UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K/A

(As amended by Amendment No. 1)

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

For the fiscal year ended December 31, 2006

OR

☐ **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 000-51360

Liberty Global, Inc.

(Exact name of Registrant as specified in its charter)

State of Delaware	**20-2197030**
(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: (303) 220-6600

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
Series C Common Stock, par value $0.01 per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-1 of the Exchange Act. Yes ☐ No ☒

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, or the average bid and ask price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $8.9 billion.

The number of outstanding shares of Liberty Global, Inc.'s common stock as of February 16, 2007 was:

191,956,430 shares of Series A common stock;
7,284,384 shares of Series B common stock; and
192,147,050 shares of Series C common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Registrant's 2007 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

EXPLANATORY NOTE

The Registrant is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2006 for the following reasons: (i) to file under Item 8 and Item 15 the consolidated financial statements of its equity investee Telenet Group Holding NV, as required by Rule 3-09 of Regulation S-X, and (ii) to correct typographical and other insignificant errors in Items 1 and 7 and in the Registrant's consolidated financial statements and notes thereto filed under Item 8. Accordingly, the Registrant hereby amends and replaces in their entirety Items 1, 7, 8 and 15 of its Annual Report on Form 10-K for the year ended December 31, 2006.

Except as described above, this amendment does not update or modify in any way the disclosures in the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and does not purport to reflect any information or events subsequent to the filing thereof.

LIBERTY GLOBAL, INC.

2006 ANNUAL REPORT ON FORM 10-K/A

(Amendment No.1)

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PART I

Item 1. BUSINESS

General Development of Business

Liberty Global, Inc. (LGI) is an international broadband communications provider of video, voice and broadband Internet access services, with consolidated broadband operations at December 31, 2006, in 16 countries (excluding Belgium). Our operations are primarily in Europe, Japan and Chile. Through our indirect wholly owned subsidiaries UPC Holding BV (UPC Holding) and Liberty Global Switzerland, Inc. (LG Switzerland), we provide broadband communications services in 10 European countries (excluding Belgium). As described below, our broadband operations in Belgium ceased to be consolidated on December 31, 2006. LG Switzerland holds our 100% ownership interest in Cablecom Holdings AG (Cablecom), a broadband communications operator in Switzerland. The broadband communications operations of UPC Holding and LG Switzerland are collectively referred to as the UPC Broadband Division. Through our indirect controlling ownership interest in Jupiter Telecommunications Co., Ltd. (J:COM), we provide broadband communications services in Japan. Through our indirect 80% owned subsidiary VTR GlobalCom, S.A. (VTR), we provide broadband communications services in Chile. We also have (i) consolidated direct-to-home satellite operations in Australia, (ii) consolidated broadband communications operations in Puerto Rico, Brazil and Peru, (iii) non-controlling interests in broadband communications companies in Europe and Japan, (iv) consolidated interests in certain programming businesses in Europe and Argentina, and (v) non-controlling interests in certain programming businesses in Europe, Japan, Australia and the Americas. Our consolidated programming interests in Europe are primarily held through our indirect wholly owned subsidiary Chellomedia BV (Chellomedia), which also provides interactive digital services and owns or manages investments in various businesses in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming and other services to our UPC Broadband Division and some of our other broadband operations.

LGI was formed on January 13, 2005, for the purpose of effecting the combination of Liberty Media International, Inc. (LMI) and UnitedGlobalCom, Inc. (UGC). LMI is the predecessor to LGI and was formed on March 16, 2004, in contemplation of the spin off of certain international cable television and programming subsidiaries and assets of Liberty Media Corporation (Liberty Media), including a majority interest in UGC, an international broadband communications provider. On June 7, 2004, Liberty Media distributed to its stockholders, on a pro rata basis, all of the outstanding shares of LMI's common stock, and LMI became an independent, publicly traded company. On June 15, 2005, we completed certain mergers whereby LGI acquired all of the capital stock of UGC that LMI did not already own and LMI and UGC each became wholly owned subsidiaries of LGI (the LGI Combination). In the following text, the terms "we", "our", "our company", and "us" may refer, as the context requires, to LGI and its predecessors and subsidiaries.

Unless indicated otherwise, convenience translations into U.S. dollars are calculated as of December 31, 2006 and operational data, including subscriber statistics, are as of December 31, 2006.

Recent Developments

Contributions and Acquisitions

On March 2, 2006, our subsidiary, UPC Austria GmbH, acquired all the outstanding shares of INODE Telekommunikationsdienstleistungs GmbH (INODE) for cash consideration before direct acquisition costs of €93 million ($111 million at the transaction date). INODE is one of Austria's leading digital subscriber line (DSL) companies.

On August 9, 2006, (i) our indirect subsidiary, Liberty Global Europe NV (Liberty Global Europe), signed a total return swap agreement with each of Aldermanbury Investments Limited (AIL), an affiliate of JP Morgan, and Deutsche Bank AG, London Branch (Deutsche), to acquire Unite Holdco III BV (Unite Holdco), subject to regulatory approvals, and (ii) Unite Holdco entered into a share purchase agreement to acquire for €322.5 million, subject to closing and post-closing adjustments, all interests in Karneval Media s.r.o. and Forecable s.r.o. (together Karneval) from ICZ Holding BV. On September 18, 2006, Unite Holdco acquired Karneval for aggregate cash consideration of €331.1 million ($420.1 million at the transaction date) before direct acquisition costs, including

€8.6 million ($10.9 million at the transaction date) of net cash and working capital adjustments. Karneval provides cable television and broadband Internet services to residential customers and managed network services to corporate customers in the Czech Republic. On December 28, 2006, following receipt of applicable regulatory approvals, Liberty Global Europe completed its acquisition of Unite Holdco and (indirectly) Karneval and settled the total return swap agreements, with each of AIL and Deutsche.

On September 28, 2006, J:COM paid aggregate cash consideration of ¥55.8 billion ($472.5 million at the transaction date) before direct acquisition costs to increase its ownership interest in Cable West Inc. (Cable West) from an 8.6% non-controlling interest to an 85.0% controlling interest. On November 15, 2006, J:COM paid aggregate cash consideration of ¥7,736 million ($65.5 million at the transaction date) to increase its ownership interest in Cable West to 95.6%. Cable West is a broadband communications provider in Japan. In connection with the acquisition of Cable West, J:COM entered into new term loan agreements in September 2006. See *Financings* below.

On November 13, 2006, an indirect majority owned subsidiary of Chellomedia, Belgian Cable Investors, a Delaware partnership (Belgian Cable Investors), exercised call options to purchase 6,750,000 shares of Telenet Group Holding NV (Telenet) for a total purchase price of €135.0 million ($172.9 million at the transaction date) before direct acquisition costs. We acquired those shares from various members of the Mixed Intercommunales, which are entities comprised of certain Flanders municipalities and Electrabel NV. The Mixed Intercommunales and certain of our subsidiaries are members of a syndicate (the Telenet Syndicate) that controls Telenet by virtue of the Telenet Syndicate’s collective ownership of a majority of the outstanding Telenet shares. Although we obtained sufficient governance rights to allow us to exercise voting control over Telenet, we could not exercise such control until February 26, 2007, when we obtained regulatory approval.

In addition, (i) in November 2006, LGI Ventures BV (LGI Ventures), formerly Chellomedia Investments BV, a wholly owned subsidiary of Chellomedia, paid cash consideration of €22.2 million ($28.4 million at the transaction date), before direct acquisition costs, to acquire 931,138 Telenet shares and 136,464 warrants to purchase Telenet shares from certain of our co-investors in Telenet, and (ii) in December 2006, Liberty Global Europe, the indirect parent of Chellomedia, paid cash consideration of €17.2 million ($22.5 million at the transaction date), before direct acquisition costs, to acquire 800,000 Telenet shares through open market purchases.

Also in November 2006, certain entities that are majority owned by Belgian Cable Investors (the Investcos) distributed 680,062 Telenet shares and 1,159 warrants to purchase Telenet shares to certain of our co-investors in Telenet in exchange for the redemption of Investcos securities that were held by these Telenet co-investors. These shares and warrants were in turn sold by the Telenet co-investors to LGI Ventures for cash consideration of €14.0 million ($18.0 million at the transaction date) before direct acquisition costs. The warrants acquired in these transactions are each exercisable for three Telenet shares.

In addition to the foregoing, during 2006, we completed various other smaller acquisitions in the normal course of business. See note 5 to our consolidated financial statements.

Dispositions

On January 19, 2006, we sold 100% of our Norwegian broadband communications operator, UPC Norge AS, to an unrelated third party for cash proceeds of approximately €444.8 million ($536.7 million at the transaction date).

On June 19, 2006, we sold 100% of our Swedish broadband communications operator, NBS Nordic Broadband Services AB, to a consortium of unrelated third parties for cash proceeds of Swedish krona (SEK) 2,984 million ($403.9 million at the transaction date) and the assumption by the buyer of capital lease obligations with an aggregate balance of approximately SEK 251 million ($34.0 million at the transaction date).

On July 19, 2006, we sold 100% of our French broadband communications operator, UPC France SA, to a consortium of unrelated third parties for cash proceeds of €1,253.2 million ($1,578.4 million at the transaction date), subject to post-closing adjustments.

On December 31, 2006, we sold UPC Belgium NV/SA (UPC Belgium), which owns and operates broadband communications systems in Belgium, to Telenet for cash proceeds of €184.5 million ($243.3 million at the transaction date), after deducting cash received to settle net cash and working capital adjustments of €20.9 million ($27.6 million at the transaction date). At that date, we had a 28.8% indirect interest in Telenet based on the number of Telenet shares then outstanding. Accordingly, we continue to hold an interest in UPC Belgium after the sale.

In addition, during 2006, we completed other smaller dispositions in the normal course of business. See note 6 to our consolidated financial statements.

Financings

UPC Holding. On May 10, 2006, UPC Broadband Holding BV (UPC Broadband Holding), a wholly owned subsidiary of UPC Holding, amended its senior secured credit facility (the UPC Broadband Holding Bank Facility) to refinance the Facility F, G and H term loans thereunder with a portion of the borrowings of new Facility J and K terms loans under the UPC Broadband Holding Bank Facility. The amounts borrowed under Facilities J and K aggregated €1,800 million and $1,775 million, with each denomination split evenly between Facilities J and K. On July 3, 2006, UPC Broadband Holding entered into an additional facility accession agreement for Facility L, an €830 million multicurrency repayable and redrawable term loan facility under the UPC Broadband Holding Bank Facility. Facility L replaces Facility A, the €500 million multicurrency revolving credit facility, that was due to mature in June 2008, and the credit agreement under which Facility A was issued has been cancelled.

As of December 31, 2006, there are four facilities under the UPC Broadband Holding Bank Facility; Facilities I, J, K and L. Facilities I and L are repayable and redrawable term loans with maximum borrowing capacity of €500 million ($659.5 million) and €830 million ($1,094.7 million), respectively. At December 31, 2006, there were no borrowings outstanding under either Facility I or L. Borrowings under Facility I are due and payable in one installment on April 1, 2010. Borrowings under Facility L are to be repaid in one installment on July 3, 2012. At December 31, 2006, the amounts outstanding under Facilities J and K aggregated €1,695 million ($2,235.6 million) and $1,775 million. Amounts outstanding under each of Facilities J and K are to be repaid in one installment on March 31, 2013 and December 31, 2013, respectively.

J:COM. In December 2005, J:COM entered into a credit facility agreement with a syndicate of banks (the J:COM Credit Facility). Originally, the J:COM Credit Facility consisted of three facilities: a ¥30 billion ($251.9 million) five-year revolving credit loan (the J:COM Revolving Loan); an ¥85 billion ($713.8 million) five-year amortizing term loan (J:COM Tranche A Term Loan); and a ¥40 billion ($335.9 million) seven-year amortizing term loan (J:COM Tranche B Term Loan). As discussed below, J:COM has refinanced the J:COM Tranche B Term Loan. Borrowings may be made under the J:COM Credit Facility on a senior, unsecured basis. On December 21, 2005, the proceeds of the J:COM Tranche A and Tranche B Term Loans were used, together with available cash, to repay in full outstanding loans totaling ¥128 billion ($1,100 million at the transaction date) under J:COM's then existing credit facilities.

During April and May of 2006, J:COM refinanced ¥38 billion ($323 million at the transaction date) and ¥2,000 million ($18 million at the transaction date), respectively, of the J:COM Tranche B Term Loan with ¥20 billion of fixed-interest rate loans and ¥20 billion of variable-interest rate loans. These loans are each to be repaid in one installment on their respective maturity dates in 2013.

In connection with the September 2006 acquisition of Cable West, J:COM entered into (i) a ¥2,000 million variable-interest rate term loan agreement, (ii) a ¥20 billion seven-year fixed-interest rate term loan agreement, and (iii) a ¥30 billion syndicated term loan agreement. The ¥2,000 million ($17 million at the transaction date) and ¥20 billion ($169.7 million at the transaction date) term loans were fully drawn in September 2006, and ¥14 billion from the J:COM Revolving Loan was also drawn. The full amount of the ¥30 billion ($252.6 million at the transaction date) syndicated term loan was drawn on October 27, 2006, and a portion of the proceeds was used to repay the then outstanding balance of the J:COM Revolving Loan (¥14 billion or $117.9 million at the transaction date). The new term loans mature between 2011 and 2013. At December 31, 2006, ¥30 billion ($251.9 million) was available for borrowing under the J:COM Revolving Loan.

Cablecom. On December 5, 2005, Cablecom Luxembourg S.C.A. (Cablecom Luxembourg) and Cablecom GmbH entered into a secured facilities agreement (the Cablecom Luxembourg Bank Facility) with certain banks and financial institutions as lenders. On January 20, 2006, Cablecom Luxembourg redeemed the balance of all of Cablecom Luxembourg's senior secured floating rate notes that were not tendered prior to the expiration in December 2005 of the "change of control" offer, which Cablecom Luxembourg was required to effect in connection with our acquisition of Cablecom. The redemption price paid was 102% of the respective principal amounts of such senior secured floating rate notes, plus accrued interest through the redemption date. The redemption price was funded by borrowings of term loans under the Cablecom Luxembourg Bank Facility. The Cablecom Luxembourg Bank Facility provides for two term loan facilities with maximum aggregate borrowings of CHF 1,330 million ($1,090.3 million). Both of these term loans were fully drawn at December 31, 2006.

On October 31, 2006, Cablecom Luxembourg sold €300.0 million ($383.2 million at the transaction date) principal amount of its 8.0% Senior Notes due 2016 (the Cablecom Luxembourg New Senior Notes) pursuant to a purchase agreement dated October 26, 2006, among Cablecom Luxembourg, UPC Holding, JP Morgan Securities Ltd. and Deutsche. The net proceeds from the sale of the Cablecom Luxembourg New Senior Notes, together with available cash, has been placed into an escrow account (the Cablecom Luxembourg Defeasance Account) for the benefit of the holders of Cablecom Luxembourg's 9.375% Senior Notes due 2014 (the Cablecom Luxembourg Old Fixed Rate Notes) in connection with the covenant defeasance of such Notes. This covenant defeasance eliminated substantially all of the covenants and other obligations of Cablecom Luxembourg contained in the Cablecom Luxembourg Old Fixed Rate Notes and the relevant indenture until redemption of the Cablecom Luxembourg Old Fixed Rate Notes on April 15, 2007. The cash deposited into the Cablecom Luxembourg Defeasance Account (€331.6 million or $437.4 million at December 31, 2006) is reserved for the payment of the principal, accrued interest and a call premium that will be due in connection with the April 15, 2007 redemption of the Cablecom Luxembourg Old Fixed Rate Notes.

The indenture for the Cablecom Luxembourg New Senior Notes provides that, on or after April 15, 2007, Cablecom Luxembourg and UPC Holding may, at their option, effect a series of transactions (the Cablecom Fold-In) under which Cablecom, the indirect parent company of Cablecom Luxembourg, and its subsidiaries would become indirect subsidiaries of UPC Holding. In the event that the Cablecom Fold-In occurs, Cablecom Luxembourg and UPC Holding may, at their sole option, assign (or otherwise transfer) Cablecom Luxembourg's obligations under the Cablecom Luxembourg New Senior Notes to UPC Holding, at which time the terms (other than interest, maturity and redemption provisions) of such Notes, including the covenants, will be modified to become substantially identical to the terms of the existing senior notes of UPC Holding outstanding on the issue date of the Cablecom Luxembourg New Senior Notes. Similarly, the Cablecom Luxembourg Bank Facility contains an accession mechanism under which the term loan lenders have agreed to roll their participations in the term loans into the UPC Broadband Holding Bank Facility at the election of Cablecom Luxembourg subject to certain conditions.

VTR. On September 20, 2006, VTR replaced its then existing bank credit facility with a new senior secured credit agreement (the VTR Bank Facility) consisting of (i) a CLP 122.6 billion ($229.5 million) Chilean peso-denominated seven-year amortizing term loan (the VTR Tranche A Term Loan), (ii) a $475 million U.S. dollar-denominated eight-year term loan due in 2014 (the VTR Tranche B Term Loan), and (iii) a CLP 13.8 billion ($25.8 million) Chilean peso-denominated six and a half-year revolving loan (the VTR Tranche C Revolving Loan.)

At closing on September 20, 2006, the full $475 million of the VTR Tranche B Term Loan was drawn. Proceeds were used to (i) repay the CLP 175.5 billion ($326.7 million on the transaction date) outstanding balance of VTR's then existing bank credit facility, (ii) repay an intercompany loan payable to one of our subsidiaries ($50.7 million principal amount outstanding on the transaction date), (iii) pay financing fees and other transaction costs, and (iv) fund an increase in cash and cash equivalents to be used for capital expenditures and other general corporate uses.

LFP LLC. We own a 99.9% interest in Liberty Family Preferred, LLC (LFP LLC), an entity that owns 345,000 shares of the 9% Series A preferred stock of ABC Family Worldwide, Inc. (ABC Family) with an aggregate liquidation value of $345.0 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 the issuer to redeem the ABC Family preferred stock at its liquidation value during the 30 day periods commencing August 2 of the years 2017 and 2022.

On March 23, 2006, LFP LLC entered into a loan and pledge agreement with Deutsche Bank AG, which allowed LFP LLC to borrow up to $345.0 million. On March 29, 2006, LFP LLC borrowed the full available amount and received net proceeds of $338.9 million ($345.0 million less prepaid interest of $6.1 million). The net proceeds received by LFP LLC were then loaned to LGI. LFP LLC has pledged all 345,000 shares of the ABC Family preferred stock as security for the borrowing, which matures on August 1, 2007. The borrowing is non-recourse to LFP LLC and LGI, except for the collateral and except for LGI's conditional limited guarantee of any and all amounts due under the loan and pledge agreement.

Austar. On August 3, 2006, a subsidiary of Austar United Communications Limited (Austar) entered into a new senior secured debt facility (the Austar Bank Facility) with a syndicate of local and international banks. The Austar Bank Facility is comprised of three facilities: (i) a AUD 275.0 million ($216.8 million) five-year term loan facility; (ii) a AUD 300.0 million ($236.5 million) seven-year term loan facility; and (iii) a AUD 25.0 million ($19.7 million) six-year revolving loan facility. Borrowings under the Austar Bank Facility mature between 2011 and 2013. Austar used the borrowings under the Austar Bank Facility, together with available cash, (i) to repay all amounts outstanding under its old bank facility of AUD 190.0 million ($144.4 million at the transaction date) and (ii) to fund a AUD 201.6 million ($151.7 million at the transaction date) capital distribution to Austar's shareholders on September 20, 2006, including a AUD 107.2 million ($80.7 million at the transaction date) distribution to our company.

Chellomedia. On December 12, 2006, Chellomedia Programming Financing Holdco B.V. (Chellomedia PFH), an indirect subsidiary of Chellomedia, consummated a senior secured credit facility (the Chellomedia Bank Facility) with certain banks and financial institutions as lenders. The Chellomedia Bank Facility provides the terms and conditions upon which the lenders have made available to Chellomedia PFH the following: (a) four term facilities: (i) a seven-year €87.4 million ($115.3 million) term loan facility, (ii) a seven-year €17.6 million ($23.2 million) term loan facility, (iii) a seven-year $74.9 million term loan facility and (iv) a seven-year $15.1 million term loan facility; (b) a seven-year €25.0 million ($33.0 million) delayed draw facility (which may be drawn through June 8, 2007); and (c) a six-year €25.0 million ($33.0 million) revolving facility (which may also be drawn in Hungarian forints). As of December 31, 2006, the four term facilities have been drawn in full and the delayed draw facility and revolving facility have no outstanding borrowings. The proceeds of the four term facilities have been applied (i) to refinance the €65.0 million ($86.0 million at the transaction date) senior secured credit facility for Plator Holding B.V. dated November 23, 2005, (ii) to repay a €43.0 ($56.7 million at the transaction date) intercompany loan, and (iii) to loan €34.7 million ($45.8 million) and $90.0 million to its parent entities.

Puerto Rico. On March 1, 2006, our Puerto Rico subsidiary refinanced its existing bank facility with a portion of the proceeds from a $150 million seven-year amortizing term loan under an amended and restated senior secured bank credit facility. This new bank credit facility also provides for a $10 million seven-year revolving loan.

Stock Repurchases

During the first quarter of 2006, we purchased $121.1 million of our LGI Series A and Series C common stock pursuant to a stock repurchase program authorized in June 2005. In March 2006, our board of directors approved a new stock repurchase program under which we may acquire an additional $250 million of our LGI Series A and Series C common stock through open market transactions or privately negotiated transactions, which may include derivative transactions. The timing of the repurchase of shares pursuant to this program is dependent on a variety of factors, including market conditions. This program may be suspended or discontinued at any time. Under this program, we acquired $132.1 million of our LGI Series A and Series C common stock during the second and third quarters of 2006.

On June 21, 2006, we purchased 10,000,000 shares of our LGI Series A common stock at $25.00 per share and 10,288,066 shares of our LGI Series C common stock at $24.30 per share, for an aggregate purchase price of $500.0 million before direct acquisition costs, pursuant to two self-tender offers. On September 15, 2006, we purchased 20,000,000 shares of our LGI Series A common stock at $25.00 per share and 20,534,000 shares of our

LGI Series C common stock at $24.35 per share, for an aggregate purchase price of $1.0 billion before direct acquisition costs, pursuant to two modified Dutch auction self-tender offers. On January 10, 2007, we purchased 5,084,746 shares of our LGI Series A common stock at $29.50 per share and 5,246,590 shares of our LGI Series C common stock at $28.59 per share, for an aggregate purchase price of $300.0 million before direct acquisition costs, pursuant to two modified Dutch auction self-tender offers. Shares purchased pursuant to the foregoing tender offers are not applied against our previously announced stock repurchase program.

Pursuant to the foregoing stock repurchase programs and self-tender offers, during the year ended December 31, 2006, we repurchased a total of 32,698,558 shares of LGI Series A common stock at a weighted average price of $24.79 per share and 40,528,748 shares of LGI Series C common stock at a weighted average price of $23.35 per share, for an aggregate cash purchase price of $1,756.9 million, including direct acquisition costs. As of December 31, 2006, we were authorized under the March 2006 stock repurchase program to acquire an additional $117.9 million of LGI Series A and Series C common stock.

* * * *

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. To the extent that statements in this Annual Report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under Item 1. Business, Item 2. Properties, Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures About Market Risk contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties discussed under Item 1.A Risk Factors and Item 7.A Quantitative and Qualitative Disclosures About Market Risk, as well as the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we, and the entities in which we have interests, operate;
- fluctuations in currency exchange rates and interest rates;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of existing service offerings, including our newer digital video, voice and broadband Internet access services;
- consumer acceptance of new technology, programming alternatives and broadband services that we may offer such as our digital migration project in The Netherlands;
- our ability to manage rapid technological changes;
- our ability to increase the number of subscriptions to our digital video, voice and broadband Internet access services and our average revenue per household;
- the competitive environment in the broadband communications and programming industries in the countries in which we, and the entities in which we have interests, operate;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- continued consolidation of the foreign broadband distribution industry;

- changes in, or failure or inability to comply with, government regulations in the countries in which we, and the entities in which we have interests, operate and adverse outcomes from regulatory proceedings;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, as well as our ability to satisfy conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- government intervention that opens our broadband distribution networks to competitors;
- our ability to successfully negotiate rate increases with local authorities;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in countries in which we, or the entities in which we have interests, operate;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and recognize anticipated efficiencies from the businesses we acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting processes, of businesses we acquire;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- the ability of suppliers and vendors to timely deliver products, equipment, software and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint ventures; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, natural disasters, pandemics and other similar events.

The broadband communications services industries are changing rapidly, and, therefore, the forward-looking statements of expectations, plans and intent in this Annual Report are subject to a greater degree of risk than similar statements regarding many other industries.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

Financial Information About Operating Segments

Financial information about our reportable segments appears in note 22 to our consolidated financial statements included in Part II of this report.

Narrative Description of Business

Overview

Broadband Distribution

We offer a variety of broadband distribution services over our cable television systems, including video, broadband Internet access and telephony. Available service offerings depend on the bandwidth capacity of our systems and whether they have been upgraded for two-way communications. In select markets, we also offer video services through direct-to-home satellite, or “DTH”, or through multi-channel multipoint (microwave) distribution systems, or "MMDS". Our analog video service offerings include basic programming and expanded basic programming in some markets. We tailor both our basic channel line-up and our additional channel offerings to each system according to culture, demographics, programming preferences and local regulation. Our digital video service offerings include basic programming, premium services and pay-per-view programming, including near-video-on-demand, or "NVoD", and video-on-demand, or "VoD", in some markets. We offer broadband Internet access services in all of our markets. Our residential subscribers can access the Internet via cable modems connected to their personal computers at faster speeds than that of conventional dial-up modems. We determine pricing for each different tier of Internet access service through analysis of speed, data limits, market conditions and other factors.

We offer telephony services in Austria, Chile, Czech Republic, Hungary, Ireland, Japan, The Netherlands, Poland, Puerto Rico, Romania, Slovak Republic, and Switzerland, primarily over our broadband networks. In Austria, Chile, Hungary, Ireland, Japan and The Netherlands, we provide circuit switched telephony services and voice-over-Internet-protocol, or "VoIP" telephony services. Telephony services in the remaining countries are provided using VoIP technology. In select markets, we also offer mobile telephony services using third party networks.

We operate our broadband distribution businesses in Europe principally through the UPC Broadband Division of Liberty Global Europe, Inc. (LG Europe); in Japan principally through J:COM, a subsidiary of LGI/Sumisho Super Media LLC (Super Media); in The Americas principally through VTR and Liberty Cablevision of Puerto Rico Ltd. (Liberty Puerto Rico); and in Australia principally through Austar. Each of LG Europe, Super Media, VTR, Liberty Puerto Rico and Austar is a consolidated subsidiary.

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The following table presents certain operating data, as of December 31, 2006, with respect to the broadband distribution systems of our subsidiaries in Europe, Japan, The Americas and Australia. For purposes of this presentation, we refer to Puerto Rico and the countries of South America collectively as The Americas. This table reflects 100% of the operational data applicable to each subsidiary regardless of our ownership percentage.

Consolidated Operating Data
December 31, 2006

					Video					Internet		Telephone	
	Homes Passed(1)	Two-way Homes Passed(2)	Customer Relationships(3)	Total RGUs(4)	Analog Cable Subscribers(5)	Digital Cable Subscribers(6)	DTH Subscribers(7)	MMDS Subscribers(8)	Total Video	Homes Serviceable(9)	Subscribers(10)	Homes Serviceable(11)	Subscribers(12)
UPC Broadband Division													
The Netherlands	2,677,400	2,589,700	2,200,900	3,151,400	1,695,200	501,800	—	—	2,197,000	2,589,700	565,700	2,478,600	388,700
Switzerland(13)	1,827,100	1,283,400	1,560,600	2,224,400	1,420,600	138,500	—	—	1,559,100	1,432,200	411,900	1,432,200	253,400
Austria	978,200	974,900	698,300	1,076,500	455,700	49,200	—	—	504,900	974,900	398,400	941,000	173,200
Ireland	858,300	307,700	599,300	650,900	278,800	198,600	—	117,800	595,200	307,700	55,300	91,800	400
Total Western Europe	6,341,000	5,155,700	5,059,100	7,103,200	3,850,300	888,100	—	117,800	4,856,200	5,304,500	1,431,300	4,943,600	815,700
Hungary	1,125,100	1,049,100	1,019,000	1,254,800	735,900	—	170,900	—	906,800	1,049,100	209,000	1,032,000	139,000
Romania	1,988,900	1,316,600	1,419,400	1,594,600	1,362,300	6,600	50,300	—	1,419,200	1,191,300	119,000	1,135,400	56,400
Poland	1,940,800	1,304,600	1,058,900	1,275,500	1,005,600	—	—	—	1,005,600	1,304,600	206,300	1,259,400	63,600
Czech Republic	1,258,000	964,700	744,500	902,900	529,300	27,300	134,500	—	691,100	964,700	186,400	961,800	25,400
Slovak Republic	441,700	260,200	304,900	334,900	264,000	—	19,600	18,600	302,200	243,100	32,400	165,600	300
Slovenia	133,200	89,400	113,200	137,200	113,200	—	—	—	113,200	89,400	24,000	—	—
Total Central and Eastern Europe	6,887,700	4,984,600	4,659,900	5,499,900	4,010,300	33,900	375,300	18,600	4,438,100	4,842,200	777,100	4,554,200	284,700
Total UPC Broadband Division	13,228,700	10,140,300	9,719,000	12,603,100	7,860,600	922,000	375,300	136,400	9,294,300	10,146,700	2,208,400	9,497,800	1,100,400
J:COM (Japan)	9,206,100	9,206,100	2,512,200	4,338,000	1,020,400	1,088,900	—	—	2,109,300	9,206,100	1,108,800	9,166,400	1,119,900
The Americas:													
VTR (Chile)	2,343,700	1,499,900	940,700	1,684,400	697,200	106,300	—	—	803,500	1,499,900	413,800	1,465,100	467,100
Puerto Rico	334,100	334,100	126,300	173,400	—	108,300	—	—	108,300	334,100	46,900	334,100	18,200
Brazil & Peru	83,100	65,800	28,500	31,900	11,100	—	—	15,000	26,100	65,800	5,800	—	—
Total The Americas	2,760,900	1,899,800	1,095,500	1,889,700	708,300	214,600	—	15,000	937,900	1,899,800	466,500	1,799,200	485,300
Austar (Australia)	2,441,700	—	516,500	601,400	—	8,800	592,400	—	601,200	30,400	200	—	—
Grand Total	27,637,400	21,246,200	13,843,200	19,432,200	9,589,300	2,234,300	967,700	151,400	12,942,700	21,283,000	3,783,900	20,463,400	2,705,600

(1) Homes Passed are homes that can be connected to our networks without further extending the distribution plant, except for DTH and MMDS homes. Our Homes Passed counts are based on census data that can change based on either revisions to the data or from new census results. With the exception of Austar, we do not count homes passed for DTH. With respect to Austar, we count all homes in the areas that Austar is authorized to serve as Homes Passed. With respect to MMDS, one Home Passed is equal to one MMDS subscriber. Due to the fact that we do not own the partner networks (defined below) used by Cablecom in Switzerland, or the unbundled loop and shared access network used by INODE in Austria, we do not report homes passed for Cablecom's partner networks or for INODE. See note 13 below.

(2) Two-way Homes Passed are Homes Passed by our networks where customers can request and receive the installation of a two-way addressable set-top converter, cable modem, transceiver and/or voice port which, in most cases, allows for the provision of video and Internet services and, in some cases, telephone services. Due to the fact that we do not own the partner networks used by Cablecom in Switzerland or the unbundled loop and shared access network used by INODE in Austria, we do not report two-way homes passed for Cablecom's partner networks or for INODE.

(3) Customer Relationships are the number of customers who receive at least one level of service without regard to which service(s) they subscribe. We exclude mobile customers from customer relationships.

(4) Revenue Generating Unit (RGU) is separately an Analog Cable Subscriber, Digital Cable Subscriber, DTH Subscriber, MMDS Subscriber, Internet Subscriber or Telephone Subscriber. A home may contain one or more RGUs. For example, if a residential customer in our Austrian system subscribed to our digital cable service, telephone service and broadband Internet access service, the customer would constitute three RGUs. Total RGUs is the sum of Analog Cable, Digital Cable, DTH, MMDS, Internet and Telephone Subscribers. In some cases, non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers choose to disconnect after their free service period.

(5) Analog Cable Subscriber is comprised of analog cable customers that are counted on a per connection or equivalent billing unit (EBU) basis. In Europe we have approximately 748,400 "lifeline" customers that are counted on a per connection basis, representing the least expensive regulated tier of basic cable service, with only a few channels.

(6) Digital Cable Subscriber is a customer with one or more digital converter boxes that receives our digital video service. We count a subscriber with one or more digital converter boxes that receives our digital video service as just one subscriber. A Digital Cable Subscriber is not counted as an Analog Cable Subscriber. Subscribers to digital video services provided by Cablecom over partner networks receive analog video services from the partner networks as opposed to Cablecom. As we migrate customers from analog to digital video services, we report a decrease in our Analog Cable Subscribers equal to the increase in our Digital Cable Subscribers. In The Netherlands where our digital migration project is underway, a subscriber is moved from the Analog Cable Subscriber count to the Digital Cable Subscriber count when such subscriber accepts delivery of our digital converter box and agrees to accept digital video service regardless of when the subscriber begins to receive our digital video service. Through December 31, 2006, the digital video service and the digital converter box were provided at the analog rate for six months after which the subscriber had the option to discontinue the digital service or pay an additional amount to continue to receive the digital service. Effective January 1, 2007, this promotional period was reduced from six months to three months. An estimated 10% to 15% of The Netherlands Digital Cable Subscribers at December 31, 2006 have accepted but not installed their digital converter boxes.

(7) DTH Subscriber is a home or commercial unit that receives our video programming broadcast directly to the home via a geosynchronous satellite.

(8) MMDS Subscriber is a home or commercial unit that receives our video programming via a multi-channel multipoint (microwave) distribution system.

(9) Internet Homes Serviceable are homes that can be connected to our broadband networks, or a partner network with which we have a service agreement, where customers can request and receive broadband Internet access services. With respect to INODE, we do not report Internet homes serviceable as INODE's service is not

delivered over our network but instead is delivered over an unbundled loop, or in certain cases, over a shared access network.

(10) Internet Subscriber is a home or commercial unit or EBU with one or more cable modem connections to our broadband networks, or that we service through a partner network, where a customer has requested and is receiving broadband Internet access services. At December 31, 2006, our Internet Subscribers in Austria included 89,200 residential digital subscriber lines or DSL subscribers of INODE that are not serviced over our networks. Our Internet Subscribers do not include customers that receive services via resale arrangements or from dial-up connections.

(11) Telephone Homes Serviceable are homes that can be connected to our networks, or a partner network with which we have a service agreement, where customers can request and receive voice services. With respect to INODE, we do not report telephone homes serviceable as service is delivered over an unbundled loop rather than our network.

