising sales and operating and administrative service to the signal Fox Sports expired on December 31, 2004. On January 1,

TORNEOS Y COMPETENCIAS S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2005, the Company signed new service agreements with FPAS that expire in December 2010. The annual payments due to the Company under these contracts are as follows:

Amounts in thousands of US$

	2004	2005
Administrative services	658	658
Production of content	4,344	5,544
Advertising commission (range)	From 17.5% to 20%	From 17.5% to 20%

Regarding production of content, the amount of the payments increases to US$5,844 thousand and US$6,244 thousand for years 2006 and 2007, respectively, and to US$6,744 thousand for years 2008 to 2010.

The value of administrative services will not change throughout the period from 2005 to 2010.

In the case of certain changes in the direct or indirect TyC ownership, FPAS has the right to terminate any or all service agreements by delivering written notice 60 days prior to such termination.

On January 1, 2005 the Company also extended from 2007 to 2010 the revenue agreements related to *Clásico del Domingo* and *Futbol de Primera* rights for América (except Argentina) and the Summer Soccer rights for América in the same terms and conditions prevailing in the former agreements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income (loss), stockholders equity (deficit) and cash flows for the years then ended. 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. The 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the revision described in Note 7 to the 2003 consolidated financial statements, in their report dated April 12, 2002 (except with respect to the matter discussed in Note 23 to those consolidated financial statements, as to which the date was May 14, 2002). Such report included an explanatory paragraph indicating substantial doubt about the Company s ability to continue as a going concern.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets and in 2003, changed its method of accounting for gains and losses on the early extinguishments of debt.

As discussed above, the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. As described in Note 6, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 in Note 6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries other than with respect to such disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

KPMG LLP

Denver, Colorado
March 8, 2004

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The following is a copy of the Report of Independent Public Accountants previously issued by Arthur Andersen LLP in connection with the Company s Annual Report on Form 10-K for the year ended December 31, 2001, as amended in connection with Amendment No. 1 to the Company s Form S-1 Registration Statement filed on June 6, 2002. The report of Andersen is included in this Annual Report on Form 10-K pursuant to Rule 2-02(e) of Regulation S-X. This Audit Report has not been reissued by Arthur Andersen LLP. The information previously contained in Note 23 to those consolidated financial statements is provided in Note 4 to our 2003 consolidated financial statements. The information previously contained in Note 2 to those consolidated financial statements is not included in our 2003 consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation f/k/a New UnitedGlobalCom, Inc. see Note 23) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive (loss) income, stockholders (deficit) equity and cash flows for each of the three years in the period ended December 31, 2001. These 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 the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 3 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, is currently in default under certain of its significant bank credit facilities, senior notes and senior discount note agreements, which has resulted in a significant net working capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Arthur Andersen LLP

Denver, Colorado
April 12, 2002 (except with respect
to the matter discussed in Note 23,
as to which the date is May 14, 2002)

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UNITEDGLOBALCOM, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(In thousands, except par value and number of shares)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 310,361	$ 410,185
Restricted cash	25,052	48,219
Marketable equity securities and other investments	208,459	45,854
Subscriber receivables, net of allowance for doubtful accounts of $51,109 and $71,485, respectively	140,075	136,796
Related party receivables	1,730	15,402
Other receivables	63,427	50,759
Deferred financing costs, net	2,730	62,996
Other current assets, net	76,812	95,340
Total Current Assets	828,646	865,551
Long-Term Assets		
Property, plant and equipment, net	3,342,743	3,640,211
Goodwill	2,519,831	1,250,333
Intangible assets, net	252,236	13,776
Other assets, net	156,215	161,723
Total Assets	$ 7,099,671	$ 5,931,594
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities		
Not subject to compromise:		
Accounts payable	$ 224,092	$ 190,710
Accounts payable, related party	1,448	1,704
Accrued liabilities	405,546	328,927
Subscriber prepayments and deposits	141,108	127,553
Short-term debt		205,145
Notes payable, related party	102,728	102,728
Current portion of long-term debt	310,804	3,366,235
Other current liabilities	82,149	16,448
Total Current Liabilities not Subject to Compromise	1,267,875	4,339,450
Subject to compromise:		
Accounts payable and accrued liabilities	14,445	271,250
Short-term debt	5,099	

Current portion of long-term debt	317,372	2,812,988
Total Current Liabilities Subject to Compromise	336,916	3,084,238
Long-Term Liabilities		
Not subject to compromise:		
Long-term debt	3,615,902	472,671
Net negative investment in deconsolidated subsidiaries		644,471
Deferred taxes	124,232	107,596
Other long-term liabilities	259,493	165,896
Total Long-Term Liabilities not Subject to Compromise	3,999,627	1,390,634
Guarantees, commitments and contingencies (Note 13)		
Minority interests in subsidiaries	22,761	1,402,146
Stockholders Equity (Deficit)		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, nil shares issued and outstanding		
Class A common stock, $0.01 par value, 1,000,000,000 shares authorized, 287,350,970 and 110,392,692 shares issued, respectively	2,873	1,104
Class B common stock, $0.01 par value, 1,000,000,000 shares authorized, 8,870,332 shares issued	89	89
Class C common stock, $0.01 par value, 400,000,000 shares authorized, 303,123,542 shares issued and outstanding	3,031	3,031
Additional paid-in capital	5,852,896	3,683,644
Deferred compensation		(28,473)
Treasury stock, at cost	(70,495)	(34,162)
Accumulated deficit	(3,372,737)	(6,797,762)
Accumulated other comprehensive income (loss)	(943,165)	(1,112,345)
Total Stockholders Equity (Deficit)	1,472,492	(4,284,874)
Total Liabilities and Stockholders Equity (Deficit)	$ 7,099,671	$ 5,931,594

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

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UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share data)		
Statements of Operations			
Revenue	$ 1,891,530	$ 1,515,021	$ 1,561,894
Operating expense	(768,838)	(772,398)	(1,062,394)
Selling, general and administrative expense	(493,810)	(446,249)	(690,743)
Depreciation and amortization Operating expense	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets Operating expense	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other Operating expense	(35,970)	(1,274)	(204,127)
Stock-based compensation Selling, general and administrative expense	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest income, including related party income of $985, $2,722 and $35,336, respectively	13,054	38,315	104,696
Interest expense, including related party expense of $8,218, $24,805 and $58,834, respectively	(327,132)	(680,101)	(1,070,830)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Provision for loss on investments		(27,083)	(342,419)
Other (expense) income, net	(14,884)	(93,749)	76,907
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Reorganization expense, net	(32,009)	(75,243)	
Income tax (expense) benefit, net	(50,344)	(201,182)	40,661
Minority interests in subsidiaries, net	183,182	(67,103)	496,515
Share in results of affiliates, net	294,464	(72,142)	(386,441)
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle		(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Earnings per share (Note 20):			
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
		(3.13)	0.18

Cumulative effect of change in accounting principle						
Basic net income (loss) per share	$	7.41	$	(0.84)	$	(41.29)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$	7.41	$	2.29	$	(41.47)
Cumulative effect of change in accounting principle				(3.12)		0.18
Diluted net income (loss) per share	$	7.41	$	(0.83)	$	(41.29)
Statements of Comprehensive Income						
Net income (loss)	$	1,995,368	$	(356,454)	$	(4,494,709)
Other comprehensive income, net of tax:						
Foreign currency translation adjustments		61,440		(864,104)		11,157
Change in fair value of derivative assets		10,616		13,443		(24,059)
Change in unrealized gain on available-for-sale securities		97,318		4,029		37,526
Other		(194)		(77)		271
Comprehensive income (loss)	$	2,164,548	$	(1,203,163)	$	(4,469,814)

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

UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

ass A		Class B		Class C				Class A		Class B		
on Stock		Common Stock		Common Stock		Additional		Treasury Stock		Treasury Stock		
						Paid-In	Deferred					Accumulated
	Amount	Shares	Amount	Shares	Amount	Capital	Compensation	Shares	Amount	Shares	Amount	Deficit
						(In thousands, except number of shares)						
692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (34,162)		$	$ (6,797,762)
905	21					6,082						1,423,102
454	3					1,351						
272	1					258						
						966,362						
						(129,904)	1,896					6,555
							26,577					
								188,792		672,316		
647	1,744					1,325,103		4,780,611	(36,333)			

1,995,368

970	$ 2,873	8,870,332	$ 89	303,123,542	$ 3,031	$ 5,852,896	$	12,373,643	$ (70,495)	672,316	$	$ (3,372,737)

Accumulated Other Comprehensive Income (Loss)

	December 31,	
	2003	2002
	(In thousands)	
Foreign currency translation adjustments	$ (1,057,074)	$ (1,118,514)
Fair value of derivative assets		(10,616)
Other	113,909	16,785
Total	$ (943,165)	$ (1,112,345)

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

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UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Sto	
hares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	An
(In thousands, except number of shares)											
287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190		$	$ 1,537,944	$ (74,185)	5,604,948	$ (2
								(156)			
287,500)	(287,500)	11,628,674	116	(10,156,802)	(101)	21,835,384	218	770,448		(35,708)	
						281,288,158	2,813	1,396,469			
		600,000	6					(6)			
		121,813	1					340			
								(21,395)	12,794		
									32,918		
										1,835,000	

$	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (3

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

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UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

C Stock	Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Additional		Treasury Stock		
Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Deferred Compensation	Shares	Amount	Accumula Defici
(In thousands, except number of shares)											
425,000	287,500	$ 287,500	83,820,633	$ 838	19,221,940	$ 192	$ 1,531,593	$ (117,136)	5,604,948	$ (29,984)	$ (1,892,
			194,806	2	(194,806)	(2)					
			76,504	1			386				
			11,991,018	120			19,905				
14,875		10,063					(1,873)				(49,8
(14,875)		(10,063)	1,959,244	20			24,918				
							(29,122)	22,159			
							(1,292)	20,792			
							(6,571)				

(4,494,7

425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	$ 1,537,944	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,2

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

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UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Cash Flows from Operating Activities			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Stock-based compensation	38,024	28,228	8,818
Depreciation and amortization	808,663	730,001	1,147,176
Impairment of long-lived assets	402,239	437,427	1,525,069
Accretion of interest on senior notes and amortization of deferred financing costs	50,733	234,247	492,387
Unrealized foreign exchange (gains) losses, net	(84,258)	(745,169)	125,722
Loss on derivative securities	12,508	115,458	
Gain on extinguishment of debt	(2,183,997)	(2,208,782)	3,447
(Gain) loss on sale of investments in affiliates and other assets, net	(279,442)	(117,262)	416,803
Provision for loss on investments		27,083	342,419
Reorganization expenses, net	32,009	75,243	
Deferred tax provision	(18,161)	104,068	(43,167)
Minority interests in subsidiaries, net	(183,182)	67,103	(496,515)
Share in results of affiliates, net	(294,464)	72,142	386,441
Cumulative effect of change in accounting principle		1,344,722	(20,056)
Change in assets and liabilities:			
Change in receivables, net	49,238	42,175	68,137
Change in other assets	(8,368)	4,628	2,489
Change in accounts payable, accrued liabilities and other	55,182	(148,466)	(135,604)
Net cash flows from operating activities	392,092	(293,608)	(671,143)
Cash Flows from Investing Activities			
Purchase of short-term liquid investments	(1,000)	(117,221)	(1,691,751)
Proceeds from sale of short-term liquid investments	45,561	152,405	1,907,171
Restricted cash released (deposited), net	24,825	40,357	(74,996)
Investments in affiliates and other investments	(20,931)	(2,590)	(60,654)
Proceeds from sale of investments in affiliated companies	45,447		120,416
New acquisitions, net of cash acquired	(2,150)	(22,617)	(39,950)
Capital expenditures	(333,124)	(335,192)	(996,411)
Purchase of interest rate caps	(9,750)		
Settlement of interest rate caps	(58,038)		
Other	7,806	27,595	(45,192)

