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

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

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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.

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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 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

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)

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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 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

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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.

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.

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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.

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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.

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.

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	2003
		as restated (note 23)	
	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.

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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.

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

	Common stock Series A	Common stock Series B	Common stock Series C	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Treasury stock, at cost	Parent s investment	Total stockholders equity
					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

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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.

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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

LIBERTY MEDIA INTERNATIONAL, INC.
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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

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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) <u>Investments in Affiliates Accounted for Using the Equity Method</u>

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 $10\frac{3}{4}$% 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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	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 as restated (note 23)	2003	2002
	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) <u>Stock Incentive Awards</u>

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