(12) Telephone Subscriber is a home or commercial unit or EBU connected to our networks, or that we service through a partner network, where a customer has requested and is receiving voice services. Telephone Subscribers as of December 31, 2006, exclude an aggregate of 149,100 mobile telephone subscribers in The Netherlands and Australia. Also, our Telephone Subscribers do not include customers that receive services via resale arrangements. At December 31, 2006, our Telephone Subscribers in Austria included 22,600 residential subscribers of INODE.

(13) Pursuant to service agreements, Cablecom offers digital video, broadband Internet access and telephony services over networks owned by third party cable operators or “partner networks”. A partner network RGU is only recognized if Cablecom has a direct billing relationship with the customer. Homes Serviceable for partner networks represent the estimated number of homes that are technologically capable of receiving the applicable service within the geographic regions covered by Cablecom’s service agreements. Internet and Telephone Homes Serviceable and Customer Relationships with respect to partner networks have been estimated by Cablecom. These estimates may change in future periods as more accurate information becomes available. Cablecom’s partner network information generally is presented one quarter in arrears such that information included in our December 31, 2006 subscriber table is based on September 30, 2006 data. In our December 31, 2006 subscriber table, Cablecom’s partner networks account for 46,000 Customer Relationships, 74,800 RGUs, 20,100 Digital Cable Subscribers, 148,800 Internet and Telephone Homes Serviceable, 35,000 Internet Subscribers, and 19,700 Telephone Subscribers. In addition, partner networks account for 490,000 digital video homes serviceable that are not included in Homes Passed or Two-way Homes Passed in our December 31, 2006 subscriber table.

Additional General Notes to Tables:

With respect to Chile, Japan and Puerto Rico, residential multiple dwelling units with a discounted pricing structure for video, broadband Internet or telephony services are counted on an EBU basis. With respect to commercial establishments, such as bars, hotels and hospitals, to which we provide video and other services primarily for the patrons of such establishments, the subscriber count is generally calculated on an EBU basis by our subsidiaries. EBU is calculated by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. On a business-to-business basis, certain of our subsidiaries provide data, telephony and other services to businesses, primarily in The Netherlands, Switzerland, Austria, Ireland and Romania. We generally do not count customers of these services as subscribers, customers or RGUs.

While we take appropriate steps to ensure that subscriber statistics are presented on a consistent and accurate basis at any given balance sheet date, the variability from country to country in (i) the nature and pricing of products and services, (ii) the distribution platform, (iii) billing systems, (iv) bad debt collection experience, and (v) other factors adds complexity to the subscriber counting process. We periodically review our subscriber counting policies and underlying systems to improve the accuracy and consistency of the data reported. Accordingly, we may from time to time make appropriate adjustments to our subscriber statistics based on those reviews.

Subscriber information for acquired entities is preliminary and subject to adjustment until we have completed our review of such information and determined that it is presented in accordance with our policies.

Programming Services

We own programming networks that provide video programming channels to multi-channel distribution systems owned by us and by third parties. We also represent programming networks owned by others. Our programming networks distribute their services through a number of distribution technologies, principally cable television and DTH. Programming services may be delivered to subscribers as part of a video distributor's basic package of programming services for a fixed monthly fee, or may be delivered as a "premium" programming service for an additional monthly charge or on a VoD or pay-per-view basis. Whether a programming service is on a basic or premium tier, the programmer generally enters into separate affiliation agreements, providing for terms of one or more years, with those distributors that agree to carry the service. Basic programming services generally derive their revenue from per-subscriber license fees received from distributors and the sale of advertising time on their networks or, in the case of shopping channels, retail sales. Premium services generally do not sell advertising and primarily generate their revenue from per subscriber license fees. Programming providers generally have two sources of content: (1) rights to productions that are purchased from various independent producers and distributors, and (2) original productions filmed for the programming provider by internal personnel or third party contractors. We operate our programming businesses in Europe principally through our subsidiary Chellomedia; in Japan principally through our affiliate Jupiter TV Co., Ltd. (Jupiter TV); in the Americas principally through our subsidiary Pramer S.C.A. and a joint venture interest in MGM Networks Latin America, LLC; and in Australia principally through our joint venture interest in XYZ Networks Pty Ltd. (XYZ Networks).

Operations

Europe — LG Europe

Our European operations are conducted through our wholly owned subsidiary, LG Europe, which provides services in 10 countries in Europe (excluding Belgium). LG Europe's operations are currently organized into two principal divisions: UPC Broadband and Chellomedia. Through its UPC Broadband Division, LG Europe provides video, broadband Internet access, telephony and mobile services over its networks and operates the largest cable network in each of Austria, Czech Republic, Hungary, Ireland, Poland, Romania, Slovak Republic, Slovenia and Switzerland, in each case in terms of number of video subscribers. LG Europe's broadband Internet access service is provided over the UPC Broadband Division network infrastructure generally under the brand name "chello". Depending on the capacity of the particular network, LG Europe may provide up to nine tiers of broadband Internet access. For information concerning the Chellomedia Division, see "*Chellomedia and Other*" below.

Provided below is country-specific information with respect to the broadband distribution services of our UPC Broadband Division:

The Netherlands

The subscribers in UPC Broadband Division's operations in The Netherlands, which we refer to as UPC Netherlands, are located in six broad regional clusters, including the major cities of Amsterdam and Rotterdam. Its cable networks are 97% upgraded to two-way capability, and almost all of its cable homes passed are served by a network with a bandwidth of at least 860 MHz. Thirty-five percent of video cable households in The Netherlands receive video cable service from UPC Netherlands. For its analog customers, UPC Netherlands offers 25 to 40 video channels, depending on a customer's location, and 39 radio channels. The type of programming available to analog customers varies between locations.

In October 2005, UPC Netherlands initiated a program to migrate over time its analog video cable customers to digital video service, which we refer to as the "digital-for-all" or "D4A" program. Ninety-one percent of UPC Netherlands' homes passed are capable of receiving digital cable service. In the D4A program, UPC Netherlands provides the customer with a digital interactive television box and, for a promotional period following acceptance of the box, the digital entry level service at no incremental charge to the customer over the standard analog rate. In 2007, UPC Netherlands will continue the D4A program; however, the promotional pricing period will be reduced from six months to three months and a more targeted approach to distributing the digital interactive box to subscribers will be implemented. As a result, the pace of the D4A program will be more gradual than when it was initially implemented.

At the end of the promotional pricing period, the customer has the option to discontinue the digital service or to pay an additional amount, on top of the standard analog rate, to continue the digital service. As of December 31, 2006, the promotional pricing period had elapsed for over 50% of UPC Netherlands' digital video subscribers. Although we have had limited experience monitoring the disconnect patterns of this group of digital video subscribers, we are not seeing significant increases in subscriber disconnects in the initial weeks and months following the date that the promotional pricing period elapses. Due to the relatively short time frame that these digital video subscribers have been retained beyond the promotional pricing period, these results are not, however, necessarily an accurate indication of future subscriber retention rates.

The digital entry level service currently includes over 40 video channels and over 70 radio channels, an electronic program guide, interactive services and the functionality for NVoD service. For an additional incremental monthly charge, the digital subscriber may upgrade to a digital basic tier subscription which includes all the channels and features of the digital entry level service, plus an extra channel package of approximately 50 general entertainment, sports, movies, music and ethnic channels. Digital video customers may also subscribe to premium channels, such as *Film 1* and *Sport 1 NL*, alone or in combination, for additional monthly charges. The NVoD service may be used for a separate fee for each movie or event ordered. UPC Netherlands expects to make true VoD services available to its digital video customers in 2007. Currently, a customer also has the option to upgrade the digital box to one with personal video recorder, or "PVR", functionality for an incremental monthly charge and UPC Netherlands expects to make high definition, or "HD", boxes available in 2007. A minimum subscription period of one year is required for customers upgrading to PVR or HD boxes or subscribing to premium channels.

UPC Netherlands offers six tiers of chello branded broadband Internet access service with download speeds ranging from 384 Kbps to 20 Mbps. Multi-feature telephony services are also available from UPC Netherlands to 93% of its homes passed. At December 31, 2006, 93% of two-way homes in UPC Netherlands' service area were VoIP ready for service. Of UPC Netherlands' customers (excluding mobile customers), 16% subscribe to two services (double-play customers) and 13% subscribe to three services (triple-play customers) offered by UPC Netherlands (video, broadband Internet and telephony).

UPC Netherlands offers a self-install option for its digital cable services and its broadband Internet access services, allowing subscribers to install the technology themselves and save money on the installation fee. Almost all of its new digital and broadband Internet subscribers have chosen to self-install their new service.

UPC Netherlands offers mobile service to all consumers in The Netherlands. The product is a pre-paid mobile offering. UPC Netherlands is operating as a mobile virtual network operator reselling leased network capacity. In addition, through Priority Telecom BV (Priority Telecom), UPC Netherlands offers a range of voice, broadband Internet access, private data networks and customized network services to business customers primarily in its core metropolitan networks.

Switzerland

UPC Broadband Division's operations in Switzerland are operated by Cablecom. Cablecom provides video cable service to 55% of Swiss cable television households. Its cable networks are 70% upgraded to two-way capability and 70% of its cable homes passed are served by a network with a bandwidth of at least 606 MHz.

For 65% of its analog subscribers, Cablecom maintains billing relationships with landlords or housing associations, which typically provide analog cable service for an entire building and do not terminate service each time there is a change of tenant in the landlord's or housing association's premises. Seventy-four percent of Cablecom's homes passed are capable of receiving digital cable service. Cablecom offers its digital cable subscribers a digital entry package consisting of 50 video channels and 30 radio channels and a range of additional pay television programming in a variety of foreign language program packages. The third television product is NVoD services, which is available to all of Cablecom's digital cable customers. In 2006, Cablecom introduced a digital television recorder (DVR), enabling users to create a personalized television experience. Cablecom's digital cable service is sold directly to the end user as an add-on to its analog cable services.

Cablecom offers nine tiers of broadband Internet access service with download speeds ranging from 300 Kbps to six Mbps. In January 2007, Cablecom launched a broadband Internet access product with a download speed of 10

Mbps. In addition, Cablecom continues to offer dial-up Internet services on a limited basis. Of Cablecom's homes passed, 70% are capable of receiving Cablecom's Internet services.

Telephony services are available from Cablecom to 70% of its homes passed. Cablecom was the first to offer a flat rate telephone plan in Switzerland, known as "Unlimited24". In addition, Cablecom offers digital telephony services through VoIP.

Cablecom offers advanced data services to the Swiss business market. Cablecom provides broadband Internet access, multi-site data connectivity, virtual private network, security, messaging and hosting and other value added services to business customers on a retail basis. The acquisition of Unified Business Solutions in May 2005 provided Cablecom with a suite of converged voice and data products and an established customer base.

Cablecom provides full or partial analog television signal delivery services, network maintenance services and engineering and construction services to its partner networks. Cablecom also offers digital television, broadband Internet and fixed line telephony service directly to the analog cable subscribers of those partner networks that enter into service operating contracts with Cablecom. Cablecom has the direct customer billing relations with the subscribers who take these services on the partner networks. By permitting Cablecom to offer some or all of its digital television, broadband Internet and fixed line telephony products directly to those partner network subscribers, Cablecom's service operating contracts have expanded the addressable markets for Cablecom's digital products. In exchange for the right to provide digital products directly to the partner network subscribers, Cablecom pays to the partner network a share of the revenue generated from those subscribers.

At the end of 2005, Cablecom launched a pre-paid mobile telephony service, followed by the launch, at the beginning of 2006, of a post-paid offering. Therefore, Cablecom is the first telecommunications provider in Switzerland to offer television, Internet, fixed line telephony and mobile telephony — also known as "quadruple-play" — from a single provider. Of its customers (excluding mobile customers), 15% are double-play customers and 14% are triple-play customers.

Austria

UPC Broadband Division's operations in Austria (excluding the Austrian portion of Cablecom's network), which we refer to as UPC Austria, are located in regional clusters encompassing the capital city of Vienna, two other regional capitals and two smaller cities. Each of the cities in which UPC Austria operates owns, directly or indirectly, 5% of the local operating company of UPC Austria. UPC Austria's cable network is almost entirely upgraded to two-way capability and 97% of its cable homes passed are served by a network with a bandwidth of at least 860 MHz.

UPC Austria provides a single offering to its analog cable subscribers that consists of 38 channels, mostly in the German language. UPC Austria's digital platform offers more than 100 basic and premium television channels, plus NVoD, interactive services, television-based e-mail and an electronic program guide. UPC Austria's premium content includes first run movies and specific ethnic offerings, including Serb and Turkish channels.

UPC Austria offers five tiers of chello branded broadband Internet access service with download speeds ranging from 600 Kbps to 16 Mbps and a student package. UPC Austria's broadband Internet access is available in all of the cities in its operating area.

Multi-feature telephony services are available from UPC Austria to 96% of its homes passed. UPC Austria offers basic dial tone service as well as value-added services. UPC Austria also offers a bundle of fixed line and mobile telephony in a co-branding arrangement with the telephony operator One GmbH. In March 2006, UPC Austria began offering its telephony services through VoIP. Of UPC Austria's customers (excluding mobile customers), 32% are double-play customers and 11% are triple-play customers.

UPC Austria, through INODE and Priority Telecom, offers a range of voice, data, lease line and asymmetric digital subscriber lines, or "ADSL", services to business customers throughout Austria with a primary focus on cities, including Vienna, Graz, Klagenfurt, Villach, St. Polten, Dombirn, Leibnitz, Leoben, Salzburg, Linz and Insbruck.

Ireland

UPC Broadband Division's operations in Ireland, which we refer to as UPC Ireland, include the networks of NTL Communications (Ireland) Limited, NTL Irish Networks Limited and certain related assets (collectively, NTL Ireland) and the networks of Chorus Communications Ltd (Chorus). UPC Ireland is Ireland's largest video cable service provider, based on customers served. Its operations are located in five regional clusters, including the cities of Dublin and Cork. UPC Ireland's cable network is 36% upgraded to two-way capability, and 36% of its cable homes passed are served by a network with a bandwidth of at least 550 MHz. UPC Ireland makes digital services available to 79% of its homes passed, including its MMDS customers. The UPC Ireland MMDS customers on the NTL Ireland networks receive digital service and the UPC Ireland MMDS customers on the Chorus networks can receive either analog or digital services.

UPC Ireland offers an analog cable package with up to 24 channels and a digital cable package with up to 140 channels. For the MMDS customers on the NTL Ireland networks, UPC Ireland offers a basic package of 19 digital channels. For the MMDS customers on the Chorus networks, UPC Ireland offers an analog cable package of up to 19 channels and a digital cable package of up to 66 channels. The program offerings for each type of service include domestic, foreign, sport and premium movie channels. In addition, digital customers can receive event channels such as seasonal sport and real life entertainment events. UPC Ireland also distributes up to seven Irish channels. To complement its digital offering, UPC Ireland also offers its digital subscribers 16 channels of premium service. In 2007, UPC Ireland plans to migrate to its digital cable service those of its analog cable customers who subscribe to premium services.

UPC Ireland offers four tiers of chello branded broadband Internet access service with download speeds ranging from one Mbps to six Mbps. UPC Ireland offers VoIP multi-feature telephony services to 11% of its homes passed. It offers basic dial tone service as well as value-added services. Of UPC Ireland's customers, 9% are double-play customers.

Hungary

The cable networks of UPC Broadband Division's operations in Hungary, which we refer to as UPC Hungary, are 93% upgraded to two-way capability, and 61% of its cable homes passed are served by a network with a bandwidth of at least 750 MHz. UPC Hungary offers up to three tiers of analog cable programming services (between six and 54 channels) and three premium channels, depending on the technical capability of the network. Seven percent of the video cable subscribers receive lifeline service only. Programming consists of the national Hungarian terrestrial broadcast channels and selected European satellite and local programming that consist of proprietary and third party channels.

UPC Hungary offers four tiers of chello branded broadband Internet access service with download speeds ranging from 512 Kbps to 6 Mbps. UPC Hungary provides these broadband Internet services to 193,300 subscribers in 22 cities, including Budapest. It also had 15,700 ADSL subscribers at December 31, 2006, on its twisted copper pair network located in the southeast part of Pest County.

UPC Hungary offers traditional circuit switched telephony services over a twisted copper pair network in the southeast part of Pest County. UPC Hungary offers VoIP telephony services over its cable network in Budapest. Of UPC Hungary's customers, 12% are double-play customers and 5% are triple-play customers.

Other Central and Eastern Europe

UPC Broadband Division also operates networks in Czech Republic (UPC Czech), Poland (UPC Poland), Romania (UPC Romania), Slovak Republic (UPC Slovakia), and Slovenia (UPC Slovenia). In each of these operations, over 50% of the cable networks are upgraded to two-way capability, and over 50% of homes passed are served by a network with a bandwidth of at least 860 MHz.

- *Czech Republic.* UPC Czech's operations include Karneval and are located in more than 100 cities and towns in the Czech Republic, including Pilsen, Prague, Brno, Ostrava and Northern Bohemia. UPC Czech offers two tiers of analog cable programming services with up to 40 channels, and two premium channels in the network operated by Karneval and four premium channels in the rest of the UPC Czech network.

Karneval also offers its subscribers digital programming services with 41 channels consisting of three core services and nine tiers, including six premium services. Of Karneval's video cable subscribers, 39% subscribe to the lifeline analog service only and of the remaining UPC Czech video cable subscribers, 54% subscribe to the lifeline analog service only. UPC Czech (excluding Karneval) offers seven tiers of chello branded broadband Internet access service with download speeds ranging from 512 Kbps to 12 Mbps, and Karneval offers five tiers of broadband Internet access with download speeds ranging from one Mbps to seven Mbps. In September 2006, Karneval also launched VoIP multi-feature telephony services. Of UPC Czech's customers, 17% are double-play customers and 2% are triple-play customers.

- *Poland.* UPC Poland's operations are located in regional clusters encompassing eight of the 10 largest cities in Poland, including Warsaw and Katowice. UPC Poland offers analog cable subscribers three packages of cable television service. Its lowest tier, the broadcast package, includes four to 12 channels and the intermediate package includes 12 to 29 channels. Thirty-five percent of UPC Poland's video cable subscribers receive lifeline analog cable service only. For the higher tier, the full package includes the broadcast package, plus up to 63 additional channels with such themes as sports, children, science/educational, news, film and music. For an additional monthly charge, UPC Poland offers two premium television services, the HBO Poland package and Canal+ Multiplex, and a Polish-language premium package of three movie, sport and general entertainment channels. UPC Poland offers five tiers of chello branded broadband Internet access service in portions of its network with download speeds ranging from 512 Kbps to 12 Mbps. UPC Poland makes VoIP multi-feature telephony services available to 65% of its homes passed. UPC Poland offers basic dial tone service as well as value-added services. Of UPC Poland's customers, 10% are double-play customers and 5% are triple-play customers.

- *Romania.* UPC Romania's operations are located in nine of the 12 largest cities in Romania, including Bucharest, Timisoara, Cluj and Conotanta. UPC Romania offers analog cable service with 32 to 44 channels in all of its cities, which include Romanian terrestrial broadcast channels, European satellite programming and regional local programming. In the main cities, it also offers four extra basic packages of five to 12 channels each and Premium Pay TV (*HBO Romania*, *Telesport* and *Adult*). UPC Romania offers three tiers of broadband Internet access service branded UPC and Astral Online, with download speeds ranging from 512 Kbps to 1.5 Mbps, and has rolled out VoIP multi-feature telephony services to 57% of its homes passed in the aggregate. UPC Romania offers basic dial tone service as well as value-added services. In addition, UPC Romania, through Astral Telecom SA, offers a wide range of voice, leased line and broadband data products to its large business customers and its small office at home, or "SOHO", customers. Of UPC Romania's customers, 5% are double-play customers and 4% are triple-play customers.

- *Slovak Republic.* UPC Slovakia offers analog cable service in 30 cities and towns in the Slovak Republic, including the four largest cities of Bratislava, Kosice, Banska Bystrica and Zilina. UPC Slovakia offers two tiers of analog cable service and three premium services. Its lower tier, the lifeline package, includes four to eight channels. Almost 25% of UPC Slovakia's video cable subscribers subscribe to the lifeline analog service only. UPC Slovakia's most popular tier, the basic package, includes 12 to 42 channels that generally offer all Slovak Republic terrestrial, cable and local channels, selected European satellite programming and other third-party programming. For an additional monthly charge, UPC Slovakia offers three premium services — HBO Slovakia package, the channel *Private Gold* and the UPC Komfort package consisting of six thematic third-party channels. In Bratislava, UPC Slovakia offers five tiers of chello branded broadband Internet access service with download speeds ranging from one Mbps to 10 Mbps. Of UPC Slovakia's customers, 10% are double-play customers.

- *Slovenia.* UPC Slovenia systems mainly serve Ljubljana, the capital city. UPC Slovenia's most popular tier, the analog basic package, includes on average 60 video and 30 radio channels and generally offers all Slovenian terrestrial, cable and local channels, selected European satellite programming and other third-party programming. For an additional monthly charge, UPC Slovenia offers one premium movie service. UPC Slovenia offers six tiers of broadband Internet access service with download speeds ranging from 128 Kbps to 24 Mbps. Of UPC Slovenia's customers, 21% are double-play customers.

- *UPC Direct.* Our DTH satellite business, known as UPC Direct, provides DTH services to customers in UPC Czech, UPC Hungary and UPC Slovakia. Depending on location, subscribers receive 40 to 45 channels at the entry level service. For an additional monthly charge, a subscriber may upgrade to a basic tier package, plus various premium package options for specialty channels. UPC Direct provides DTH services to 19% of UPC Czech's total video subscribers, 19% of UPC Hungary's total video subscribers and 6% of UPC Slovakia's total video subscribers. Through another subsidiary, UPC Broadband Division also provides DTH services to 4% of UPC Romania's total video subscribers.

Chellomedia and Other

LG Europe's Chellomedia Division provides interactive digital products and services, produces and markets thematic channels, operates a digital media center and manages our investments in various businesses in Europe. Below is a description of the operations of our Chellomedia Division:

- *Interactive Services.* Chellomedia's Interactive Services group develops and delivers Internet and interactive television based entertainment and related technology services. On the Internet, this group publishes web portals for UPC Broadband Division and other broadband subscribers in UPC Broadband Division's territories. This involves aggregating content, including video entertainment, and commercializing these services through advertising and on subscriptions or transactions. Interactive television services are also closely integrated with UPC Broadband Division's digital television products and include the provision and commercialization of entertainment oriented applications and other services to programmers, advertisers and other parties. Activities in interactive television include the aggregation and publishing of interactive entertainment services on UPC Broadband Division's digital television products, the delivery of interactive advertising capabilities and the provision of software applications such as electronic program guides.

- *Programming.* Chellomedia's programming operations include the following:

  Chellomedia On Demand (Transactional Television). Chellomedia On Demand aggregates NVoD entertainment content into transactional television offers for UPC Broadband Division and other distributors throughout Europe. The main product category for NVoD services is feature movies. As of February 28, 2007, NVoD services are offered through UPC Broadband Division in The Netherlands, Austria and Switzerland and through non-affiliates in Norway and, until March 31, 2007, in Sweden. Chellomedia On Demand is developing VoD entertainment content for transactional television to be offered later in 2007 to UPC Netherlands' customers. VoD services will include movies, international and local drama, documentaries and children's entertainment.

  Global Thematics. Chellomedia produces and markets a number of widely distributed multi-territory thematic channels. These channels target the following genres: extreme sports and lifestyles (*Extreme*), horror films (*Horror*), real life stories (*RealityTV*), women's information and entertainment (*Club* and *Romantica*), art house basic movies (*Europa Europa*), science fiction and fantasy (*Fantasy*), and prime time movies (*Thriller*). In addition, Chellomedia has a channel representation business, which represents both wholly owned and third party channels across Europe.

  Chellomedia Benelux. Chellomedia owns and manages a premium sports channel (*Sport 1 NL*) and a premium movie channel (*Film 1*) in The Netherlands. *Sport 1 NL* has exclusive pay television rights for a variety of sports, but it is primarily football oriented. These exclusive pay television rights expire at various dates through 2009. For *Film 1,* Chellomedia has exclusive pay television output deals with key Hollywood studios that expire at various dates through 2014.

  The channels originate from Chellomedia's digital media center, or "DMC", located in Amsterdam. The DMC is a technologically advanced production facility that services UPC Broadband Division and third-party clients with channel origination, post-production and satellite and fiber transmission. The DMC delivers high-quality, customized programming by integrating different video elements, languages (either in dubbed or sub-titled form) and special effects and then transmits the final product to various customers in numerous countries through affiliated and unaffiliated cable systems and DTH platforms.

Chellomedia Iberia. Through its subsidiaries IPS C.V. and Multicanal S.L. (collectively IPS), Chellomedia owns and manages a suite of seven thematic channels carried on most major pay television platforms in Spain and Portugal. IPS has five wholly owned thematic channels (*Canal Hollywood, Odisea, Sol Musica, Canal Panda* and *Canal Cocina*) and two joint venture channels with A&E Television Networks (*Canal de Historia* and *The Biography Channel*).

Chellomedia Central & Eastern Europe. Chellomedia has a controlling 80% interest in a joint venture with an unrelated third party that owns and manages a sports channel (*Sport 1 CEE*). *Sport 1 CEE* is distributed through UPC Direct to UPC Broadband Division's operations in Hungary, Czech Republic, Slovak Republic and Romania and to other broadband operators. The programming for *Sport 1 CEE* varies by country, but is predominately football-oriented. In addition, Chellomedia owns and operates *Sport 2*, a multiplex channel, which is distributed in Hungary.

- *Investments.* Chellomedia is an investor in equity ventures for the development of country-specific Pan European programming, including *The MGM Channel Central Europe*, *Xtra Music*, *Fox Kids Poland*, *Minimax* (Central European children's channel) and *Donatus* (Dutch weather channel). Chellomedia also owns or manages LG Europe's minority interests in other European businesses. These include a 50% interest in Melita Cable PLC, the only cable television and broadband network in Malta; a 25% interest in Telewizyjna Korporacja Partycypacyjna S.A., a DTH platform in Poland; and our investment in Telenet described below.

Telenet Ownership. Telenet is the largest provider of broadband cable services in Belgium in terms of the number of subscribers. At December 31, 2006, we indirectly owned 29,092,474 or 28.8% of Telenet's then outstanding ordinary shares, including 10,134,118 shares that were held by our indirect wholly owned subsidiaries, and 18,958,356 shares that were held through Belgian Cable Investors. The shares held by Belgian Cable Investors at December 31, 2006 include 6,750,000 shares that are held directly by Belgian Cable Investors and 12,208,356 shares that are held by the Investcos. The Investcos hold in the aggregate 12.1% of the Telenet common stock, all of which is attributable to Belgian Cable Investors.

Belgian Cable Holdings, a Delaware partnership and an indirect wholly owned subsidiary of LGI Ventures, owns a majority common equity interest and a 100% preferred interest in Belgian Cable Investors. Belgian Cable Holdings provided 100% of the funding for Belgian Cable Investors' exercise of its call options to acquire 6,750,000 Telenet shares on November 13, 2006, as described above. In connection with this funding, the interest in Belgian Cable Investors of Cable Partners Belgium LLC (Cable Partners Belgium), an unrelated third party and a minority investor in Belgian Cable Investors, was diluted effective January 9, 2007, from 21.6% to 10.5%. As a result, Belgian Cable Holdings holds 89.5% of the common equity interests and 100% of the preferred interests in Belgian Cable Investors.

Belgian Cable Investors also holds certain call options, expiring in 2007 and 2009 (subject to earlier expiration in certain circumstances), to acquire an additional 18,668,826 shares in Telenet from existing shareholders at a price of €25.0 ($32.97) per share.

LGI Ventures also holds certain warrants that are exercisable at a price of €13.33 ($17.58) per share for 412,869 Telenet shares and the Investcos hold certain warrants that are attributable to Belgian Cable Investors and are exercisable at the same price per share for 79,251 Telenet shares. These warrants expire on August 9, 2009.

Cable Partners Belgium has the right to require Belgian Cable Holdings to purchase all of its 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. Belgian Cable Holdings has the corresponding right to require Cable Partners Belgium to sell all of its interest in Belgian Cable Investors to Belgian Cable Holdings for the appraised fair value during the first 30 days of every six-month period beginning in December 2009.

Telenet Shareholder Agreements. The shareholders agreement governing the Investcos contains both rights of first refusal in favor of Belgian Cable Investors and rights of first sale to which Belgian Cable Investors is subject in respect of a total of 1,475,960 warrants held by or attributed to other Investco shareholders that are convertible at a price of €13.33 ($17.58) per share into a total of 4,427,880 Telenet ordinary shares.

Under the agreement between the Telenet Syndicate shareholders (the Syndicate Agreement) we have the right (which we could not exercise until we obtained competition clearance from the European Commission on February 26, 2007) to nominate nine of the 17 members of the Telenet Board and the other Telenet Syndicate shareholders are obligated to vote for such nominees at the relevant Telenet shareholders meeting.

Under the Syndicate Agreement and the Telenet Articles of Association, certain Telenet Board decisions must receive the affirmative vote of varying majorities of the directors nominated by the other Telenet Syndicate shareholders in order to be effective. Based on the shareholdings of the other Telenet Syndicate shareholders at December 31, 2006, these special voting requirements currently apply only to certain minority-protective decisions including affiliate transactions, incurrence of debt in excess of that required to fund Telenet's business plan and dispositions of assets representing more than 20% of Telenet's fair market value.

Under the Syndicate Agreement, the subsidiaries through which we hold our interests in Telenet have rights of first offer in respect of market sales and offerings of Telenet shares by other Telenet Syndicate shareholders, subject to certain limited exceptions. All Telenet Syndicate shareholders, including the Investcos and LGI Ventures, are subject to mutual rights of first offer in respect of transfers to third parties of Telenet shares that are not effected through market sales or through a public or private offering and any transfer of certain warrants that are convertible into Telenet shares upon exercise.

Telenet Operations. Telenet offers video cable, broadband Internet and fixed and mobile telephony service in Belgium, primarily to residential customers in the cities of Flanders and Brussels. Telenet also offers a range of voice, data and Internet services to business customers throughout Belgium under the brand Telenet Solutions. As of December 31, 2006, Telenet reported 2.8 million RGUs, including 1.6 million cable television RGUs (including 226,000 interactive digital cable RGUs), 729,000 broadband Internet RGUs and 455,000 telephony RGUs (excluding mobile). Of Telenet's subscribers, 21% are double-play customers and 15% are triple-play customers. UPC Belgium, which Telenet acquired on December 31, 2006, has an additional 137,300 cable RGUs and 41,900 broadband Internet RGUs.

Asia/Pacific

We have operations in Japan and Australia. Our Japanese operations are conducted primarily through Super Media and its subsidiary J:COM, and through Jupiter TV. As of December 31, 2006, we owned a 58.7% controlling interest in Super Media, Super Media owned a 62.5% controlling ownership interest in J:COM, and we owned a 50% ownership interest in our affiliate Jupiter TV. Our Australia operations are conducted primarily through Austar in which we owned a 53.4% controlling ownership interest at December 31, 2006.

Jupiter Telecommunications Co., Ltd.

J:COM is a leading broadband provider of bundled entertainment, data and communication services in Japan. As of December 31, 2006, J:COM is the largest multiple-system operator, or "MSO", in Japan, as measured by the total number of homes passed and customers. J:COM operates its broadband networks through 24 managed local cable companies, which J:COM refers to as its managed franchises, 23 of which were consolidated subsidiaries as of December 31, 2006. J:COM owns a 45% equity interest in its one unconsolidated managed franchise. As described below, J:COM's services include video, broadband Internet and telephony. Of its customers (excluding mobile customers), approximately 28% are double-play customers and approximately 22% are triple-play customers.

Twenty-three of J:COM's managed franchises are clustered around three metropolitan areas of Japan, consisting of the Kanto region (which includes Tokyo), the Kansai region (which includes Osaka and Kobe) and the Kyushu region (which includes Fukuoka and Kita-Kyushu). In addition, J:COM owns and manages a local franchise in the Sapporo area of Japan that is not part of a cluster.

Each managed franchise consists of headend facilities receiving television programming from satellites, traditional terrestrial television broadcasters and other sources, and a distribution network composed of a combination of fiber-optic and coaxial cable, which transmits signals between the headend facility and the customer locations. Almost all of J:COM's cable networks are upgraded to two-way capability, with all of its cable homes passed served by a system with a bandwidth of 750 or 770 MHz. J:COM provides its managed franchises with experienced personnel, operating and administrative services, sales and marketing, training, programming and equipment procurement assistance and other management services. J:COM's managed franchises use J:COM's centralized customer management system to support sales, customer and technical services, customer call centers and billing and collection services.

J:COM offers analog and digital cable services in all of its managed franchises. J:COM analog television service consists of approximately 46 channels of cable programming and analog terrestrial broadcasting and broadcast satellite channels, not including premium services. A typical channel line-up includes popular channels in the Japanese market such as *Movie Plus,* a top foreign movie channel, the *Jupiter Shop Channel,* a home-shopping network, *J Sports 1, J Sports 2 and Sports ESPN,* three popular sports channels, the *Discovery Channel, the Golf Network,* the *Disney Channel* and *Animal Planet,* in addition to retransmission of analog terrestrial and satellite television broadcasts. At December 31, 2006, J:COM's digital television service includes approximately 62 channels of cable programming, digital terrestrial broadcasting, and broadcast satellite channels, not including audio and data channels and premium services. The channel line-up for the digital service includes 18 HD channels. J:COM provides its digital cable subscribers VoD and, pay-per-view functionality, allowing those subscribers, generally for an additional fee, to receive programming that is not available to J:COM's analog cable subscribers. In April 2006, J:COM introduced to its digital television customers a digital video recording service, which utilizes digital set top boxes equipped with an internal hard disk drive capable of recording up to 20 hours of digital HD programming and ability to record two programs in competing time slots. J:COM also offers both its analog and digital subscribers optional subscriptions for an additional fee to premium channels, including movies, sports, horseracing and other special entertainment programming, either individually or in packages. J:COM offers package discounts to customers who subscribe to bundles of J:COM services. In addition to the services offered to its cable television subscribers, J:COM also provides terrestrial broadcast retransmission services to more than four million additional households in its consolidated franchise areas as of December 31, 2006, including "compensation" households for which J:COM receives up-front fees pursuant to long-term contracts to provide such retransmission services.

J:COM offers broadband Internet access in all of its managed franchises through its wholly owned subsidiary, @NetHome Co., Ltd, and its subsidiary, Kansai Multimedia Services (KMS). These broadband Internet access services offer downstream speeds of mainly either 30 Mbps or 8 Mbps. At December 31, 2006, J:COM held a 76.5% interest in KMS, which provides broadband Internet access in the Kansai region of Japan. J:COM offers the J:COM NET Hikari service for multiple dwelling units connected to J:COM's network by optical fiber cables. J:COM NET Hikari offers downstream speeds of up to 100 Mbps. In January 2007, J:COM announced plans to launch a very high-speed broadband Internet service for single dwelling units, individual homes and smaller apartment buildings. The new service, which is scheduled to launch in April 2007 in the Kansai area, will deliver downstream speeds of up to 160 Mbs and upstream speeds of 10 Mbs.