Net cash flows from investing activities		(301,354)		(257,263)		(881,367)
Cash Flows from Financing Activities						
Issuance of common stock		1,354		200,006		24,054
Proceeds from notes payable to shareholder				102,728		
Proceeds from short-term and long-term borrowings		23,161		42,742		1,673,981
Retirement of existing senior notes				(231,630)		(261,309)
Financing costs		(2,233)		(18,293)		(17,771)
Repayments of short-term and long-term borrowings		(233,506)		(90,331)		(766,950)
Other						(6,571)
Net cash flows from financing activities		(211,224)		5,222		645,434
Effects of Exchange Rates on Cash		20,662		35,694		(49,612)
Decrease in Cash and Cash Equivalents		(99,824)		(509,955)		(956,688)
Cash and Cash Equivalents, Beginning of Year		410,185		920,140		1,876,828
Cash and Cash Equivalents, End of Year	$	310,361	$	410,185	$	920,140
Supplemental Cash Flow Disclosure						
Cash paid for reorganization expenses	$	27,084	$	33,488	$	
Cash paid for interest	$	185,591	$	304,274	$	519,221
Cash paid for income taxes	$	1,947	$	14,260	$	
Non-Cash Investing and Financing Activities						
Issuance of subsidiary common stock for financial assets	$	966,362	$		$	
Issuance of common stock for acquisitions	$	1,326,847	$	1,206,441	$	

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

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

UnitedGlobalCom, Inc. (together with its subsidiaries the Company , UGC , we , us , our or similar terms) was for February 2001 as part of a series of planned transactions with Old UGC, Inc. (Old UGC , formerly known as UGC Holdings, Inc., now our wholly owned subsidiary) and Liberty Media Corporation (together with its subsidiaries and affiliates Liberty), which restructured and recapitalized our business. We are an international broadband communications provider of video, voice and Internet services with operations in 15 countries outside the United States. UGC Europe, Inc. (together with its subsidiaries UGC Europe), our largest consolidated operation, is a pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. UGC Europe s operations are currently organized into two principal divisions UPC Broadband and chellomedia. UPC Broadband delivers video, high-speed Internet access and telephone services to residential customers. chellomedia provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates our digital media center and operates a competitive local exchange carrier business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Our primary Latin American operation, VTR GlobalCom S.A. (VTR), provides multi-channel television, high-speed Internet access and residential telephone services in Chile. We also have an approximate 19% interest in SBS Broadcasting S.A. (SBS), a European commercial television and radio broadcasting company, and an approximate 34% interest in Austar United Communications Ltd. (Austar United), a pay-TV provider in Australia.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, deferred tax valuation allowances, loss contingencies, fair values of financial instruments, asset impairments, useful lives of property, plant and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which we are the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents, Restricted Cash, Marketable Equity Securities and Other Investments

Cash and cash equivalents include cash and highly liquid investments with original maturities of less than three months. Restricted cash includes cash held as collateral for letters of credit and other loans, and is classified based on the expected expiration of such facilities. Cash held in escrow and restricted to a specific use is classified based on the expected timing of such disbursement. Marketable equity securities and other investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

Marketable equity securities and other investments are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these marketable equity securities and other investments are reported as a separate component of stockholders equity. Declines in the fair value of marketable equity securities and

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other investments that are other than temporary are recognized in the statement of operations, thus establishing a new cost basis for such investment. These marketable equity securities and other investments are evaluated on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the historical volatility of the price of each security and any market and company specific factors related to each security. Declines in the fair value of investments below cost basis for a period of less than six months are considered to be temporary. Declines in the fair value of investments for a period of six to nine months are evaluated on a case-by-case basis to determine whether any company or market-specific factors exist that would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for greater than nine months are considered other than temporary and are recorded as charges to the statement of operations, absent specific factors to the contrary.

We estimate fair value amounts using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. Generally, upon disconnection of a subscriber, the account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer pursued. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, replacements and improvements that extend asset lives are capitalized and costs for normal repair and maintenance are charged to expense as incurred. Costs associated with the construction of cable networks, transmission and distribution facilities are capitalized (including capital leases). Depreciation is calculated using the straight-line method over the economic useful life of the asset. Costs associated with new cable, telephone and Internet access subscriber installations are capitalized and depreciated over the average expected subscriber life. Subscriber installation costs include direct labor, materials (such as cabling, wiring, wall plates and fittings) and related overhead (such as indirect labor, logistics and inventory handling).

The economic lives of property, plant and equipment at acquisition are as follows:

Customer premise equipment	4-10 years
Commercial	3-20 years
Scaleable infrastructure	3-20 years
Line extensions	5-20 years
Upgrade/rebuild	3-20 years
Support capital	1-33 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets we intend to use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and Other Intangible Assets

Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Other intangible assets consist principally of customer relationships, trademarks and computer software. Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. We adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), effective January 1, 2002. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is performed on a reporting unit level on an annual basis. Goodwill and other indefinite-lived intangible assets are tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Investments in Affiliates, Accounted for under the Equity Method

For those investments in unconsolidated subsidiaries and companies in which our voting interest is 20% to 50%, our investments are held through a combination of voting common stock, preferred stock, debentures or convertible debt and we exert significant influence through Board representation and management authority, the equity method of accounting is used. The cost method of accounting is used for our investments in affiliates in which our ownership interest is less than 20% and where we do not exert significant influence. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize our proportionate share of net earnings or losses of the affiliate, limited to the extent of our investment in and advances to the affiliate, including any debt guarantees or other contractual funding commitments. We evaluate our investments in publicly traded securities accounted for under the equity method periodically for impairment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. A decline in value of an investment which is other than temporary is recognized as a realized loss, establishing a new carrying amount for the investment. Factors considered in making this evaluation include the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, including cash flows of the investee and any specific events which may influence the operations of the issuer, and our intent and ability to retain our investments for a period of time sufficient to allow for any anticipated recovery in market value.

Derivative Financial Instruments

We use derivative financial instruments from time to time to manage exposure to movements in foreign currency exchange rates and interest rates. We account for derivative financial instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, (SFAS 133), which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument s gains and losses to offset related results on the hedged item in the statement of operations, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivative financial instruments designated and that qualify as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are recorded as a component of other comprehensive income or loss in stockholders equity until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. The change in fair value of the hedged item is recorded as an adjustment to its carrying value on the balance sheet. For

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings.

Subscriber Prepayments and Deposits

Payments received in advance for distribution services are deferred and recognized as revenue when the associated services are provided. Deposits are recorded as a liability upon receipt and refunded to the subscriber upon disconnection.

Cable Network Revenue and Related Costs

We recognize revenue from the provision of video, telephone and Internet access services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to these services over our cable network is recognized as revenue in the period in which the installation occurs, to the extent these fees are equal to or less than direct selling costs, which are expensed. To the extent installation revenue exceeds direct selling costs, the excess fees are deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Other Revenue and Related Costs

We recognize revenue from the provision of direct-to-home satellite services, or DTH, telephone and data services to business customers outside of our cable network in the period the related services are provided. Installation revenue (including reconnect fees) related to these services outside of our cable network is deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of subscriber receivables. Concentration of credit risk with respect to subscriber receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

Stock-Based Compensation

We account for our stock-based compensation plans and the stock-based compensation plans of our subsidiaries using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). We have provided pro forma disclosures of net income (loss) under the fair value method of accounting for these plans, as prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for*

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation Transition and Disclosure and Amendment of SFAS No. 123 (SFAS 148), as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share amounts)		
Net income (loss), as reported	$ 1,995,368	$ (356,454)	$ (4,494,709)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects(1)	29,242	28,228	8,818
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(57,101)	(102,837)	(98,638)
Pro forma net income (loss)	$ 1,967,509	$ (431,063)	$ (4,584,529)
Basic net income (loss) per common share:			
As reported	$ 7.41	$ (0.84)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)
Diluted net income (loss) per common share:			
As reported	$ 7.41	$ (0.83)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)

(1) Not including SARs. Compensation expense for SARs is the same under APB 25 and SFAS 123.

Stock-based compensation is recorded as a result of applying variable-plan accounting to stock appreciation rights (SARs) granted to employees and vesting of certain of our fixed stock-based compensation plans. Under variable-plan accounting, compensation expense (credit) is recognized at each financial statement date for vested SARs based on the difference between the grant price and the estimated fair value of our Class A common stock, until the SARs are exercised or expire, or until the fair value is less than the original grant price. Under fixed-plan accounting, deferred compensation is recorded for the excess of fair value over the exercise price of such options at the date of grant. This deferred compensation is then recognized in the statement of operations ratably over the vesting period of the options.

Income Taxes

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if we believe it more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax liabilities related to

investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future.

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share is determined by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during each period. Net income

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(loss) attributable to common stockholders includes the accrual of dividends on convertible preferred stock which is charged directly to additional paid-in capital and/or accumulated deficit. Diluted net income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive.

Foreign Operations and Foreign Currency Exchange Rate Risk

Our consolidated financial statements are prepared in U.S. dollars. Almost all of our operations are conducted in a currency other than the U.S. dollar. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at period-end exchange rates and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders equity (deficit). Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line below cash flows from financing activities. Certain items such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) and certain other charges are denominated in a currency other than the respective company s functional currency, which results in foreign exchange gains and losses recorded in the consolidated statement of operations. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. We adopted SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* Among other things, SFAS 145 required us to reclassify gains and losses associated with the extinguishment of debt (including the related tax effects) from extraordinary classification to other income in the accompanying consolidated statements of operations.

3. Acquisitions, Dispositions and Other

2003

Acquisition of UPC Preference Shares

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value 1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value 1.00 per share, at an exercise price of 42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400

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preference shares A of UPC, nominal value 1.00 per share, and warrants to purchase 1,165,352 ordinary shares A of UPC, nominal value 1.00 per share, at an exercise price of 42.546 per ordinary share. A gain of $610.9 million was recognized from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of these preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders equity (deficit).