J:COM offers telephony services over its own network in all of its consolidated franchise areas. J:COM's headend facilities contain equipment that routes calls from the local network to telephony switches (a majority of which J:COM owns), which in turn transmit voice signals and other information over the network. J:COM also utilizes VoIP technology in certain franchise areas. J:COM provides a single line to the majority of its telephony customers, most of whom are residential customers. J:COM charges its telephony subscribers a fee for basic telephony service (together with charges for calls made) and offers additional premium services, including call-waiting, call-forwarding, caller identification and three-way calling, for a fee. In partnership with WILLCOM, Inc, a personal handphone system service provider in Japan, in March 2006 J:COM began offering a mobile phone service called J:COM MOBILE. J:COM MOBILE customers receive discounted phone service when bundled with J:COM's other telephone service, including free and discounted calling plans.

In addition to its 24 managed franchises, J:COM owns non-controlling equity interests of 5.5% and 20% in two cable franchises that are operated and managed by third-party franchise operators.

J:COM sources its programming through multiple suppliers, including Jupiter TV. J:COM's relationship with Jupiter TV enables the two companies to work together to identify and bring key programming genres to the Japanese market and to expedite the development of quality programming services. J:COM and Jupiter TV each owns a 50% interest in Jupiter VoD Co., Ltd., a joint venture formed in 2004 to obtain VoD programming content to offer VoD services to J:COM franchises. J:COM now offers VoD services to its digital customers in a majority of its franchises. Because J:COM is usually a programmer's largest cable customer in Japan, J:COM is generally able to negotiate favorable terms with its programmers.

Our interest in J:COM is held through Super Media, an entity that is owned 58.7% by us and 41.3% by Sumitomo Corporation (Sumitomo). Pursuant to the operating agreement of Super Media, our and Sumitomo's entire interest in J:COM is now held through Super Media. 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.

Our interest in Super Media is held through five separate corporations, four of which are wholly owned. Four individuals, including one of our executive officers, an officer of one of our subsidiaries and one of LMI's former directors, own common stock representing an aggregate of 18.8% of the common equity in the fifth corporation, which owns a 4.3% indirect interest in J:COM.

Super Media is managed by a management committee consisting of two members, one appointed by us and one appointed by Sumitomo. The management committee member appointed by us has a casting or tie-breaking vote with respect to any management committee decision that we and Sumitomo are unable to agree on, which casting vote will remain in effect for the term of Super Media. Certain decisions with respect to Super Media require the consent of both members rather than the management committee. These include a decision to engage in any business other than holding J:COM shares, sell J:COM shares, issue additional units in Super Media, make in-kind distributions or dissolve Super Media, in each case other than as contemplated by the Super Media operating agreement. While Super Media effectively has the ability to elect J:COM's entire board, pursuant to the Super Media operating agreement, Super Media is required to vote its J:COM shares in favor of the election to J:COM's board of three non-executive directors designated by Sumitomo and three non-executive directors designated by us.

Because of our casting vote, we indirectly control J:COM through our control of Super Media, which owns a controlling interest in J:COM, and therefore consolidate J:COM's results of operations for financial reporting purposes. Super Media will be dissolved five years after our casting vote became effective on February 18, 2005, unless Sumitomo and we mutually agree to extend the term. Super Media may also be dissolved earlier under certain circumstances.

Jupiter TV Co., Ltd.

Jupiter TV, an equity affiliate, is a joint venture between Sumitomo and us 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, and more recently, alternative broadband service providers using fiber-to-the-home or "FTTH", and ADSL platforms. As of December 31, 2006, Jupiter TV owned four channels through wholly or majority owned subsidiaries and had investments ranging from 10% to 50% in 14 additional channels. Jupiter TV's majority owned channels are a home shopping network (*Jupiter Shop Channel,* in which Jupiter TV has a 70% interest and Home Shopping Network has a 30% interest), a movie channel (*Movie Plus*), a golf channel (*Jupiter Golf Network*), and a women's entertainment channel (*LaLa TV*). Channels in which Jupiter TV holds investments include four sports channels owned by J Sports Broadcasting Corporation (J Sports Broadcasting), which is a 34% owned joint venture with Sony Broadcast Media Co. Ltd. (Sony), Fuji Television Network, Inc., SOFTBANK Broadmedia Corporation, Skyperfect Communications Inc. and Itochu Corporation; *Animal Planet Japan,* a one-third owned joint venture with Discovery Networks and BBC Worldwide; *Discovery Channel Japan* and *Discovery HD* through a 50% owned joint venture with Discovery Networks; *AXN Japan,* a 35% owned joint venture with Sony; and *Reality TV Japan*, a 50% owned joint venture with Zonemedia Enterprises Ltd., an indirect subsidiary of Chellomedia. Jupiter TV provides affiliate sales services and in some cases advertising sales and other services to channels in which it has an investment for a fee.

The market for multi-channel television services in Japan is highly complex with multiple cable systems, DTH satellite platforms and alternative broadband service providers. Cable systems in Japan served 19.3 million homes at December 31, 2006. A large percentage of these homes, however, are served by systems (referred to as compensation systems) whose service principally consists of retransmitting free television services to homes whose reception of such broadcast signals has been blocked. Higher capacity systems and larger cable systems that offer a full complement of cable and broadcast channels, of which J:COM is the largest in terms of subscribers, served 6.2 million households as of December 31, 2006. The majority of channels in which Jupiter TV holds an interest are marketed as basic television services to cable system operators, with distribution at December 31, 2006, ranging from 16.9 million homes for *Jupiter Shop Channel* (which is carried in many compensation systems as well as in multi-channel cable systems) to 870,000 homes for more recently launched channels, such as *Discovery HD.*

Each of the channels in which Jupiter TV has an interest, except for *Discovery HD*, is also offered on SkyPerfecTV1, a digital satellite platform that delivers approximately 160 linear video channels (24 hours a day) a la carte and in an array of basic and premium packages, from two satellites operated by JSAT Corporation (JSAT). Each of the channels, except for *Reality TV Japan* and *Discovery HD*, is also offered on SkyPerfecTV2, another satellite platform in Japan, which delivers approximately 65 linear channels (24 hours a day). Under Japan's complex regulatory scheme for satellite broadcasting, a person engaged in the business of broadcasting programming must obtain a broadcast license that is perpetual, although subject to revocation by the relevant governmental agency, and then lease from a satellite operator the bandwidth capacity on satellites necessary to transmit the programming to cable and other distributors and DTH subscribers. In the case of distribution of Jupiter TV's 33% or greater owned channels on SkyPerfecTV1, these licenses and satellite capacity leases are held through its subsidiaries, Jupiter Satellite Broadcasting Corporation (JSBC) and JSBC2, except for *AXN Japan* and the J Sports Broadcasting channels which hold their own licenses. The broadcast licenses and satellite capacity leases for those of Jupiter TV's 33% or greater owned channels that are delivered by SkyPerfecTV2 are held by four other companies that are majority owned by unaffiliated entities. JSBC's leases with JSAT for bandwidth capacity on JSAT's two satellites expire in March 2007 when JSAT will convert to annual leases with service fees based on fixed rates for all JSBC's channels. JSBC2's lease with JSAT expires in May 2008. The leases for bandwidth capacity with respect to the SkyPerfecTV2 platform expire between 2012 and 2014. JSBC, JSBC2 and other licensed broadcasters then contract with the platform operator, such as SkyPerfecTV, for customer management and marketing services (sales and marketing, billing and collection) and for encoding services (compression, encoding and multiplexing of signals for transmission) on behalf of the licensed channels. The majority of channels in which Jupiter TV holds an interest are marketed as basic television services to DTH subscribers, with distribution at December 31, 2006 ranging from 3.5 million homes for *Jupiter Shop Channel* (which is carried as a free service to all DTH subscribers) to 416,000 homes for *Jupiter Golf Network,* which is a premium channel on one of the SkyPerfecTV platforms.

Distribution of multi-channel television services in Japan, through alternative broadband platforms, such as FTTH and ADSL, is not yet widespread. The majority of channels in which Jupiter TV holds an interest are marketed as basic television services to alternative broadband subscribers, with distribution at December 31, 2006, ranging from 166,000 homes for *Jupiter Shop Channel* (which is carried as a free service to broadband television subscribers) to under 100,000 homes for most other channels.

Jupiter TV operates Jupiter VoD, a 50% owned joint venture with J:COM, which has access to 922,000 VoD-enabled digital cable subscribers at December 31, 2006. Jupiter TV also operates Online TV, a 55% owned joint venture with SECOM Co. Ltd., Tohokushinsha Film Corporation and Nikkei Shinbun. Online TV is a content aggregation platform for broadband television services supplying channels, including the majority of channels in which Jupiter TV holds an interest, to several broadband Internet service providers.

Eighty-eight percent of Jupiter TV's 2006 consolidated revenue was attributable to retail revenue generated by the *Jupiter Shop Channel*. Cable operators are paid distribution fees to carry the *Jupiter Shop Channel,* which are either fixed rate per subscriber fees or the greater of fixed rate per subscriber fees and a percentage of revenue generated through sales to the cable operator's viewers. SkyPerfecTV is paid a fixed rate per subscriber distribution fee to provide the *Jupiter Shop Channel* to its DTH subscribers. Alternative broadband platforms are also paid a fixed rate fee per subscriber that is able to view *Jupiter Shop Channel* through their platform. After *Jupiter Shop Channel,* J Sports Broadcasting's four sports channels generate the most revenue of the channels in which Jupiter

TV has an interest. The majority of this revenue is derived from cable and satellite subscriptions. As of year-end 2006, advertising sales are not a significant component of Jupiter TV's revenue.

Sumitomo and we each own a 50% interest in Jupiter TV. Pursuant to a stockholders agreement we entered into with Jupiter TV and Sumitomo, Sumitomo and we each have preemptive rights to maintain our respective equity interests in Jupiter TV, and Sumitomo and we each appoint an equal number of directors provided we maintain our equal ownership interests. No board action may be taken with respect to certain material matters without the unanimous approval of the directors appointed by us and Sumitomo, provided that Sumitomo and we each own 30% of Jupiter TV's equity at the time of any such action. Sumitomo and we each hold a right of first refusal with respect to the other's interests in Jupiter TV, and Sumitomo and we have each agreed to provide Jupiter TV with a right of first opportunity with respect to the acquisition of more than a 10% equity position in, or the management of or any similar participation in, any programming business or service in Japan and any other country to which Jupiter TV distributes its signals, in each case subject to specified limitations.

Japan — Other

We also own an interest in Mediatti Communications, Inc. (Mediatti). Mediatti is a provider of cable television and broadband Internet access services in Japan with approximately 157,000 video customers and 90,000 broadband Internet customers. Our interest in Mediatti is held through Liberty Japan MC, LLC (Liberty Japan MC), a company of which, as of December 31, 2006, we owned 95.2% and Sumitomo owned 4.8%. At December 31, 2006, Liberty Japan MC owned a 45.6% voting interest in Mediatti.

Liberty Japan MC and certain affiliates of Olympus Capital (Olympus) 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 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 does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at the then fair market value. If neither the Olympus put right nor the Liberty Japan MC call right is exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010.

Australia

As of December 31, 2006, we owned a 53.4% controlling interest in Austar. Austar is Australia's leading pay television service provider to regional and rural Australia and the capital cities of Hobart and Darwin. Austar also provides broadband Internet access and mobile telephony services to subscribers in these markets. Additionally, Austar has begun the development of a personal digital recorder, or "PDR", to be offered to subscribers in 2007.

Austar's pay television services are primarily provided through DTH satellite. FOXTEL Management Pty Ltd. (FOXTEL), the other main provider of pay television services in Australia, has leased space on an Optus C1 satellite. Austar and FOXTEL have entered into an agreement pursuant to which Austar is able to use a portion of FOXTEL's leased satellite space to provide its DTH services. This agreement will expire in 2017. FOXTEL manages the satellite platform on Austar's behalf as part of such agreement.

Austar's DTH service is available to 2.4 million households, which is approximately one-third of Australian homes. Of Austar's homes passed, 24% subscribe to Austar's DTH service. Austar's territory covers all of Tasmania and the Northern Territory and the regional areas outside of the capital cities in South Australia, Victoria, New South Wales and Queensland. Austar does not provide DTH service to Western Australia. FOXTEL's service area is concentrated in metropolitan areas and covers the balance of the other two thirds of Australian homes. FOXTEL and Austar do not compete with each other with the exception of the Gold Coast area in Queensland. Austar also operates a small digital cable network in Darwin.

Austar's DTH service offers over 120 premier channels, NVoD and interactive services. Austar's channel offerings include movies, sport, lifestyle programs, children's programs, documentaries, drama and news. The NVoD service is comprised of 30 channels, dedicated to recently released movies. The interactive services include *Sports Active*, *Weather Active* and *SKY News Active*, three games services and more than 20 digital radio channels. For the base level service a subscriber receives 33 channels. In addition to residential subscribers, Austar also provides its television services to commercial premises including hotel, retail and licensed venues.

Austar owns a 50% interest in XYZ Networks. XYZ Networks is the exclusive owner and/or distributor of 11 key programming channels: *Discovery Channel*, *Nickelodeon*, *Nick Jr.*, *arena*, *The LifeStyle Channel*, *LifeStyle Food*, *Channel [v]*, *Club [v]*, *MAX*, *CMC* and *The Weather Channel*. These channels are distributed throughout Australia. Austar's partner in XYZ Networks is FOXTEL. Through XYZ Networks and other agreements, Austar has a number of long-term key exclusive programming agreements for its regional territory.

Austar offers a dial-up Internet service, which is outsourced and available throughout Australia. In addition, Austar offers mobile telephony services through reseller agreements.

Austar owns significant holdings of 2.3 GHz and 3.5 GHz spectrum throughout its regional territory. This spectrum is ideally suited for new Worldwide Interoperability for Microwave Access (WiMAX) based telecommunications services. In 2006, Austar launched WiMAX in two trial markets for broadband Internet services.

In addition to our interests in Austar, we own a 20% equity interest in Premium Movie Partnership (PMP), which supplies three premium movie-programming channels to both Austar and FOXTEL. PMP's partners include Showtime, Twentieth Century Fox, Sony Pictures, Paramount Pictures and Universal Studios.

The Americas

Our operations in the Americas are conducted primarily through our 80% owned subsidiary VTR in Chile and our wholly owned subsidiary Liberty Puerto Rico. We also have subsidiaries that are broadband providers operating in Brazil and Peru, as well as a joint venture interest in MGM Networks Latin America and a subsidiary in Argentina, both of which offer programming content to the Latin America market. Our partner in VTR, Cristalerías de Chile S.A. (Cristalerías), has a put right which will allow Cristalerías to require us to purchase all, but not less than all, of its 20% interest in VTR at fair value, subject to a minimum price. This put right is exercisable until April 13, 2015.

VTR

Our primary Latin American operation, VTR, is Chile's largest multi-channel television provider in terms of homes passed and number of subscribers, and is a leading broadband Internet access provider, and Chile's second largest provider of residential telephony services in terms of lines in service. VTR provides services in Santiago, Chile's largest city, the large regional cities of Iquique, Antofagasta, Concepción, Viña del Mar, Valparaiso and Rancagua, and smaller cities across Chile. Of VTR's customers, 15% are double-play customers and 32% are triple-play customers.

All of VTR's video subscribers are served by wireline cable, with the vast majority reached through aerial plant. VTR's cable network is 64% upgraded to two-way capability and 79% of cable homes passed are served by a network with a bandwidth of at least 750 MHz. VTR has an approximate 80% market share of cable television services throughout Chile and an approximate 98% market share within Santiago. VTR's channel lineup consists of 22 to 83 channels segregated into two tiers of analog cable service: a basic service with 22 to 68 channels and a premium service with an additional three to 15 channels. VTR offers basic tier programming similar to the basic tier program lineup in the United States, but includes more premium channels such as *HBO*, *Cinemax* and *Cinecanal* on the basic tier. As a result, subscription to its existing premium service package is limited because its basic analog package contains similar channels. VTR obtains programming from the United States, Europe, Argentina and Mexico. Domestic cable television programming in Chile is only just beginning to develop around local events such as soccer matches. VTR also offers a digital platform as a premium service with programming options of 42 video channels, 40 music channels, 10 pay-per-view channels and VoD. Almost 58% of VTR's homes passed are capable of receiving digital cable service, most of which are located in the greater Santiago area.

VTR offers several alternatives of always on, unlimited-use broadband Internet access to residences and SOHO offices under the brand name Banda Ancha in 25 communities within Santiago and 18 cities outside Santiago. Subscribers can purchase one of six services with download speeds ranging from 100 Kbps to 10 Mbps. For a moderate to heavy Internet user, VTR's broadband Internet service is generally less expensive than a dial-up service with its metered usage.

VTR offers telephony service over its cable network to customers in 25 communities within Santiago and 18 cities outside Santiago via either switched circuits or VoIP, depending on location. VTR offers basic dial tone service as well as several value-added services. VTR primarily provides service to residential customers who require one or two telephony lines. It also provides service to SOHO customers. VTR offers telephony services through VoIP to its two-way homes passed. Almost 30% of VTR's telephony subscribers are served using VoIP technology.

In December 2005, the Subsecretaria de Telecomunicaciones de Chile awarded VTR regional concessions for wireless service in the frequency band of 3400-3600 MHz. Using this spectrum, VTR plans to offer broadband telephony and data services through WiMax technology. WiMax is a wireless alternative to cable and DSL for the last mile of broadband access. VTR anticipates WiMax will allow it to expand its service area by 1.3 million homes and increase the number of two-way homes passed by 540,000 on a more cost-effective basis than if it had to install cable, thereby allowing VTR to meet its regulatory requirements for two-way homes passed by the end of 2007.

VTR is subject to certain regulatory conditions as a result of the combination with Metrópolis Intercom S.A. in April 2005. The most significant 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 service to two million homes passed within five years from the consummation date of the combination; and (iii) for three years after the consummation date of the combination, limit basic tier price increases to the rate of inflation, plus a programming cost escalator. Another condition expressly prohibits us, as the controlling shareholder of VTR, from owning an interest, directly or indirectly through related parties, in any business that provides microwave or satellite television services in Chile. The DirecTV Group, Inc. (DirecTV) owns a satellite television distribution service that operates in Chile and elsewhere in the Americas. On December 12, 2006, Liberty Media announced publicly that it had agreed to acquire an approximate 39% interest in DirecTV. VTR and we have received written inquiries from Chilean regulatory authorities seeking to determine whether Liberty Media's acquisition of the DirecTV interest would violate or otherwise conflict with the regulatory condition prohibiting us from owning an interest in Chilean satellite or microwave television businesses.

Regulatory Matters

Overview

Video distribution, Internet, telephony and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in European markets is harmonized under the regulatory structure of the European Union or "EU". Adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

Foreign regulations affecting distribution and programming businesses fall into several general categories. Our businesses are generally required to obtain licenses, permits or other governmental authorizations from, or to notify or register with, relevant local or national regulatory authorities to own and operate their respective distribution systems and to offer services across them. In most countries, these licenses and registrations are non-exclusive and, in some circumstances, they may be of limited duration. In most countries where we provide video services, we must comply with restrictions on, or requirements to carry, programming content. Local or national regulatory authorities in some countries where we provide video services also impose pricing restrictions and subject certain price increases to prior approval or subsequent control by the relevant local or national authority.

Europe

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom are Member States of the EU. As such, these countries are required to enact national legislation that implements EU directives. As a result, most of the markets in Europe in which our businesses operate have been significantly affected by the regulatory framework that has been developed by the EU. The exception to this is Switzerland, which is not an EU Member State and is currently not seeking any such membership. Regulation in Switzerland is discussed separately below.

Communications Services and Competition Directives

A number of legal measures, which we refer to as the Directives, are the basis of the regulatory regime concerning communications services across the EU. They include the following:

- Directive for a New Regulatory Framework for Electronic Communications Networks and Services (referred to as the Framework Directive);
- Directive on the Authorization of Electronic Communications Networks and Services (referred to as the Authorization Directive);
- Directive on Access to and Interconnection of Electronic Communications Networks and Services (referred to as the Access Directive);
- Directive on Universal Service and Users' Rights relating to Electronic Networks and Services (referred to as the Universal Service and Users' Rights Directive);
- Directive on Privacy and Electronic Communications (referred to as the Privacy Directive); and
- Directive on Competition in the Markets for Electronic Communications and Services (referred to as the Competition Directive).

In addition to the Directives, the European Parliament and European Council made a decision intended to ensure the efficient use of radio spectrum within the EU. Existing EU member countries were required to implement the Framework, Authorization, Access and the Universal Service and Users' Rights Directives by July 25, 2003. The Privacy Directive was to have been implemented by October 31, 2003. The Competition Directive is self-implementing and does not require any national measures to be adopted. The 12 countries that joined the EU since the date of the Directives should be in compliance with the Directives as of the date of their accession. Measures seeking to implement the Directives are in force in most Member States.

The Directives seek, among other things, to harmonize national regulations and licensing systems and further increase market competition. These policies seek to harmonize licensing procedures, reduce administrative fees, ease access and interconnection, and reduce the regulatory burden on telecommunications companies. Another important objective of the new Directives is to implement one new regime for the development of communications networks and communications services, including the delivery of video services, irrespective of the technology used.

Many of the obligations included within the Directives apply only to operators or service providers with "Significant Market Power" (SMP) in a relevant market. For example, the provisions of the Access Directive allow Member States to mandate certain access obligations only for those operators and service providers that are deemed to have SMP. For purposes of the Directives, an operator or service provider will be deemed to have SMP where, either individually or jointly with others, it enjoys a position of significant economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and consumers.

As part of the implementation of certain of the Directives, the National Regulatory Authority or "NRA" is obliged to analyze 18 markets predefined by the European Commission (EU Commission) to determine if any operator or service provider has SMP. Such markets are referred to as the 18 predefined markets. We have been found to have SMP in some markets in some countries and further such findings are possible. In particular, in those markets where we offer telephony services, we have been found to have SMP in the termination of calls on our own network. In addition, in some countries we have been found to have SMP in the wholesale distribution of television channels. NRAs might also seek to define us as having SMP in another of the 18 predefined markets or define and analyze additional markets, such as the retail market for the reception of radio and television packages. In the event that we are found to have SMP in any particular market, a NRA could impose certain conditions on us to prevent abusive behavior by us.

Under the Directives, the EU Commission has the power to veto the assessment by a NRA of SMP in any market not set out in their predefined list as well as any finding by a NRA of SMP in any market whether or not it is set out in the list.

Certain key elements introduced by the Directives are set forth below, followed by a discussion of certain other regulatory matters and a description of regulation for three countries where we have large operations. This description in not intended to be a comprehensive description of all regulation in this area.

Licensing. Individual licenses for electronic communications services are not required for the operation of an electronic communications network or the offering of electronic communications services. A simple registration is required in these cases. Member States are limited in the obligations that they may place on someone who has so registered; the only obligations that may be imposed are specifically set out in the Authorizations Directive.

Access Issues. The Access Directive sets forth the general framework for interconnection of, and third party access to, networks, including cable networks. Public telecommunications network operators are required to negotiate interconnection agreements on a non-discriminatory basis with each other. In addition, some specific obligations are provided for in this Directive such as an obligation to distribute wide-screen television broadcasts in that format and certain requirements to provide access to conditional access systems. Other access obligations can be imposed on operators identified as having SMP in a particular market. These obligations are based on the outcomes that would occur under general competition law.

"Must Carry" Requirements. In most countries where we provide video and radio services, we are required to transmit to subscribers certain "must carry" channels, which generally include public national and local channels. In some European countries, we may be obligated to transmit quite a large number of channels by virtue of these requirements. Until recently, there was no meaningful oversight of this issue at the EU level. This changed when the Directives came into effect. Member States are only permitted to impose must carry obligations where they are necessary to meet clearly defined general interest objectives and where they are proportionate and transparent. Any such obligations must be subject to periodic review. It is not clear what effect this new rule is having in practice but we expect it to lead to a reduction of the size of must-carry packages in some countries.

Consumer Protection Issues and Pricing Restrictions. Under the Directives, we may face various consumer protection restrictions if we are in a dominant position in a particular market. However, before the implementation of the Directives, local or national regulatory authorities in many European countries where we provide video services already imposed pricing restrictions. This is often a contractual provision rather than a regulatory requirement. Often, the relevant local or national authority must approve basic tier price increases. In certain countries, price increases will only be approved if the increase is justified by an increase in costs associated with providing the service or if the increase is less than or equal to the increase in the consumer price index, or "CPI". Even in countries where rates are not regulated, subscriber fees may be challenged if they are deemed to constitute anti-competitive practices.

Other. Our European operating companies must comply with both specific and general legislation concerning data protection, data retention, content provider liability and electronic commerce. These issues are broadly harmonized or being considered for harmonization at the EU level. For example, the EU recently agreed to a new Directive on data retention, which will likely increase the amount of data we must store for law enforcement purposes and the length of time we must store it.

In late 2005, the EU Commission announced a call for input on a review of the regulatory framework described above. In 2006, the EU Commission invited comments on the future of the 18 predefined markets. This review has progressed through 2006 and, during 2007, is expected to lead to proposals for new legislation and a change to the list of the 18 predefined markets. Any such processes could lead to material changes in the regime described above.

Broadcasting. Broadcasting is an area outside the scope of the Directives. Generally, broadcasts originating in and intended for reception within a country must respect the laws of that country. However, pursuant to another Directive, EU Member States are required to allow broadcast signals of broadcasters in another EU Member State to be freely transmitted within their territory so long as the broadcaster complies with the law of the originating EU Member State. An international convention extends this right beyond the EU's borders into the majority of the European territories into which we sell our channels. This EU directive also establishes quotas for the transmission of European-produced programming and programs made by European producers who are independent of broadcasters. The EU legal framework governing broadcast television currently is under review and the EU Commission issued a proposal for a new Directive at the end of 2005. The draft (which had its first reading by the European Parliament in December 2006) is under discussion and subject to amendment by the European Council and the European Parliament who would jointly adopt any new Directive. Any new Directive adopted by these institutions would then be transposed into the laws of the various Member States over a defined timescale. Such a process could lead to substantial changes in the regulation of broadcasting; however, we do not expect any material effect on our programming business.

Competition Law and Other Matters

EU directives and national consumer protection and competition laws in many of our European markets impose limitations on the pricing and marketing of bundled packages of services, such as video, telephony and Internet access services. Although our businesses may offer their services in bundled packages in European markets, they are sometimes not permitted to make subscription to one service, such as cable television, conditional upon subscription to another service, such as telephony. In addition, providers cannot abuse or enhance a dominant market position through unfair anti-competitive behavior. For example, cross-subsidization having this effect would be prohibited.

As our businesses become larger throughout the EU and in individual countries in terms of service area coverage and number of subscribers, they may face increased regulatory scrutiny. Regulators may prevent certain acquisitions or permit them only subject to certain conditions.

The Netherlands

The Netherlands has a communications law that broadly transposes the Directives. Onafhankelijke Post en Telecommunicatie Autoriteit (OPTA), The Netherlands NRA, has finished its analysis of the 18 predefined markets, which are relevant to our business, in order to determine which, if any, operator or service provider has SMP. OPTA has found our subsidiary UPC Nederland BV (UPC NL) to have SMP in two of the 18 predefined markets (market 9 relating to call termination on individual public telephone networks, and market 18 relating to wholesale video broadcasting transmission services) and a third market not on the EU list (market 19 relating to retail transmission of radio and video services). With respect to market 9, the obligations imposed are to provide access to interconnecting operators on a transparent and reasonable basis along with tariff regulation. The tariff regulation is derived from the regulated interconnect charges of Royal KPN NV (KPN).

OPTA's decision with respect to market 18 includes the obligation to provide access to content providers and packagers that seek to distribute content over UPC NL's network using their own conditional access platform. This access must be offered on a non-discriminatory and transparent basis at cost oriented prices regulated by OPTA. Further, the decision requires UPC NL to grant program providers access to its basic tier offering in certain circumstances in line with current laws and regulations. UPC NL will have to reply within 15 days after a request for access. OPTA has stated that requests for access must be reasonable and has given some broad guidelines for filling in this concept. Examples of requests that will not be deemed to be reasonable are: requests by third parties who have an alternative infrastructure; requests that would hamper the development of innovative services; or requests that would result in disproportionate use of available network capacity due to the duplication of already existing offerings of UPC NL. It is expected that the concept of reasonableness will be further developed by the creation of guidelines by OPTA and/or by the development of case law.

The decision with respect to the retail market is limited to one year and will expire March 17, 2007. OPTA will not intervene in UPC NL's retail prices as long as UPC NL does not increase its basic analog subscription fee by more than the CPI increase (which UPC NL did not do). Furthermore, the decision includes two additional obligations: (i) to continue to offer the analog video services on a standalone basis without requiring customers to buy other services and (ii) to publish on the website of UPC NL which part of the monthly subscription fees relates to programming costs.

UPC NL appealed all three decisions on the above-mentioned SMP findings. The decision on the appeal of the SMP findings in markets 18 and 19 is expected in second quarter 2007. A decision on the appeal of the SMP findings in market 9 is expected in March 2007.

Switzerland

As Switzerland is not a member of the EU, it is not obliged to follow EU legislation. However, the liberalization of the Swiss telecommunications market to a certain extent has moved in parallel, although delayed, with liberalization in the EU. The current regulatory framework governing telecommunications services in Switzerland was established on January 1, 1998, with the enactment of the Telecommunications Act and a concurrent restatement of the Radio and Television Act (RTVA). This regulatory regime opened both the telecommunications and cable television markets to increased competition.

The RTVA regulates the operation, distribution and redistribution, and receipt of radio and television programs. A distributor who creates a program and aims to broadcast such program requires a programming license. The redistribution of programs requires a redistribution license. As in the EU, must-carry rules require us to redistribute certain national and regional television and radio programs, such as programs of the Swiss Broadcasting Corporation. The RTVA has undergone a comprehensive review in order to keep up with technological and market developments. A revised RTVA was adopted by the Swiss Parliament in March 2006 and is expected to enter into force on April 1, 2007. It will include a number of changes affecting our business. The license system will be replaced by a notification system, which will mean that we will no longer be required to hold a programming license or a redistribution license.

Under the revised RTVA, the terms of carriage for programming, other than must carry programming, can be commercially negotiated subject to non-discrimination. The rules requiring us to carry certain programs will be expanded, but at the same time the maximum number of such channels will be fixed and broadcasters will only be permitted to use the digital distribution platform as long as it allows the provision of state of the art services, indicating that broadcasters in principle cannot request unbundled access to the digital platform.

To ensure interoperability or to maintain freedom of information, the authorities may, however, impose technical standards. In this regard, secondary legislation has been proposed which would force us to provide a conditional access module allowing reception of our digital television services over set top boxes provided by third parties.

The transmission of voice and data information through telecommunications devices is regulated by the Telecommunications Act. Such Act requires any operator that provides telecommunications services and independently operates a significant portion of a network to obtain a license. Dominant telecommunications service providers must provide interconnection to other providers on a non-discriminatory basis and in accordance with a transparent and cost-based pricing policy, stating the conditions and prices separately for each interconnection service. We have not been found to have a dominant market position under the Telecommunications Act, but cannot exclude the possibility that we might be in the future.

A revised Telecommunications Act was adopted by the Swiss Parliament in March 2006, aiming to strengthen competition in the telecommunication market, in particular by introducing the unbundling of the local loop by a formal act and to increase transparency for customers. The revised Telecommunications Act is expected to take effect on April 1, 2007. Only Swisscom AG (Swisscom), as the incumbent operator, will be required to provide full line access as well as bitstream access on a transparent, non-discriminatory and cost-based basis. The obligation to offer bitstream access will be limited to a period of four years. In addition, all operators will be required to take action against spamming. The licensing system will be replaced by a notification system. Universal service obligations will be imposed, and all operators will be required to contribute to the costs for the provision of universal services if the licensees are not able to provide such services in a cost efficient manner.

Under the Act on the Surveillance of Prices, the Swiss Price Regulator has the power to prohibit price increases or to order price reductions in the event a company with market power implements prices that are deemed to be abusively high, unless the Swiss Price Regulator and the company can come to a mutual agreement. For purposes of the Act on the Surveillance of Prices, a price is considered to be abusively high if it is not the result of effective competition. We are subject to price regulation regarding our analog television offering and entered into a contract with the price regulator that determined the retail prices for analog television services until the end of 2006. As of 2007, we are no longer subject to an agreement with the Swiss Price Regulator. However, the Swiss Price Regulator has defined key terms regarding our products and prices until 2009, which we will have to take into account in order to avoid regulatory intervention on our pricing.

Hungary

Hungary has a communications law that broadly transposes the Directives. The NRA has virtually finished the process of analyzing the 18 predefined markets to determine if any operator or service provider has SMP with the only exception of relevance to our business being the ongoing analysis of the wholesale broadcast transmission market. The operations of our telephony subsidiary, Monor Telefon Tarsasag RT (Monor) have been found to have SMP in the call termination and origination market in our own telecommunications network, as well as in the markets for wholesale unbundled access and for wholesale broadband access, together with all other similar network operators. This has led to a variety of requirements, including the need to provide interconnection and access to, and use of, specific network facilities, non-discrimination, transparency, accounting separation and price control. We are also required to produce a wholesale ADSL offer on the Monor telecommunication network based on a discount from our retail prices (retail minus price regulation).

Monor has further been found to have SMP in a variety of retail markets relating to the provision of network access to business and to residential customers where our price increases have been capped at the rise in the CPI and in the markets for long distance and international calls for residential and business customers where we have been required to offer carrier pre-selection services.

Asia/Pacific

Japan

Regulation of the Cable Television Industry. The two key laws governing cable television broadcasting services in Japan are the Cable Television Broadcast Law and the Wire Telecommunications Law. The Cable Television Broadcast Law was enacted in 1972 to regulate the installation and operation of cable television broadcast facilities and the provision of cable television broadcast services. The Wire Telecommunications Law is the basic law in Japan governing wire telecommunications, and it regulates all wire telecommunications equipment, including cable television broadcast facilities.

Under the Cable Television Broadcast Law, any business seeking to install cable television facilities with more than 500 drop terminals must obtain a license from the Ministry of Internal Affairs and Communications, commonly referred to as the MIC. Under the Wire Telecommunications Law, if these facilities have fewer than 500 drop terminals, only prior notification to the MIC is required. If a license is required, the license application must provide an installation plan, including details of the facilities to be constructed and the frequencies to be used, financial estimates, and other relevant information. Generally, the license holder must obtain prior permission from the MIC in order to change certain items included in the original license application. The Cable Television Broadcast Law also provides that any business that wishes to furnish cable television broadcast services must file prior notification with the MIC before commencing service. This notification must identify the service area and facilities to be used (unless the facilities are owned by the provider) and outline the proposed cable television broadcasting services and other relevant information, regardless of whether these facilities are leased or owned. Generally, the cable television provider must notify the MIC of any changes to these items.