On April 4, 2003, we issued 879,041 shares of our Class A common stock in a private transaction pursuant to a transaction agreement dated March 31, 2003, among us, a subsidiary of ours, Motorola Inc. and Motorola UPC Holdings, Inc. In consideration for the 879,041 shares of our Class A common stock, we acquired 3,500 preference shares A of UPC, nominal value 1.00 per share and warrants to purchase 1,669,457 ordinary shares A of UPC, nominal value 1.00 per share, at an exercise price of 42.546 per ordinary share. On April 14, 2003, we issued 426,360 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated April 8, 2003, between us and Liberty International B-L LLC. In consideration for the 426,360 shares of our Class A common stock, we acquired 2,122 preference shares A of UPC, nominal value .00 per share and warrants to purchase 971,118 ordinary shares A of UPC, nominal value 1.00 per share, at an exercise price of 42.546 per ordinary share. A gain of $812.2 million was recognized during the second quarter of 2003 from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of the preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders equity (deficit).

United Pan-Europe Communications N.V. Reorganization

In September 2003, as a result of the consummation of UPC s plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and insolvency proceedings under Dutch law, UGC Europe acquired all of the stock of, and became the successor issuer to, UPC. Prior to UPC s reorganization, we were the majority stockholder and largest single creditor of UPC. We became the holder of approximately 66.6% of UGC Europe s common stock in exchange for the equity and debt of UPC that we owned prior to UPC s reorganization. UPC s other bondholders and third-party holders of UPC s ordinary shares and preference shares exchanged their securities for the remaining 33.4% of UGC Europe s common stock.

We accounted for this restructuring as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we have consolidated the financial position and results of operations of UGC Europe as if the reorganization had been consummated at inception. We previously recognized a gain on the effective retirement of UPC s senior notes, senior discount notes and UPC s exchangeable loan held by us when those securities were acquired directly and indirectly by us in connection with our merger transaction with Liberty in January 2002. The issuance of common stock by UGC Europe to third-party holders of the remaining UPC senior notes and senior discount notes was recorded at fair value. This fair value was significantly less than the accreted value of such debt securities as reflected in our historical consolidated financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of $2.1 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt ($3.076 billion) over the fair value of UGC Europe common stock issued ($966.4 million).

UGC Europe Exchange Offer and Merger

On December 18, 2003, we completed an exchange offer pursuant to which we offered to exchange 10.3 shares of our Class A common stock for each outstanding share of UGC Europe common stock not owned by us. On December 19, 2003, we effected a short-form merger between UGC Europe and one of our subsidiaries on the same terms offered in the exchange offer. We issued 172,248,306 shares of our Class A common stock to third parties in connection with the exchange offer and merger (including 2,596,270 shares subject to appraisal

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rights that were withdrawn subsequent to December 31, 2003), as well as 4,780,611 shares to Old UGC to acquire its UGC Europe common stock. We now own all of the outstanding equity securities of UGC Europe.

We valued the exchange offer and merger for accounting purposes at $1.315 billion, based on the issuance of our Class A common stock at the average closing price of such stock for the five days surrounding November 12, 2003, the date we announced the revised and final terms of the exchange offer, and our estimated transaction costs, consisting primarily of dealer-manager, legal and accounting fees, printing costs, other external costs and other purchase consideration directly related to the exchange offer and merger. This total value includes $19.7 million related to the value of shares subject to appraisal rights that were withdrawn in January 2004. This amount is included in other current liabilities in the accompanying consolidated balance sheet.

We accounted for the exchange offer and merger using the purchase method of accounting, in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). Under the purchase method of accounting, the total estimated purchase price was allocated to the minority shareholders proportionate interest in UGC Europe s identifiable tangible and intangible assets and liabilities acquired by us based upon their estimated fair values upon completion of the transaction. Purchase price in excess of the book value of these identifiable tangible and intangible assets and liabilities acquired was allocated as follows (in thousands):

Property, plant and equipment	$	717
Goodwill		1,005,148
Customer relationships and tradename		243,212
Other assets		10,556
Other liabilities		55,271
Total consideration	$	1,314,904

The excess purchase price over the net identifiable tangible and intangible assets and liabilities acquired was recorded as goodwill, which is not deductible for tax purposes. This goodwill was attributable to the following:

Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;

Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and

Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe s and our separate corporate functions into a better integrated, unitary corporate organization.

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The following unaudited pro forma condensed consolidated operating results give effect to this transaction as if it had been completed as of January 1, 2003 (for 2003 results) and as of January 1, 2002 (for 2002 results). This unaudited pro forma condensed consolidated financial information does not purport to represent what our results of operations would actually have been if this transaction had in fact occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

	Year Ended December 31,	
	2003	2002
	(In thousands, except share and per share amounts)	
Revenue	$ 1,891,530	$ 1,515,021
Income before cumulative effect of change in accounting principle	$ 1,805,225	$ 1,014,908
Net income (loss)	$ 1,805,225	$ (329,814)
Earnings per share:		
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 4.99	$ 1.63
Cumulative effect of change in accounting principle		(2.17)
Basic net income (loss) per share	$ 4.99	$ (0.54)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 4.98	$ 1.63
Cumulative effect of change in accounting principle		(2.17)
Diluted net income (loss) per share	$ 4.98	$ (0.54)

2002

Merger Transaction

On January 30, 2002, we completed a transaction with Liberty and Old UGC, pursuant to which the following occurred.

Immediately prior to the merger transaction on January 30, 2002:

Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;

Certain long-term stockholders of Old UGC (the Founders) transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and

Four of the Founders (the Principal Founders) contributed $3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC s directors.

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As a result of the merger transaction:

Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;

Each share of Old UGC s Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;

The shares of Old UGC s Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC s preferred stock would have received had they converted their preferred stock immediately prior to the merger;

Liberty had the right to elect four of our 12 directors;

The Founders had the effective voting power to elect eight of our 12 directors; and

We had the right to elect half of Old UGC s directors and the Principal Founders had the right to elect the other half of Old UGC s directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of $891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;

Liberty contributed $200.0 million in cash to us;

Liberty contributed to us certain UPC bonds (the United UPC Bonds) and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and

In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

In December 2001, IDT United, Inc. (IDT United) commenced a cash tender offer for, and related consent solicitation with respect to, the entire $1.375 billion face amount of senior discount notes of Old UGC (the Old UGC Senior Notes). As of the expiration of the tender offer on February 1, 2002, holders of the notes had validly tendered and not withdrawn notes representing approximately $1.350 billion aggregate principal amount at maturity. At the time of the tender offer, Liberty had an equity and debt interest in IDT United. IDT United s sole purpose was to tender for the Old UGC Senior Notes.

Prior to the merger on January 30, 2002, we acquired from Liberty $751.2 million aggregate principal amount at maturity of the Old UGC Senior Notes (which had previously been distributed to Liberty by IDT United in redemption of a portion of Liberty s equity interest and in prepayment of a portion of IDT United s debt to Liberty), as well as all of Liberty s remaining interest in IDT United. The purchase price for the Old UGC Senior Notes and Liberty s interest in IDT United was:

Our assumption of approximately $304.6 million of indebtedness owed by Liberty to Old UGC; and

Cash in the amount of approximately $143.9 million.

On January 30, 2002, Liberty loaned us approximately $17.3 million, of which approximately $2.3 million was used to purchase shares of redeemable preferred stock and convertible promissory notes issued by IDT United. Following January 30, 2002, Liberty loaned us an additional approximately $85.4 million. We used the

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proceeds of these loans to purchase additional shares of redeemable preferred stock and convertible promissory notes issued by IDT United. These notes to Liberty accrued interest at 8.0% annually, compounded and payable quarterly, and were cancelled in January 2004 (see Note 22). Subsequent to these transactions, IDT United held Old UGC Senior Notes with a principal amount at maturity of $599.2 million. Although we only retain a 33.3% common equity interest in IDT United, we consolidate IDT United as a variable interest entity , as we are the primary beneficiary of an entity that has insufficient equity at risk.

On May 14, 2002, the Principal Founders transferred all of the shares of Old UGC common stock held by them to us in exchange for an aggregate of 600,000 shares of our Class A common stock pursuant to an exchange agreement dated May 14, 2002, among such individuals and us. This exchange agreement superseded the exchange agreement entered into at the time of the merger transaction. As a result of this exchange, Old UGC became our wholly-owned subsidiary, and we were entitled to elect the entire board of directors of Old UGC. This transaction was the final step in the recapitalization of Old UGC.

We accounted for the merger transaction on January 30, 2002 as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we consolidated the financial position and results of operations of Old UGC as if the merger transaction had been consummated at the inception of Old UGC. The purchase of the Old UGC Senior Notes directly from Liberty and the purchase of Liberty s interest in IDT United were recorded at fair value. The issuance of our new shares of Class C common stock to Liberty for cash, the United UPC Bonds and the UPC Exchangeable Loan was recorded at the fair value of our common stock at closing. The estimated fair value of these financial assets (with the exception of the UPC Exchangeable Loan) was significantly less than the accreted value of such debt securities as reflected in Old UGC s historical financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of approximately $1.757 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt over our cost, as follows:

	Fair Value at Acquisition	Book Value	Gain/(Loss)
		(In thousands)	
Old UGC Senior Notes	$ 540,149	$ 1,210,974	$ 670,825
United UPC Bonds	312,831	1,451,519	1,138,688
UPC Exchangeable Loan	891,671	891,671	
Write-off of deferred financing costs		(52,224)	(52,224)
Total gain on extinguishment of debt	$ 1,744,651	$ 3,501,940	$ 1,757,289

We also recorded a deferred income tax provision of $110.6 million related to a portion of the gain on extinguishment of the Old UGC Senior Notes.

Transfer of German Shares

Until July 30, 2002, UPC had a 51% ownership interest in EWT/ TSS Group through its 51% owned subsidiary, UPC Germany. Pursuant to the agreement by which UPC acquired EWT/ TSS Group, UPC was required to fulfill a contribution obligation no later than March 2003, by contributing certain assets amounting to approximately 358.8 million. If UPC failed to make the contribution by such date or in certain circumstances such as a material default by UPC under its financing agreements, the minority shareholders of UPC Germany could call for 22.3% of the ownership interest in UPC Germany in exchange for the euro equivalent of 1 Deutsche Mark. On March 5, 2002, UPC received the holders notice of exercise. On July 30, 2002, UPC completed the transfer of 22.3% of UPC

Germany to the minority shareholders in return for the cancellation of the contribution obligation. UPC now owns 28.7% of UPC Germany, with the former minority shareholders owning the remaining 71.3%. UPC Germany is governed by a new shareholders agreement. For

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accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective August 1, 2002, and recognition of a gain from the reversal of the net negative investment in UPC Germany. Details of the assets and liabilities of UPC Germany as of August 1, 2002 were as follows (in thousands):

Working capital	$ (74,809)
Property, plant and equipment	74,169
Goodwill and other intangible assets	69,912
Long-term liabilities	(84,288)
Minority interest	(142,158)
Gain on reversal of net negative investment	147,925
Net cash deconsolidated	$ (9,249)

Other

In January 2002, we recognized a gain of $109.2 million from the restructuring and cancellation of capital lease obligations associated with excess capacity of certain Priority Telecom vendor contracts.

In June 2002, we recognized a gain of $342.3 million from the delivery by certain banks of $399.2 million in aggregate principal amount of UPC s senior notes and senior discount notes as settlement of certain interest rate and cross currency derivative contracts between the banks and UPC.

2001

In December 2001, UPC and Canal+ Group, the television and film division of Vivendi Universal (Canal+) merged their respective Polish DTH satellite television platforms, as well as the Canal+ Polska premium channel, to form a common Polish DTH platform. UPC Polska contributed its Polish and United Kingdom DTH assets to Telewizyjna Korporacja Partycypacyjna S.A., a subsidiary of Canal+ (TKP), and placed 30.0 million ($26.8 million) cash into an escrow account, which was used to fund TKP with a loan of 30.0 million in January 2002 (the JV Loan). In return, UPC Polska received a 25% ownership interest in TKP and 150.0 ($134.1) million in cash. UPC Polska s investment in TKP was recorded at fair value as of the date of the transaction, resulting in a loss of $416.9 million upon consummation of the merger.

4. Marketable Equity Securities and Other Investments

	December 31, 2003		December 31, 2002	
	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
	(In thousands)		(In thousands)	
SBS common stock	$ 195,600	$ 105,790	$	$
Other equity securities	10,725	6,098		
Corporate bonds and other	2,134	856	45,854	14
Total	$ 208,459	$ 112,744	$ 45,854	$ 14

We recorded an aggregate charge to earnings for other than temporary declines in the fair value of certain of our investments of approximately nil, $2.0 million and nil for the years ended December 31, 2003, 2002 and 2001, respectively.

We own 6.0 million shares of SBS. Historically, our common share ownership interest in SBS was accounted for under the equity method of accounting, as we were able to exert significant influence. On December 19, 2003, SBS redeemed certain of its outstanding debt and as a result issued new common shares to the note

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holders which reduced our ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

5. Property, Plant and Equipment

	December 31, 2002	Additions	Disposals	Impairments(1)	UGC Europe Exchange Offer(2)	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Customer premises equipment	$ 1,003,950	$ 95,834	$ (2,459)	$ (89,971)	$ 20,936	$ 201,941	$ 1,230,231
Commercial	5,670					235	5,905
Scaleable infrastructure	637,171	44,177		(23,806)	(8,973)	138,000	786,569
Line extensions	2,055,614	66,216		(302,280)	(3,806)	373,306	2,189,050
Upgrade/rebuild	846,406	30,287		(4,854)	(5,653)	151,127	1,017,313
Support capital	696,362	70,972	(473)	(30,874)	4,824	127,250	868,061
Priority Telecom(3)	306,233	17,074		(415)	(5,357)	43,521	361,056
UPC Media	83,598	5,833		(6,438)	(1,254)	16,447	98,186
Total	5,635,004	330,393	(2,932)	(458,638)	717	1,051,827	6,556,371
Accumulated depreciation	(1,994,793)	(804,937)	2,123	64,788		(480,809)	(3,213,628)
Net property, plant and equipment	$ 3,640,211	$ (474,544)	$ (809)	$ (393,850)	$ 717	$ 571,018	$ 3,342,743

(1) See Note 17.

(2) See Note 3.

(3) Consists primarily of network infrastructure and equipment.

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6. Goodwill

The change in the carrying amount of goodwill by operating segment for the year ended December 31, 2003 is as follows:

	December 31, 2002	Acquisitions	UGC Europe Exchange Offer(1)	Foreign Currency Translation Adjustments	December 31, 2003
			(In thousands)		
Europe:					
Austria	$ 140,349	$ 383	$ 167,209	$ 31,640	$ 339,581
Belgium	14,284		24,467	1,747	40,498
Czech Republic			67,138	1,240	68,378
Hungary	73,878	229	142,809	11,723	228,639
The Netherlands	705,833		256,415	149,310	1,111,558
Norway	9,017		28,553	930	38,500
Poland			36,368	672	37,040
Romania	20,138		2,698	324	23,160
Slovak Republic	3,353		22,644	1,133	27,130
Sweden	142,771		30,823	31,270	204,864
chellomedia			122,304	2,258	124,562
UGC Europe, Inc.			103,720	1,915	105,635
Total	1,109,623	612	1,005,148	234,162	2,349,545
Latin America:					
Chile	140,710			29,576	170,286
Total	$ 1,250,333	$ 612	$ 1,005,148	$ 263,738	$ 2,519,831

(1) See Note 3.

We adopted SFAS 142 effective January 1, 2002. SFAS 142 required a transitional impairment assessment of goodwill as of January 1, 2002, in two steps. Under step one, the fair value of each of our reporting units was compared with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, goodwill of the reporting unit was considered not impaired. If the carrying amount of a reporting unit exceeded its fair value, the second step of the goodwill impairment test was performed to measure the amount of impairment loss. We completed step one in June 2002, and concluded the carrying value of certain reporting units as of January 1, 2002 exceeded fair value. The completion of step two resulted in an impairment adjustment of $1.34 billion. This amount has been reflected as a cumulative effect of a change in accounting principle in the consolidated statement of operations, effective January 1, 2002, in accordance with SFAS 142. We also recorded impairment charges totaling $362.8 million based on our annual impairment test effective December 31, 2002.

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Pro Forma Information

Prior to January 1, 2002, goodwill and excess basis on equity method investments was generally amortized over 15 years. The following presents the pro forma effect on net loss for the year ended December 31, 2001, from the reduction of amortization expense on goodwill and the reduction of amortization of excess basis on equity method investments, as a result of the adoption of SFAS 142 (in thousands, except per share amounts):

		Year Ended December 31, 2001
Net loss as reported	$	(4,494,709)
Goodwill amortization		
UPC and subsidiaries		379,449
VTR		11,310
Austar United and subsidiaries		12,765
Other		2,881
Amortization of excess basis on equity investments		
UPC affiliates		35,940
Austar United affiliates		2,823
Other		2,027
Adjusted net loss	$	(4,047,514)
Basic and diluted net loss per common share as reported	$	(41.29)
Goodwill amortization		
UPC and subsidiaries		3.45
VTR		0.10
Austar United and subsidiaries		0.12
Other		0.03
Amortization of excess basis on equity investments		
UPC affiliates		0.33
Austar United affiliates		0.03
Other		0.02
Adjusted basic and diluted net loss per common share	$	(37.21)

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7. Intangible Assets

Other intangible assets consist primarily of customer relationships, tradename, licenses and capitalized software. Customer relationships are amortized over the expected lives of our customers. The weighted-average amortization period of the customer relationship intangible is approximately 7.5 years. Tradename is an indefinite-lived intangible asset that is not subject to amortization. The following tables present certain information for other intangible assets. Actual amounts of amortization expense may differ from estimated amounts due to additional acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

	December 31, 2002	Additions	Impairments(1)	Disposals	UGC Europe Exchange Offer	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Intangible assets with definite lives:							
Customer relationships	$	$	$	$	$ 220,290	$ 4,068	$ 224,358
License fees	25,075	1,489	(13,871)	(3,815)		2,870	11,748
Other	10,493	233		(4,132)		1,925	8,519
Intangible assets with indefinite lives:							
Tradename					22,922	424	23,346
Total	35,568	1,722	(13,871)	(7,947)	243,212	9,287	267,971
Accumulated amortization	(21,792)	(3,726)	5,482	7,537		(3,236)	(15,735)
Net intangible assets	$ 13,776	$ (2,004)	$ (8,389)	$ (410)	$ 243,212	$ 6,051	$ 252,236

(1) See Note 17.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Amortization expense	$ 3,726	$ 16,632	$ 19,136

	Year Ended December 31,					
	2004	2005	2006	2007	2008	Thereafter
	(In thousands)					
Estimated amortization expense	$ 33,043	$ 31,816	$ 30,515	$ 30,515	$ 30,515	$ 72,486

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8. Long-Term Debt

	December 31,	
	2003	2002
	(In thousands)	
UPC Distribution Bank Facility	$ 3,698,586	$ 3,289,826
UPC Polska notes	317,372	377,110
VTR Bank Facility	123,000	
Old UGC Senior Notes	24,627	24,313
Other	80,493	133,148
PCI notes		14,509
UPC July 1999 senior notes(1)		1,079,062
UPC January 2000 senior notes(1)		1,075,468
UPC October 1999 senior notes(1)		658,458
Total	4,244,078	6,651,894
Current portion	(628,176)	(6,179,223)
Long-term portion	$ 3,615,902	$ 472,671

(1) These senior notes and senior discount notes were converted into common stock of UGC Europe in connection with UPC s reorganization.

UPC Distribution Bank Facility

The UPC Distribution Bank Facility is guaranteed by UPC s majority owned cable operating companies, excluding Poland, and is senior to other long-term debt obligations of UPC. The UPC Distribution Bank Facility credit agreement contains certain financial covenants and restrictions on UPC s subsidiaries regarding payment of dividends, ability to incur indebtedness, dispose of assets, and merge and enter into affiliate transactions.

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The following table provides detail of the UPC Distribution Bank Facility:

	Currency/Tranche Amount		Amount Outstanding December 31, 2003					
Tranche	Euros	US Dollars	Euros	US Dollars	Interest Rate(4)	Description	Payment Begins	Final Maturity
		(In thousands)						
Facility A(1)(2)(3)	666,750	$ 840,529	230,000	$ 289,946	EURIBOR +2.25% 4.0%	Revolving credit	June-06	June-08
Facility B(1)(2)	2,333,250	2,941,380	2,333,250	2,941,380	EURIBOR +2.25% 4.0%	Term loan	June-04	June-08
Facility C1(1)	95,000	119,760	95,000	119,760	EURIBOR +5.5%	Term loan	June-04	March-09
Facility C2(1)	405,000	347,500	275,654	347,500	LIBOR +5.5%	Term loan	June-04	March-09
Total			2,933,904	$ 3,698,586				

(1) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.

(2) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.

(3) The availability under Facility A of 436.8 ($550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.

(4) As of December 31, 2003, six month EURIBOR and LIBOR rates were 2.2% and 1.2%, respectively.

In January 2004, the UPC Distribution Bank Facility was amended to:

Permit indebtedness under a new facility (Facility D). The new facility has substantially the same terms as the existing facility and consists of five different tranches totaling 1.072 billion. The proceeds of Facility D are limited in use to fund the scheduled payments of Facility B under the existing facility between December 2004 and December 2006;

Increase and extend the maximum permitted ratios of senior debt to annualized EBITDA (as defined in the bank facility) and lower and extend the minimum required ratios of EBITDA to senior interest and EBITDA to senior debt service;

Include a total debt to annualized EBITDA ratio and EBITDA to total cash interest ratio;

Include a mandatory prepayment from proceeds of debt issuance and net equity proceeds received by UGC Europe; and

Permit acquisitions depending on certain leverage ratios and other restrictions.

UPC Polska Notes

On July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska s Chapter 11 plan of reorganization, which was consummated and became effective on February 18, 2004, when UPC Polska emerged from the Chapter 11 proceedings. In accordance with UPC Polska s plan of reorganization, third-party note holders received a total of $80.0 million in cash, $100.0 million in new 9.0% UPC Polska notes due 2007, and approximately 2.0 million shares of our Class A common stock in exchange for the cancellation of their claims. Two subsidiaries of UGC Europe, UPC Telecom B.V. and Belmarken Holding B.V., received $15.0 million in cash and 100% of the newly issued membership interests denominated as stock of the reorganized company in exchange for the cancellation of their claims.