Prior to the commencement of operations, a cable television provider must notify the MIC of all charges and tariffs for its cable television broadcast services. Those charges and tariffs to be incurred in connection with the mandatory re-broadcasting of television content require the approval of the MIC. A cable television provider must also give prior notification to the MIC of all amendments to existing tariffs or charges (but MIC approval of these amendments is not required, except for the aforementioned approval matters for mandatory re-broadcasting).

A cable television provider must comply with specific guidelines, including: (1) editing standards; (2) making its facilities available for third party use for cable television broadcasting services, subject to the availability of broadcast capacity; (3) providing service within its service area to those who request it absent reasonable grounds for refusal; (4) obtaining retransmission consent where retransmission of television broadcasts occur, unless such retransmission is required under the Cable Television Broadcast Law for areas having difficulties receiving television signals; and (5) obtaining permission to use public roads for the installation and use of cable.

The MIC may revoke a facility license if the license holder breaches the terms of its license; fails to comply with technical standards set forth in, or otherwise fails to meet the requirements of, the Cable Television Broadcast Law; or fails to implement a MIC improvement order relating to its cable television broadcast facilities or its operation of cable television broadcast services.

Regulation of the Telecommunications Industry. As providers of broadband Internet access and telephony, our businesses in Japan also are subject to regulation by the MIC under the Telecommunications Business Law. The Telecommunications Business Law and related regulations subject carriers to a variety of licensing, registration and filing requirements depending upon the nature of their networks and services. Carriers may generally negotiate terms and conditions with their users (including fees and charges), except those relating to basic telecommunications services.

Carriers who provide Basic Telecommunications Services, defined as telecommunications that are indispensable to the lives of the citizenry as specified in MIC ordinances, are required to provide such services in an appropriate, fair and consistent manner. Carriers providing Basic Telecommunications Services must do so pursuant to terms and conditions and for rates that have been filed in advance with the MIC. The MIC may order modifications to contract terms and conditions it deems inappropriate for certain specified reasons.

Carriers, other than those exceeding certain standards specified in the Telecommunications Business Law (such as Nippon Telephone & Telegraph (NTT)), may set interconnection tariffs and terms and conditions through independent negotiations without MIC approval.

Telecommunication carriers that own their telecommunication circuit facilities are required to maintain such facilities in conformity with specified technical standards. The MIC may order a carrier that fails to meet such standards to improve or repair its telecommunication facilities.

Australia

Subscription television, Internet access and mobile telephony services are regulated in Australia by a number of Commonwealth statutes. In addition, State and Territory laws, including environmental and consumer protection legislation, may influence aspects of Austar’s business.

Broadly speaking, the regulatory framework in Australia distinguishes between the regulation of content services and the regulation of facilities used to transmit those services. The Australian Broadcasting Services Act 1992 (C’th) (BSA) regulates the ownership and operation of all categories of television and radio services in Australia and also aspects of Internet content. The technical delivery of Austar’s services is separately licensed under the Radiocommunications Act 1992 (C’th) (the Radiocommunications Act) or the Telecommunications Act 1997 (C’th), depending on the delivery technology utilized. Other legislation of key relevance to Austar is the Trade Practices Act 1974 (C’th), which includes competition and consumer protection regulation.

The BSA regulates subscription television broadcasting services through a licensing regime managed by the Australian Communications and Media Authority (ACMA). Austar and its related companies hold broadcasting licenses under the BSA. Subscription television broadcasting licenses are for an indefinite period. Each subscription television broadcasting license is issued subject to general license conditions, which may be revoked or varied by the Australian Government, and may include specific additional conditions. License conditions include a prohibition on cigarette or other tobacco advertising; a requirement that subscription fees must be the predominant source of revenue for the service; a requirement that the licensee must remain a "suitable" licensee under the BSA; a requirement that customers must have the option to rent domestic reception equipment and a requirement to comply with provisions relating to anti-siphoning and the broadcast of R-rated material.

An additional obligation on subscription television licensees who provide a service predominantly devoted to drama programs is to spend at least 10% of its annual program expenditure on new Australian drama programs. Austar has made the required investments in such programming.

The BSA prohibits subscription television broadcasting licensees from obtaining exclusive rights to certain events that the Australia Government considers should be made freely available to the public. These events, which are specified on the "anti-siphoning list", include a number of highly popular sporting events in Australia, and are currently protected until 2010.

Currently, under the BSA, a foreign person must not have "company interests" of more than 20% in a subscription television broadcasting license and foreign persons must not, in aggregate, have "company interests" of more than 35% in a subscription television broadcasting license. "Company interests" under the BSA include a beneficial entitlement to, or an interest in, shares of the company. The companies that hold the BSA licenses used by Austar to deliver its pay television services meet these requirements. Amendments to the foreign ownership rules in the BSA were passed in 2006, lifting these restrictions, although media is to be retained as a "sensitive" sector and foreign investment in the media sector is to remain subject to Treasurer approval. The amendments will be effective in 2007 at a date yet to be announced.

Changes to media laws were passed in October 2006 regarding the implementation of digital services by free-to-air television providers and use of the two spare terrestrial channels available throughout Australia. The changes set a date for analog switch-off between 2010-2012, relaxed simulcasting requirements as well as cross and media ownership restrictions, continued the moratorium on a fourth commercial network until the end of the switch-off period; and announced the intention to introduce a 'use it or lose it' scheme for anti-siphoning. One spare terrestrial channel has been made available for datacasting and narrowcasting channels and the second spare channel will be used for emerging new digital services such as mobile TV.

The BSA establishes a regime for the regulation of Internet content. Internet service providers or Internet content hosts are not primarily liable for the content of material carried on their service; however, once notified of the existence of illegal or highly offensive material on their service, they have a responsibility to remove or block access to such material.

In addition to licenses issued under the BSA, certain companies in the Austar group hold spectrum licenses issued under and regulated by the Radiocommunications Act. The Austar group currently holds 24 spectrum licenses in the 2.3 GHz Band and 26 licenses in the 3.5 GHz Band covering geographic areas similar to Austar's subscription television areas. These licenses expire in 2015. The spectrum licenses authorize the use of spectrum space rather than the use of a specific device or technology. Austar is using this spectrum to provide WiMAX based broadband Internet services in two trial markets. Similar to the BSA, licenses issued under the Radiocommunications Act are subject to general license conditions and may be subject to specific license conditions, which can be added to, revoked or varied by written notice during the term of the license. Spectrum licensees must comply with core conditions of the license and be compatible with the technical framework for the bands. There are no restrictions on ownership/control of spectrum licenses except that the licensee must be a resident of Australia.

A subsidiary of Austar also holds a carrier license issued under the Telecommunications Act 1997 and a number of Austar companies operate as carriage service providers. These companies are required to comply with Australian telecommunications legislation, including legislation that establishes various access regimes. Companies in the Austar group provide dial-up and broadband Internet service and mobile telephony services. Internet service providers are considered carriage service providers for the purposes of the Telecommunications Act and must observe statutory obligations, including in relation to access, law enforcement and national security, and interception, and must become a member of the Telecommunications Industry Ombudsman scheme. Internet service providers and Internet content hosts must also observe various industry codes of practice relating to Internet content and Internet gambling.

The Americas

Chile

As described above, VTR is subject to certain regulatory conditions as a result of its combination with Metrópolis Intercom S.A. in April 2005. These conditions are in addition to the regulations described below.

Video. Cable television services are regulated in Chile by the Ministry of Transportation and Telecommunications (the Ministry). VTR has permits to provide wireline cable television services in the major cities, including Santiago, and in most of the medium-sized markets in Chile. Wireline cable television permits are granted for indefinite terms and are non-exclusive, meaning there may be more than one operator in the same service area. As these permits do not use the radio-electric spectrum, they are granted without ongoing duties or royalties. Wireless cable television services are also regulated by the Ministry. VTR has been awarded wireless fixed telephony concessions under which it plans to offer cable television services using its WiMax technology, which is allowed under the concessions. Wireless fixed telephony concessions are granted for renewable terms of 30 years. Such concessions are non-exclusive (subject to spectrum availability as determined by the Subsecretaria de Telecomunicaciones de Chile).

Cable television service providers in Chile are not required to carry any specific programming, but some restrictions may apply with respect to allowable programming. The National Television Council has authority over programming content, and it may impose sanctions on providers who are found to have run programming containing excessive violence, pornography or other objectionable content. Cable television providers have historically retransmitted programming from broadcast television, without paying any compensation to the broadcasters. However, certain broadcasters have filed lawsuits against VTR claiming that VTR breached their intellectual property rights by retransmitting their signals. The current state of the law in this area is unclear.

Internet. Internet access services are considered complementary telecommunication services and, therefore, do not require concessions, permits or licenses.

Telephony. The Ministry also regulates telephone services. The provision of telephony services (both fixed and mobile) requires a public telecommunication service concession. VTR has telecommunications concessions to provide wireline fixed telephony in most major and medium-sized markets in Chile. Telephony concessions are non-exclusive and have renewable 30-year terms. The original term of VTR’s wireline fixed telephony concessions expires in November 2025. Telephone long distance services are considered intermediate telecommunications services and, as such, are also regulated by the Ministry. VTR has concessions to provide this service, which is non-exclusive and has a 30-year renewable term.

Local service concessionaires are obligated to provide telephony service to all customers that are within their service area or are willing to pay for an extension to receive service. All local service providers, including VTR, must give long distance telephony service providers equal access to their network connections at regulated prices and must interconnect with all other public services concessionaires of the same type. Under the regulations, public services concessionaires of the same type are those whose systems are technically compatible among themselves.

The Chilean Antitrust Tribunal has found that the local telephone market in Chile is not competitive. As a result, the incumbent local telephony service provider in each market in Chile (typically Telefonica CTC) must have its local telephone service rates set by regulatory authorities. VTR is not the incumbent service provider in any of the telephony markets where it operates and, therefore, it is not subject to rate regulation. In the future, these telephony markets may be determined by the Chilean Antitrust Tribunal to be competitive, in which case the incumbent operators would no longer be subject to price regulation. Long distance service rates are not currently regulated, since the long distance market is considered highly competitive.

Interconnect charges (including access charges and charges for network unbundling services) are determined by the regulatory authorities. This rate regulation is applicable to incumbent operators and all local and mobile telephone companies, including VTR. The maximum rates that may be charged by each operator for the corresponding service are made on a case-by-case basis, and are effective for five years. VTR's interconnection rates were established in June 2002 and must be renewed in June 2007.

Competition

Markets for broadband distribution, including cable and satellite distribution, broadband Internet access and telephony services, and video programming generally are highly competitive and rapidly evolving. Consequently, our businesses expect to face increased competition in these markets in the countries in which they operate, and specifically as a result of deregulation in the EU. The percentage information for UPC Broadband on market share is based on information published by Screen Digest, for 2005, which includes estimates for 2006, and Dataxis for the third quarter of 2006. For Japan, all percentage information on market share is based on information obtained from the website of the Japanese Ministry of Internal Affairs and Communications, dated as of December 31, 2005, and internal market studies as of December 31, 2006. For Chile, the percentage information is based on internal market studies, information as of September 30, 2006 obtained from public filings by competitors and market information published by the International Data Corporation. The competition in certain countries in which we operate is described more specifically after the respective competition overview on video, broadband Internet and telephony.

Broadband Distribution

Video Distribution

Our businesses compete directly with a wide range of providers of news, information and entertainment programming to consumers. Depending upon the country and market, these may include: (1) over-the-air broadcast television services; (2) DTH satellite service providers; (3) digital terrestrial television, or "DTT", broadcasters; (4) other cable operators in the same communities that we serve; (5) other fixed line telecommunications carriers and broadband providers, including the incumbent telecommunications operators, offering video products using DSL or ADSL technology or over fiber optic lines of FTTH networks; (6) satellite master antenna television systems, commonly known as SMATVs, which generally serve condominiums, apartment and office complexes and residential developments; (7) MMDS operators; and (8) movie theaters, video stores and home video products. Our businesses also compete to varying degrees with more traditional sources of information and entertainment, such as newspapers, magazines, books, live entertainment/concerts and sporting events.

In parts of Poland and Romania, our businesses face significant competition from other cable operators where our systems are over built, while in other countries the primary competition is from DTH satellite service providers, DTT broadcasters and/or other distributors of video programming using broadband networks. In some of our largest markets, including The Netherlands, Switzerland and Japan, we are facing increasing competition from video services offered by or over the network of the incumbent telecommunications operator. We seek to compete by offering attractive content and by upgrading our service offerings, such as digital television, to include the functionality for VoD, HD, PVRs and other advanced services.

- *Europe.* The competitive situation in Europe tends to vary from country to country, which is partly reflective of the respective country's history. For example, in some countries such as Switzerland and The Netherlands, there has long been high cable penetration and in Austria and Ireland there are long-established satellite platforms. Nevertheless, broad competitive trends can be seen in many of the European countries in which we operate.

  For video services, the key competition has traditionally come either from over-the-air broadcasts or from satellite distribution. DTT is increasingly a competitive reality in Europe via a range of different business models from full-blown encrypted pay television offers on DTT to free-to-air. DTT is a growing service in most countries and further launches are expected. During 2006, we experienced increased competition for video services in Central and Eastern Europe due largely to the effects of competition from an alternative DTH provider that is competing with us in most of our Central and Eastern European markets. In the Slovak Republic, increased competition and other factors have resulted in the loss of a number of MMDS customers during 2006. In other countries, competition from SMATV or MMDS can be a factor.

Also, television over DSL networks, which is either provided directly by the owner of that network or by a third party, is fast becoming a significant part of the competitive environment. The ability of incumbent operators to now offer the so-called “triple-play” of video, broadband Internet and telephony services is expected to exert growing competitive pressure on cable-delivered video services. FTTH networks are, so far, rare in Europe although they are present or planned in a number of countries. In addition, there is increasing willingness from government and quasi-government entities in Europe to consider investing their money in such networks which would create a new source of competition.

Netherlands. The Netherlands has one of the highest cable penetration rates in Europe with 92% of all households subscribing to a cable service. UPC Netherlands provides video cable services to 35% of the total video cable households in The Netherlands. Satellite television penetration is 10% of the total video households. In addition to satellite television, we face competition from the DTT service, Digitenne, and from broadband Internet connection, or “IPTV”, products offered over DSL networks. KPN, the incumbent telecommunications operator, is the majority owner of Digitenne. KPN launched an IPTV service in the second quarter of 2006, which includes VoD, an electronic program guide, and a PVR. With its nationwide telecommunications network and ability to offer bundled triple-play services, KPN is expected to be a significant competitor.

Switzerland. We are the largest cable television provider in Switzerland based on number of video cable subscribers and are the sole provider in substantially all of our network area. There is limited terrestrial television in Switzerland and DTT is at present only available in parts of Switzerland. DTH satellite services are also limited due to various legal restrictions such as construction and zoning regulations or rental agreements that prohibit or impede installation of satellite dishes. Given technical improvements, such as the availability of smaller satellite antennae, as well as the continuous improvements of DTH offerings, we expect increased competition from satellite television operators. Swisscom, the incumbent telecommunications operator, launched its IPTV service in late 2006.

Austria. In Austria, we are the largest cable company based on number of video cable subscribers. Our primary competition for video customers is from free-to-air television received via satellite. Approximately 50% of Austrian households receive free television compared to approximately 38% of Austrian households receiving cable services. Fifty-one percent of the homes passed by UPC Austria’s network subscribe to our cable services (analog and digital). UPC Austria may face increased competition in the future from developing technologies. The incumbent telecommunications operator, Telekom Austria AG, launched an IPTV service in early 2006, and the public broadcaster, ORF, launched its DTT services in Vienna in October 2006, already reaching 70% of all households.

Hungary. In Hungary, we are the largest cable service provider based on number of video cable subscribers. Of the Hungarian households receiving cable television, 41% receive their cable service from UPC Hungary. In addition, UPC Hungary provides satellite service to 54% of Hungarian DTH households. Digi TV, a third party DTH service, launched in April 2006, provides new competition to our DTH satellite business branded UPC Direct. UPC Hungary faces competition from Antenna Hungaria Rt., a digital MMDS provider (recently purchased by Swisscom), and from the incumbent telecommunication company Magyar Telekom Rt. (in which Deutshe Telekom has a majority stake), which launched an IPTV service in early 2006 and offers a VoD service to Internet subscribers of its Internet service provider (ISP) subsidiary.

- *Asia/Pacific.* Our principal competition in our Japanese cable television business comes from alternative distributors of television signals, including DTH satellite television providers and DTT, as well as from other distributors of video programming using broadband networks. Our current competitors in the satellite television industry include Japan Broadcasting Corporation and WOWOW Inc., which offer broadcast satellite analog and broadcast satellite digital television, and SkyPerfecTV for communications satellite digital television. The Law Concerning Broadcast on Telecommunications Service gives broadcast companies that do not have their own facilities the ability to provide broadcasting services over lines owned by other telecommunications companies. As a result, our Japanese operations face increasing competition from video services offered by broadband providers, established fixed line telecommunications providers, including NTT and KDDI Corporation (KDDI), and other FTTH-based video service providers, including

Opticast, Inc., K- Opticom Corporation and Itochu Corporation's I-Cast Inc. Other cable television companies are not considered significant competitors in Japan due to the fact that their franchise areas rarely overlap with ours, and the investments required to install new cable would not be justified considering the competition in overlapping franchise areas. As of December 31, 2006, J:COM's share of the multi-channel video market in Japan was approximately 9%.

- *The Americas.* VTR competes primarily with DTH satellite service providers in Chile. VTR's share of the video market in Chile was 82%, compared to 15% for DTH satellite service providers and 3% for all others. VTR may face competition in the future from video services offered by or over the networks of fixed line telecommunications operators using DSL or ADSL technology or FTTH networks or new DTH carriers that might enter the market. For example, the incumbent Chilean telecommunications operator (CTC) has announced plans to launch IPTV. To effectively compete, VTR plans to expand its digital platform to additional neighborhoods and has launched VoD service.

Internet

With respect to broadband Internet access services and online content, our businesses face competition in a rapidly evolving marketplace from incumbent and non-incumbent telecommunications companies, other cable-based ISPs, non-cable-based ISPs and Internet portals, many of which have substantial resources. The Internet services offered by these competitors include both traditional dial-up Internet services and broadband Internet access services using DSL, ADSL or FTTH, in a range of product offerings with varying speeds and pricing, as well as interactive computer-based services, data and other non-video services to homes and businesses. As the technology develops, competition from wireless services using WiMax and other technologies may become significant in the future. We seek to compete on speed and price, including by increasing the maximum speed of our connections and offering varying tiers of service and varying prices, as well as a bundled product offering and a range of value added services.

- *Europe.* Across Europe, our key competition in this product market is from the offering of broadband Internet access products using various DSL-based technologies both by the incumbent phone companies and third parties. The introduction of cheaper and ever faster broadband offerings into the market is further increasing the competitive pressure in this market. Broadband wireless services, however, are not yet well established.

  In The Netherlands, we face competition from KPN, the largest broadband Internet access provider, and operators using the unbundled local loop. As of December 31, 2006, UPC Netherlands provides broadband Internet services to 12% of the total broadband Internet market (or about 20% of our current footprint).

  In Switzerland, Swisscom is the largest provider of broadband Internet access services, with an estimated market share of two-thirds of all broadband Internet customers. Cablecom serves 20% of all broadband Internet customers. As fully unbundled, shared or bitstream access to Swisscom's network has not yet been implemented in Switzerland, alternative DSL service providers are currently reliant on Swisscom's wholesale offering or are required to construct their own access network to provide broadband Internet access services.

  UPC Austria's largest competitor with respect to Internet access services is the incumbent telecommunications company, Telkom Austria. Telkom Austria provides services via DSL. In addition, UPC Austria faces competition from unbundled local loop access by operators who can offer broadband Internet services for lower costs. To compete, UPC Austria is offering its triple-play option at a discount for subscribers who switch from another provider.

  In Hungary, the Internet market is growing rapidly. Our primary competitor is the incumbent telecommunications company, Magyar Telekom. As of December 31, 2006, UPC Hungary provides broadband Internet services to 19% of the total broadband Internet market.

- *Asia/Pacific.* In Japan, we compete with FTTH providers that offer broadband Internet access through fiber-optic lines. FTTH-based players, including NTT, Usen Corporation, Tokyo Electric Power Company Incorporated, KDDI and K-Opticom Corporation, currently offer broadband Internet access services through FTTH. Broadband Internet access using FTTH technology has become more widely available, and pricing for these services has declined. We compete directly with ADSL providers, such as Softbank Corporation, that offer broadband Internet access to subscribers. ADSL providers often offer their broadband Internet access services at a cost lower than ours. If continued technological advances or investments by our competitors further improve the services offered through ADSL or FTTH, or make them more affordable or more widely available, cable modem Internet access may become less attractive to our existing or potential subscribers. As of December 31, 2006, J:COM's share of the high-speed (128 kbps and greater) broadband Internet access market in Japan was approximately 5%.

- *The Americas.* In Chile, VTR faces competition primarily from non-cable-based Internet service providers such as Telefónica S.A and Entel S.A. VTR expects increased pricing pressure as these companies bundle their Internet access service with other services. VTR's share of the high-speed (128 kbps and greater) broadband Internet access market in Chile was 41%, compared to 46% for Telefónica and 13% for all others.

Telephony

With respect to telephony services, our businesses face competition from the incumbent telecommunications operator in each country. These operators have substantially more experience in providing telephony services, greater resources to devote to the provision of telephony services and longstanding customer relationships. In many countries, our businesses also face competition from other cable telephony providers, wireless telephony providers, FTTH-based providers or other indirect access providers. Competition in both the residential and business telephony markets will increase with certain market trends and regulatory changes, such as general price competition, the introduction of carrier pre-selection, number portability, continued deregulation of telephony markets, the replacement of fixed line with mobile telephony, and the growth of VoIP services. As a result, we seek to compete on pricing as well as product innovation, such as personal call manager and unified messaging, and increasing the services we offer.

- *Europe.* Across Europe our telephony businesses are generally rather small compared to the existing business of the incumbent phone company. The incumbent telephone companies remain our key competitor but mobile operators and new entrant VoIP operators offering service across broadband lines are also important in these markets. Generally, we expect telephony markets to remain extremely competitive.

  In The Netherlands, KPN is the dominant telephony provider, but all of the large MSOs, including UPC Netherlands, as well as ISPs, are now offering VoIP services and gaining market share. In Switzerland, we are the largest VoIP service provider, but Swisscom is the dominant fixed telephony service provider followed by two carriers that offer pre-select services. In the future we may face increased competition in Switzerland as the unbundling of the local loop is implemented.

  In Austria and in Hungary, the incumbent telephone companies dominate the telephony market. Most of the competition to the incumbent telephone operators in these countries is from entities that provide carrier pre-select services. Carrier pre-select allows the end user to choose the voice services of operators other than the incumbent while using the incumbent's network. We also compete with ISPs that offer VoIP services. In Austria, we serve our subscribers via our time division multiplex telephony platform and, beginning March 2006, via VoIP over our cable plant. In Hungary, we provide circuit switched telephony services over our copper wire telephony network and VoIP telephony services over our cable plant. We also launched our VoIP telephony service in the Czech Republic, Ireland, Poland and Slovak Republic in 2006.

- *Asia/Pacific.* In Japan, our principal competition in our telephony business comes from NTT and KDDI. We also face increasing competition from new common carriers in the telephony market, as well as ISPs, such as Softbank Corporation, and FTTH-based providers, including K-Opticom Corporation. Further, Japan Telecom Co. Ltd. and KDDI each offer low-cost fixed line telephony services. Many of these carriers offer VoIP, and call volume over fixed line services has generally declined as VoIP and mobile phone usage have increased. If competition in the fixed line telephony market continues to intensify, we may lose existing or potential subscribers to our competitors. As of December 31, 2006, J:COM's share of the fixed line telephony market in Japan was approximately 2%.

- *The Americas.* In Chile, VTR faces competition from the incumbent telecommunications operator, CTC, and other telecommunications operators such as Telsur, GTD Chile S.A. and Entel S.A. CTC and Telsur operators have substantial experience in providing telephony services, resources to devote to the provision of telephony services and longstanding customer relationships. VTR is also facing stiff competition from wireless telephony providers such as Telefónica Móviles S.A., Smartcom PCS and Entel PCS Telecomunicaciones S.A., and from indirect access providers. Competition in both the residential and business telephony markets is expected to increase over time with certain market trends and regulatory changes, such as general price competition, number portability, the replacement of fixed line with mobile telephony, and the growth of VoIP services. VTR offers circuit switched and VoIP telephony services over its cable network. VTR's share of the fixed line telephony market in Chile was 15%, compared to 69% for CTC and 16% for all others.

Programming Services

The business of providing programming for cable and satellite television distribution is highly competitive. Our programming businesses directly compete with other programmers for distribution on a limited number of channels. Once distribution is obtained, these programming services compete, to varying degrees, for viewers and advertisers with other cable and over-the-air broadcast television programming services as well as with other entertainment media, including home video (generally video rentals), online activities, movies and other forms of news, information and entertainment.

Employees

As of December 31, 2006, we, including our consolidated subsidiaries, had an aggregate of approximately 20,500 employees, certain of which belong to organized unions and works councils. We believe that our employee relations are good.

Financial Information About Geographic Areas

Financial information related to the geographic areas in which we do business appears in note 22 to our consolidated financial statements included in Part II of this report.

Available Information

All our filings with the Securities and Exchange Commission (SEC) as well as amendments to such filings are available on our Internet website free of charge generally within 24 hours after we file such material with the SEC. Our website address is *www.lgi.com.* The information on our website is not incorporated by reference herein.

PART II

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

The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read in conjunction with our consolidated financial statements. This discussion is organized as follows:

- *Overview.* This section provides a general description of our business and recent events.
- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2006, 2005 and 2004.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity, consolidated cash flow statements, our off balance sheet arrangements and contractual commitments.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those accounting policies that contain uncertainties and require significant judgment in their application.
- *Quantitative and Qualitative Disclosures about Market Risk.* This section provides discussion and analysis of the foreign currency, interest rate and other market risks that our company faces.

Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2006.

Overview

We are an international broadband communications provider of video, voice and broadband Internet access services with consolidated broadband operations at December 31, 2006 in 16 countries (excluding Belgium — see note 7 to our consolidated financial statements). Our operations are primarily in Europe, Japan and Chile. Through our indirect wholly owned subsidiaries, UPC Holding and LG Switzerland, we provide broadband communications services in 10 European countries (excluding Belgium). LG Switzerland holds our 100% ownership in Cablecom, a broadband communications operator in Switzerland. The broadband communications operations of UPC Holding and LG Switzerland are collectively referred to as the UPC Broadband Division. Through our indirect controlling ownership interest in J:COM, we provide broadband communications services in Japan. Through our indirect 80%-owned subsidiary VTR, we provide broadband communications services in Chile. We also have (i) consolidated DTH satellite operations in Australia, (ii) consolidated broadband communications operations in Puerto Rico, Brazil and Peru, (iii) non-controlling interests in broadband communications companies in Europe and Japan, (iv) consolidated interests in certain programming businesses in Europe and Argentina, and (v) non-controlling interests in certain programming businesses in Europe, Japan, Australia and the Americas. Our consolidated programming interests in Europe are primarily held through Chellomedia, which also provides interactive digital services and owns or manages investments in various businesses in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming and other services to certain of our broadband operations, primarily in Europe.

Through our subsidiaries and affiliates, we are the largest international broadband communications operator in terms of subscribers. At December 31, 2006, our consolidated subsidiaries (excluding UPC Belgium) owned and operated networks that passed 27.6 million homes and served 19.4 million revenue generating units (RGUs), consisting of 12.9 million video subscribers, 3.8 million broadband Internet subscribers and 2.7 million telephony subscribers.

As a result of the June 15, 2005 consummation of the LGI Combination, our ownership interest in UGC, the ultimate parent of UPC Holding and VTR prior to the LGI Combination, increased from 53.4% to 100%. At December 31, 2006, we owned an indirect 36.6% interest in J:COM through our 58.7% controlling interest in Super Media and Super Media's 62.5% controlling interest in J:COM. We began consolidating Super Media and J:COM on January 1, 2005. Prior to that date we used the equity method to account for our investment in Super Media/J:COM.

In addition to the LGI Combination and the consolidation of Super Media/J:COM, we have completed a number of acquisitions that have expanded our footprint and the scope of our business. In Europe, our recent acquisitions include:

(i) PHL, the immediate parent of Chorus Communications Limited (Chorus), a broadband communications provider in Ireland, on May 20, 2004;

(ii) a controlling interest in Zonemedia, a video programming company in Europe, on January 7, 2005;

(iii) NTL Ireland, a broadband communications provider in Ireland, on May 9, 2005 (as further described below);

(iv) Telemach, a broadband communications provider in Slovenia, on February 10, 2005;

(v) Astral, a broadband communications provider in Romania, on October 14, 2005;

(vi) Cablecom, a broadband communications provider in Switzerland on October 24, 2005;

(vii) IPS, an indirect subsidiary of Chellomedia that provides thematic television channels in Spain and Portugal, on November 23, 2005;

(viii) INODE, an unbundled DSL provider in Austria, on March 2, 2006; and

(ix) Karneval, a broadband communications provider in the Czech Republic, on September 18, 2006 (as further described below).

UPC Ireland, through its contractual relationship with MS Irish Cable and MSDW Equity, began consolidating NTL Ireland effective May 1, 2005 for financial reporting purposes, and on December 12, 2005, UPC Ireland acquired a 100% interest in NTL Ireland through its acquisition of MS Irish Cable from MSDW Equity. In the following discussion and analysis of our results of operations, we collectively refer to the May 9, 2005 consolidation and the December 12, 2005 acquisition of NTL Ireland as the "acquisition" of NTL Ireland, with such acquisition considered to be effective as of May 1, 2005 for purposes of comparing our 2006, 2005 and 2004 operating results.

In connection with Unite Holdco's September 18, 2006 acquisition of Karneval, Liberty Global Europe, through its August 9, 2006 agreements with AIL and Deutsche, began consolidating Unite Holdco effective September 30, 2006 for financial reporting purposes. On December 28, 2006, following the receipt of regulatory approvals, Liberty Global Europe completed its acquisition of Unite Holdco and settled the total return swap agreements with each of AIL and Deutsche. In the following discussion and analysis of our results of operations, we collectively refer to the September 18, 2006 consolidation and the December 28, 2006 acquisition of Karneval as the "acquisition" of Karneval, with such acquisition considered to be effective as of September 30, 2006 for purposes of comparing our 2006 and 2005 operating results.

In Japan, J:COM acquired (i) a 92% ownership interest in J:COM Chofu Cable on February 25, 2005, (ii) a 100% interest in J:COM Setamachi on September 30, 2005 and (iii) a controlling interest in Cable West on September 28, 2006. J:COM Chofu Cable, J:COM Setamachi and Cable West are broadband communications providers in Japan.

On April 13, 2005, VTR acquired a controlling interest in Metrópolis, a broadband communications provider in Chile. In connection with this transaction, UGC's ownership interest in VTR decreased from 100% to 80%.

In addition, on December 14, 2005 we completed a transaction that increased our indirect ownership of Austar from a 36.7% non-controlling ownership interest to a 55.2% controlling interest. Prior to this transaction, we accounted for our investment in Austar using the equity method of accounting.

We have also completed a number of less significant acquisitions in Europe and Japan. For additional information concerning our closed acquisitions, see note 5 to our consolidated financial statements.

On December 31, 2006 we completed the sale of our operations in Belgium to Telenet. Due to our continuing ownership interest in Telenet, we have not accounted for UPC Belgium as a discontinued operation. See note 7 to our consolidated financial statements.

As further discussed in note 6 to our consolidated financial statements, our consolidated financial statements have been reclassified to present UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations. Accordingly, in the following discussion and analysis, the operating statistics, results of operations and cash flows that we present and discuss are those of our continuing operations.

From a strategic perspective, we are seeking to build broadband and video programming businesses that have strong prospects for future growth in revenue and operating cash flow (as defined below and in note 22 to our consolidated financial statements). Therefore, we seek to acquire entities that have strong growth potential at prudent prices and sell businesses that we believe do not meet this profile. We also seek to leverage the reach of our broadband distribution systems to create new content opportunities in order to increase our distribution presence and maximize operating efficiencies. As discussed further under *Liquidity and Capital Resources — Capitalization* below, we also seek to maintain our debt at levels that provide for attractive equity returns without assuming undue risk.

From an operational perspective, we focus on achieving organic revenue growth in our broadband communications operations by developing and marketing bundled entertainment, information and communications services, and extending and upgrading the quality of our networks where appropriate. (As we use the term, organic growth excludes the effects of foreign currency exchange rate fluctuations and acquisitions.) While we seek to obtain new customers, we also seek to increase the average revenue we receive from each household by increasing the penetration of our digital video, broadband Internet and telephony services with existing customers through product bundling and upselling or by migrating analog video customers to digital video services that include various incremental service offerings, as described below. We plan to continue to employ this strategy to achieve organic revenue and RGU growth in 2007. Although we continue to believe that demand for our service offerings is strong, our ability to sustain our current level of organic revenue and RGU growth in future periods may be impacted by competitive, technological or regulatory developments outside of our control. Moreover, our ability to maintain or increase our monthly subscription fees for our service offerings is limited by competitive and, to a lesser extent, regulatory factors. As such, we expect that most of our organic revenue growth in 2007 will be attributable to RGU growth.

Including the effects of acquisitions, our continuing operations added a total of 2.5 million RGUs during 2006. Excluding the effects of acquisitions (RGUs added on the acquisition date), but including post-acquisition RGU additions, our continuing operations added total RGUs of 1.6 million during 2006. Most of our organic RGU growth is attributable to the growth of our broadband Internet access services and digital telephony (primarily through voice-over-Internet-protocol or VoIP), as significant increases in digital video RGUs were largely offset by declines in analog video RGUs.

Our analog video service offerings include basic programming and expanded basic programming in some markets. We tailor both our basic channel line-up and our additional channel offerings to each system according to culture, demographics, programming preferences and local regulation. Our digital video service offerings include basic and premium programming and, in some markets, incremental service offerings such as enhanced pay-per-view programming (including video-on-demand and near video-on-demand), personal video recorders and high definition television services.

We offer broadband Internet access services in all of our markets. Our residential subscribers can access the Internet via cable modems connected to their personal computers at faster speeds than that of conventional dial-up modems. We determine pricing for each different tier of broadband Internet access service through analysis of speed, data limits, market conditions and other factors.

We offer telephony services in Austria, Chile, Czech Republic, Hungary, Ireland, Japan, The Netherlands, Poland, Puerto Rico, Romania, Slovak Republic, and Switzerland, primarily over our broadband networks. In Austria, Chile, Hungary, Ireland, Japan and The Netherlands, we provide circuit switched telephony services and voice-over-Internet-protocol, or “VoIP” telephony services. Telephony services in the remaining countries are provided using VoIP technology. In select markets, we also offer mobile telephony services using third party networks.