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UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VTR Bank Facility

In May 2003, VTR and VTR s senior lenders amended and restated VTR s existing senior secured credit facility. Principal payments are payable during the term of the facility on a quarterly basis beginning March 31, 2004, with final maturity on December 31, 2006. The VTR Bank Facility bears interest at LIBOR plus 5.50% (subject to adjustment under certain conditions) and is collateralized by tangible and intangible assets pledged by VTR and certain of its operating subsidiaries, as set forth in the credit agreement. The VTR Bank Facility is senior to other long-term debt obligations of VTR. The VTR Bank Facility credit agreement establishes certain covenants with respect to financial statements, existence of lawsuits, insurance, prohibition of material changes, limits to taxes, indebtedness, restriction of payments, capital expenditures, compliance ratios, governmental approvals, coverage agreements, lines of business, transactions with related parties, certain obligations with subsidiaries and collateral issues.

Old UGC Senior Notes

The Old UGC Senior Notes accreted to an aggregate principal amount of $1.375 billion on February 15, 2003, at which time cash interest began to accrue. Commencing August 15, 2003, cash interest on the Old UGC Senior Notes is payable on February 15 and August 15 of each year until maturity at a rate of 10.75% per annum. The Old UGC Senior Notes mature on February 15, 2008. As of December 31, 2003, the following entities held the Old UGC Senior Notes:

		Principal Amount at Maturity
		(In thousands)
UGC	$	638,008(1)
IDT United		599,173(1)
Third parties		24,627
Total	$	1,261,808

(1) Eliminated in consolidation.

The Old UGC Senior Notes began to accrue interest on a cash-pay basis on February 15, 2003, with the first payment due August 15, 2003. Old UGC did not make this interest payment. Because this failure to pay continued for a period of more than 30 days, an event of default exists under the terms of the Old UGC Senior Notes indenture. On November 24, 2003, Old UGC, which principally owns our interests in Latin America and Australia, reached an agreement with us, IDT United (in which we have a 94% fully diluted interest and a 33% common equity interest) and the unaffiliated stockholders of IDT United on terms for the restructuring of the Old UGC Senior Notes. Consistent with the restructuring agreement, on January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. The agreement and related transactions, if implemented, would result in the acquisition by Old UGC of the Old UGC Notes held by us (following cancellation of offsetting obligations) and IDT United for common stock of Old UGC. Old UGC Senior Notes held by third parties would either be left outstanding (after cure and reinstatement) or acquired for our Class A Common Stock (or, at our election, for cash). Subject to consummation of the transactions contemplated by the agreement, we expect to acquire the interests of the unaffiliated stockholders in IDT United for our Class A Common Stock and/or cash, at our election, in which case Old UGC would continue to be wholly owned by us. The value of

any Class A Common Stock to be issued by us in these transactions is not expected to exceed $45 million. A claim was filed in the Chapter 11 proceeding by Excite@Home. See Note 13.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Term Debt Maturities

The maturities of our long-term debt are as follows (in thousands):

Year Ended December 31, 2004	$ 628,176
Year Ended December 31, 2005	718,903
Year Ended December 31, 2006	1,002,106
Year Ended December 31, 2007	671,704
Year Ended December 31, 2008	813,423
Thereafter	409,766
Total	$ 4,244,078

9. Fair Value of Financial Instruments

	December 31, 2003		December 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
UPC Distribution Bank Facility	$ 3,698,586	$ 3,698,586(1)	$ 3,289,826	$ 3,289,826(2)
UPC Polska Notes	317,372	194,500(3)	377,110	99,133(4)
VTR Bank Facility	123,000	123,000(5)	144,000	144,000(5)
Note payable to Liberty	102,728	102,728(6)	102,728	102,728(6)
Old UGC Senior Notes	24,627	20,687(7)	24,313	8,619(4)
UPC July 1999 Senior Notes			1,079,062	64,687(4)
UPC October 1999 Senior Notes			658,458	41,146(4)
UPC January 2000 Senior Notes			1,075,468	68,152(4)
UPC FiBI Loan			57,033	(8)
Other	85,592	85,592(9)	151,769	151,769(9)
Total	$ 4,351,905	$ 4,225,093	$ 6,959,767	$ 3,970,060

(1) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) Moody s Investor Service rated the facility at B+; and c) the credit agreement was amended in January 2004 to add a new 1.072 billion tranche on similar credit terms as the previous facility.

(2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount); b) the reorganization plan of UPC assumed, in liquidation, that the lenders of the facility would be paid back 100%, based on seniority in liquidation (i.e., the assets of UPC Distribution were sufficient to repay the facility in a liquidation scenario); c) certain lenders under the facility confirmed to us they did not mark down the facility on their books; and d) when the facility was amended in connection with the restructuring agreement on

September 30, 2002, the revised terms included increased fees and margin (credit spread), resetting the terms of this variable-rate facility to market.

(3) Fair value represents the consideration UPC Polska note holders received from the consummation of UPC Polska s second amended Chapter 11 plan of reorganization.

(4) Fair value is based on quoted market prices.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR s results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.

(6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.

(7) Fair value is based on an independent valuation analysis.

(8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel (FiBI) and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.

(9) Fair value approximates carrying value.

The carrying value of cash and cash equivalents, subscriber receivables, other receivables, other current assets, accounts payable, accrued liabilities and subscriber prepayments and deposits approximates fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices at the reporting date.

10. Derivative Instruments

We had a cross currency swap related to the UPC Distribution Bank Facility where a $347.5 million notional amount was swapped at an average rate of 0.852 euros per U.S. dollar until November 29, 2002. On November 29, 2002, the swap was settled for 64.6 million. We also had an interest rate swap related to the UPC Distribution Bank Facility where a notional amount of 1.725 billion was fixed at 4.55% for the EURIBOR portion of the interest calculation through April 15, 2003. This swap qualified as an accounting cash flow hedge, accordingly, the changes in fair value of this instrument were recorded through other comprehensive income (loss) in the consolidated statement of stockholders equity (deficit). This swap expired April 15, 2003. During the first quarter of 2003, we purchased an interest rate cap on the euro denominated UPC Distribution Bank Facility for 2003 and 2004. As a result, the net rate (without the applicable margin) is capped at 3.0% on a notional amount of 2.7 billion. The changes in fair value of these interest caps are recorded through other income in the consolidated statement of operations. In June 2003, we entered into a cross currency and interest rate swap pursuant to which a $347.5 million obligation under the UPC Distribution Bank Facility was swapped at an average rate of 1.113 euros per U.S. dollar until July 2005. The changes in fair value of these interest swaps are recorded through other income in the consolidated statement of operations. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of $56.3 million, $130.1 million and $105.8 million, respectively, in connection with the change in fair value of these derivative instruments. The fair value of these derivative contracts as of December 31, 2003 was $45.6 million (liability).

Certain of our operating companies programming contracts are denominated in currencies that are not the functional currency or local currency of that operating company, nor that of the counter party. As a result, these contracts contain embedded foreign exchange derivatives that require separate accounting. We report these derivatives at fair value, with changes in fair value recognized in earnings.

11. Bankruptcy Proceedings

In September 2002, we and other creditors of UPC reached a binding agreement on a recapitalization and reorganization plan for UPC. In order to effect the restructuring, on December 3, 2002, UPC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Southern District of New York, including a pre-negotiated plan of reorganization dated December 3, 2002. On that date, UPC also commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law and filed a proposed plan of compulsory composition with the Amsterdam Court under the Dutch bankruptcy code. The U.S. Bankruptcy Court confirmed the reorganization plan on February 20, 2003. The Dutch Bankruptcy Court ratified the plan of compulsory composition on March 13, 2003. Following appeals in the Dutch proceedings, the reorganization was completed as provided for in the pre-negotiated plan of reorganization in September 2003.

On June 19, 2003, UPC Polska executed a binding agreement with some of its creditors to restructure its balance sheet. In order to effect the restructuring, on July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated July 8, 2003. On October 27, 2003, UPC Polska filed a first amended plan of reorganization with the U.S. Bankruptcy Court. On December 17, 2003, UPC Polska entered into a Stipulation and Order with Respect to Consensual Plan of Reorganization which terminated the restructuring agreement. Pursuant to the Stipulation, UPC filed a second amended plan of reorganization with the U.S. Bankruptcy Court, which was consummated and became effective on February 18, 2004.

In connection with their bankruptcy proceedings, UPC and UPC Polska are required to prepare their consolidated financial statements in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7), issued by the American Institute of Certified Public Accountants. In accordance with SOP 90-7, all of UPC s and UPC Polska s pre-petition liabilities that were subject to compromise under their plans of reorganization are segregated in their consolidated balance sheet as liabilities and convertible preferred stock subject to compromise. These liabilities were recorded at the amounts expected to be allowed as claims in the bankruptcy proceedings rather than at the estimated amounts for which those allowed claims might be settled as a result of the approval of the plans of reorganization. Since we consolidate UPC and UPC Polska, financial information with respect to UPC and UPC Polska included in our accompanying consolidated financial statements has been prepared in

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accordance with SOP 90-7. The following presents condensed financial information for UPC Polska and UPC in accordance with SOP 90-7:

	UPC Polska	UPC
	December 31,	
	2003	2002
	(In thousands)	
Balance Sheet		
Assets		
Current assets	$ 240,131	$ 54,650
Long-term assets		328,422
Total assets	$ 240,131	$ 383,072
Liabilities and Stockholders Equity (Deficit)		
Current liabilities		
Not subject to compromise:		
Accounts payable, accrued liabilities, debt and other	$ 10,794	$ 631
Total current liabilities not subject to compromise	10,794	631
Subject to compromise:		
Accounts payable	14,445	38,647
Short-term debt	6,000	
Accrued liabilities		232,603
Intercompany payable(1)	4,668	135,652
Current portion of long-term debt(1)	456,992	2,812,954
Debt(1)	481,737	1,533,707
Total current liabilities subject to compromise	963,842	4,753,563
Long-term liabilities not subject to compromise		725,008
Convertible preferred stock subject to compromise(2)		1,744,043
Stockholders equity (deficit)	(734,505)	(6,840,173)
Total liabilities and stockholders equity (deficit)	$ 240,131	$ 383,072

(1) Certain amounts are eliminated in consolidation.

(2) 99.6% is eliminated in consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	UPC Polska	UPC
	December 31,	
	2003(1)	2002(2)
	(In thousands)	
Statement of Operations		
Revenue	$	$ 19,037
Expense		(42,696)
Depreciation and amortization		(16,562)
Impairment and restructuring charges	(6,000)	(1,218)
Operating income (loss)	(6,000)	(41,439)
Share in results of affiliates and other expense, net	(6,669)	(1,870,430)
Net income (loss)	$ (12,669)	$ (1,911,869)

(1) For the period from July 7, 2003 (the petition date) to December 31, 2003.

(2) For the year ended December 31, 2002.