The video, telephony and broadband Internet access businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. As video, telephony and broadband Internet access technology changes and competition increases, we may need to increase our capital expenditures to further upgrade our systems to remain competitive in markets that might be impacted by the introduction of new technology. No assurance can be given that any such future upgrades could be expected to generate a positive return or that we would have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

Results of Operations

In addition to the *Discussion and Analysis of our Historical Operating Results*, we have also included an analysis of our operating results based on the approach we use to analyze our reportable segments. This approach includes J:COM's revenue, operating expenses, SG&A expenses and operating cash flow on a consolidated basis during 2004, notwithstanding the fact that we used the equity method to account for J:COM during 2004. As further described below, we believe that the *Discussion and Analysis of our Reportable Segments* that appears below provides a more meaningful basis for comparing our revenue, operating expenses and SG&A expenses than does our historical discussion. The *Discussion and Analysis of our Historical Operating Results* immediately follows the *Discussion and Analysis of our Reportable Segments.*

The comparability of our operating results during 2006, 2005 and 2004 is affected by acquisitions, including (i) our acquisitions of INODE and Karneval, and J:COM's acquisition of Cable West during 2006, (ii) our consolidation of J:COM, our acquisitions of Cablecom, NTL Ireland, Astral, Austar, IPS, Telemach, Zonemedia and Metrópolis, and J:COM's acquisitions of Chofu Cable and J:COM Setamachi during 2005, and (iii) our acquisition of Chorus during 2004. As we have consolidated UGC since January 1, 2004, the primary effect of the LGI Combination for periods following the June 15, 2005 transaction date has been an increase in depreciation and amortization expense as a result of the application of purchase accounting. In the following discussion, we quantify the impact of acquisitions on our results of operations. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to the timing of an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes.

Changes in foreign currency exchange rates have a significant impact on our operating results as all of our operating segments, except for Puerto Rico, have functional currencies other than the U.S. dollar. Our primary exposure is currently to the Japanese yen and the euro. In this regard, 29.4% and 28.5% of our U.S. dollar revenue during 2006 was derived from subsidiaries whose functional currency is the Japanese yen and the euro, respectively. In addition, our operating results are impacted by changes in the exchange rates for the Swiss franc, the Chilean peso, the Hungarian forint, the Australian dollar and other local currencies in Europe.

At December 31, 2006, we owned an indirect 36.6% interest in J:COM that we hold through our interest in Super Media, an 80% interest in VTR and a 53.4% interest in Austar (which we report in our corporate and other category for segment reporting purposes). However, as we control Super Media/J:COM, VTR, and Austar, GAAP requires that we consolidate 100% of the revenue and expenses of these entities in our consolidated statements of operations. The minority owners' interests in the operating results of J:COM, VTR, Austar and other less significant majority owned subsidiaries are reflected in minority interests in losses (earnings) of subsidiaries, net, in our consolidated statements of operations. Our ability to consolidate J:COM is dependent on our ability to continue to control Super Media, which will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. If Super Media is dissolved and we do not otherwise control J:COM at the time of any such dissolution, we will no longer be in a position to consolidate J:COM. When reviewing and analyzing our operating results, it is important to keep in mind that other third party entities own significant interests in J:COM, VTR and Austar and that Sumitomo, the other member of Super Media, effectively has the ability to prevent our company from consolidating J:COM after February 2010.

Discussion and Analysis of our Reportable Segments

For purposes of evaluating the performance of our reportable segments, we compare and analyze 100% of the revenue and operating cash flow of our reportable 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 our investment in J:COM during 2004. The revenue, operating expenses, SG&A expenses and operating cash flow of J:COM for 2004 is 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 equity method investments are required to be reported on a net basis.

All of the reportable segments set forth below provide broadband communications services, including video, voice and broadband Internet access services. Certain segments also provide CLEC and other business-to-business communications (B2B) services. During 2006, our operating segments in the UPC Broadband Division provided services in 11 European countries, including our operations in Belgium, which we sold to Telenet on December 31, 2006. Other Western Europe included our operating segments in Ireland and Belgium. Other Central and Eastern Europe includes our operating segments in Poland, Czech Republic, Slovak Republic, Romania and Slovenia. J:COM provides broadband communications services in Japan. VTR provides broadband communications services in Chile. Our corporate and other category includes (i) certain less significant operating segments that provide DTH satellite services in Australia, broadband communications services in Puerto Rico, Brazil and Peru and video programming and other services in Europe and Argentina and (ii) our corporate category. Intersegment eliminations primarily represents the elimination of intercompany transactions between our UPC Broadband Division and Chellomedia.

During the second quarter of 2006, we changed our reporting such that we no longer allocate the central and corporate costs of the UPC Broadband Division to individual operating segments within the UPC Broadband Division. Instead, we present these costs as a separate category within the UPC Broadband Division. The UPC Broadband Division's central and corporate costs include billing systems, network operations, technology, marketing, facilities, finance, legal and other administrative costs. During 2005 and 2004, the UPC Broadband Division's central and corporate costs included certain programming costs that were considered to be in excess of market rates. Prior to July 1, 2006, our CLEC operations in The Netherlands and Austria were owned and managed by our indirect subsidiary, Priority Telecom, and included in our corporate and other category for purposes of segment reporting. Effective July 1, 2006, we integrated the Priority Telecom CLEC operations in The Netherlands and Austria with our existing operations in each country and began reporting these CLEC operations as components of our reportable segments in The Netherlands and Austria, respectively. Segment information for all periods presented has been restated to reflect the above-described changes and to present UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations. Previously, UPC Norway and UPC Sweden were included in our Other Western Europe reportable segment, UPC France was presented as a separate reportable segment, and PT Norway was included in our corporate and other category. We present only the reportable segments of our continuing operations in the following tables. For additional information concerning our reportable segments, including a discussion of our performance measures and a reconciliation of total segment operating cash flow to our consolidated earnings (loss) before income taxes, minority interests and discontinued operations, see note 22 to our 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, excluding allocable stock-based compensation expense in accordance with our definition of operating cash flow) as well as an analysis of operating cash flow by reportable segment for 2006, as compared to 2005, and 2005, as compared to 2004. In each case, the tables present (i) the amounts reported by each of our reportable segments for the comparative periods, (ii) the U.S. dollar change and percentage change from period to period, and (iii) 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. As discussed under *Quantitative and Qualitative Disclosures about Market Risk* below, we have significant exposure to movements in foreign currency rates.

We also provide a table showing the operating cash flow margins (operating cash flow divided by revenue) of our reportable segments for 2006, 2005 and 2004 at the end of this section.

As discussed above, acquisitions have significantly affected the comparability of the results of operations of our reportable segments. For additional information, see the discussion under *Overview* above and note 5 to our consolidated financial statements.

Revenue of our Reportable Segments

Revenue — Years ended December 31, 2006 and 2005

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2006	2005	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 923.9	$ 857.3	$ 66.6	7.8	6.7
Switzerland	771.8	122.1	649.7	532.1	505.0
Austria	420.0	329.0	91.0	27.7	26.3
Other Western Europe	306.4	228.2	78.2	34.3	31.6
Total Western Europe	2,422.1	1,536.6	885.5	57.6	54.2
Hungary	307.1	281.4	25.7	9.1	14.8
Other Central and Eastern Europe	578.1	370.3	207.8	56.1	48.5
Total Central and Eastern Europe	885.2	651.7	233.5	35.8	34.0
Central and corporate operations	17.9	3.3	14.6	442.4	418.5
Total UPC Broadband Division	3,325.2	2,191.6	1,133.6	51.7	48.7
J:COM (Japan)	1,906.3	1,662.1	244.2	14.7	21.2
VTR (Chile)	558.9	444.2	114.7	25.8	19.8
Corporate and other	768.3	264.2	504.1	190.8	189.1
Intersegment eliminations	(71.2)	(44.8)	(26.4)	(58.9)	(56.4)
Total consolidated LGI	$6,487.5	$4,517.3	$1,970.2	43.6	43.8

General. Revenue derived by our broadband communications operating segments includes amounts received from subscribers for ongoing services, installation fees, advertising revenue, mobile telephony revenue, channel carriage fees, telephony interconnect fees and amounts received from CLEC and other B2B services. In the following discussion, we use the term "subscription revenue" to refer to amounts received from subscribers, excluding installation fees and mobile telephony revenue.

The Netherlands. The Netherlands' revenue increased $66.6 million or 7.8% during 2006, as compared to 2005. Excluding the effects of foreign exchange rate fluctuations and an acquisition, The Netherlands' revenue increased $51.3 million or 6.0%. This increase is attributable to an increase in subscription revenue and, to a lesser extent, higher non-subscription revenue.

The increase in subscription revenue during 2006 is due primarily to higher average RGUs, as increases in average telephony and broadband Internet RGUs were only partially offset by a decline in average video RGUs. The decline in average video RGUs includes a decline in average analog video RGUs that was not fully offset by a gain in digital video RGUs. The decline in average video RGUs is due largely to the effects of competition. A slight increase in the average monthly subscription revenue received per RGU (ARPU) also contributed to the increase, as the positive effects of (i) a January 2006 rate increase for analog video services and (ii) an increase of $6.6 million, due primarily to the release of deferred revenue (including $4.8 million of deferred revenue that was released during the fourth quarter of 2006) in connection with rate settlements with certain municipalities, were largely offset by the following negative factors:

- a decrease in the average rates charged for digital video services due to price decreases during the fourth quarter of 2005 for pre-existing digital video subscribers to harmonize rates and promotional discounts implemented in connection with The Netherlands' program to migrate analog video subscribers to digital video services (as discussed below);
- an increase in discounting in connection with campaigns designed to promote product bundling;
- a decrease in ARPU from broadband Internet services due to a higher proportion of customers selecting lower-priced tiers and competitive factors; and
- a decrease in ARPU from telephony services due to competitive factors and lower call volumes.

As discussed below, we would expect our video services revenue to be positively impacted to the extent that new subscribers to our digital video services are retained beyond the applicable promotional period.

The increase in The Netherlands' non-subscription revenue during 2006 is due primarily to increases in revenue from B2B services, mobile telephony services (including mobile handset sales) and interconnect fees, partially offset by lower revenue from installation fees. Revenue from B2B services, after taking into account intercompany eliminations, contributed $13.8 million to the increase in The Netherlands' non-subscription revenue during 2006. Revenue from mobile telephony services was higher in 2006 primarily because such services were not offered by The Netherlands until the third quarter of 2005. The lower installation fees are principally related to a higher percentage of customers performing self-installations.

In October 2005, we initiated a program to migrate over time The Netherlands' analog video cable customers to digital video service, which we refer to as the "digital-for-all" or "D4A" program. In the D4A program, we provide the customer with a digital interactive television box and, for a promotional period following acceptance of the box, the digital entry level service at no incremental charge to the customer over the standard analog rate. Effective January 1, 2007, this promotional pricing period was reduced from six months to three months. To the extent that digital video subscribers are retained after the promotional pricing period has elapsed, The Netherlands' ARPU from video services will be positively impacted. As of December 31, 2006, the promotional pricing period had elapsed for over 50% of The Netherlands' digital video subscribers. Although we have had only limited experience monitoring the disconnect patterns of this group of digital video subscribers, we are not seeing significant increases in subscriber disconnects in the initial weeks and months following the date that the promotional pricing period elapses. However, due to the relatively short time frame that these digital video subscribers have been retained beyond the promotional pricing period, these results are not necessarily an accurate indication of future subscriber retention rates.

The Netherlands has incurred significantly higher operating, marketing and other costs during 2006 as compared to 2005, in connection with the D4A program. Although a portion of these costs vary with our subscriber migration efforts, some costs, such as programming, vary with our digital video subscriber base and others remain somewhat fixed relative to our digital subscriber base. We are continually evaluating our approach to the D4A program in an attempt to determine the most cost-effective way to convert analog video subscribers to digital video subscribers. During the second half of 2006, we added a lower number of digital video RGUs as compared to the first half of 2006. This decline is principally associated with the adoption of a more selective approach to distributing digital interactive television boxes to subscribers. As a result of the adoption of this more selective approach, we expect a more gradual pacing of our D4A program in future quarters. As the pace of our digital video RGU additions slows, we expect that we will experience accompanying reductions in certain capital expenditures and operating, marketing and other costs. As we cannot predict with certainty (i) the percentage of new digital video subscribers that will be retained after the promotional period has elapsed, (ii) the percentage of current analog subscribers that ultimately will be successfully migrated to the digital video service, and (iii) the amount of fixed and variable costs related to digital video services that The Netherlands will incur over the life of the D4A program and in the following periods, no assurance can be given as to the impact of this program on The Netherlands' future operating results.

The rates charged for The Netherlands' analog video services are subject to rate regulation. For a description of recent regulatory developments in The Netherlands, see note 21 to our consolidated financial statements. Adverse outcomes from regulatory initiatives could have a significant negative impact on our ability to maintain or increase revenue in The Netherlands.

Switzerland. Switzerland's revenue increased $649.7 million or 532.1% during 2006, as compared to 2005. This increase includes a $576.0 million increase that is attributable to the impact of the October 2005 Cablecom acquisition. Excluding the effects of foreign exchange rate fluctuations and the Cablecom acquisition, Switzerland's revenue increased $40.6 million or 33.3%, including organic growth that occurred during the ten months ended October 31, 2006. Most of this increase is attributable to an increase in subscription revenue as the number of average broadband Internet, telephony and video RGUs was higher in 2006 as compared to 2005. ARPU increased slightly during 2006, as the positive effects of a January 2006 price increase for analog video services and a higher proportion of subscribers selecting digital video services over analog video services were only partially offset by lower ARPU from telephony and broadband Internet services. ARPU from telephony service decreased during 2006 primarily due to the impact of competitive factors. ARPU from broadband Internet services decreased during 2006 primarily due to customers selecting lower-priced tiers of service. Excluding organic revenue growth that occurred during the ten months ended October 31, 2006, Switzerland's revenue increased 16.5% during the two months ended December 31, 2006, as compared to the corresponding prior year period in which we owned Cablecom. Due in part to the fact that we do not expect to increase our rates for analog video services in Switzerland during 2007, we expect that Switzerland's revenue growth rate during 2007 will decline to a rate that will range from 8% to 10%.

Austria. Austria's revenue increased $91.0 million or 27.7% during 2006, as compared to 2005. This increase includes a $73.7 million increase that is attributable to the impact of the March 2006 INODE acquisition. Excluding the effects of the INODE acquisition and foreign exchange rate fluctuations, Austria's revenue increased $13.0 million or 3.9%. The majority of this increase is attributable to an increase in subscription revenue, as the positive effects of higher average RGUs were partially offset by a slight decline in ARPU. The increase in average RGUs during 2006 is attributable to a significant increase in the average number of broadband Internet RGUs, as a small increase in the average number of telephony RGUs largely offset a small decrease in the average number of video RGUs. The slight decline in ARPU during 2006 is attributable to lower ARPU from broadband Internet and telephony services, primarily as a result of an increase in discounting due to competitive factors. In addition, ARPU from telephony services decreased due to (i) the 2006 introduction in Austria of VoIP telephony services, which generally are priced slightly lower than Austria's circuit switched telephony service and (ii) lower telephony call volume resulting from increased customer usage of off-network calling plans. These negative factors were partially offset by the positive impact of a January 2006 rate increase for analog video services and an increase in subscribers selecting premium digital services. Telephony revenue in Austria decreased somewhat during 2006, as the negative effect of the decrease in telephony ARPU more than offset the positive impact of higher average telephony RGUs. Increases in revenue from B2B services, installation fees and other non-subscription revenue also contributed to the increase in Austria's revenue.

Other Western Europe. Other Western Europe's revenue increased $78.2 million or 34.3% during 2006 as compared to 2005. This increase includes a $47.8 million increase that is attributable to the May 2005 NTL Ireland acquisition. Excluding the effects of the NTL Ireland acquisition and foreign exchange rate fluctuations, Other Western Europe's revenue increased $24.3 million or 10.6%. Most of this increase is attributable to higher subscription revenue, as the number of average broadband Internet and video RGUs was higher in 2006 as compared to 2005. A slight increase in ARPU also contributed to the increase in subscription revenue, as the positive impact of a January 2006 rate increase for analog video services in Ireland was only partially offset by the negative effects of (i) higher discounting due to competitive factors and (ii) an increase in the proportion of subscribers selecting lower-priced broadband Internet tiers.

Hungary. Hungary's revenue increased $25.7 million or 9.1% during 2006, as compared to 2005. Excluding the effects of foreign exchange rate fluctuations, Hungary's revenue increased $41.6 million or 14.8%. This increase is attributable to an increase in subscription revenue that was only partially offset by a decrease in telephony transit revenue, as discussed below. Most of this increase in subscription revenue is attributable to increases in the average number of broadband Internet, telephony and DTH RGUs and, to a lesser extent, analog video RGUs. An increase in ARPU also contributed to the increase in subscription revenue as the positive effect of a January 2006 rate increase for analog video services was only partially offset by the negative impacts on ARPU of (i) an increase in discounting due to competitive factors, (ii) a higher proportion of customers selecting lower-priced broadband Internet tiers, (iii) growth in Hungary's VoIP telephony services, which generally are priced lower than Hungary's circuit switched telephony services, and (iv) lower telephony call volume. During each of the last three quarters of 2006, Hungary experienced slight organic declines in video RGUs, primarily due to the effects of competition from an alternative DTH provider. As noted above, Hungary's comparatively low-margin telephony transit service revenue decreased by $10.3 million during 2006, as compared to 2005. This decrease is due to a lower volume of transit traffic since late 2005, when certain alternative providers of telecommunications services began directly interconnecting with traditional telecommunications networks, bypassing Hungary's broadband networks.

Other Central and Eastern Europe. Other Central and Eastern Europe's revenue increased $207.8 million or 56.1% during 2006, as compared to 2005. This increase includes a $113.6 million increase that is attributable to the aggregate impact of the October 2005 Astral and the February 2005 Telemach acquisitions and other less significant acquisitions. Excluding the effects of these acquisitions and foreign exchange rate fluctuations, Other Central and Eastern Europe's revenue increased $64.4 million or 17.4% during 2006. This increase is attributable to an increase in subscription revenue, as the number of average RGUs was higher in 2006 as compared to 2005. Higher ARPU during 2006 also contributed to the increase in subscription revenue. The growth in RGUs during 2006 is attributable to increases in the average number of broadband Internet, video and telephony RGUs, with most of the broadband Internet growth occurring in Poland, Romania and the Czech Republic, most of the video growth occurring in the Czech Republic and Romania, and most of the telephony growth attributable to the expansion of VoIP telephony services in Poland and Romania. ARPU increased during 2006 as the positive effects of rate increases for video services in certain countries and an increase in the number of customers selecting premium video services in Romania more than offset the negative effects of a higher proportion of broadband Internet subscribers selecting lower-priced tiers and higher discounting related to increased competition. During 2006, we have experienced increased competition for video RGUs in Central and Eastern Europe due largely to the effects of competition from an alternative DTH provider that is competing with us in most of our Central and Eastern European markets. In the Slovak Republic, increased competition and other factors have resulted in the loss of a number of multi-channel multi-point (microwave) distribution system (MMDS) RGUs during 2006.

J:COM (Japan). J:COM's revenue increased $244.2 million or 14.7% during 2006, as compared to 2005. This increase includes a $139.8 million increase that is attributable to the aggregate impact of the September 2006 Cable West, February 2005 J:COM Chofu Cable and the September 2005 J:COM Setamachi acquisitions and other less significant acquisitions. Excluding the effects of these acquisitions and foreign exchange rate fluctuations, J:COM's revenue increased $212.1 million or 12.8%. Most of this increase is attributable to an increase in subscription revenue, primarily due to increases in the average number of J:COM's telephony, broadband Internet and video RGUs during 2006. ARPU remained relatively constant, as the positive effects of an increased proportion of subscribers selecting digital video services over analog video services and higher-speed broadband Internet services over lower-speed alternatives were largely offset by the negative effects of an increase in product bundling discounts and lower telephony ARPU due to decreases in customer call volumes. Increases in construction services and advertising revenue and other non-subscription revenue also contributed to the increase in J:COM's revenue.

VTR (Chile). VTR's revenue increased $114.7 million or 25.8% during 2006, as compared to 2005. This increase includes a $19.2 million increase attributable to the April 2005 Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition and foreign exchange rate fluctuations, VTR's revenue increased $68.6 million or 15.5%. Most of this increase is attributable to an increase in subscription revenue, due primarily to growth in the average number of VTR's broadband Internet, telephony and digital video RGUs. ARPU declined slightly during 2006, as the positive effects of (i) January and August 2006 inflation adjustments to rates for video services and (ii) an increase in the proportion of subscribers selecting digital video services over analog video services were more than offset by the negative impacts of an increase in product bundling and promotional discounts.

Revenue — Years ended December 31, 2005 and 2004

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2005	2004	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 857.3	$ 793.7	$ 63.6	8.0	8.0
Switzerland	122.1	—	122.1	N.M.	N.M.
Austria	329.0	313.2	15.8	5.0	4.9
Other Western Europe	228.2	86.1	142.1	165.0	167.6
Total Western Europe	1,536.6	1,193.0	343.6	28.8	28.7
Hungary	281.4	217.4	64.0	29.4	27.6
Other Central and Eastern Europe	370.3	252.3	118.0	46.8	35.5
Total Central and Eastern Europe	651.7	469.7	182.0	38.7	31.8
Central and corporate operations	3.3	1.2	2.1	175.0	200.0
Total UPC Broadband Division	2,191.6	1,663.9	527.7	31.7	29.7
J:COM (Japan)	1,662.1	1,504.7	157.4	10.5	13.5
VTR (Chile)	444.2	300.0	144.2	48.1	35.6
Corporate and other	264.2	165.7	98.5	59.4	60.2
Intersegment eliminations	(44.8)	(16.8)	(28.0)	(166.7)	(168.1)
Total LGI before elimination of equity affiliate	4,517.3	3,617.5	899.8	24.9	24.2
Elimination of equity affiliate (J:COM)	—	(1,504.7)	1,504.7	N.M.	
Total consolidated LGI	$4,517.3	$ 2,112.8	$2,404.5	113.8	

N.M. — Not Meaningful

The Netherlands. The Netherlands' revenue increased $63.6 million or 8.0% during 2005, as compared to 2004. Excluding the effects of foreign exchange rate fluctuations and an acquisition, The Netherlands' revenue increased $44.4 million or 5.6%. The majority of this increase is attributable to an increase in subscription revenue, due primarily to higher average RGUs, as increases in average telephony and broadband Internet RGUs were only partially offset by a decrease in average video RGUs. ARPU during 2005 increased as compared to 2004, as the positive impact of a rate increase in January 2005 for video services was only partially offset by the negative impact of decreases in ARPU from broadband Internet and telephony services due to competitive factors and an increase in the proportion of broadband Internet customers selecting lower priced tiers. The decrease in broadband Internet ARPU, which was only partially offset by an increase in average broadband Internet RGUs, resulted in a slight decrease in The Netherlands' subscription revenue from broadband Internet services during 2005, as compared to 2004. Increases in revenue from B2B services and other non-subscription revenue also contributed to the increase in The Netherlands' revenue.

In October 2005, we initiated a program to migrate substantially all of our analog video subscribers to digital video services in The Netherlands. For further information on The Netherlands' D4A program, see above discussion under *Revenue — Years ended December 31, 2006 and 2005 — The Netherlands.*

Austria. Austria's revenue increased $15.8 million or 5.0% during 2005, as compared to 2004. Excluding the effects of foreign exchange rate fluctuations, Austria's revenue increased $15.4 million or 4.9%. Most of this increase is attributable to higher subscription revenue, due primarily to higher average broadband Internet RGUs during 2005. ARPU during 2005 increased slightly as compared to 2004, reflecting the net effect of (i) higher ARPU associated with rate increases in January 2005 for analog video services, (ii) lower ARPU from broadband

Internet services reflecting competitive factors and an increase in the proportion of subscribers selecting lower tiered products and (iii) a decrease in ARPU from digital video services, primarily due to increased competition.

Other Western Europe. Other Western Europe's revenue increased $142.1 million or 165.0% during 2005, as compared to 2004. This increase includes a $128.5 million increase attributable to the aggregate impact of the Chorus and NTL Ireland acquisitions. Excluding the effects of these acquisitions and foreign exchange rate fluctuations, Other Western Europe's revenue increased $13.5 million or 15.8%.

Most of this increase is attributable to higher subscription revenue, due primarily to an increase in ARPU. The increase in ARPU is primarily attributable to increases in the proportion of video subscribers selecting the digital product. A slightly higher average number of broadband Internet and digital video RGUs also contributed somewhat to the increase in subscription revenue.

Hungary. Hungary's revenue increased $64.0 million or 29.4% during 2005, as compared to 2004. Excluding the effects of foreign exchange rate fluctuations, Hungary's revenue increased $59.9 million or 27.6%. Most of this increase is attributable to an increase in subscription revenue, due primarily to a higher average number of broadband Internet, DTH and telephony RGUs and, to a lesser extent, analog RGUs. Subscription revenue was also positively impacted by higher ARPU, due primarily to rate increases in January 2005 for video services. The increase in telephony RGUs was primarily driven by VoIP telephony sales. Increases in revenue from the comparatively low margin telephony transit service business and other non-subscription revenue also contributed to the increase in Hungary's revenue.

Other Central and Eastern Europe. Other Central and Eastern Europe's revenue increased $118.0 million or 46.8% during 2005, as compared to 2004. This increase includes a $51.8 million increase attributable to the aggregate impact of the Telemach and Astral acquisitions and another less significant acquisition. Excluding the effects of these acquisitions and foreign exchange rate fluctuations, Other Central and Eastern Europe's revenue increased $37.7 million or 14.9% during 2005, as compared to 2004. Most of this increase is due to an increase in subscription revenue attributable to growth in average RGUs and higher ARPU. The growth in RGUs during 2005 is primarily attributable to increases in the average number of broadband Internet and video RGUs, with most of the broadband Internet growth in Poland and the Czech Republic, and most of the video growth in Romania.

J:COM (Japan). J:COM's revenue increased $157.4 million or 10.5% during 2005, as compared to 2004. This increase includes a $29.9 million increase attributable to the aggregate impact of the Chofu Cable and J:COM Setamachi acquisitions and another less significant acquisition. Excluding the effects of these acquisitions and foreign exchange rate fluctuations, J:COM's revenue increased $173.4 million or 11.5% during 2005, as compared to 2004. The increase is due to an increase in subscription revenue due primarily to increases in the average number of telephony, broadband Internet and video RGUs during 2005, as compared to 2004. ARPU remained relatively constant as the negative effects of a decrease in customer call volumes and an increase in the amount of bundling discounts were offset by the positive effects of increases in the proportion of subscribers selecting digital video services over analog video services and the higher-speed broadband Internet services over the lower-speed alternatives. Non-subscription revenue decreased slightly during 2005 as a decrease in installation revenue, due primarily to increased discounting, was partially offset by individually insignificant increases in other items.

VTR (Chile). VTR's revenue increased $144.2 million or 48.1% during 2005, as compared to 2004. This increase includes a $52.8 million increase attributable to the impact of the Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition and foreign exchange rate fluctuations, VTR's revenue increased $53.9 million or 18.0% during 2005, as compared to 2004. Most of the increase is attributable to higher subscription revenue, primarily due to growth in the average number of VTR's broadband Internet, telephony and video RGUs. Higher overall ARPU also contributed to the increase.

Operating Expenses of our Reportable Segments

Operating expenses — Years ended December 31, 2006 and 2005

	Year ended December 31, 2006	Year ended December 31, 2005	Increase (decrease) $	Increase (decrease) %	Increase (decrease) excluding FX %
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 328.2	$ 288.7	$ 39.5	13.7	12.4
Switzerland	268.9	51.6	217.3	421.1	398.8
Austria	152.8	112.0	40.8	36.4	35.0
Other Western Europe	149.3	109.3	40.0	36.6	34.0
Total Western Europe	899.2	561.6	337.6	60.1	56.6
Hungary	116.8	119.7	(2.9)	(2.4)	2.9
Other Central and Eastern Europe	219.4	141.2	78.2	55.4	47.6
Total Central and Eastern Europe	336.2	260.9	75.3	28.9	27.1
Central and corporate operations	77.8	75.5	2.3	3.0	2.3
Total UPC Broadband Division	1,313.2	898.0	415.2	46.2	43.4
J:COM (Japan)	791.9	690.1	101.8	14.8	21.1
VTR (Chile)	240.1	190.3	49.8	26.2	20.0
Corporate and other	501.6	184.1	317.5	172.5	170.1
Intersegment eliminations	(71.9)	(43.2)	(28.7)	(66.4)	(64.7)
Total operating expenses excluding stock-based compensation expense	2,774.9	1,919.3	855.6	44.6	44.7
Stock-based compensation expense	7.0	9.9	(2.9)	(29.3)	
Total consolidated LGI	$ 2,781.9	$ 1,929.2	$852.7	44.2	

General. Operating expenses include programming, network operations, interconnect, customer operations, customer care, stock-based compensation expense and other direct costs. We do not include stock-based compensation in the following discussion and analysis of the operating expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Historical Operating Results* below. 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.

UPC Broadband Division. The UPC Broadband Division's operating expenses increased $415.2 million or 46.2% during 2006, as compared to 2005. This increase includes a $329.0 million increase attributable to the aggregate impact of the Karneval, Cablecom, NTL Ireland, Astral, INODE and Telemach acquisitions and other less significant acquisitions. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, the UPC Broadband Division's operating expenses increased $60.7 million or 6.8%, primarily due to the net effect of the following factors:

- An increase in direct programming and copyright costs of $20.3 million or 7.7% during 2006, representing the net effect of (i) a $29.1 million increase in costs for content and interactive digital services related to subscriber growth on the digital and DTH platforms and, to a lesser extent, higher rates charged by certain content providers, and (ii) an $8.8 million decrease related to the termination of an unfavorable programming contract in May 2005;

- An increase in telephony network usage and hosting costs of $14.1 million or 39.3% during 2006, primarily related to an increase in overall call volumes in The Netherlands;
- An increase in network related expenses of $8.5 million or 8.3% during 2006, primarily attributable to higher maintenance costs, primarily in The Netherlands, and an increase in the costs required to support the higher level of average RGUs during 2006, as compared to 2005;
- An increase in salaries and other staff related costs of $7.2 million or 4.4% during 2006, primarily reflecting (i) increased overall staffing levels, including the replacement of temporary personnel and external contractors with full-time employees, particularly in the customer care and customer operations areas and (ii) annual wage increases. These increases were partially offset by a lower number of full-time employees in Switzerland, cost savings in Ireland related to the integration of NTL Ireland and Chorus, and higher levels of labor costs allocated to certain capital projects, including projects associated with The Netherlands' D4A program and various information technology initiatives. The increased staffing levels are necessary to sustain the higher levels of activity resulting from:
  - higher subscriber numbers;
  - the greater volume of calls received by customer care centers in The Netherlands and elsewhere due to increases in digital video, broadband Internet and telephony subscribers. On a per subscriber basis, these services typically generate more calls than our analog video service;
  - The Netherlands' D4A program, which was launched in October 2005; and
  - increased customer service standard levels.
- A $6.9 million decrease (including a $6.1 million decrease during the fourth quarter of 2006) resulting from The Netherlands' release of accruals during 2006 in connection with the resolution of certain operational contingencies;
- An increase in bad debt expense of $6.4 million during 2006, due primarily to higher revenue from our increasing subscriber base; and
- Other individually insignificant increases during 2006, including increases in the cost of mobile handsets sold in The Netherlands, and increases in general facilities, outsourced labor and consultancy, information technologies, postage, travel and other costs associated with the increased scope of the UPC Broadband Division's business.

As discussed under *Revenue of our Reportable Segments — Years ended December 31, 2006 and 2005 — The Netherlands* above, we have incurred significant operating costs during 2006 and, to a lesser extent, 2005 in connection with The Netherlands' D4A program.

J:COM (Japan). J:COM's operating expenses increased $101.8 million or 14.8%, during 2006, as compared to 2005. This increase includes a $30.9 million increase that is attributable to the aggregate impact of the Cable West, J:COM Chofu Cable, J:COM Setamachi acquisitions and other less significant acquisitions. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, J:COM's operating expenses increased $114.7 million or 16.6%. This increase, which is primarily attributable to growth in J:COM's subscriber base, includes (i) an increase of $46.7 million in programming and related costs as a result of growth in the number of digital video customers, (ii) an increase in the costs incurred by J:COM in connection with construction services provided by J:COM to affiliates and third parties, (iii) increases in network operating expenses, maintenance and technical support costs, (iv) increases in salaries and other staff related costs and (v) other individually insignificant items.

VTR (Chile). VTR's operating expenses increased $49.8 million or 26.2%, during 2006, as compared to 2005. This increase includes an $11.1 million increase that is attributable to the impact of the Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition, foreign exchange rate fluctuations and stock-based compensation expense, VTR's operating expenses increased $27.0 million or 14.2%. This increase, which is primarily attributable to growth in VTR's subscriber base, is primarily the result of increases in customer care, technical support, labor, telephony and broadband Internet access charges and programming costs.

Operating expenses — Years ended December 31, 2005 and 2004

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2005	2004	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division					
The Netherlands	$ 288.7	$ 231.2	$ 57.5	24.9	25.1
Switzerland	51.6	—	51.6	N.M.	N.M.
Austria	112.0	107.3	4.7	4.4	4.3
Other Western Europe	109.3	38.6	70.7	183.2	186.1
Total Western Europe	561.6	377.1	184.5	48.9	49.1
Hungary	119.7	90.6	29.1	32.1	30.2
Other Central and Eastern Europe	141.2	100.6	40.6	40.4	29.3
Total Central and Eastern Europe	260.9	191.2	69.7	36.5	29.8
Central and corporate operations	75.5	86.4	(10.9)	(12.6)	(12.6)
Total UPC Broadband Division	898.0	654.7	243.3	37.2	35.3
J:COM (Japan)	690.1	621.0	69.1	11.1	14.4
VTR (Chile)	190.3	126.2	64.1	50.8	38.1
Corporate and other	184.1	99.4	84.7	85.2	86.1
Intersegment eliminations	(43.2)	(16.5)	(26.7)	(161.8)	(163.6)
Total LGI excluding stock-based compensation expense and before elimination of equity affiliate	1,919.3	1,484.8	434.5	29.3	28.7
Stock-based compensation expense	9.9	12.4	(2.5)	(20.2)	
Elimination of equity affiliate (J:COM)	—	(621.0)	621.0	N.M.	
Total consolidated LGI	$ 1,929.2	$ 876.2	$1,053.0	120.2	

N.M. — Not Meaningful

UPC Broadband Division. The UPC Broadband Division's operating expenses increased $243.3 million or 37.2%, during 2005, as compared to 2004. This increase includes a $145.2 million increase that is attributable to the aggregate impact of the Cablecom, NTL Ireland, Chorus, Astral and Telemach acquisitions and another less significant acquisition. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, the UPC Broadband Division's operating expenses increased $85.8 million or 13.1% during 2005, as compared to 2004, primarily due to the following factors:

- Increases in direct programming and copyright costs of $17.9 million or 9.0% during 2005, representing the net effect of (i) a $47.9 million increase in costs for content and interactive digital services related to subscriber growth on the digital and DTH platforms and, to a lesser extent, higher rates charged by certain content providers, and (ii) a $30.0 million decrease related to the termination of an unfavorable programming contract in May 2005;
- Increases in interconnect costs of $16.5 million or 28.9% during 2005, primarily due to growth in telephony transit service activity in Hungary and growth in VoIP telephony subscribers in The Netherlands, Hungary, Poland and Romania;

- Increases in salaries and other staff related costs of $12.9 million or 10.3% during 2005, primarily reflecting increased staffing levels including increased use of temporary personnel, particularly in the customer care and customer operations areas, to sustain the higher levels of activity resulting from:
  - higher subscriber numbers;
  - the greater volume of calls per subscriber in The Netherlands and elsewhere that the increased proportion of digital video, broadband Internet and telephony subscribers give rise to compared to an analog video subscriber;
  - The Netherlands' program to migrate subscribers from analog video to digital video services, which was launched in October 2005 and continued throughout 2006;
  - increased customer service standard levels; and
  - annual wage increases.
- Increases in outsourced labor and consultancy fees of $11.0 million or 32.4% during 2005, driven by projects to increase service levels, network improvements and development of new products in certain of our operations, primarily the launch of the D4A program in The Netherlands;
- Increases in network related expenses of $8.6 million or 10.8% during 2005, primarily driven by higher costs in The Netherlands and Hungary;
- Increases in bad debt and collection expenses of $4.2 million during 2005, due largely to the significant increase in revenue; and
- Other individually insignificant increases during 2005.

J:COM (Japan). J:COM's operating expenses increased $69.1 million or 11.1%, during 2005, as compared to 2004. This increase includes a $10.5 million increase that is attributable to the aggregate impact of the Chofu Cable and J:COM Setamachi acquisitions and another less significant acquisition. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, J:COM's operating expenses increased $78.7 million or 12.7% during 2005, as compared to 2004**.** This increase primarily is due to increases of (i) $23.7 million in salaries and other staff related costs as a result of increased staffing levels, (ii) $22.8 million in programming and related costs as a result of growth in the number of digital video customers and (iii) $11.0 million in telephony interconnect costs due primarily to growth in telephony customers. Increases in network operating expenses, maintenance and technical support costs associated with RGU growth and the expansion of J:COM's network and the effects of other individually insignificant items accounted for the remaining increase.

VTR (Chile). VTR's operating expenses increased $64.1 million or 50.8%, during 2005, as compared to 2004. This increase includes a $30.6 million increase that is attributable to the impact of the Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition, foreign exchange rate fluctuations and stock-based compensation expense, VTR's operating expenses increased $17.4 million or 13.8% during 2005, as compared to 2004**.** This increase, which is primarily attributable to growth in VTR's subscriber base, includes (i) increases in labor and other staff related costs; (ii) increases in local and cellular access charges, due primarily to an increase in customer traffic, and in the case of local access charges, an increase in rates and (iii) increases in technical service and maintenance costs.

SG&A Expenses of our Reportable Segments

SG&A expenses — Years ended December 31, 2006 and 2005

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2006	2005	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 143.8	$ 121.7	$ 22.1	18.2	16.8
Switzerland	149.2	26.9	122.3	454.6	430.8
Austria	71.5	51.3	20.2	39.4	37.6
Other Western Europe	53.1	38.5	14.6	37.9	34.9
Total Western Europe	417.6	238.4	179.2	75.2	70.9
Hungary	45.0	38.3	6.7	17.5	23.3
Other Central and Eastern Europe	92.2	60.9	31.3	51.4	42.9
Total Central and Eastern Europe	137.2	99.2	38.0	38.3	35.4
Central and corporate operations	146.3	131.4	14.9	11.3	9.9
Total UPC Broadband Division	701.1	469.0	232.1	49.5	46.2
J:COM (Japan)	375.8	335.7	40.1	11.9	18.3
VTR (Chile)	120.3	102.4	17.9	17.5	11.7
Corporate and other	178.5	104.9	73.6	70.2	69.8
Inter-segment eliminations	0.7	(1.6)	2.3	143.8	150.0
Total SG&A expenses excluding stock-based compensation expense	1,376.4	1,010.4	366.0	36.2	36.2
Stock-based compensation expense	63.0	49.1	13.9	28.3	
Total consolidated LGI	$ 1,439.4	$ 1,059.5	$379.9	35.9	

General. SG&A expenses include human resources, information technology, general services, management, finance, legal, marketing, stock-based compensation and other general expenses. We do not include stock-based compensation in the following discussion and analysis of the SG&A expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Historical Operating Results* below.

UPC Broadband Division. The UPC Broadband Division's SG&A expenses increased $232.1 million or 49.5%, during 2006 as compared to 2005. This increase includes a $162.4 million increase that is attributable to the aggregate impact of the Karneval, Cablecom, NTL Ireland, Astral, INODE, Telemach and other less significant acquisitions. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, the UPC Broadband Division's SG&A expenses increased $54.2 million or 11.6%, primarily due to the net effect of the following factors:

- An increase in sales and marketing expenses and commissions of $32.4 million or 34.9% during 2006, reflecting the cost of marketing campaigns designed to promote the D4A program in The Netherlands, RGU growth (including campaigns designed to promote the growth of VoIP telephony services), product bundling and brand awareness;
- An increase in salaries and other staff related costs of $19.7 million or 15.7% during 2006, reflecting (i) increased staffing levels in sales and marketing, finance and information technology functions, including the addition of full-time employees to replace temporary personnel and external contractors, (ii) increased costs related to new employee bonus plans that were implemented in 2006 and (iii) annual wage increases. These increases were partially offset by a lower number of full-time employees in Switzerland.

- A decrease in outsourced labor and consulting fees of $7.6 million or 15.6% during 2006, primarily due to (i) lower fees attributable to our internal controls attestation process and (ii) the replacement of external consultants with full-time employees, particularly in our information technology department;
- An increase in utilities and facilities costs of $4.5 million or 8.3% during 2006, primarily due to increased office space requirements related to headcount increases throughout the UPC Broadband Division and
- Other individually insignificant increases during 2006, including increases in the cost of information technologies, travel and other costs associated with the increased scope of the UPC Broadband Division's business.

As discussed under *Revenue of our Reportable Segments — Years ended December 31, 2006 and 2005 — The Netherlands* above, we have incurred significant SG&A costs during 2006 and, to a lesser extent, 2005 in connection with The Netherlands' D4A program.

J:COM (Japan). J:COM's SG&A expenses increased $40.1 million or 11.9% during 2006, as compared to 2005. This increase includes a $57.8 million increase that is attributable to the aggregate impact of the Cable West, J:COM Chofu Cable, J:COM Setamachi acquisitions and other less significant acquisitions. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, J:COM's SG&A expenses increased $3.6 million or 1.1%. The increase is attributable primarily to the net effect of (i) higher labor and related overhead costs associated with an increase in staffing levels and annual wage increases, (ii) lower marketing and advertising costs during 2006, as costs incurred in connection with a rebranding initiative undertaken by J:COM during the first half of 2005 were not repeated during 2006 and (iii) other individually insignificant decreases.

VTR (Chile). VTR's SG&A expenses increased $17.9 million or 17.5% during 2006, as compared to 2005. This increase includes a $5.6 million increase that is attributable to the impact of the Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition, foreign exchange rate fluctuations and stock-based compensation expense, VTR's SG&A expenses increased $6.4 million or 6.3%. The increase is primarily attributable to increases in sales commissions, offset in part by lower labor and related costs. The lower labor and related costs are due largely to non-recurring labor costs that were incurred during 2005 in connection with the integration activities that followed the Metrópolis combination.

SG&A expenses — Years ended December 31, 2005 and 2004

	Year ended December 31, 2005	Year ended December 31, 2004	Increase (decrease) $	Increase (decrease) %	Increase (decrease) excluding FX %
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 121.7	$ 107.5	$ 14.2	13.2	13.6
Switzerland	26.9	—	26.9	N.M.	N.M.
Austria	51.3	53.3	(2.0)	(3.8)	(3.7)
Other Western Europe	38.5	15.6	22.9	146.8	149.6
Total Western Europe	238.4	176.4	62.0	35.1	35.4
Hungary	38.3	30.1	8.2	27.2	26.3
Other Central and Eastern Europe	60.9	41.4	19.5	47.1	36.1
Total Central and Eastern Europe	99.2	71.5	27.7	38.7	32.0
Central and corporate operations	131.4	122.7	8.7	7.1	7.7
Total UPC Broadband Division	469.0	370.6	98.4	26.6	25.5
J:COM (Japan)	335.7	294.1	41.6	14.1	17.3
VTR (Chile)	102.4	65.0	37.4	57.5	43.9
Corporate and other	104.9	86.0	18.9	22.0	22.2
Inter-segment eliminations	(1.6)	(0.3)	(1.3)	(433.3)	(366.7)
Total LGI excluding stock-based compensation expense and before elimination of equity affiliate	1,010.4	815.4	195.0	23.9	23.6
Stock-based compensation expense	49.1	130.2	(81.1)	(62.3)	
Elimination of equity affiliate (J:COM)	—	(294.1)	294.1	N.M.	
Total consolidated LGI	$ 1,059.5	$ 651.5	$408.0	62.6	

N.M. — Not Meaningful

UPC Broadband Division. The UPC Broadband Division's SG&A expenses increased $98.4 million or 26.6%, during 2005, as compared to 2004. This increase includes a $65.5 million increase that is attributable to the impact of the aggregate effect of the Cablecom, NTL Ireland, Chorus, Astral, and Telemach acquisitions, and another less significant acquisition. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, the UPC Broadband Division's SG&A expenses increased $29.1 million or 7.8% during 2005, as compared to 2004, primarily due to:

- Increases in sales and marketing expenses and commissions of $14.5 million or 19.5% during 2005, reflecting the cost of marketing campaigns designed to promote RGU growth, and support the growth of VoIP telephony services, and the launch of mass-market digital video services in The Netherlands. An increase in the number of gross subscriber additions for broadband Internet and telephony services, particularly in The Netherlands, also contributed to the increase;
- Increase in outsourced labor and consultancy cost of $10.8 million or 29.7% during 2005, reflecting the development of new products in certain of our operations, primarily the launch of the D4A program in The Netherlands;

- Increases in salaries and other staff related costs of $8.1 million or 7.3% during 2005, reflecting increased staffing levels, particularly in The Netherlands, in sales and marketing and information technology functions, as well as annual wage increases; and
- Other individually insignificant increases during 2005.

These increases were partially offset by decreases in certain SG&A expenses, primarily the decrease of audit and legal expenses of $8.6 million or 37.1%, reflecting the conclusion of certain litigation and lower fees attributable to our internal controls attestation process.

J:COM.(Japan). J:COM's SG&A expenses increased $41.6 million or 14.1%, during 2005, as compared to 2004. This increase includes a $10.9 million increase that is attributable to the aggregate impact of the Chofu Cable and J:COM Setamachi acquisitions and another less significant acquisition. Excluding the effects of these acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, J:COM's SG&A expenses increased $40.0 million or 13.6% during 2005, as compared to 2004. This increase primarily is attributable to increases in labor and related overhead costs associated with an increase in the scope of J:COM's business. The increase also reflects higher marketing, advertising and promotional costs, including costs incurred in connection with J:COM's rebranding initiative during the first half of 2005.

VTR (Chile). VTR's SG&A expenses increased $37.4 million or 57.5%, during 2005, as compared to 2004. This increase includes a $15.3 million increase that is attributable to the impact of the Metrópolis acquisition. Excluding the effects of the Metrópolis acquisition, foreign exchange rate fluctuations and stock-based compensation expense, VTR's SG&A expenses increased $13.2 million or 20.3% during 2005, as compared to 2004. This increase, which is largely attributable to growth in VTR's subscriber base, reflects increases in sales commissions, labor and various other costs. The increase in labor costs is due primarily to non-recurring labor costs incurred during 2005 in connection with the integration activities that followed the Metrópolis combination.

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, stock-based compensation and impairment, restructuring and other operating charges or credits). 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 would distort 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. However, our definition of operating cash flow may differ from cash flow measurements provided by other public companies. Operating cash flow should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net earnings, cash flow from operating activities and other GAAP measures of income. For a reconciliation of total segment operating cash flow to our consolidated earnings (loss) before income taxes, minority interests and discontinued operations, see note 22 to our consolidated financial statements.

Operating Cash Flow — Years ended December 31, 2006 and 2005

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2006	2005	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 451.9	$ 446.9	$ 5.0	1.1	0.3
Switzerland	353.7	43.6	310.1	711.2	676.9
Austria	195.7	165.7	30.0	18.1	17.0
Other Western Europe	104.0	80.4	23.6	29.4	26.8
Total Western Europe	1,105.3	736.6	368.7	50.1	47.0
Hungary	145.3	123.4	21.9	17.7	23.7
Other Central and Eastern Europe	266.5	168.2	98.3	58.4	51.3
Total Central and Eastern Europe	411.8	291.6	120.2	41.2	39.6
Central and corporate operations	(206.2)	(203.6)	(2.6)	(1.3)	(0.4)
Total UPC Broadband Division	1,310.9	824.6	486.3	59.0	55.8
J:COM (Japan)	738.6	636.3	102.3	16.1	22.8
VTR (Chile)	198.5	151.5	47.0	31.0	24.9
Corporate and other	88.2	(24.8)	113.0	455.6	455.1
Total	$ 2,336.2	$ 1,587.6	$ 748.6	47.2	47.6

Operating Cash Flow — Years ended December 31, 2005 and 2004

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2005	2004	$	%	%
	amounts in millions, except % amounts				
UPC Broadband Division:					
The Netherlands	$ 446.9	$ 455.0	$ (8.1)	(1.8)	(2.0)
Switzerland	43.6	—	43.6	N.M.	N.M.
Austria	165.7	152.6	13.1	8.6	8.4
Other Western Europe	80.4	31.9	48.5	152.0	154.1
Total Western Europe	736.6	639.5	97.1	15.2	14.9
Hungary	123.4	96.7	26.7	27.6	25.5
Other Central and Eastern Europe	168.2	110.3	57.9	52.5	40.9
Total Central and Eastern Europe	291.6	207.0	84.6	40.9	33.7
Central and corporate operations	(203.6)	(207.9)	4.3	2.1	1.7
Total UPC Broadband Division	824.6	638.6	186.0	29.1	26.5
J:COM (Japan)	636.3	589.6	46.7	7.9	10.7
VTR (Chile)	151.5	108.8	42.7	39.2	27.7
Corporate and other	(24.8)	(19.7)	(5.1)	(25.9)	(27.2)
Total LGI before elimination of equity affiliate	1,587.6	1,317.3	270.3	20.5	19.5
Elimination of equity affiliate (J:COM)	—	(589.6)	589.6	N.M.	
Total	$ 1,587.6	$ 727.7	$859.9	118.2	

N.M. — Not Meaningful

Operating Cash Flow Margin — Years ended December 31, 2006, 2005 and 2004

The following table sets forth the operating cash flow margins (operating cash flow divided by revenue) of our reportable segments:

	Year ended December 31,		
	2006	2005	2004
	%	%	%
UPC Broadband Division:			
The Netherlands	48.9	52.1	57.3
Switzerland	45.8	35.7	—
Austria	46.6	50.4	48.7
Other Western Europe	33.9	35.2	37.0
Total Western Europe	45.6	47.9	53.6
Hungary	47.3	43.9	44.5
Other Central and Eastern Europe	46.1	45.4	43.7
Total Central and Eastern Europe	46.5	44.7	44.1
Total UPC Broadband Division, including central and corporate costs	39.4	37.6	38.4
J:COM (Japan)	38.7	38.3	39.2
VTR (Chile)	35.5	34.1	36.3
Total LGI, including corporate and other before elimination of equity affiliate	36.0	35.1	36.4
Total LGI, after elimination of equity affiliate (J:COM)	36.0	35.1	34.4

The UPC Broadband Division, VTR, and to a lesser extent, J:COM experienced improvements in their respective 2006 operating cash flow margins, as compared to 2005. In general, the operating cash flow margins of these segments were positively impacted by revenue growth coupled with cost reductions and operating efficiencies resulting from the integration of recent acquisitions and other measures. In the case of the UPC Broadband Division, the benefit of these margin improvements was partially offset by costs associated with the negative impact of The Netherlands' D4A program and other factors described above. Although no assurance can be given, we expect that the operating cash flow margins of the UPC Broadband Division, J:COM and VTR will improve in 2007 provided that competitive or other factors outside of our control do not adversely impact our ability to sustain revenue growth and control costs in these segments. We expect that a significant portion of the UPC Broadband Division's margin improvement in 2007 will be attributable to reductions in certain of The Netherlands' operating, marketing and other costs, as discussed in greater detail under *Revenue — The Netherlands* above. No assurance can be given that our expectations with respect to the 2007 operating cash flow margins of our reportable segments will not vary from actual results. For additional discussion of the factors contributing to the changes in the operating cash flow margins of our reportable segments, see the above analyses of revenue, operating expenses and SG&A expenses.

The UPC Broadband Division, VTR, and to a lesser extent, J:COM experienced declines in their respective 2005 operating cash flow margins as compared to 2004. The declines in the operating cash flow margins of the UPC Broadband Division and VTR were primarily attributable to the initial impact of 2005 acquisitions, higher marketing and advertising costs associated with continued RGU growth and, in the case of the UPC Broadband Division, costs associated with The Netherlands' D4A program. For additional discussion of the factors contributing to the changes in the operating cash flow margins of our reportable segments, see the above analyses of revenue, operating expenses and SG&A expenses.

Discussion and Analysis of our Historical Operating Results

Years ended December 31, 2006 and 2005

General

As noted above, the effects of acquisitions have affected the comparability of our results of operations during 2006 and 2005. Unless otherwise indicated in the discussion below, the significant increases in our historical revenue, expenses and other items during 2006, as compared to 2005, are primarily attributable to the effects of these acquisitions. For more detailed explanations of the changes in our revenue, operating expenses and SG&A expenses, see the *Discussion and Analysis of Reportable Segments* that appears above.

Revenue

Our total consolidated revenue increased $1,970.2 million during 2006, as compared to 2005. This increase includes a $1,415.1 million increase that is attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign exchange rate fluctuations, total consolidated revenue increased $565.4 million or 12.5% during 2006, as compared to 2005. As discussed in greater detail under *Discussion and Analysis of Reportable Segments* above, most of these increases are attributable to RGU growth.

Operating expense

Our total consolidated operating expense increased $852.7 million during 2006, as compared to 2005. Our operating expenses include stock-based compensation expense, which decreased $2.9 million. For additional information, see discussion following *SG&A expense* below. This increase includes a $617.5 million increase that is attributable to the impact of acquisitions. Excluding the effects of acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, total consolidated operating expense increased $241.2 million or 12.6% during 2006, as compared to 2005. As discussed in more detail under *Discussion and Analysis of Reportable Segments* above, these increases generally reflect increases in (i) programming costs, (ii) labor costs, (iii) network related costs and (iv) less significant net increases in other expense categories. Most of these increases are a function of increased volumes or levels of activity associated with the increase in our customer base.

SG&A expense

Our total consolidated SG&A expense increased $379.9 million during 2006, as compared to 2005. Our SG&A expense includes stock-based compensation expense, which increased $13.9 million. For additional information, see discussion in the following paragraph. This increase includes a $304.5 million increase that is attributable to the impact of acquisitions. Excluding the effects of acquisitions, foreign exchange rate fluctuations and stock-based compensation expense, total consolidated SG&A expense increased $61.1 million or 6.0% during 2006, as compared to 2005. As discussed in more detail under *Discussion and Analysis of Reportable Segments* above, these increases generally reflect increases in (i) labor costs, (ii) marketing and advertising costs and sales commissions and (iii) less significant net decreases in other expense categories. The increases in our marketing and advertising costs and sales commissions primarily are attributable to our efforts to promote RGU growth and launch new product offerings and initiatives. The increases in our labor costs primarily are a function of the increased levels of activity associated with the increase in our customer base.

Stock-based compensation expense (included in operating and SG&A expenses)

Effective January 1, 2006, we adopted SFAS 123(R) and began using the fair value method to account for the stock incentive awards of our company and our subsidiaries. Prior to January 1, 2006, we used the intrinsic value method prescribed by APB No. 25 to account for stock-based incentive awards. Our stock-based compensation expense for 2005 has not been restated to adopt the provisions of SFAS 123(R). SFAS 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 grant-date fair values. SFAS 123(R) also requires the fair value of outstanding options vesting after the date of initial adoption to be recognized as a charge to operations over the remaining vesting period. We record stock-based compensation that is associated with LGI common stock, J:COM common stock and certain other subsidiary common stock. The stock-based compensation expense associated with J:COM common stock consists of the amounts recorded by J:COM with respect to its stock-based compensation plans during 2006 and 2005 and amounts recorded with respect to the Liberty Jupiter stock plan during 2005.

A summary of the aggregate stock-based compensation expense that is included in our SG&A and operating expenses is set forth below:

	Year ended December 31,	
	2006	2005
	amounts in millions	
LGI common stock(a)	$ 58.0	$ 28.8
J:COM common stock(b)	2.9	23.1
Other	9.1	7.1
Total	$ 70.0	$ 59.0
Operating expense	$ 7.0	$ 9.9
SG&A expense	63.0	49.1
Total	$ 70.0	$ 59.0

(a) As discussed above, stock-based compensation during 2006 was determined in accordance with the provisions of SFAS 123(R). As permitted under SFAS 123(R), we use the straight-line method to recognize stock-based compensation expense for our outstanding stock awards granted after January 1, 2006 that do not contain a performance condition and the accelerated expense attribution method for our outstanding stock awards granted prior to January 1, 2006. As required by SFAS 123(R), we use the accelerated attribution method to recognize stock-based compensation expense for all stock awards granted after January 1, 2006 that contain a performance condition with graded vesting. Our stock-based compensation expense for 2006 does not include any amounts related to our Senior Executive and Key Employee Performance Plans. As no awards were granted during 2006 and as the requisite service period does not begin until January 1, 2007, we will not begin recording compensation expense under the Senior Executive and Key Employee Performance Plans until the first quarter of 2007. Stock-based compensation recorded under the Performance Plans in 2007 and future periods could be significant. Most of the LGI stock incentive awards outstanding during the 2005 periods were accounted for as variable-plan awards under the intrinsic value method. Accordingly, fluctuations in our stock-based compensation expense during 2005 were largely a function of changes in the market price of the underlying common stock.

(b) The stock-based compensation expense related to J:COM common stock during 2005 includes (i) stock-based compensation recorded by J:COM of $20.9 million, including amounts recorded due to adjustments to the terms of J:COM's outstanding awards that were made in connection with J:COM's March 2005 IPO and to increases in the market price of J:COM common stock following the IPO and (ii) stock-based compensation expense recorded with respect to the Liberty Jupiter stock plan of $2.2 million. Prior to the adoption of SFAS 123(R), we recorded stock compensation pursuant to the Liberty Jupiter stock plan based on changes in the market price of J:COM common stock. As a result of our January 1, 2006 adoption of SFAS 123(R), we no longer account for this arrangement as a share-based compensation plan and have reclassified the liability as of January 1, 2006 to minority interests in consolidated subsidiaries in our consolidated balance sheet.

For additional information concerning our stock-based compensation, see notes 3 and 15 to our consolidated financial statements.

Depreciation and amortization

Our total consolidated depreciation and amortization expense increased $610.7 million during 2006, as compared to 2005. This increase includes a $453.6 million increase that is attributable to the impact of acquisitions. Excluding the effect of acquisitions and foreign exchange rate fluctuations, depreciation and amortization expense increased $158.1 million or 12.4% during 2006, as compared to 2005. This increase is due primarily to (i) increases associated with capital expenditures related to the installation of customer premise equipment, the expansion and upgrade of our networks and other capital initiatives and (ii) a $14.8 million increase related to J:COM's acceleration of the depreciation of certain property and equipment that was targeted for replacement, primarily in connection with the migration of customers from analog video to digital video services and the upgrade of J:COM's broadband communications network.

Impairment of long-lived assets

We incurred impairment charges of $15.5 million and $8.3 million during 2006 and 2005, respectively. These amounts include various individually insignificant impairments of our property and equipment and intangible assets.

Restructuring and other operating charges (credits), net

We incurred restructuring and other operating charges, net, of $13.7 million during 2006 and restructuring and other operating credits, net, of $3.8 million during 2005. The 2006 amount includes restructuring charges aggregating $10.8 million related to the cost of terminating certain employees in connection with the integration of our broadband communications operations in Ireland and various other individually insignificant amounts. The 2005 amount includes a $7.7 million reversal of a reserve recorded by The Netherlands during 2004 due to our 2005 decision to reoccupy a building. For additional information, see note 18 to our consolidated financial statements.

Interest expense

Our total consolidated interest expense increased $277.3 million during 2006, as compared to 2005. Excluding the effects of foreign exchange rate fluctuations, interest expense increased $268.2 million during 2006, as compared to 2005. This increase is primarily attributable to a $3,749.8 million or 55.0% increase in our average outstanding indebtedness during 2006, as compared to 2005. The increase in debt is primarily attributable to debt incurred or assumed in connection with acquisitions and recapitalizations. Increases in certain interest rates and a $10.0 million increase in the amortization of deferred financing costs also contributed to the overall increase in interest expense during 2006. The effects of these factors were partially offset by a decrease in non-cash interest expense of $31.6 million, representing the net effect of (i) a $30.0 million decrease in non-cash interest recorded with respect to certain mandatorily redeemable securities issued by the Investcos, the entities through which Belgian Cable Investors holds certain of its Telenet shares, (ii) a $26.3 million decrease in non-cash interest expense related to the UGC Convertible Notes, and (iii) a $30.2 million increase in non-cash interest accrued on the LG Switzerland PIK Loan. The decrease related to the mandatorily redeemable securities of the Investcos primarily is associated with an increase in the estimated redemption amount of these securities that we recorded in connection with Telenet's October 2005 IPO and (ii) the redemption of most of these securities following the completion of the Telenet IPO in October 2005. The decrease in the non-cash interest expense associated with the UGC Convertible Notes is due to the adoption of SFAS 155 on January 1, 2006. As a result of this change in accounting, we no longer record non-cash interest expense with respect to the UGC Convertible Notes. For additional information, see notes 7, 11 and 23 to our consolidated financial statements.

Interest and dividend income

Our total consolidated interest and dividend income increased $8.6 million during 2006, as compared to 2005. The increase represents the net result of an increase in the average interest rate earned on our average consolidated cash and cash equivalent balances that was only partially offset by a decrease in such average balances.

Share of results of affiliates, net

The following table reflects our share of results of affiliates, net, including any other-than-temporary declines in value:

	Year ended December 31, 2006	2005
	amounts in millions	
Telenet	$ (24.3)	$ (33.5)
Jupiter TV	34.4	27.8
Mediatti	(5.3)	(6.9)
Austar	—	13.1
Other	8.2	(23.5)
Total	$ 13.0	$ (23.0)

Our share of results of affiliates includes losses related to other-than-temporary declines in the value of our equity method investments of $0.4 million and $29.2 million during 2006 and 2005, respectively. The 2005 other-than-temporary losses are primarily related to TyC (included in other in the above table), which we sold during 2005. For additional information concerning our equity method affiliates, see note 7 to our consolidated financial statements.

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

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

	Year ended December 31, 2006	2005
	amounts in millions	
Cross-currency and interest rate exchange contracts(a)	$ (312.0)	$ 216.0
Embedded derivatives(b)	(22.8)	70.0
UGC Convertible Notes(c)	(82.8)	—
Foreign exchange contracts	21.3	11.7
Call and put contracts(d)	44.5	8.8
Other	4.2	3.5
Total	$ (347.6)	$ 310.0

(a) The losses on the cross-currency and interest rate exchange contracts for 2006 are attributable to the net effect of (i) losses associated with a decrease in the value of the U.S. dollar relative to the euro, (ii) losses associated with decreases in market interest rates in Chilean pesos, (iii) gains associated with increases in market interest rates in U.S. dollar, euro, Swiss franc and Australian dollar markets, (iv) losses associated with an increase in the value of the eastern European currencies relative to the euro, (v) gains associated with an increase in the value of the euro relative to the Swiss franc, and (vi) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar. The gains on the cross-currency and interest rate exchange agreements during 2005 are attributable to the net effect of (i) gains associated with an increase in the value of the U.S. dollar relative to the euro and (ii) losses associated with decreases in market interest rates in euro, U.S. dollar, Swiss franc and Australian dollar markets.

(b) Includes gains and losses associated with the embedded derivative component of the UGC Convertible Notes during 2005 and the forward sale of News Corp. Class A common stock during 2006 and 2005. As discussed in note 23 to our consolidated financial statements, we changed our method of accounting for the UGC Convertible Notes effective January 1, 2006.

(c) Represents the change in the fair value of the UGC Convertible Notes during 2006 that is not attributable to the remeasurement of the UGC Convertible Notes into U.S. dollars. Gains and losses arising from the remeasurement of the UGC Convertible Notes into U.S. dollars are reported as foreign currency transaction gains (losses), net. See below. The fair value of the UGC Convertible Notes is impacted by changes in (i) the exchange rate for the U.S. dollar and the euro, (ii) the market price of LGI common stock, (iii) market interest rates, and (iv) the credit rating of UGC.

(d) The gains on call and put options during 2006 are primarily attributable to gains on call options that we hold with respect to Telenet ordinary shares.

For additional information concerning our derivative instruments, see note 9 to our consolidated financial statements. Also, for information concerning the market sensitivity of our derivative and financial instruments, see *Quantitative and Qualitative Disclosure about Market Risk* below.

Foreign currency transaction gains (losses), net

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

	Year ended December 31,	
	2006	2005
	amounts in millions	
U.S. dollar debt issued by a European subsidiary	$ 193.4	$ (219.8)
Euro denominated debt issued by UGC (UGC Convertible Notes)	(63.5)	64.2
Cash denominated in a currency other than the entities' functional currency	5.6	(33.0)
Intercompany notes denominated in a currency other than the entities' functional currency	76.3	(17.0)
Swiss franc debt issued by a European subsidiary	12.8	0.7
Other	11.5	(4.3)
Total	$ 236.1	$ (209.2)

For information regarding how we manage our exposure to foreign currency risk, see *Quantitative and Qualitative Disclosure about Market Risk* below.

Other-than-temporary-declines in fair value of investments

We recognized other-than-temporary declines in fair values of investments of $13.8 million and $3.4 million during 2006 and 2005, respectively. These amounts are associated with declines in the fair value of the ABC Family preferred stock held by our company.

Losses on extinguishment of debt

We recognized losses on extinguishment of debt of $40.8 million and $33.7 million during 2006 and 2005, respectively. The loss for 2006 includes (i) a $22.2 million write-off of deferred financing costs and creditor fees in connection with the May and July 2006 refinancings of the UPC Broadband Holding Bank Facility, (ii) a $7.6 million loss associated with the first quarter 2006 Cablecom Old Note Redemption, (iii) a $4.6 million loss recognized by VTR in connection with the September 2006 refinancing of its bank debt, and (iv) a $3.3 million loss recognized by J:COM in connection with its refinancing activities. The Cablecom Luxembourg loss represents the difference between the redemption and carrying amounts of the Cablecom Luxembourg Floating Rate Notes at the date of the Cablecom Old Note Redemption. The 2005 loss includes (i) a $21.1 million write-off of unamortized deferred financing costs in connection with the December 2005 refinancing of the J:COM Credit Facility and (ii) a $12.0 million write-off of deferred financing costs in connection with the March 2005 refinancing of the UPC Broadband Holding Bank Facility. For additional information, see note 11 to our consolidated financial statements.

Gains on disposition of assets, net

We recognized gains on the disposition of assets, net, of $206.4 million and $115.2 million during 2006 and 2005, respectively. The 2006 amount includes (i) a $104.7 million gain on the December 31, 2006 sale of UPC Belgium to Telenet, (ii) a $45.3 million gain on the February 2006 sale of our cost investment in Sky Mexico, (iii) a $35.8 million gain on the August 2006 sale of our investment in Primacom, and (iv) a $16.9 million gain on the August 2006 sale of our investment in Sky Brasil. Due to our continuing ownership interest in Telenet, we have not accounted for UPC Belgium as a discontinued operation.

The 2005 amount includes (i) an $89.1 million gain in connection with the November 2005 disposition of our 19% ownership interest in SBS, (ii) a $62.7 million loss resulting primarily from the realization of cumulative foreign currency losses in connection with the April 2005 disposition of our investment in TyC, (iii) a $40.5 million gain recognized in connection with the February 2005 sale of our subscription right to purchase newly-issued Cablevisión shares in connection with its debt restructuring, (iv) a $28.2 million gain on the January 2005 sale of UGC's investment in EWT, and (v) a $17.3 million gain on the June 2005 sale of our investment in The Wireless Group plc.

For additional information regarding our dispositions, see notes 6 and 7 to our consolidated financial statements.

Income tax benefit (expense)

We recognized income tax benefit of $7.9 million and income tax expense of $28.7 million during 2006 and 2005, respectively. The tax benefit for 2006 differs from the expected tax benefit of $59.6 million (based on the U.S. federal 35% income tax rate) due primarily to (i) a net decrease in our valuation allowance established against deferred tax assets, including tax benefits of ¥6,505 million ($55.4 million at the average rate for the period) recognized in 2006 associated with the release of valuation allowances by J:COM and AUD 39.6 million ($30.4 million at the average rate for the period) recognized in 2006 associated with the release of valuation allowances by Austar, and a tax benefit of €48.7 million ($64.2 million at the average rate for the period) related to the reduction of valuation allowances against deferred tax assets as a result of tax rate reductions in The Netherlands, partially offset by tax expense resulting from the establishment of valuation allowances in other jurisdictions against currently arising deferred tax assets and (ii) the impact of certain permanent differences between the financial and tax accounting treatment of interest, investments in subsidiaries and other items that resulted in nondeductible expenses or tax-exempt income in the tax jurisdiction. The items mentioned above are more than offset by (i) the reduction of deferred tax assets in The Netherlands due to an enacted tax law change, (ii) the impact of differences in the statutory local tax rates in certain jurisdictions in which we operate, (iii) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items related to investments in subsidiaries, and (iv) the realization of taxable foreign currency gains and losses in certain jurisdictions not recognized for financial reporting purposes, and (v) other items that resulted in nondeductible expenses and tax-exempt income in the tax jurisdiction as well as differences between the financial and tax accounting treatment of interest expense**.**

The income tax expense for 2005 differs from the expected tax expense of $30.1 million (based on the U.S. federal 35% income tax rate) due primarily to (i) the realization of taxable foreign currency gains and losses in certain jurisdictions not recognized for financial reporting purposes, (ii) losses recognized on dispositions of consolidated investments for which no deferred taxes were historically provided, and (iii) a net decrease in our valuation allowance established against deferred tax assets, including a tax benefit of ¥11.9 billion ($108.1 million at the average rate for the period) recognized in 2005 associated with the release of valuation allowances by J:COM, which is largely offset by the establishment of valuation allowances in other jurisdictions against currently arising deferred tax assets. The items mentioned above are largely offset by (i) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items associated with intercompany loans, investments in subsidiaries, and other items that resulted in nondeductible expenses or tax-exempt income in the tax jurisdiction, and (ii) the reduction of deferred tax assets in The Netherlands due to an enacted tax law change.