The following presents certain other disclosures required by SOP 90-7 for UPC Polska and UPC:

	2003	2002
	(In thousands)	
Interest expense on liabilities subject to compromise(1)	$ 55,270	$
Contractual interest expense on liabilities subject to compromise	$ 106,858	$ 709,571
Reorganization expense:		
Professional fees	$ 43,248	$ 37,898
Adjustment of debt to expected allowed amounts	(19,239)	
Write-off of deferred finance costs		36,203
Other	8,000	1,142
Total reorganization expense	$ 32,009	$ 75,243

(1) In accordance with SOP 90-7, interest expense on liabilities subject to compromise is reported in the accompanying consolidated statement of operations only to the extent that it will be paid during the bankruptcy proceedings or to the extent it is considered an allowed claim.

12. Net Negative Investment in Deconsolidated Subsidiaries

On November 15, 2001, we transferred an approximate 50% interest in United Australia/ Pacific, Inc. (UAP) to an independent third party for nominal consideration. As a result, we deconsolidated UAP effective November 15, 2001. On March 29, 2002, UAP filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. On March 18, 2003, the U.S. Bankruptcy Court entered an order confirming UAP s plan of reorganization (the UAP Plan). The UAP Plan became effective in April 2003, and the UAP bankruptcy proceeding was completed in June 2003.

In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. (CHAMP) acquired UAP s indirect approximate 63.2% interest in United Austar, Inc. (UAI), which owned approximately 80.7% of Austar United. The purchase price for UAP s indirect interest in UAI was $34.5 million in cash, which was distributed to the holders of UAP s senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of

UNITEDGLOBALCOM, INC.
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UAP s gain from the sale of its 63.2% interest in UAI ($26.3 million) and our proportionate share of UAP s gain from the extinguishment of its outstanding senior notes ($258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of $284.7 million associated with the sale of our indirect approximate 49.99% interest in UAP that occurred on November 15, 2001.

13. Guarantees, Commitments and Contingencies

Guarantees

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification guarantees typically extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and the likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

In connection with the acquisition of UPC s ordinary shares held by Philips Electronics N.V. (Philips) on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria (Vienna Obligations), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence.

Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

We sub-lease transponder capacity to a third party and all guaranteed performance criteria is matched with the guaranteed performance criteria we receive from the lease transponder provider. We have third party contracts for the distribution of channels from our digital media center in Amsterdam that require us to perform according to industry standard practice, with penalties attached should performance drop below the agreed-upon criteria. Additionally, our interactive services group in Europe has third party contracts for the delivery of interactive content with certain performance criteria guarantees.

Commitments

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

under these lease agreements totaled $69.9 million, $48.5 million and $63.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

	Capital Leases	Operating Leases
Year ended December 31, 2004	$ 7,791	$ 60,501
Year ended December 31, 2005	8,790	39,376
Year ended December 31, 2006	7,887	32,020
Year ended December 31, 2007	7,899	26,109
Year ended December 31, 2008	7,917	21,511
Thereafter	61,826	42,092
Total minimum payments	$ 102,110	$ 221,609
Less amount representing interest and executory costs	(37,268)	
Net lease payments	64,842	
Lease obligations due within one year	(3,073)	
Long-term lease obligations	$ 61,769	

As of December 31, 2003, we have a commitment to purchase 265,000 set-top computers over the next two years. We expect to finance these purchases from existing unrestricted cash balances and future operating cash flow.

We have certain franchise obligations under which we must meet performance requirements to construct networks under certain circumstances. Non-performance of these obligations could result in penalties being levied against us. We continue to meet our obligations so as not to incur such penalties. In the ordinary course of business, we provide customers with certain performance guarantees. For example, should a service outage occur in excess of a certain period of time, we would compensate those customers for the outage. Historically, we have not made any significant payments under any of these indemnifications or guarantees. In certain cases, due to the nature of the agreement, we have not been able to estimate our maximum potential loss or the maximum potential loss has not been specified.

Contingencies

The following is a description of certain legal proceedings to which we or one of our subsidiaries is a party. From time to time we may become involved in litigation relating to claims arising out of our operations in the normal course of business. In our opinion, the ultimate resolution of these legal proceedings would not likely have a material adverse effect on our business, results of operations, financial condition or liquidity.

Cignal

On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications (Cignal) filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200.0 million alleging that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful consummation of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering.

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Excite@Home

In 2000, certain of our subsidiaries, including UPC, pursued a transaction with Excite@Home, which if completed, would have merged UPC s chello broadband subsidiary with Excite@Home s international broadband operations to form a European Internet business. The transaction was not completed, and discussions between the parties ended in late 2000. On November 3, 2003, we received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation, Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleges breach of contract and fiduciary duty by UGC and Old UGC. The action has been stayed as to Old UGC by the Bankruptcy Court in the Old UGC bankruptcy proceeding. The plaintiff has filed a claim in the bankruptcy proceedings of approximately $2.2 billion. We deny the material allegations and intend to defend the litigation vigorously.

HBO

UPC Polska was involved in a dispute with HBO Communications (UK) Ltd., Polska Programming B.V. and HBO Poland Partners (collectively HBO) concerning its cable carriage agreement and its D-DTH carriage agreement for the HBO premium movie channel. In February 2004, the matter was settled and UPC Polska paid $6.0 million to HBO.

ICH

On July 4, 2001, ICH, InterComm France CVOHA (ICF I), InterComm France II CVOHA (ICF II), and Reflex Participations (Reflex, collectively with ICF I and ICF II, the ICF Party) served a demand for arbitration on UPC, Old UGC, and its subsidiaries, Belmarken Holding B.V. (Belmarken) and UPC France Holding B.V. The claimants allege breaches of obligations allegedly owed by UPC in connection with the ICF Party s position as a minority shareholder in Médiaréseaux S.A. In February 2004, the parties entered into a settlement agreement pursuant to which UPC purchased the shares owned by the ICF Party in Médiaréseaux S.A. for consideration of 1,800,000 shares of our Class A common stock.

Movieco

On December 3, 2002, Europe Movieco Partners Limited (Movieco) filed a request for arbitration (the Request) against UPC with the International Court of Arbitration of the International Chamber of Commerce. The Request contains claims that are based on a cable affiliation agreement entered into between the parties on December 21, 1999 (the CAA). The arbitral proceedings were suspended from December 17, 2002 to March 18, 2003. They have subsequently been reactivated and directions have been given by the Arbitral Tribunal. In the proceedings, Movieco claims (i) unpaid license fees due under the CAA, plus interest, (ii) an order for specific performance of the CAA or, in the alternative, damages for breach of that agreement, and (iii) legal and arbitration costs plus interest. Of the unpaid license fees, approximately $11.0 million had been accrued prior to UPC commencing insolvency proceedings in the Netherlands on December 3, 2002 (the Pre-Petition Claim). Movieco made a claim in the Dutch insolvency proceedings for the Pre-Petition Claim and shares of the appropriate value were delivered to Movieco in December 2003. UPC filed a counterclaim in the arbitral proceeding, stating that the CAA is null and void because it breaches Article 81 of the EC Treaty. UPC also relies on the Order of the Southern District of New York dated January 7, 2003 in which the New York Court ordered that the rejection of the CAA was approved effective March 1, 2003, and that UPC shall have no further liability under the CAA.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Philips

On October 22, 2002, Philips Digital Networks B.V. (Philips) commenced legal proceedings against UPC, UPC Nederland B.V. and UPC Distribution (together the UPC Defendants) alleging failure to perform by the UPC Defendants under a Set Top Computer Supply Agreement between the parties dated November 19, 2001, as amended (the STC Agreement). The action was commenced by Philips following a termination of the STC Agreement by the UPC Defendants as a consequence of Philips failure to deliver STCs conforming to the material technical specifications required by the terms of the STC Agreement. The parties have entered into a settlement agreement conditioned upon UPC Defendants entering into a purchase agreement for STCs by June 30, 2004.

UGC Europe Exchange Offer

On October 8, 2003, an action was filed in the Court of Chancery of the State of Delaware in New Castle County, in which the plaintiff named as defendants UGC Europe, UGC and certain of our directors. The complaint purports to assert claims on behalf of all public shareholders of UGC Europe. On October 21, 2003, the plaintiff filed an amended complaint in the Delaware Court of Chancery. The complaint alleges that UGC Europe and the defendant directors have breached their fiduciary duties to the public shareholders of UGC Europe in connection with an offer by UGC to exchange shares of its common stock for outstanding common stock of UGC Europe. Among the remedies demanded, the complaint seeks to enjoin the exchange offer and obtain declaratory relief, unspecified damages and rescission. On November 12, 2003, we and the plaintiff, through respective counsel, entered into a memorandum of understanding agreeing to settle the litigation and to pay up to $975,000 in attorney fees, subject to court approval of the settlement.

14. Minority Interests in Subsidiaries

	December 31,	
	2003	2002
	(In thousands)	
UPC convertible preference shares held by third parties(1)	$	$ 1,094,668
UPC convertible preference shares held by Liberty(2)		297,753
IDT United	20,858	7,986
Other	1,903	1,739
Total	$ 22,761	$ 1,402,146

(1) We acquired 99.4% of these convertible preference shares in February and April 2003. The remainder was exchanged for UGC Europe common stock in connection with UPC s restructuring.

(2) Acquired by us in April 2003.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The minority interests share of results of operations is as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Minority interest share of UGC Europe net loss	$ 181,046	$	$
Accrual of dividends on UPC s convertible preference shares held by third parties		(78,355)	(70,089)
Accrual of dividends on UPC s convertible preference shares held by Liberty		(18,728)	(19,113)
Minority interest share of UPC net loss			54,050
Subsidiaries of UGC Europe	(91)	28,080	484,780
Other	2,227	1,900	46,887
Total	$ 183,182	$ (67,103)	$ 496,515

15. Stockholders Equity (Deficit)

Description of Capital Stock

Our authorized capital stock currently consists of:

1,000,000,000 shares of Class A common stock;

1,000,000,000 shares of Class B common stock;

400,000,000 shares of Class C common stock; and

10,000,000 shares of preferred stock, all $0.01 par value per share.

Common Stock

Our Class A common stock, Class B common stock and Class C common stock have identical economic rights. They do, however, differ in the following respects:

Each share of Class A common stock, Class B common stock and Class C common stock entitles the holders thereof to one, ten and ten votes, respectively, on each matter to be voted on by our stockholders, excluding, until our next annual meeting of stockholders, the election of directors, at which time the holders of Class A common stock, Class B common stock and Class C common stock will vote together as a single class on each matter to be voted on by our stockholders, including the election of directors; and

Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock at any time. Each share of Class C common stock is convertible, at the option of the holder, into one share of Class A common stock or Class B common stock at any time.

Holders of our Class A, Class B and Class C common stock are entitled to receive any dividends that are declared by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our Class A, Class B and Class C common stock will be entitled to share in all assets available for distribution to holders of common stock. Holders of our Class A, Class B and Class C common stock have no preemptive right under our certificate of incorporation. Our certificate of incorporation provides that if there is any dividend, subdivision, combination or reclassification of any class of common stock, a proportionate dividend,

subdivision, combination or reclassification of one other class of common stock will be made at the same time.

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UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Preferred Stock

We are authorized to issue 10 million shares of preferred stock. Our board of directors is authorized, without any further action by the stockholders, to determine the following for any unissued series of preferred stock:

- voting rights;
- dividend rights;
- dividend rates;
- liquidation preferences;
- redemption provisions;
- sinking fund terms;
- conversion or exchange rights;
- the number of shares in the series; and
- other rights, preferences, privileges and restrictions.