For additional information, see note 13 to our consolidated financial statements.

Years ended December 31, 2005 and 2004

General

As noted above, the effects of our January 1, 2005 consolidation of Super Media/J:COM and acquisitions have affected the comparability of our results of operations during 2005 and 2004. Unless otherwise indicated in the discussion below, the significant increases in our historical revenue, expenses and other items during 2005, as compared to 2004, are primarily attributable to the effects of these transactions. For more detailed explanations of the changes in our revenue, operating expenses and SG&A expenses, see the *Discussion and Analysis of Reportable Segments* that appears above.

Revenue

Our total consolidated revenue increased $2,404.5 million during 2005, as compared to 2004. This increase includes a $2,102.6 million increase that is attributable to the impact of acquisitions and the consolidation of Super Media/J:COM. Excluding the effects of these transactions and foreign exchange rate fluctuations, total consolidated revenue increased $232.4 million or 11.0% during 2005, as compared to 2004. As discussed in greater detail under *Discussion and Analysis of Reportable Segments* above, most of these increases are attributable to RGU growth.

Operating expense

Our total consolidated operating expense increased $1,053.0 million during 2005, as compared to 2004. Our operating expenses include stock-based compensation expense, which decreased $2.5 million during 2005, as compared to 2004. For additional information, see discussion following *SG&A expense* below. This increase includes a $901.9 million increase that is attributable to the impact of acquisitions and the consolidation of Super Media/J:COM. Excluding the effects of these transactions and foreign exchange rate fluctuations, total consolidated operating expense increased $125.8 million or 14.6% during 2005, as compared to 2004. As discussed in more detail under *Discussion and Analysis of Reportable Segments* above, these increases generally reflect increases in (i) labor costs, (ii) interconnect costs, (iii) programming costs, and (iv) less significant increases in other expense categories. Most of these increases are a function of increased volumes or levels of activity associated with the increase in our customer base.

SG&A expense

Our total consolidated SG&A expense increased $408.0 million during 2005, as compared to 2004. Our SG&A expense includes stock-based compensation expense, which decreased $81.1 million during 2005, as compared to 2004. For additional information, see discussion in the following paragraph. This increase includes a $436.9 million increase that is attributable to the impact of acquisitions and the consolidation of Super Media/J:COM. Excluding the effects of these transactions and foreign exchange rate fluctuations, total consolidated SG&A expense increased $39.9 million or 7.7% during 2005, as compared to 2004. As discussed in more detail under *Discussion and Analysis of Reportable Segments* above, these increases generally reflect increases in (i) marketing, advertising and commissions and (ii) labor costs. The increases in our marketing, advertising and commissions expenses primarily are attributable to our efforts to increase our RGUs and launch new product initiatives. The increases in our labor costs primarily are a function of the increased levels of activity associated with the increase in our customer base.

Stock-based compensation expense

A summary of our stock-based compensation expense is set forth below:

	Year ended December 31,	
	2005	2004
	amounts in millions	
LGI common stock	$ 28.8	$ 135.4
J:COM common stock	23.1	7.2
Other	7.1	—
Total	$ 59.0	$ 142.6
Operating expense	$ 9.9	$ 12.4
SG&A expense	49.1	130.2
Total	$ 59.0	$ 142.6

We record stock-based compensation that is associated with LGI common stock, J:COM common stock, and certain other subsidiary common stock. The stock-based compensation expense associated with J:COM common stock consists of the amounts recorded by J:COM pursuant to its stock compensation plans, and amounts recorded by LGI with respect to the Liberty Jupiter stock plan. As a result of adjustments to certain terms of the former UGC and LMI stock incentive awards in connection with (i) their respective rights offerings in February 2004 and July 2004 and (ii) the LGI Combination in June 2005, most of the LGI stock incentive awards outstanding at December 31, 2005 were accounted for as variable-plan awards. The stock-based compensation expense for 2004 includes a $50.4 million charge to reflect a change from fixed-plan accounting to variable-plan accounting as a result of modifications to the terms of former UGC stock options in connection with UGC's February 2004 rights offering. Other fluctuations in our stock-based compensation expense during 2005 are largely a function of changes in the market price of the underlying common stock. The increase in J:COM stock-based compensation expense is primarily attributable to adjustments to the terms of J:COM's outstanding awards that were made in connection with J:COM's March 2005 IPO and to increases in J:COM's stock price following its IPO. For additional information concerning our stock-based compensation, see notes 3 and 15 to our consolidated financial statements.

Depreciation and amortization

Our total consolidated depreciation and amortization expense increased $490.2 million during 2005, as compared to 2004. This increase includes a $583.6 million increase that is attributable to the impact of the consolidation of Super Media/J:COM, acquisitions and the LGI Combination. Excluding the effects of these transactions and foreign exchange rate fluctuations, depreciation and amortization expense decreased $105.7 million or 13.5% during 2005, as compared to 2004. This decrease is due primarily to (i) the impact of certain of the UPC Broadband Division's information technology and other assets becoming fully depreciated during the last half of 2004 and (ii) the impact during the 2004 periods of the UPC Broadband Division's acceleration of the depreciation of certain customer premise equipment that was targeted for replacement. These decreases were partially offset by increases associated with capital expenditures related to the installation of customer premise equipment, the expansion and upgrade of our networks and other capital initiatives.

Impairment of long-lived assets

We incurred impairment charges of $8.3 million and $50.8 million during 2005 and 2004, respectively. The 2005 amount includes a number of individually insignificant impairments of our property and equipment and intangible assets. The 2004 amount includes (i) a $26.0 million impairment charge of enterprise level goodwill that was associated with our consolidated programming entity in Argentina, (ii) $11.0 million related to the write-down of certain of the UPC Broadband Division's tangible fixed assets in The Netherlands, and (iii) other less significant charges.

Restructuring and other operating charges (credits), net

We incurred restructuring and other operating credits, net, of $3.8 million during 2005 and restructuring and other operating charges, net, of $26.3 million during 2004. The 2005 amount includes (i) a $7.7 million reversal of a reserve recorded by The Netherlands during 2004 due to our 2005 decision to reoccupy a building and (ii) other individually insignificant amounts. The 2004 amount includes $21.7 million related to the restructuring of the UPC Broadband Division's operations in The Netherlands. For additional information, see note 18 to our consolidated financial statements.

Interest expense

Our total consolidated interest expense increased $131.5 million during 2005, as compared to 2004. Excluding the effects of foreign exchange rate fluctuations, interest expense increased $129.5 million during 2005, as compared to 2004. This increase is primarily attributable to a $5,122.2 million increase in our outstanding indebtedness during 2005, most of which is attributable to debt incurred or assumed in connection with the Cablecom acquisition, the consolidation of Super Media/J:COM and other acquisitions. The increase also includes the net effect of (i) a $34.1 million increase associated with non-cash interest expense representing the increase during 2005 in the estimated redemption value of certain mandatorily redeemable securities issued by the Investcos, (ii) a $7.8 million increase in the interest expense incurred during 2005 on the UGC Convertible Notes, which were issued in April 2004, and (iii) a $7.5 million decrease in interest expense resulting from lower amortization of deferred financing costs, due primarily to debt extinguishments and the application of purchase accounting. An increase in our weighted average interest rate during 2005 also contributed to the overall increase in interest expense. Most of the increase in the estimated fair value of the mandatorily redeemable securities of the Investcos was recorded in connection with Telenet's October 2005 IPO. For additional information concerning Telenet, see note 7 to our consolidated financial statements.

Interest and dividend income

Our total consolidated interest and dividend income increased $11.5 million during 2005, as compared to 2004 due primarily to dividends received on our investment in shares of ABC Family preferred stock. We acquired a 99.9% interest in this preferred stock from Liberty Media in connection with the June 2004 spin off. The impact of this increase was partially offset by a decrease in guarantee fees received from J:COM, due primarily to the elimination of most of such guarantees in connection with J:COM's December 2004 bank refinancing. An increase in the interest earned on our weighted average cash and cash equivalent balances also contributed to the increase.

Share of results of affiliates, net

The following table reflects our share of results of affiliates, net, including any other-than-temporary declines in value:

	Year ended December 31,	
	2005	2004
	amounts in millions	
Telenet	$ (33.5)	$ —
Jupiter TV	27.7	14.6
Austar	13.1	1.0
Mediatti	(6.9)	(2.3)
Super Media/J:COM	—	45.1
Other	(23.4)	(19.7)
Total	$ (23.0)	$ 38.7

Our share of results of affiliates includes losses related to other-than-temporary declines in the value of our equity method investments of $29.2 million and $26.0 million during 2005 and 2004, respectively. Such other-than-temporary declines primarily relate to our investments in TyC, Metropolis and FPAS, which are included in other in the above table. During 2005, we sold our investments in TyC and FPAS and began consolidating Metropolis. For additional information concerning our equity method investments, see note 7 to our consolidated financial statements.

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

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

	Year ended December 31, 2005	2004
	amounts in millions	
Cross-currency and interest rate exchange contracts(a)	$ 216.0	$ (64.1)
Embedded derivatives(b)	70.0	23.0
Foreign exchange contracts	11.7	0.2
Call and put contracts	8.8	1.7
Other	3.5	3.4
Total	$ 310.0	$ (35.8)

(a) The gains on the cross currency and interest rate exchange contracts is attributable to the net effect of (i) larger notional amounts in 2005, as compared to 2004, (ii) market movements with respect to the appreciation of the U.S. dollar exchange rate compared to the euro that caused the value of these contracts to increase and (iii) market movements leading to lower interest rates, which decreased the market value of the contracts.

(b) Includes gains and losses associated with the embedded derivative component of the UGC Convertible Notes during 2005 and the prepaid forward sale of News Corp. Class A common stock during 2006 and 2005. For additional information, see note 9 to our consolidated financial statements.

Foreign currency transaction gains (losses), net

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

	Year ended December 31, 2005	2004
	amounts in millions	
U.S. dollar debt issued by our European subsidiaries	$ (219.8)	$ 35.7
Euro denominated debt issued by UGC (UGC Convertible Notes)	64.2	(51.9)
Cash denominated in a currency other than the entities' functional currency	(33.0)	33.6
Intercompany notes denominated in a currency other than the entities' functional currency	(17.0)	46.2
Swiss franc debt issued by a European subsidiary	0.7	—
Repayment of yen denominated shareholder loans(a)	—	56.1
Other	(4.3)	(2.3)
Total	$ (209.2)	$ 117.4

(a) On December 21, 2004, we received cash proceeds of ¥43.8 billion ($420.2 million at the transaction date) 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 (loss).

Other-than-temporary-declines in fair value of investments

We recognized other-than-temporary declines in fair values of investments of $3.4 million and $18.5 million during 2005 and 2004, respectively. The 2005 amount represents the excess of the carrying cost over the fair value of ABC Family preferred stock held by us at December 31, 2005. The 2004 amount includes $12.4 million representing the excess of the carrying cost over the fair value of the Telewest shares held by us at December 31, 2004.

Gains (losses) on extinguishment of debt

We recognized a loss on extinguishment of debt of $33.7 million during 2005 and a gain on extinguishment of debt of $24.1 million during 2004. The 2005 loss includes (i) a $21.1 million write-off of unamortized deferred financing costs in connection with the December 2005 refinancing of the J:COM Credit Facility, and (ii) a $12.0 million write-off of deferred financing costs in connection with the March 2005 refinancing of the UPC Broadband Holding Bank Facility. The 2004 gain includes a $31.9 million gain recognized in connection with the first quarter 2004 consummation of the plan of reorganization of UPC Polska, Inc., an indirect subsidiary of UGC.

Gains on disposition of assets, net

We recognized gains on disposition of non-operating assets, net, of $115.2 million and $43.7 million during 2005 and 2004, respectively. The 2005 amount includes (i) an $89.1 million gain in connection with the November 2005 disposition of our 19% ownership interest in SBS, (ii) a $62.7 million loss resulting primarily from the realization of cumulative foreign currency losses in connection with the April 2005 disposition of our investment in TyC, (iii) a $40.5 million gain recognized in connection with the February 2005 sale of our subscription right to purchase newly-issued Cablevisión shares in connection with its debt restructuring, (iv) a $28.2 million gain on the January 2005 sale of UGC's investment in EWT, and (v) a $17.3 million gain on the June 2005 sale of our investment in The Wireless Group plc. The 2004 amount includes (i) a $37.2 million gain on the sale of News Corp. Class A common stock, (ii) a $25.3 million gain in connection with our April 2004 contribution of certain equity interests to Jupiter TV and (iii) a $16.4 million net loss on the disposition of 18,417,883 Telewest shares. For additional information regarding our dispositions, see notes 6 and 7 to our consolidated financial statements.

Gain on exchange of investment securities

We recognized a pre-tax gain aggregating $178.8 million during 2004 on exchanges of investment securities, including a $168.3 million pre-tax 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 7.5% of the then 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.

Income tax benefit (expense)

We recognized income tax expense of $28.7 million and an income tax benefit of $13.9 million during 2005 and 2004, respectively. The income tax expense for 2005 differs from the expected tax expense of $30.1 million (based on the U.S. federal 35% income tax rate) due primarily to (i) the realization of taxable foreign currency gains and losses in certain jurisdictions not recognized for financial reporting purposes, (ii) losses recognized on dispositions of consolidated investments for which no deferred taxes were historically provided, and (iii) a net decrease in our valuation allowance established against deferred tax assets, including a tax benefit of ¥11.9 billion ($108.1 million at the average rate for the period) recognized in 2005 associated with the release of valuation allowances by J:COM, which is largely offset by the establishment of valuation allowances in other jurisdictions against currently arising deferred tax assets. The items mentioned above are largely offset by (i) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items associated with intercompany loans, investments in subsidiaries, and other items that resulted in nondeductible expenses or tax-exempt income in the tax jurisdiction, and (ii) the reduction of deferred tax assets in The Netherlands due to an enacted tax law change.

The income tax benefit for 2004 of $13.9 million differs from the expected tax benefit of $47.7 million (based on the U.S. federal 35% income tax rate) primarily due to (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) losses recognized on dispositions of consolidated investments for which no deferred taxes were historically provided, (iii) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items associated investments in subsidiaries as well as other items that resulted in tax-exempt income in the tax jurisdiction, and (iv) 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. These items are more than offset by (i) the reduction of UGC's deferred tax assets as a result of tax rate reductions in The Netherlands, the Czech Republic, and Austria, (ii) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items that resulted in nondeductible expenses, (iii) a net increase in our valuation allowance established against rising deferred tax assets that were only partially offset by the release of valuation allowances in other jurisdictions, (iv) the realization of taxable foreign currency gains and losses in certain jurisdictions not recognized for financial reporting purposes and (v) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items related to investments in subsidiaries.

For additional information, see note 13 to our consolidated financial statements.

Liquidity and Capital Resources

Sources and Uses of Cash

Although our consolidated operating subsidiaries have generated cash from operating activities and have borrowed funds under their respective bank facilities, the terms of the instruments governing the indebtedness of certain of our subsidiaries, including UPC Broadband Holding, J:COM, Cablecom Luxembourg and VTR, restrict our ability to access the assets of these subsidiaries. UPC Broadband Holding, J:COM, Cablecom Luxembourg and VTR collectively account for most of our net assets. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax considerations, foreign currency exchange rates, the presence of minority interest owners and other factors.

Cash and cash equivalents

The details of the U.S. dollar equivalent balances of our consolidated cash and cash equivalents at December 31, 2006 are set forth in the following table (amounts in millions):

Cash and cash equivalents held by:	
LGI and its non-operating subsidiaries	$ 819.7
UPC Broadband Division:	
UPC Holding	0.9
UPC Broadband Holding and its unrestricted subsidiaries	625.6
Cablecom Luxembourg and its unrestricted subsidiaries	130.9
J:COM	172.0
VTR	49.2
Chellomedia	42.8
Austar	21.4
Liberty Puerto Rico	12.1
Other operating subsidiaries	5.9
Total cash and cash equivalents	$ 1,880.5

LGI and its Non-operating Subsidiaries

The cash and cash equivalent balances of $819.7 million held by LGI and its non-operating subsidiaries represented available liquidity at the corporate level at December 31, 2006. Our remaining cash and cash equivalents of $1,060.8 million at December 31, 2006 were held by our operating subsidiaries as set forth in the table above. As noted above, various factors may limit our ability to access the cash of our consolidated operating subsidiaries. As described in greater detail below, our current sources of corporate liquidity include (i) the cash and cash equivalents held by LGI and its non-operating subsidiaries, (ii) our ability to monetize certain investments, 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. In this regard, we have received significant cash from our subsidiaries in the form of loans and distributions during 2006. Most of this cash was used to purchase LGI common stock.

The ongoing cash needs of LGI and its non-operating subsidiaries include corporate general and administrative expenses and interest payments on the UGC Convertible Notes. From time to time, LGI and its non-operating subsidiaries may also require funding in connection with acquisitions, the repurchase of LGI common stock, or other investment opportunities.

During 2006, we repurchased a total of 32,698,558 shares of LGI Series A common stock at a weighted average price of $24.79 and 40,528,748 shares of LGI Series C common stock at a weighted average price of $23.35, for an aggregate cash purchase price of $1,756.9 million, including direct acquisition costs. On January 10, 2007, we purchased 5,084,746 shares of our LGI Series A common stock and 5,246,590 shares of our LGI Series C common stock for an aggregate purchase price of $300 million before direct acquisition costs, pursuant to two modified Dutch auction self-tender offers. At December 31, 2006, we were authorized under the March 8, 2006 stock repurchase plan to acquire an additional $117.6 million of LGI Series A and Series C common stock. For additional information, see note 14 to our consolidated financial statements.

Operating Subsidiaries

The cash and cash equivalents of our significant subsidiaries are detailed in the table above. In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and, in the case of each of UPC Broadband Holding, VTR, Cablecom GmbH, J:COM, Austar, Chellomedia and Liberty Puerto Rico, borrowing availability under their respective debt instruments. For the details of the borrowing availability of such entities at December 31, 2006, see note 11 to our consolidated financial statements. Our operating subsidiaries' liquidity generally is used to fund capital expenditures and debt service requirements. From time to time, our operating subsidiaries may also require funding in connection with acquisitions or other investment opportunities. For a discussion of our consolidated capital expenditures and cash provided by operating activities, see the discussion under *Consolidated Cash Flow Statements* below.

During 2006, we received proceeds upon the sale of UPC Norway (€444.8 million or $536.7 million at the transaction date), UPC Sweden (SEK 2,984 million or $403.9 million at the transaction date), UPC France (€1,253.2 million or $1,578.4 million at the transaction date) and certain other non-strategic assets. During 2006, we also acquired 100% interests in Karneval and INODE, and J:COM acquired a controlling interest in Cable West, for cash proceeds, before direct acquisition costs, of €331.1 million ($420.1 million at the transaction dates), €93 million ($111 million at the transaction date) and ¥63.5 billion ($538.0 million at the transaction dates), respectively. For additional information concerning our acquisitions and dispositions, see notes 5 and 6 to our consolidated financial statements.

Capitalization

We seek to maintain our debt at levels that provide for attractive equity returns without assuming undue risk. In this regard, we strive to cause our operating subsidiaries to maintain their debt at levels that result in a consolidated debt balance that is between four and five times our consolidated operating cash flow. The ratio of our December 31, 2006 consolidated debt to our annualized consolidated operating cash flow for the quarter ended December 31, 2006 was 4.8 and the ratio of our December 31, 2006 consolidated net debt (debt less cash and cash equivalents and restricted cash balances related to our debt instruments) to our annualized consolidated operating cash flow for the quarter ended December 31, 2006 was 3.9.

In order to mitigate risk and to obtain the most attractive borrowing terms, we typically seek to incur debt at the subsidiary level that is closest to the operations that are supporting the debt financing. In addition, we generally seek to match the denomination of the borrowings of our subsidiaries with the functional currency of the operations that are supporting the respective subsidiaries' borrowings. As further discussed under *Quantitative and Qualitative Disclosures about Market Risk* below and in note 9 to our consolidated financial statements, we may also use derivative instruments to mitigate currency and interest rate risk associated with our debt instruments. Our ability to service or refinance our debt is dependent primarily on our ability to maintain or increase our cash provided by operations and to achieve adequate returns on our capital expenditures and acquisitions.

During 2006, UPC Broadband Holding, Cablecom, VTR, Liberty Puerto Rico, Chellomedia and Austar completed financing transactions. The proceeds from these financing transactions generally were used to repay existing debt and, to a lesser extent, make distributions or loans to LGI and its non-operating subsidiaries.

At December 31, 2006, our outstanding consolidated debt and capital lease obligations aggregated $12,230.1 million, including $1,384.9 million that is classified as current in our consolidated balance sheet. The current portion of our debt and capital lease obligations includes the $424.8 million carrying value of the Cablecom Luxembourg Old Fixed Rate Notes and the $345.0 million outstanding principle of our secured borrowing on ABC Family preferred stock. The repayment of the Cablecom Luxembourg Old Fixed Rate Notes will be funded with restricted cash and we expect that the source of our repayment of the secured borrowing on the ABC Family preferred stock will be the underlying shares of ABC Family preferred stock. At December 31, 2006, our investment in shares of ABC Family Preferred Stock was included in other investments in our consolidated balance sheet. We believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations during 2007.

All of our outstanding debt and capital lease obligations at December 31, 2006 had been borrowed or incurred by our subsidiaries.

For additional information concerning our debt balances at December 31, 2006, see note 11 to our consolidated financial statements.

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.

2006 Consolidated Cash Flow Statement. During 2006, we used net cash provided by our operating activities of $1,878.0 million to fund net cash used by our investing activities of $104.4 million and net cash used by our financing activities of $1,211.8 million and a $561.8 million increase in our existing cash and cash equivalent balances (excluding a $116.5 million increase due to changes in foreign exchange rates).

The net cash provided by our investing activities during 2006 includes cash proceeds of $2,548.1 million received upon the disposition of UPC France, UPC Sweden, UPC Norway, UPC Belgium and certain less significant assets, cash paid for capital expenditures of $1,507.9 million, and cash paid of $1,254.2 million in connection with acquisitions, including our acquisitions of Karneval and INODE and J:COM's acquisition of a controlling interest in Cable West.

The UPC Broadband Division accounted for $827.0 million and $538.9 million of our consolidated capital expenditures during 2006 and 2005, respectively. The increase in the UPC Broadband Division's capital expenditures during 2006, as compared to 2005, is due primarily to (i) the effects of acquisitions, and (ii) increased costs associated with the purchase and installation of customer premise equipment as organic RGU additions increased during 2006, as compared to 2005, due largely to growth in digital video, broadband Internet and VoIP telephony services, with The Netherlands' D4A program accounting for most of the growth in digital video RGUs. During 2006 and 2005, the UPC Broadband Division's capital expenditures represented 24.9% and 24.6%, respectively, of its revenue. We expect that the 2007 capital expenditures of the UPC Broadband Division, as a percentage of the UPC Broadband Division's revenue, will fall within a range of 24% to 26%.

VTR accounted for $138.2 million and $98.6 million of our consolidated capital expenditures during 2006 and 2005, respectively. The increase in VTR's capital expenditures during 2006, as compared to 2005, is due primarily to (i) increased costs associated with the purchase and installation of customer premise equipment as organic RGU additions increased during 2006, as compared to 2005, due largely to growth in digital video, broadband Internet and VoIP telephony services and (ii) increased expenditures for new build and upgrade projects to expand digital video and other advanced services, increase network capacity and improve VTR's competitive position, and to meet certain regulatory commitments. During 2006 and 2005, VTR's capital expenditures represented 24.7% and 22.2%, respectively, of its revenue. We expect that the 2007 capital expenditures of VTR, as a percentage of 2007 revenue, will fall within a range of 23% to 25%.

J:COM accounted for $416.7 million and $358.8 million of our consolidated capital expenditures during 2006 and 2005, respectively. J:COM uses capital lease arrangements to finance a significant portion of its capital expenditures. From a financial reporting perspective, capital expenditures that are financed by capital lease arrangements are treated as non-cash activities and accordingly are not included in the capital expenditure amounts presented in our consolidated statements of cash flows. Including $149.4 million and $145.1 million of expenditures that were financed under capital lease arrangements, J:COM's capital expenditures aggregated $566.1 million and $503.9 million during 2006 and 2005, respectively. The increase in J:COM's capital expenditures (including amounts financed under capital lease arrangements) during 2006, as compared to 2005, is due primarily to (i) the effects of acquisitions; (ii) increased costs associated with the purchase and installation of customer premise equipment; and (iii) other factors such as information technology upgrades and expenditures for general support systems. During 2006 and 2005, J:COM's capital expenditures (including amounts financed under capital lease arrangements) represented 29.7% and 30.3%, respectively, of its revenue. J:COM management currently expects that J:COM's 2007 capital expenditures (including amounts financed under capital lease arrangements), as a percentage of J:COM's 2007 revenue, will fall within a range of 27% to 29%.

The actual amount of the 2007 capital expenditures of the UPC Broadband Division, VTR and J:COM may vary from the expected amounts disclosed above for a variety of reasons, including changes in (i) the competitive or regulatory environment, (ii) business plans, (iii) current or expected future operating results, and (iv) the availability of capital. Accordingly, no assurance can be given that actual capital expenditures will not vary from the expected amounts disclosed above.

During 2006, the cash used by our financing activities was $1,211.8 million. Such amount includes net borrowings of debt and capital lease obligations of $1,091.2 million and stock repurchases of $1,756.9 million.

2005 Consolidated Cash Flow Statement. During 2005, we used net cash provided by our operating activities of $1,576.1 million, net cash provided by financing activities of $2,191.8 million and $1,166.8 million of our existing cash and cash equivalent balances (excluding a $160.1 million decrease due to changes in foreign exchange rates) to fund net cash used in our investing activities of $4,934.7 million.

The net cash used by our investing activities during 2005 includes cash paid in connection with the LGI Combination of $703.5 million, cash paid for acquisitions of $3,586.3 million, capital expenditures of $1,046.2 million, net proceeds received upon dispositions of $464.5 million, and the net effect of other less significant sources and uses of cash. For additional information concerning our 2005 acquisitions, see note 5 to our consolidated financial statements.

The UPC Broadband Division and VTR accounted for $538.9 million and $98.6 million, respectively of our consolidated capital expenditures during 2005, and $323.9 million and $41.7 million, respectively, during 2004. J:COM accounted for $358.8 million of our consolidated capital expenditures during 2005. Including $145.1 million of expenditures that were financed under capital lease arrangements, J:COM's capital expenditures aggregated $503.9 million during 2005. The majority of our capital expenditures during 2005 was associated with RGU growth and the related purchase and installation of customer premise equipment.

During 2005, the cash provided by our financing activities was $2,191.8 million. This amount includes net proceeds received on a consolidated basis from the issuance of stock by subsidiaries of $873.6 million (including

$853.4 million of proceeds received by J:COM in connection with its IPO) and net borrowings of debt and capital lease obligations of $1,556.1 million.

Off Balance Sheet Arrangements and Aggregate Contractual Obligations

Off Balance Sheet Arrangements

At December 31, 2006, J:COM guaranteed ¥8.8 billion ($73.9 million) of the debt of certain of its non-consolidated investees. The debt maturities range from 2007 to 2017.

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 local municipalities, our 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.

As further described in note 21 to our consolidated financial statements, we have a number of contingent obligations pursuant to which our co-investors in certain entities could require us to purchase their ownership interests.

Contractual Commitments

As of December 31, 2006, the U.S. dollar equivalent (based on December 31, 2006 exchange rates) of our consolidated contractual commitments are as follows:

	Payments due during:						
	2007	2008	2009	2010	2011	Thereafter	Total
	amounts in millions						
Debt (excluding interest)	$ 1,273.6	$ 221.3	$ 318.9	$ 723.4	$ 388.1	$ 8,855.0	$ 11,780.3
Capital leases (excluding interest)	111.3	97.3	86.6	70.9	42.4	41.3	449.8
Operating leases	136.8	105.8	90.4	74.4	44.9	143.3	595.6
Programming, satellite and other purchase obligations	130.4	73.5	41.1	11.6	6.6	39.0	302.2
Other commitments	50.0	9.1	8.4	5.9	5.1	9.8	88.3
Total	$ 1,702.1	$ 507.0	$ 545.4	$ 886.2	$ 487.1	$ 9,088.4	$ 13,216.2
Projected cash interest payments on debt and capital lease obligations*	$ 640.3	$ 582.3	$ 544.9	$ 536.7	$ 426.2	$ 959.1	$ 3,689.5

* Based on interest rates and contractual maturities in effect as of December 31, 2006.

Programming commitments consist of obligations associated with certain of our programming, studio output and sports rights contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees, without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems, or (iii) whether we discontinue our premium film or sports services. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. The ultimate amount payable in excess of the contractual minimums of our studio output contracts, which expire at various dates through 2014, is dependent upon the number of subscribers to our premium movie service and the theatrical success of the films that we exhibit. Satellite commitments consist of obligations associated with satellite carriage services provided to our company. Other purchase obligations include commitments to purchase customer premise equipment that are enforceable and legally binding on us.

Other commitments consist of commitments to rebuild or upgrade broadband communications networks and to extend the cable network to new developments, 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.

Critical Accounting Policies, Judgments and Estimates

In connection with the preparation of our consolidated financial statements, we 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 consolidated financial statements. Actual results may differ from those 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 long-lived assets, the valuation of our acquisition related assets and liabilities, the capitalization of our construction and installation costs, income tax accounting, accounting for our derivative instruments and accounting for our stock-based compensation 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 susceptible to change.

Property and Equipment and Intangible Assets

Carrying Value. The aggregate carrying value of our property and equipment and intangible assets (including goodwill) that were held for use comprised 78% and 81% of our total assets of our continuing operations at December 31, 2006 and 2005, respectively. Pursuant to SFAS 142 and SFAS 144, we are required to assess the recoverability of our long-lived assets.

SFAS 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 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 SFAS 142, we evaluate the goodwill, franchise rights and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and indefinite-lived intangible assets 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. Any excess of the carrying value over the fair value for franchise rights or other indefinite-lived intangible assets is also 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 2006, 2005 and 2004, we recorded impairments of our property and equipment and intangible assets aggregating $15.5 million, $8.3 million and $50.8 million, respectively.

Capitalization of Construction and Installation Costs. In accordance with SFAS 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 as incurred. 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.

Depreciation. We depreciate our property and equipment on a straight-line basis over the estimated useful life of the assets. Due to rapid changes in technology, expected use of assets and other factors, the determination of estimated useful lives requires significant management judgment. We regularly review whether changes to estimated useful lives are required in order to accurately reflect the economic use of our property and equipment. Any changes to estimated useful lives are reflected prospectively beginning in the period that the change is deemed necessary. Total depreciation expense for 2006, 2005 and 2004 totaled $1,635.8 million, $1,163.9 million and $724.7 million, 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, we are required to make estimates and assumptions that affect the recorded amounts. Third party valuation specialists generally are engaged to assist in the valuation of 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, remaining useful lives of long-lived assets, replacement costs of property and equipment, fair values of debt, and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. Our estimates in this area impact the amount of depreciation and amortization, impairment charges, interest expense and income tax expense or benefit that we report in the periods following the acquisition date. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

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. At December 31, 2006, the aggregate valuation allowance provided against deferred tax assets was $1,921.5 million. Actual income taxes could vary from these estimates due to future changes in income tax law or interpretations thereof 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 our 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 13 to our consolidated financial statements.

Derivative Instruments

As further described in note 9 to our consolidated financial statements, we have entered into various derivative instruments, including interest rate 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. With the exception of J:COM's interest rate swaps, none of the derivative instruments that were in effect during the three years ended December 31, 2006 were designated as hedges.

We use the Black-Scholes option-pricing model to estimate the fair value of certain derivative instruments that we hold. We may also use a binomial model to value certain of our derivative instruments. These models incorporate a number of variables in determining such fair values, including expected volatility of the underlying security, an appropriate discount rate and the foreign currency exchange rate. The volatility rates that we use generally represent the expected volatility of the underlying security over the term of the derivative instrument based on realized historic volatilities and implied market volatilities (when available), and are adjusted quarterly. Foreign currency 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 our derivative instruments may differ materially from these estimates.

Stock-based Compensation

As further described in note 3 to our consolidated financial statements, on January 1, 2006, we adopted the provisions of SFAS 123(R) using the modified prospective adoption method. SFAS 123(R) generally requires all share-based payments to employees, including grants of employee stock options and SARs, to be recognized in the financial statements based on their grant-date fair values. We calculate the fair value of stock options and SARs using the Black-Scholes option pricing model. Calculating the fair value of share-based payments at grant date requires judgment in determining the estimates and assumptions underlying certain variables, such as the expected stock price volatility over the term of the awards, the expected length of time employees will retain their vested stock options prior to exercising and the number of options that will ultimately be forfeited prior to completion of their vesting requirements. Beginning in 2007, we will record compensation expense with respect to our Senior Executive and Key Employee Performance Plans based on our assessment of the awards that are probable to be earned. This assessment will be based primarily on our expectations with respect to our operating results in 2008 and will be reassessed on a quarterly basis. Changes in our estimates and assumptions related to our stock-based compensation can materially affect the calculation of the fair value of share-based compensation. For further information regarding our stock option plans, see note 15 to our consolidated financial statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of LGI are filed under this Item, beginning on page II-50. Financial statement schedules and separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons are filed under Item 15 of this Annual Report on Form 10-K.

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Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2006, using the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our evaluation of internal control over financial reporting did not include the internal control of the following subsidiaries we acquired in 2006:

	Total assets included in our consolidated financial statements as of December 31, 2006	Total revenue included in our consolidated financial statements for the year ended December 31, 2006
	amounts in millions	
Cable West, Inc.	$ 810.6	$ 47.9
Karneval Media s.r.o. and Forecable s.r.o.	448.0	16.8
INODE Telekommunikationsdienstleistungs GmbH	115.2	78.9
Other	162.5	30.7
	$ 1,536.3	$ 174.3

The aggregate amount of consolidated assets and revenues of these subsidiaries included in our consolidated financial statements as of and for the year ended December 31, 2006 was $1,536.3 million and $174.3 million, respectively. Based on this evaluation, our management believes that our internal control over financial reporting was effective as of December 31, 2006. Our management's assessment of the effectiveness of our internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Liberty Global, Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Liberty Global, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Liberty Global, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Liberty Global, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Liberty Global, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO). Management's evaluation of the effectiveness of Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2006 excluded the following subsidiaries acquired in 2006:

	Total assets included in the consolidated financial statements as of December 31, 2006		Total revenue included in the consolidated financial statements for the year ended December 31, 2006	
	amounts in millions			
Cable West, Inc.	$	810.6	$	47.9
Karneval Media s.r.o. and Forecable s.r.o.		448.0		16.8
INODE Telekommunikationsdienstleistungs GmbH		115.2		78.9
Other		162.5		30.7
	$	1,536.3	$	174.3

The aggregate amount of total assets and revenues of these subsidiaries included in the consolidated financial statements of Liberty Global, Inc. as of and for the year ended December 31, 2006 was $1,536.3 million and $174.3 million, respectively. Our audit of internal control over financial reporting of Liberty Global, Inc. also excluded an evaluation of the internal control over financial reporting of these subsidiaries.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Global, Inc. and subsidiaries as of December 31, 2006 and 2005, 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, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements and related financial statement schedules.