In addition, the preferred stock could have other rights, including economic rights senior to common stock, so that the issuance of the preferred stock could adversely affect the market value of common stock. The issuance of preferred stock may also have the effect of delaying, deferring or preventing a change in control of us without any action by the stockholders.

UGC Equity Incentive Plan

On August 19, 2003, our Board of Directors adopted an Equity Incentive Plan (the Incentive Plan) effective September 1, 2003. Our stockholders approved the Incentive Plan on September 30, 2003. After such stockholder approval of the Incentive Plan, the Board of Directors recommended certain changes to the Incentive Plan that give us the ability to issue stock appreciation rights with a grant price at, above, or less than the fair market value of our common stock on the date the stock appreciation right is granted. Those changes, along with certain other technical changes, were incorporated into an amended UGC Equity Incentive Plan (the Amended Incentive Plan), which was approved by our stockholders on December 17, 2003. The Board of Directors have reserved 39,000,000 shares of common stock, plus an additional number of shares on January 1 of each year equal to 1% of the aggregate shares of Class A and Class B common stock outstanding, for the Amended Incentive Plan. No more than 5,000,000 shares of Class A or Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the Amended Incentive Plan as Class B common stock. The Amended Incentive Plan permits the grant of the following awards (the Awards): stock options (Options), restricted stock awards (Restricted Stock), SARs, stock bonuses (Stock Bonuses), stock units (Stock Units) and other grants of stock. Our employees, consultants and non-employee directors and affiliated entities designated by the Board of Directors are entitled to receive any Awards under the Amended Incentive Plan, provided, however, that only non-qualified Options may be granted to non-employee directors. In accordance with the provisions of the Plan, our compensation committee (the Committee) has the discretion to: select participants from among eligible employees and eligible consultants; determine the Awards to be made; determine the number of Stock Units, SARs or shares of stock to be issued and the time at which such Awards are to be made; fix the option price, period and manner in which an Option becomes exercisable; establish the duration and nature of Restricted Stock Award restrictions; establish the terms and conditions applicable to Stock Bonuses and Stock Units; and establish such other terms and requirements of

the various compensation incentives under the Amended Incentive Plan as the Committee may deem necessary or desirable and consistent with the terms of the Amended Incentive Plan. The Committee may,

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

under certain circumstances, delegate to our officers the authority to grant Awards to specified groups of employees and consultants. The Board has the sole authority to grant Options under the Amended Incentive Plan to non-employee directors. The maximum term of Options granted under the Amended Incentive Plan is ten years. The Committee shall determine, at the time of the award of SARs, the time period during which the SARs may be exercised and other terms that shall apply to the SARs. The Amended Incentive Plan terminates August 31, 2013.
A summary of activity for the Amended Incentive Plan is as follows:

	Number of SARs	Weighted-Average Base Price
Outstanding at beginning of year		$
Granted during the year	32,165,550	$ 4.69
Cancelled during the year	(78,280)	$ 4.59
Exercised during the year		$
Outstanding at end of year	32,087,270	$ 4.69
Exercisable at end of year		$

The weighted-average fair values and weighted average base prices of SARs granted under the Amended Incentive Plan are as follows:

Base Price	Number	Fair Value	Base Price
Less than market price(1)	15,081,775	$ 5.44	$ 3.74
Equal to market price(2)	15,081,775	$ 6.88	$ 5.44
Equal to market price	2,002,000	$ 4.91	$ 6.13
Greater than market price		$	$
Total(3)	32,165,550	$ 4.33	$ 4.69

(1) We originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will receive only the difference between the base price and the lesser of $5.44 or the fair market value of our Class A common stock on the date of exercise.

(2) We originally granted these SARs at fair market value on date of grant. As a result of the UGC Europe Exchange Offer and merger transaction in December 2003, we substituted UGC SARs for UGC Europe SARs.

(3) All the SARs granted during Fiscal 2003 vest in five equal annual increments. Vesting of the SARs granted would be accelerated upon a change of control of UGC as defined in the Amended Incentive Plan. The table does not reflect the adjustment to the base prices on all outstanding SARs in January 2004. As a result of the dilution

caused by our subscription rights offering that closed in February 2004, all base prices have since been reduced by $0.87.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following summarizes information about SARs outstanding and exercisable at December 31, 2003:

	Outstanding			Exercisable	
Base Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Base Price	Number	Weighted-Average Base Price
$3.74	15,042,635	9.97	$ 3.74		$
$5.44	15,042,635	9.97	$ 5.44		$
$6.13	1,997,000	9.75	$ 6.13		$
$7.20	5,000	9.90	$ 7.20		$
Total	32,087,270	9.95	$ 4.69		$

The Amended Incentive Plan is accounted for as a variable plan and accordingly, compensation expense is recognized at each financial statement date based on the difference between the grant price and the estimated fair value of our Class A common stock. Compensation expense of $8.8 million was recognized in the statement of operations for the year ended December 31, 2003.

UGC Stock Option Plans

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by us on January 30, 2002 (the Employee Plan). The Employee Plan was construed, interpreted and administered by the Committee, consisting of all members of the Board of Directors who were not our employees. The Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of Class A common stock, of which options for up to 3,000,000 shares of Class B common stock were available to be granted in lieu of options for shares of Class A common stock. The Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In general, for grants prior to December 1, 2000, options vested in equal monthly increments over 48 months, and for grants subsequent to December 1, 2000, options vested 12.5% six months from the date of grant and then in equal monthly increments over the next 42 months. Vesting would be accelerated upon a change of control of us as defined in the Employee Plan. At December 31, 2003, employees had options to purchase an aggregate of 10,745,692 shares of Class A common stock outstanding under The Employee Plan and options to purchase an aggregate of 3,000,000 shares of Class B common stock. The Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made.
Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by us on January 30, 2002 (the 1993 Director Plan). The 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of our Class A common stock to each member of the Board of Directors who was not also an employee of ours (a non-employee director) on June 1, 1993, and to each person who was newly elected to the Board of

Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by us on January 30,

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2002 (the 1998 Director Plan , and together with the 1993 Director Plan, the Director Plans). Options under the 1998 Director Plan were granted at the discretion of our Board of Directors. The maximum term of options granted under the Director Plans was ten years. Under the 1993 Director Plan, options vested 25.0% on the first anniversary of the date of grant and then evenly over the next 36-month period. Under the 1998 Director Plan, options vested in equal monthly increments over the four-year period following the date of grant. Vesting under the Director Plans would be accelerated upon a change in control of us as defined in the respective Director Plans. Effective March 14, 2003, the Board of Directors terminated the 1993 Director Plan. At the time of termination, we had granted options for an aggregate of 860,000 shares of Class A common stock, of which 271,667 shares have been cancelled. Options outstanding prior to the date of termination continue to be recognized, but no new grants of options will be made.

Pro forma information regarding net income (loss) and net income (loss) per share is required to be determined as if we had accounted for our Employee Plan s and Director Plans options granted on or after March 1, 1995 under the fair value method prescribed by SFAS 123. The fair value of options granted for the years ended December 31, 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,		
	2003	**2002**	**2001**
Risk-free interest rate	3.40%	4.62%	4.78%
Expected lives	6 years	6 years	6 years
Expected volatility	100%	100%	95.13%
Expected dividend yield	0%	0%	0%

Based on the above assumptions, the total fair value of options granted was nil, $47.6 million and $5.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of stock option activity for the Employee Plan is as follows:

	Year Ended December 31,					
	2003		**2002**		**2001**	
	Number	**Weighted-Average Exercise Price**	**Number**	**Weighted-Average Exercise Price**	**Number**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	16,964,230	$ 7.88	5,141,807	$ 16.16	4,770,216	$ 16.95
Granted during the year		$	11,970,000	$ 4.43	543,107	$ 10.08
Cancelled during the year	(3,067,084)	$ 5.90	(147,577)	$ 16.66	(157,741)	$ 20.12
Exercised during the year	(151,454)	$ 3.92		$	(13,775)	$ 5.30
	13,745,692	$ 8.36	16,964,230	$ 7.88	5,141,807	$ 16.16

Outstanding at end of year						
Exercisable at end of year	8,977,124	$ 9.91	7,371,369	$ 10.28	3,125,596	$ 13.70

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A summary of stock option activity for the Director Plans is as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	1,080,000	$ 10.52	1,110,416	$ 11.24	630,000	$ 18.13
Granted during the year		$	200,000	$ 5.00	500,000	$ 5.00
Cancelled during the year		$	(230,416)	$ 9.20	(19,584)	$ 73.45
Exercised during the year	(160,000)	$ 4.75		$		$
Outstanding at end of year	920,000	$ 11.53	1,080,000	$ 10.52	1,110,416	$ 11.24
Exercisable at end of year	702,290	$ 13.48	569,999	$ 12.81	487,290	$ 12.99

The combined weighted-average fair values and weighted-average exercise prices of options granted under the Employee Plan and the Director Plans are as follows:

	Year Ended December 31,					
	2002			2001		
Exercise Price	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price
Less than market price	2,900,000	$ 4.53	$ 2.64	3,149	$ 9.65	$ 5.96
Equal to market price		$	$	100,000	$ 13.71	$ 17.38
Greater than market price	9,270,000	$ 3.71	$ 5.00	939,958	$ 4.10	$ 6.62
Total	12,170,000	$ 3.91	$ 4.44	1,043,107	$ 5.03	$ 7.64

The following table summarizes information about employee and director stock options outstanding and exercisable at December 31, 2003:

Options Outstanding	Options Exercisable

Exercise Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$4.16 $4.75	407,000	3.75	$ 4.29	407,000	$ 4.29
$5.00 $5.00	10,977,808	8.09	$ 5.00	6,203,710	$ 5.00
$5.11 $7.13	996,182	3.89	$ 5.75	974,677	$ 5.77
$7.75 $86.50	2,284,702	5.84	$ 27.66	2,094,027	$ 28.68
Total	14,665,692	7.33	$ 8.56	9,679,414	$ 10.17

UPC Stock Option Plans

UPC adopted a stock option plan on June 13, 1996, as amended (the UPC Plan), for certain of its employees and those of its subsidiaries. Options under the UPC Plan were granted at fair market value at the time of the grant, unless determined otherwise by UPC s Supervisory Board. The maximum term that the options were exerciseable was five years from the date of the grant. In order to introduce the element of vesting of the options, the UPC Plan provided that even though the options were exercisable upon grant, the options were subject to repurchase rights reduced by equal monthly amounts over a vesting period of 36 months for options granted in 1996 and 48 months for all other options. Upon termination of an employee

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(except in the case of death, disability or the like), all unvested options previously exercised were resold to UPC at the exercise price and all vested options were exercised within 30 days of the termination date. UPC s Supervisory Board was allowed to alter these vesting schedules at its discretion. The UPC Plan also contained anti-dilution protection and provided that, in the case of a change of control, the acquiring company had the right to require UPC to acquire all of the options outstanding at the per share value determined in the transaction giving rise to the change of control. As a result of UPC s reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC s existing stock-based compensation plans were cancelled.

Pro forma information regarding net income (loss) and net income (loss) per share is presented below as if UPC had accounted for the UPC Plan under the fair value method of SFAS 123. The fair value of options granted for the years ended December 31, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,	
	2002	**2001**
Risk-free interest rate	3.16%	4.15%
Expected lives	5 years	5 years
Expected volatility	118.33%	112.19%
Expected dividend yield	0%	0%

Based on the above assumptions, the total fair value of options granted was approximately $0.1 million and $140.5 million for the years ended December 31, 2002 and 2001, respectively.

The UPC Plan was accounted for as a variable plan prior to UPC s initial public offering in February 1999. Accordingly, compensation expense was recognized at each financial statement date based on the difference between the grant price and the estimated fair value of UPC s common stock. Thereafter, the UPC Plan was accounted for as a fixed plan. Compensation expense of $29.2 million, $31.9 million and $30.6 million was recognized in the statement of operations for the years ended December 31, 2003, 2002 and 2001, respectively.

In March 1998, UPC adopted a phantom stock option plan (the UPC Phantom Plan) which permitted the grant of phantom stock rights in up to 7,200,000 shares of UPC s common stock. The UPC Phantom Plan gave the employee the right to receive payment equal to the difference between the fair value of a share of UPC common stock and the option base price for the portion of the rights vested. The rights were granted at fair value at the time of grant, and generally vested in equal monthly increments over the four-year period following the effective date of grant and were exerciseable for ten years following the effective date of grant. UPC had the option of payment in (i) cash, (ii) freely tradable shares of our Class A common stock or (iii) freely tradable shares of UPC s common stock. The UPC Phantom Plan contained anti-dilution protection and provided that, in certain cases of a change of control, all phantom options outstanding become fully exercisable. As a result of UPC s reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC s existing stock-based compensation plans were cancelled. The UPC Phantom Plan was accounted for as a variable plan in accordance with its terms, resulting in compensation expense for the difference between the grant price and the fair market value at each financial statement date. Compensation expense (credit) of nil and $(22.8) million was recognized in the statement of operations for the years ended December 31, 2002 and 2001, respectively.

16. Segment Information

Our European operations are currently organized into two principal divisions-UPC Broadband and chellomedia. UPC Broadband provides video services, telephone services and high-speed Internet access services to residential

customers, and manages its business by country. chellomedia provides broadband Internet and interactive digital products and services, operates a competitive local exchange carrier business providing

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

telephone and data network solutions to the business market (Priority Telecom) and holds certain investments. In Latin America we also have a Broadband division that provides video services, telephone services and high-speed Internet access services to residential and business customers, and manages its business by country. We evaluate performance and allocate resources based on the results of these segments. The key operating performance criteria used in this evaluation include revenue and Adjusted EBITDA . Adjusted EBITDA is the primary measure used by our chief operating decision makers to evaluate segment-operating performance and to decide how to allocate resources to segments. EBITDA is an acronym for earnings before interest, taxes, depreciation and amortization. As we use the term, Adjusted EBITDA further removes the effects of cumulative effects of accounting changes, share in results of affiliates, minority interests in subsidiaries, reorganization expense, other income and expense, provision for loss on investments, gain (loss) on sale of investments in affiliates, gain on extinguishment of debt, foreign currency exchange gain (loss), impairment and restructuring charges, certain litigation expenses and stock-based compensation. We believe Adjusted EBITDA is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe Adjusted EBITDA is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within Adjusted EBITDA distorts their ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of Adjusted EBITDA is important because analysts and other investors use it to compare our performance to other companies in our industry. We reconcile the total of the reportable segments Adjusted EBITDA to our consolidated net income as presented in the accompanying consolidated statements of operations, because we believe consolidated net income is the most directly comparable financial measure to total segment operating performance. Investors should view Adjusted EBITDA as a supplement to, and not a substitute for, other GAAP measures of income as a measure of operating performance. As discussed above, Adjusted EBITDA excludes, among other items, frequently occurring impairment, restructuring and other charges that would be included in GAAP measures of operating performance.

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UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 592,223	$ 459,044	$ 365,988
Austria	260,162	198,189	163,073
Belgium	31,586	24,646	22,318
Czech Republic	63,348	44,337	38,588
Norway	95,284	76,430	59,707
Hungary	165,450	124,046	93,206
France	113,946	92,441	83,811
Poland	85,356	76,090	132,669
Sweden	75,057	52,560	40,493
Slovak Republic	25,467	18,852	17,607
Romania	20,189	16,119	12,710
Total	1,528,068	1,182,754	1,030,170
Germany		28,069	45,848
Corporate and other(1)	32,563	35,139	51,762
Total	1,560,631	1,245,962	1,127,780
chellomedia			
Priority Telecom(1)	121,330	112,637	206,149
Media(1)	98,463	69,372	75,676
Investments	528	465	
Total	220,321	182,474	281,825
Intercompany Eliminations	(127,055)	(108,695)	(176,417)
Total	1,653,897	1,319,741	1,233,188
Latin America:			
Broadband			
Chile	229,835	186,426	166,590
Brazil, Peru, Uruguay	7,798	7,054	6,044
Total	237,633	193,480	172,634
Australia			
Broadband			145,423

Content			9,973
Other			235
Total			155,631
Corporate and other (United States)		1,800	441
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

(1) Primarily The Netherlands.

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Adjusted EBITDA

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Europe:			
UPC Broadband			
The Netherlands	$ 267,075	$ 119,329	$ 40,913
Austria	98,278	64,662	40,583
Belgium	12,306	8,340	4,367
Czech Republic	24,657	9,241	9,048
Norway	27,913	17,035	5,337
Hungary	63,357	41,487	26,555
France	13,920	(10,446)	(25,678)
Poland	24,886	15,794	(8,633)
Sweden	31,827	15,904	6,993
Slovak Republic	10,618	4,940	2,802
Romania	7,545	6,044	3,165
Other	386	535	1,434
Total	582,768	292,865	106,886
Germany		12,562	22,197
Corporate and other(1)	(46,091)	(25,727)	(93,781)
Total	536,677	279,700	35,302
chellomedia			
Priority Telecom(1)	14,530	(3,809)	(79,758)
Media(1)	22,874	(4,851)	(100,599)
Investments	(1,033)	(374)	
Total	36,371	(9,034)	(180,357)
Total	573,048	270,666	(145,055)
Latin America:			
Broadband			
Chile	69,951	41,959	26,860
Brazil, Peru, Uruguay	8	(3,475)	(4,016)
Total	69,959	38,484	22,844
Australia			
Broadband			(32,338)
Content			(6,849)
Other		(282)	(832)

Total		(282)	(40,019)
Corporate and other (United States)	(14,125)	(12,494)	(29,013)
Total	$ 628,882	$ 296,374	$ (191,243)

(1) Primarily The Netherlands.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total segment Adjusted EBITDA reconciles to consolidated net income (loss) as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Total segment Adjusted EBITDA	$ 628,882	$ 296,374	$ (191,243)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other	(35,970)	(1,274)	(204,127)
Stock-based compensation	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest expense, net	(314,078)	(641,786)	(966,134)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Other expense, net	(14,884)	(120,832)	(265,512)
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Other, net	395,293	(415,670)	150,735
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle		(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)

UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Investments in Affiliates		Long-Lived Assets		Total Assets	
	December 31,		December 31,		December 31,	
	2003	2002	2003	2002	2003	2002
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ 222	$ 215	$ 1,334,294	$ 1,310,783	$ 2,493,134	$ 1,884,044
Austria			307,758	282,628	700,209	450,526
Belgium			22,596	22,395	88,725	44,444
Czech Republic			117,527	120,863	201,103	127,691
Norway			219,651	226,981	280,528	249,761
Hungary	1,708		249,515	251,120	541,139	343,287
France			246,307	573,167	274,180	608,650
Poland	15,049	3,277	118,586	124,088	302,216	245,122
Sweden			94,414	87,339	321,961	237,619
Slovak Republic			35,697	26,896	67,027	33,428
Romania			15,235	9,403	42,503	31,078
Total	16,979	3,492	2,761,580	3,035,663	5,312,725	4,255,650
Corporate and other(1)	65,279	112,507	14,154	39,455	374,876	576,568
Total	82,258	115,999	2,775,734	3,075,118	5,687,601	4,832,218
chellomedia						
Priority Telecom(1)	3,232		182,491	202,986	241,909	261,301
Media(1)	2,257	4,037	43,578	48,625	232,527	72,554
Total	5,489	4,037	226,069	251,611	474,436	333,855
Total	87,747	120,036	3,001,803	3,326,729	6,162,037	5,166,073
Latin America:						
Broadband						
Chile			322,606	293,941	602,762	509,376
Brazil, Peru, Uruguay	3,522	33,817	9,584	9,448	18,388	55,381
Total	3,522	33,817	332,190	303,389	621,150	564,757

Corporate and other (United States)	3,969		8,750	10,093	316,484	200,764
Total	$ 95,238	$ 153,853	$ 3,342,743	$ 3,640,211	$ 7,099,671	$ 5,931,594

(1) Primarily The Netherlands.

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UNITEDGLOBALCOM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Depreciation and Amortization			Capital Expenditures		
	Year Ended December 31,			Year Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ (225,638)	$ (230,852)	$ (252,356)	$ (63,451)	$ (97,841)	$ (213,846)
Austria	(85,589)	(71,924)	(68,513)	(43,751)	(38,388)	(92,679)
Belgium	(6,877)	(5,952)	(7,531)	(3,473)	(2,884)	(8,367)
Czech Republic	(18,665)	(16,317)	(24,577)	(12,294)	(4,706)	(26,287)
Norway	(36,765)	(37,288)	(35,918)	(9,714)	(7,050)	(60,562)
Hungary	(39,102)	(34,889)	(35,202)	(23,004)	(16,659)	(31,599)
France	(99,913)	(85,940)	(78,732)	(48,810)	(19,688)	(114,596)
Poland	(28,487)	(28,517)	(126,855)	(8,476)	(4,464)	(35,628)
Sweden	(19,668)	(13,519)	(37,098)	(9,778)	(8,974)	(28,767)
Slovak Republic	(8,939)	(7,478)	(13,124)	(3,848)	(501)	(5,005)
Romania	(2,984)	(2,494)	(1,578)	(5,286)	(4,547)	(3,433)
Total	(572,627)	(535,170)	(681,484)	(231,885)	(205,702)	(620,769)
Germany		(9,240)	(107,799)		(3,357)	(12,788)
Corporate and other(1)	(86,939)	(61,543)	(74,420)	(35,666)	(6,491)	(47,773)
Total	(659,566)	(605,953)	(863,703)	(267,551)	(215,550)	(681,330)
chellomedia						
Priority Telecom(1)	(60,952)	(45,239)	(80,887)	(16,727)	(30,658)	(69,710)
UPC Media(1)	(17,706)	(20,565)	(37,305)	(5,779)	(6,241)	(50,051)
Total	(78,658)	(65,804)	(118,192)	(22,506)	(36,899)	(119,761)
Total	(738,224)	(671,757)	(981,895)	(290,057)	(252,449)	(801,091)
Latin America:						