KPMG LLP

Denver, Colorado
February 28, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors
Liberty Global, Inc.:

We have audited the accompanying consolidated balance sheets of Liberty Global, Inc. and subsidiaries as of December 31, 2006 and 2005, 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, 2006. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedules I and II. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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 Global, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 23, in 2006 Liberty Global, Inc. changed its methods of accounting for a hybrid financial instrument, defined benefit pension plans, and share-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 28, 2007

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LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
	amounts in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,880.5	$ 1,202.2
Trade receivables, net	726.5	597.9
Other receivables, net	110.3	112.5
Restricted cash (note 11)	496.1	56.8
Current assets of discontinued operations (note 6)	—	14.7
Other current assets	349.1	278.3
Total current assets	3,562.5	2,262.4
Investments in affiliates, accounted for using the equity method, and related receivables (note 7)	1,062.7	789.0
Other investments (note 8)	477.6	569.0
Property and equipment, net (note 10)	8,136.9	7,991.3
Goodwill (note 10)	9,942.6	9,020.1
Franchise rights and other intangible assets not subject to amortization	177.1	218.0
Intangible assets subject to amortization, net (note 10)	1,578.3	1,601.8
Long-term assets of discontinued operations (note 6)	—	329.9
Other assets, net	631.6	597.0
Total assets	$ 25,569.3	$ 23,378.5

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31, 2006	December 31, 2005
	amounts in millions	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 710.7	$ 715.6
Accrued liabilities and other	752.0	669.0
Deferred revenue and advance payments from subscribers and others (note 12)	640.1	596.0
Accrued interest	257.0	145.5
Current liabilities of discontinued operations (note 6)	—	35.3
Current portion of debt and capital lease obligations (note 11)	1,384.9	270.0
Total current liabilities	3,744.7	2,431.4
Long-term debt and capital lease obligations (including $702.3 million measured at fair value at December 31, 2006) (note 11)	10,845.2	9,845.0
Deferred tax liabilities (note 13)	537.1	546.0
Long-term liabilities of discontinued operations (note 6)	—	9.6
Other long-term liabilities (note 12)	1,283.7	933.6
Total liabilities	16,410.7	13,765.6
Commitments and contingencies (note 21)		
Minority interests in subsidiaries	1,911.5	1,796.5
Stockholders' equity (note 14):		
Series A common stock, $.01 par value. Authorized 500,000,000 shares; issued 196,896,880 and 232,334,708 shares at December 31, 2006 and 2005, respectively	2.0	2.3
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,284,799 and 7,323,570 shares at December 31, 2006 and 2005, respectively	0.1	0.1
Series C common stock, $.01 par value. Authorized 500,000,000 shares; issued 197,256,404 shares and 239,820,997 shares at December 31, 2006 and 2005, respectively	2.0	2.4
Additional paid-in capital	8,093.5	9,992.2
Accumulated deficit	(1,020.3)	(1,732.5)
Accumulated other comprehensive earnings (loss), net of taxes (note 20)	169.8	(262.9)
Deferred compensation	—	(15.6)
Treasury stock, at cost (note 5)	—	(169.6)
Total stockholders' equity	7,247.1	7,816.4
Total liabilities and stockholders' equity	$ 25,569.3	$ 23,378.5

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2006	2005	2004
	amounts in millions, except per share amounts		
Revenue (note 16)	$ 6,487.5	$ 4,517.3	$ 2,112.8
Operating costs and expenses:			
Operating (other than depreciation) (including stock-based compensation of $7.0 million, $9.9 million and $12.4 million, respectively) (notes 15 and 16)	2,781.9	1,929.2	876.2
Selling, general and administrative (SG&A) (including stock-based compensation of $63.0 million, $49.1 million, and $130.2 million, respectively) (notes 15 and 16)	1,439.4	1,059.5	651.5
Depreciation and amortization (note 10)	1,884.7	1,274.0	783.8
Impairment of long-lived assets	15.5	8.3	50.8
Restructuring and other operating charges (credits), net (note 18)	13.7	(3.8)	26.3
	6,135.2	4,267.2	2,388.6
Operating income (loss)	352.3	250.1	(275.8)
Other income (expense):			
Interest expense (note 16)	(673.4)	(396.1)	(264.6)
Interest and dividend income (note 16)	85.4	76.8	65.3
Share of results of affiliates, net (note 7)	13.0	(23.0)	38.7
Realized and unrealized gains (losses) on financial and derivative instruments, net (note 9)	(347.6)	310.0	(35.8)
Foreign currency transaction gains (losses), net	236.1	(209.2)	117.4
Other-than-temporary declines in fair values of investments (note 8)	(13.8)	(3.4)	(18.5)
Gains (losses) on extinguishment of debt (note 11)	(40.8)	(33.7)	24.1
Gains on disposition of assets, net (note 6)	206.4	115.2	43.7
Gain on exchange of investment securities (note 6)	—	—	178.8
Other income (expense), net	12.2	(0.6)	(9.7)
	(522.5)	(164.0)	139.4
Earnings (loss) before income taxes, minority interests and discontinued operations	(170.2)	86.1	(136.4)
Income tax benefit (expense) (note 13)	7.9	(28.7)	13.9
Minority interests in losses (earnings) of subsidiaries	(171.7)	(117.0)	129.5
Earnings (loss) from continuing operations	(334.0)	(59.6)	7.0
Discontinued operations (note 6):			
Earnings (loss) from operations, net of tax expense of nil, $1.7 million and $2.9 million, respectively	6.8	(20.5)	(28.5)
Gain on disposal of discontinued operations	1,033.4	—	—
	1,040.2	(20.5)	(28.5)
Net earnings (loss)	$ 706.2	$ (80.1)	$ (21.5)
Historical and pro forma earnings (loss) per common share — basic and diluted (note 3):			
Continuing operations	$ (0.76)	$ (0.14)	$ 0.02
Discontinued operations	2.37	(0.05)	(0.09)
	$ 1.61	$ (0.19)	$ (0.07)

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
Net earnings (loss)	$ 706.2	$ (80.1)	$ (21.5)
Other comprehensive earnings (loss), net of taxes (note 20):			
Foreign currency translation adjustments	397.8	(298.8)	165.3
Reclassification adjustment for foreign currency translation losses (gains) included in net earnings (loss)	9.0	54.8	(36.2)
Unrealized gains (losses) on available-for-sale securities	5.7	19.6	(1.5)
Reclassification adjustment for net losses (gains) on available-for-sale securities included in net earnings (loss)	13.8	(56.5)	(120.8)
Unrealized gains (losses) on cash flow hedges	(7.2)	10.8	—
Reclassification adjustment for losses (gains) on cash flow hedges included in net earnings (loss)	6.0	(6.0)	—
Effect of change in estimated blended state income tax rate (note 13)	—	(0.8)	2.7
Other comprehensive earnings (loss)	425.1	(276.9)	9.5
Comprehensive earnings (loss)	$ 1,131.3	$ (357.0)	$ (12.0)

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS 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 millions								
Balance at January 1, 2004	$ —	$ —	$ —	$ —	$ (1,630.9)	$ (46.6)	$ —	$ 5,096.1	$ 3,418.6
Net loss	—	—	—	—	(21.5)	—	—	—	(21.5)
Other comprehensive earnings, net of tax (note 20)	—	—	—	—	—	9.5	—	—	9.5
Intercompany tax allocation (note 13)	—	—	—	—	—	—	—	6.1	6.1
Allocation of corporate overhead (note 16)	—	—	—	—	—	—	—	9.4	9.4
Issuance of Liberty Media Corporation common stock in acquisition (note 5)	—	—	—	—	—	—	—	152.1	152.1
Contribution of cash, investments and other net liabilities in connection with spin off (note 2)	—	—	—	—	—	51.1	—	304.6	355.7
Assumption by Liberty Media Corporation of obligation for stock appreciation rights in connection with spin off (note 2)	—	—	—	—	—	—	—	5.8	5.8
Adjustments due to changes in subsidiaries' equity and other, net (note 14)	—	—	—	6.0	—	—	—	1.0	7.0
Net cash transfers from parent	—	—	—	—	—	—	—	654.3	654.3
Change in capitalization in connection with spin off (note 2)	1.4	0.1	1.5	6,226.4	—	—	—	(6,229.4)	—
Common stock issued in rights offering (note 14)	0.3	—	0.3	735.1	—	—	—	—	735.7
Stock issued for stock option exercises (note 15)	—	—	—	12.0	—	—	—	—	12.0
Repurchase of common stock (note 14)	—	—	—	—	—	—	(127.9)	—	(127.9)
Stock-based compensation (notes 3 and 15)	—	—	—	20.4	—	—	—	—	20.4
Balance at December 31, 2004	$ 1.7	$ 0.1	$ 1.8	$ 6,999.9	$ (1,652.4)	$ 14.0	$ (127.9)	$ —	$ 5,237.2

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)

	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	Deferred compensation	Treasury stock, at cost	Total stockholders' equity
					amounts in millions				
Balance at January 1, 2005	$ 1.7	$ 0.1	$ 1.8	$ 6,999.9	$ (1,652.4)	$ 14.0	$ —	$ (127.9)	$ 5,237.2
Net loss	—	—	—	—	(80.1)	—	—	—	(80.1)
Other comprehensive loss, net of tax (note 20)	—	—	—	—	—	(276.9)	—	—	(276.9)
Adjustment due to issuance of stock by J:COM (note 5)	—	—	—	120.7	—	—	—	—	120.7
Adjustment due to issuance of stock by Telenet (note 7)	—	—	—	38.4	—	—	—	—	38.4
Cancellation of treasury stock	—	—	—	(127.9)	—	—	—	127.9	—
Issuance of restricted stock	—	—	—	16.7	—	—	(16.7)	—	—
Shares issued in LGI Combination, net of issuance costs (note 5)	0.6	—	0.6	2,876.0	—	—	—	(90.6)	2,786.6
Minority interest in deficit of Austar at acquisition date (note 5)	—	—	—	(52.4)	—	—	—	—	(52.4)
Stock issued (acquired) in connection with equity incentive plans	—	—	—	28.3	—	—	—	(0.1)	28.2
Repurchase of common stock (note 14)	—	—	—	—	—	—	—	(78.9)	(78.9)
Stock-based compensation, net of taxes (notes 3 and 15)	—	—	—	5.8	—	—	1.1	—	6.9
Reclassification of SARs obligation (note 14)	—	—	—	50.3	—	—	—	—	50.3
Tax benefits allocated from Liberty Media Corporation pursuant to Tax Sharing Agreement (note 13)	—	—	—	26.7	—	—	—	—	26.7
Adjustments due to changes in subsidiaries' equity and other, net (note 14)	—	—	—	9.7	—	—	—	—	9.7
Balance at December 31, 2005	$ 2.3	$ 0.1	$ 2.4	$ 9,992.2	$ (1,732.5)	$ (262.9)	$ (15.6)	$ (169.6)	$ 7,816.4

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)

	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	Deferred compensation	Treasury stock, at cost	Total stockholders' equity
	amounts in millions								
Balance at January 1, 2006 before effect of accounting changes	$ 2.3	$ 0.1	$ 2.4	$ 9,992.2	$ (1,732.5)	$ (262.9)	$ (15.6)	$ (169.6)	$ 7,816.4
Accounting changes (note 23)	—	—	—	(15.6)	6.0	—	15.6	—	6.0
Balance at January 1, 2006, as adjusted for accounting changes	2.3	0.1	2.4	9,976.6	(1,726.5)	(262.9)	—	(169.6)	7,822.4
Net earnings	—	—	—	—	706.2	—	—	—	706.2
Other comprehensive earnings, net of tax (note 20)	—	—	—	—	—	425.1	—	—	425.1
Repurchase of common stock (note 14)	—	—	—	—	—	—	—	(1,756.9)	(1,756.9)
Cancellation of treasury stock	(0.3)	—	(0.4)	(1,925.8)	—	—	—	1,926.5	—
Stock-based compensation, net of taxes (notes 3 and 15)	—	—	—	63.1	—	—	—	—	63.1
Minority owners' share of distribution paid by Austar (note 11)	—	—	—	(71.0)	—	—	—	—	(71.0)
Stock issued in connection with equity incentive plans	—	—	—	10.8	—	—	—	—	10.8
Adjustment to initially apply SFAS 158, net of taxes (note 19)	—	—	—	—	—	7.6	—	—	7.6
Adjustments due to changes in subsidiaries' equity and other, net (note 14)	—	—	—	39.8	—	—	—	—	39.8
Balance at December 31, 2006	$ 2.0	$ 0.1	$ 2.0	$ 8,093.5	$ (1,020.3)	$ 169.8	$ —	$ —	$ 7,247.1

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2006	2005	2004
	amounts in millions		
Cash flows from operating activities:			
Net earnings (loss)	$ 706.2	$ (80.1)	$ (21.5)
Net loss (earnings) from discontinued operations	(1,040.2)	20.5	28.5
Net earnings (loss) from continuing operations	(334.0)	(59.6)	7.0
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:			
Stock-based compensation expense	70.0	59.0	142.6
Depreciation and amortization	1,884.7	1,274.0	783.8
Impairment of long-lived assets	15.5	8.3	50.8
Restructuring and other operating charges (credits)	13.7	(3.8)	26.3
Amortization of deferred financing costs and non-cash interest	82.2	103.8	40.2
Share of results of affiliates, net of dividends	(7.3)	23.0	(38.7)
Realized and unrealized losses (gains) on financial and derivative instruments, net	347.6	(310.0)	35.8
Foreign currency transaction losses (gains), net	(236.1)	209.2	(117.4)
Other-than-temporary declines in fair values of investments	13.8	3.4	18.5
Losses (gains) on extinguishment of debt	40.8	33.7	(24.1)
Gains on disposition of assets, net	(206.4)	(115.2)	(43.7)
Gain on exchange of investment securities	—	—	(178.8)
Deferred income tax benefit	(100.6)	(75.6)	(80.2)
Minority interests in earnings (losses) of subsidiaries	171.7	117.0	(129.5)
Non-cash charges from Liberty Media Corporation	—	—	15.5
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:			
Receivables and other operating assets	166.7	5.1	(95.4)
Payables and accruals	(119.2)	(9.0)	158.3
Net cash provided by operating activities of discontinued operations	74.9	312.8	172.3
Net cash provided by operating activities	1,878.0	1,576.1	743.3
Cash flows from investing activities:			
Proceeds received upon disposition of discontinued operations, net of disposal costs	2,548.1	—	—
Capital expended for property and equipment	(1,507.9)	(1,046.2)	(397.1)
Cash paid in connection with acquisitions, net of cash acquired	(1,254.2)	(3,586.3)	(508.8)
Proceeds received upon dispositions of assets	380.8	464.5	312.9
Investments in and loans to affiliates and others	(255.7)	(133.7)	(257.0)
Net cash received (paid) to purchase or settle derivative instruments	50.5	82.4	(159.0)
Change in restricted cash	11.6	21.0	(26.3)
Proceeds received from sale of short-term liquid investments	2.6	101.4	247.0
Cash paid in connection with LGI Combination	—	(703.5)	—
Return of cash previously paid into escrow in connection with 2004 acquisition	—	56.9	—
Purchases of short-term liquid investments	—	(55.1)	(293.7)
Cash paid for acquisition to be refunded by seller	—	—	(52.1)
Proceeds received upon repayment of principal amounts loaned to affiliates	—	—	535.1
Proceeds received upon repayment of debt securities	—	—	115.6
Deposits received in connection with pending asset sales	—	—	80.3
Other investing activities, net	12.3	35.3	(13.7)
Net cash used by investing activities of discontinued operations	(92.5)	(171.4)	(109.5)
Net cash used by investing activities	$ (104.4)	$ (4,934.7)	$ (526.3)

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

LIBERTY GLOBAL, INC.
(See note 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year ended December 31, 2006	2005	2004
		amounts in millions	
Cash flows from financing activities:			
Borrowings of debt	$ 7,774.5	$ 6,968.4	$ 2,301.2
Repayments of debt and capital lease obligations	(6,683.3)	(5,412.3)	(1,855.2)
Repurchase of common stock	(1,756.9)	(78.9)	(127.9)
Change in cash collateral	(394.2)	(57.2)	41.7
Payment of deferred financing costs	(91.9)	(101.3)	(66.0)
Cash distributions by subsidiaries to minority interest owners	(95.3)	—	—
Proceeds from issuance of stock by subsidiaries	18.5	873.6	488.4
Net proceeds received from rights offering	—	—	735.7
Contributions from Liberty Media Corporation	—	—	704.3
Other financing activities, net	16.8	7.8	12.4
Net cash used by financing activities of discontinued operations	—	(8.3)	(2.0)
Net cash provided (used) by financing activities	(1,211.8)	2,191.8	2,232.6
Effect of exchange rates on cash	116.5	(160.1)	66.8
Net increase (decrease) in cash and cash equivalents:			
Continuing operations	695.9	(1,460.0)	2,455.6
Discontinued operations	(17.6)	133.1	60.8
Net increase (decrease) in cash and cash equivalents	678.3	(1,326.9)	2,516.4
Cash and cash equivalents:			
Beginning of period	1,202.2	2,529.1	12.7
End of period	$ 1,880.5	$ 1,202.2	$ 2,529.1
Cash paid for interest	$ 474.6	$ 286.7	$ 280.8
Net cash paid for taxes	$ 65.9	$ 35.6	$ 4.3

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

LIBERTY GLOBAL, INC.
(See note 1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

(1) Basis of Presentation

Liberty Global, Inc. (LGI) was formed on January 13, 2005, for the purpose of effecting the combination of Liberty Media International, Inc. (LMI) and UnitedGlobalCom, Inc. (UGC). LMI is the predecessor to LGI and was formed on March 16, 2004, in contemplation of the spin off of certain international cable television and programming subsidiaries and assets of Liberty Media Corporation (Liberty Media), including a majority interest in UGC, an international broadband communications provider. We refer to these assets and subsidiaries of Liberty Media prior to June 2004 collectively as LMC International. On June 7, 2004, Liberty Media distributed to its stockholders, on a pro rata basis, all of the outstanding shares of LMI's common stock, and LMI became an independent, publicly traded company. In the following text, the terms "we," "our," "our company," and "us" may refer, as the context requires, to LGI and its predecessors and subsidiaries.

On June 15, 2005, we completed certain mergers whereby LGI acquired all of the capital stock of UGC that LMI did not already own and LMI and UGC each became wholly owned subsidiaries of LGI (the LGI Combination). As LMI is the predecessor to LGI, the historical financial statements of LMI and its predecessor became the historical financial statements of LGI upon consummation of the LGI Combination. Unless the context otherwise indicates, we present pre-LGI Combination references to shares of LMI common stock or UGC common stock in terms of the number of shares of LGI common stock issued in exchange for such LMI or UGC shares in the LGI Combination.

LGI is an international broadband communications provider of video, voice and broadband Internet access services, with consolidated broadband operations at December 31, 2006 in 16 countries (excluding Belgium — see note 7). Our operations are primarily in Europe, Japan and Chile. Through our indirect wholly owned subsidiaries, UPC Holding BV (UPC Holding) and Liberty Global Switzerland, Inc. (LG Switzerland), we provide broadband communications services in 10 European countries (excluding Belgium). LG Switzerland holds our 100% ownership interest in Cablecom Holdings AG (Cablecom), a broadband communications operator in Switzerland. The broadband communications operations of UPC Holding and LG Switzerland are collectively referred to as the UPC Broadband Division. Through our indirect controlling ownership interest in Jupiter Telecommunications Co., Ltd. (J:COM), we provide broadband communications services in Japan. Through our indirect 80%-owned subsidiary VTR Global Com, S.A. (VTR), we provide broadband communications services in Chile. We also have (i) consolidated direct-to-home (DTH) satellite operations in Australia, (ii) consolidated broadband communications operations in Puerto Rico, Brazil and Peru, (iii) non-controlling interests in broadband communications companies in Europe and Japan, (iv) consolidated interests in certain programming businesses in Europe and Argentina, and (v) non-controlling interests in certain programming businesses in Europe, Japan, Australia and the Americas. Our consolidated programming interests in Europe are primarily held through Chellomedia BV (Chellomedia), which also provides interactive digital services and owns or manages investments in various businesses in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming and interactive digital services to certain of our broadband operations, primarily in Europe.

On December 19, 2005 we reached an agreement to sell 100% of our Norwegian broadband communications operator, UPC Norge AS (UPC Norway), and completed the sale on January 19, 2006. On April 4, 2006, we reached an agreement to sell 100% of our Swedish broadband communications operator, NBS Nordic Broadband Services AB (publ) (UPC Sweden), and completed the sale on June 19, 2006. On June 6, 2006, we reached an agreement to sell 100% of our French broadband communications operator, UPC France SA (UPC France) and completed the sale on July 19, 2006. On June 9, 2006, we sold 100% of our Norwegian common local exchange carrier (CLEC), Priority Telecom Norway A.S., (PT Norway). We have presented UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations in our consolidated financial statements. As UPC Sweden, UPC France and PT Norway were designated as discontinued operations subsequent to December 31, 2005, the assets and liabilities of these entities have not been included in discontinued operations in our December 31, 2005 consolidated balance sheet. However, these entities, along with UPC Norway, are included in the amounts reported as discontinued operations in our consolidated statements of operations and cash flows and related footnote disclosures for all periods presented. See note 6.

Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2006.

(2) Spin Off Transaction

On June 7, 2004 (the Spin Off Date), our common stock was distributed on a pro rata basis to Liberty Media's shareholders as a dividend in connection with a spin off transaction. In connection with the spin off, holders of Liberty Media common stock on June 1, 2004 (the Record Date) received in the aggregate 139,921,145 shares of LMI Series A common stock and 139,921,145 shares of LMI Series C common stock for their shares of Liberty Media Series A common stock owned on the Record Date and 6,053,173 shares of LMI Series B common stock and 6,053,173 shares of LMI Series C common stock for their shares of Liberty Media 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 Media 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 comprised our company at the time of the spin off, Liberty Media 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 millions):

Cash and cash equivalents	$ 50.0
Available-for-sale securities	561.1
Net deferred tax liability	(253.2)
Other net liabilities	(2.2)
	$ 355.7

The contributed available-for-sale securities included 10,000,000 shares of The News Corporation Limited's (News Corp.) Class A non-voting common stock (News Corp. Class A common stock) and a 99.9% economic interest in 345,000 shares of ABC Family Worldwide, Inc. (ABC Family) Series A preferred stock. Liberty Media also contributed a variable forward transaction with respect to the News Corp. Class A common Stock. 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 Media in connection with the spin off have been recorded at Liberty Media's historical cost.

As a result of the spin off, we operate independently from Liberty Media, and neither we nor Liberty Media have any stock ownership, beneficial or otherwise, in the other. In connection with the spin off, we and Liberty Media entered into certain agreements in order to govern certain of the ongoing relationships between Liberty Media and our company after the spin off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Tax Sharing Agreement (see note 13) and Aircraft Joint Ownership and Management Agreements. In addition, Liberty Media and our company entered into a Short-Term Credit Facility and a Facilities and Services Agreement that have 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 Media stock incentive awards and the allocation of responsibility for LMI and Liberty Media 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 Media 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 Media.

(3) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (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 and derivative instruments, fair values of long-lived assets and any related impairments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets, stock-based compensation and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

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 the accounts of all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect controlling 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 and Restricted Cash

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 the disbursement. At December 31, 2006 and 2005, our restricted cash balances aggregated $496.1 million and $86.3 million, respectively. The December 31, 2005 amount includes $29.5 million that is included in our other long-term assets in our consolidated balance sheet. At December 31, 2006, our restricted cash balances included $437.4 million that is required to be used to redeem the Cablecom Luxembourg Old Fixed Rate Notes and $33.5 million that provides security for cash interest payments on the LG Switzerland PIK Loan. For additional information, see note 11.

Our significant non-cash investing and financing activities are disclosed in our statements of stockholders' equity and in notes 5, 6, 7, 10 and 14.

Receivables

Receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated $76.5 million and $73.6 million at December 31, 2006 and 2005, 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. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

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 whose accounts are delinquent.

Investments

All debt and marketable equity securities held by our company that do not provide our company with the ability to exercise significant influence over the investee 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 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, subject to other-than-temporary impairment. 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% or board representation and management authority. Under the equity 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. In situations where 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 continue to record losses from the affiliate to the extent of the carrying amount 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* (SFAS 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 not amortized, but continues to be considered for impairment under Accounting Principles Board Opinion (APB) No. 18 (APB 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 share capital of a subsidiary or equity method investee, including those 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, such as (i) general market conditions, (ii) industry specific or investee specific factors, (iii) changes in stock price or valuation subsequent to the balance sheet date and (iv) 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 results of affiliates.

We do not control the decision making process or business management practices of our equity affiliates. Accordingly, we rely on management of these entities to provide us with accurate financial information prepared in accordance with GAAP. We are not aware, however, of any errors in or possible misstatements of the financial information provided by these entities that would have a material effect on our consolidated financial statements. For information concerning these entities, see note 7.

Financial Instruments

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. The fair value of our debt instruments generally is based on the average of applicable bid and offer prices. See note 11 for information concerning the fair value of our debt instruments.

Derivative Instruments

As further described in note 9, we have entered into various derivative instrument contracts, including interest rate and foreign currency derivative instruments. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), all derivatives, whether designated in hedging relationships or not, 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 (loss). 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. With the exception of J:COM's interest rate swaps, none of the derivative instruments that were in effect during the three years ended December 31, 2006 were designated as hedges for financial reporting purposes.

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 (SFAS 51)*, 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 as incurred. Interest capitalized with respect to construction activities was not material during any of the periods presented.

Depreciation is computed using the straight-line method over estimated useful lives of 3 to 25 years for cable distribution systems, 10 to 40 years for buildings and leasehold improvements and 2 to 20 years for support equipment. The useful lives used to depreciate cable distribution systems are assessed periodically and are adjusted when warranted. The useful lives of 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.

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

Pursuant to SFAS No. 143, *Accounting for Asset Retirement Obligations*, as interpreted by FASB Interpretation No. 47, we recognize a liability for asset retirement obligations in the period in which it is incurred if sufficient information is available to make a reasonable estimate of fair values. In addition, we recognize asset retirement obligations that arise from the European Union Directive on Waste Electrical and Electronic Equipment (WEEE Directive) pursuant to FASB Staff Position No. 143-1. The WEEE Directive creates certain legal obligations to dispose of electrical and electronic equipment, which incorporates equipment used in our European operations. The majority of our obligations under the WEEE Directive is related to customer premise equipment.

Asset retirement obligations may arise from rights of way that we obtain from local municipalities or other relevant authorities. Under certain circumstances, the authority can cause us to have to remove our network, such as if we discontinue using the equipment or the authority does not renew our access rights. We expect to maintain our rights of way for the foreseeable future as these rights are necessary to remain a going concern. In addition, the authorities have the incentive to indefinitely renew our rights of way and in our past experience, renewals have always been granted. We also have obligations in lease agreements to restore the property to its original condition or remove our property at the end of the lease term. Sufficient information is not available to estimate the fair value of our asset retirement obligations in certain of our lease arrangements. This is the case in long-term lease arrangements in which the underlying leased property is integral to our operations, there is not an acceptable alternative to the leased property and we have the ability to indefinitely renew the lease. Accordingly, for most of our rights of way and certain lease agreements, the possibility is remote that we will incur significant removal costs in the foreseeable future, and as such we do not have sufficient information to make a reasonable estimate of fair value for these asset retirement obligations.

As of December 31, 2006 and 2005, the recorded fair value of our asset retirement obligations was $43.3 million and $34.6 million, respectively.

Intangible Assets

Our primary intangible assets are goodwill, customer relationships, cable television franchise rights, and trade names. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired 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 SFAS 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 SFAS 142. Pursuant to SFAS 142, intangible assets with definite 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* (SFAS 144).

We do not amortize our franchise rights and certain other intangible assets as these assets have indefinite-lives. Our customer relationship intangible assets are amortized on a straight line basis over estimated useful lives ranging from 3 to 10 years.

Impairment of Property and Equipment and Intangible Assets

SFAS 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 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 SFAS 142, we evaluate the goodwill, franchise rights and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and indefinite-lived intangible assets 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. Any excess of the carrying value over the fair value of indefinite-lived intangible assets 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. Most of our valuation allowances at December 31, 2006 are related to deferred tax assets acquired in purchase method business combinations. Any future release of the valuation allowance against these deferred tax assets will result in a corresponding reduction of goodwill. 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.

Defined benefit plans

Certain of our indirect subsidiaries maintain various employee pension plans that are treated as defined benefit pension plans. Certain assumptions and estimates must be made in order to determine the costs and future benefits that will be associated with these plans. These assumptions include the estimated long-term rates of return to be earned by plan assets, the estimated discount rates used to value the projected benefit obligations and estimated wage increases. We generally use a model portfolio of high quality bonds whose expected rate of return is estimated to match the plans' expected cash flows as a basis to determine the most appropriate discount rates. For the long-term rates of return, we use a model portfolio based on the subsidiaries' targeted asset allocation. Effective December 31, 2006, we adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). For additional information, see notes 19 and 23.

Foreign Currency Translation and Transactions

The reporting 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 (including intercompany balances for which settlement is not anticipated in the foreseeable future) 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 our equity affiliates generally 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 our or our subsidiaries' functional currencies 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.

Revenue Recognition

Cable Network Revenue. We recognize revenue from the provision of video, telephone and broadband 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 costs are expensed as incurred. To the extent installation revenue exceeds direct selling costs, the excess revenue is deferred and amortized over the average expected subscriber life. Costs related to reconnections and disconnections are recognized in the consolidated statement of operations as incurred.

Other Revenue. We recognize revenue from the provision of DTH, telephone and data services to 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.

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recorded at the discounted 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.

Deferred Construction and Maintenance Revenue. As further described in note 12, J:COM enters into agreements whereby it receives up-front compensation to construct and maintain certain cable facilities. Revenue from these arrangements has been deferred and is being recognized on a straight-line basis over the terms of the agreements, which are generally 20 years.

Sales, Use and Other Value Added Taxes. Revenue is recorded net of applicable sales, use and other value added taxes.

Stock Based Compensation

2006

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R) (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and supersedes APB No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related implementation guidance. SFAS 123(R) generally requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant-date fair values. SFAS 123(R) also requires the fair value of outstanding options vesting after the date of initial adoption to be recognized as a charge to operations over the remaining vesting period.

SFAS 123(R) also requires the benefits of tax deductions in excess of deferred taxes on recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed by the prior accounting rules. This requirement, to the extent applicable, reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules.

On January 1, 2006, we adopted the provisions of SFAS 123(R) using the modified prospective adoption method. As a result of the adoption of SFAS 123(R), we began (i) using the fair value method to recognize share-based compensation and (ii) estimating forfeitures for purposes of recognizing the remaining fair value of all unvested awards. In addition, for our outstanding stock awards granted after January 1, 2006 that do not contain a performance condition, we use the straight-line method to recognize stock-based compensation expense and the accelerated expense attribution method for our outstanding stock awards granted prior to January 1, 2006. As required by SFAS 123(R), we use the accelerated attribution method to recognize stock-based compensation expense for all stock awards granted after January 1, 2006 that contain a performance condition with graded vesting. SFAS 123(R) also requires recognition of the equity component of deferred compensation as additional paid-in capital. As a result, we have reclassified the January 1, 2006 deferred compensation balance of $15.6 million to additional paid-in capital in our consolidated statement of stockholders' equity.

We have calculated the expected life of options and stock appreciation rights (SARs) granted by LGI to employees using the "simplified method" set forth in Staff Accounting Bulletin No. 107. The expected volatility for LGI options and SARs was based on the historical volatilities of LGI, UGC and certain other public companies with characteristics similar to LGI for a historical period equal to the expected average life of the LGI awards.

Although we generally expect to issue new shares of LGI common stock when LGI options or SARs are exercised, we may also elect to issue shares from treasury to the extent available. Although we repurchase shares of LGI common stock from time to time, the parameters of our share purchase and redemption activities are not established solely with reference to the dilutive impact of shares issued upon the exercise of stock options and SARs.

2005 and 2004

Prior to the adoption of SFAS 123(R), we accounted for stock-based compensation awards to our employees using the intrinsic value method and we recorded forfeitures as incurred. Generally, under the intrinsic value method, (i) compensation expense for fixed-plan stock options was recognized only if the estimated fair value of the underlying stock exceeded the exercise price on the measurement date, in which case, compensation was recognized based on the percentage of options that were vested until the options were exercised, expired or were canceled and (ii) compensation expense for variable-plan options was recognized based upon the percentage of the options that were vested and the difference between the quoted market price or estimated fair value of the underlying common stock and the exercise price of the options at the balance sheet date, until the options were exercised, expired or were canceled. Through December 31, 2005, we recorded stock-based compensation expense for our variable-plan options and SARs using the accelerated expense attribution method. We recorded compensation expense for restricted stock awards based on the quoted market price of our stock at the date of grant and the vesting period. Most of the LGI stock options outstanding during 2005 and 2004 were accounted for as variable-plan awards.

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

The exercise price of employee stock options granted prior to the initial public offering (IPO) by J:COM on March 23, 2005 was subject to adjustment depending on the IPO price. As such, J:COM used variable-plan accounting for such stock options. Prior to March 23, 2005, no compensation was recorded with respect to these options.

Our stock-based compensation for the years ended December 31, 2005 and 2004 has not been restated in connection with the implementation of SFAS 123(R). The following table illustrates the pro forma effect on net earnings (loss) from continuing operations and earnings (loss) from continuing operations per share as if we had applied the fair value method to our outstanding stock-based awards that we have accounted for under the intrinsic value method prescribed by APB 25. As the accounting for restricted stock and SARs is the same under APB 25 and SFAS 123, the pro forma adjustments included in the following table do not include amounts related to our calculation of compensation expense related to restricted stock, SARs or to options granted in tandem with SARs:

	Year ended December 31, 2005	Year ended December 31, 2004
	amounts in millions, except per share amounts	
Earnings (loss) from continuing operations	$ (59.6)	$ 7.0
Add stock-based compensation charges as determined under the intrinsic value method, net of taxes	7.1	51.5
Deduct stock compensation charges as determined under the fair value method, net of taxes	(35.0)	(33.0)
Pro forma earnings (loss) from continuing operations	$ (87.5)	$ 25.5
Basic and diluted earnings (loss) from continuing operations per share:		
As reported	$ (0.14)	$ 0.02
Pro forma	$ (0.21)	$ 0.08

See note 15 for additional information concerning our stock awards.

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 (excluding nonvested common shares) outstanding for the period. Diluted earnings (loss) per common share presents the dilutive effect, if any, on a per share basis of potential common shares (e.g. options and convertible securities) as if they had been exercised or converted at the beginning of the periods presented.

LIBERTY GLOBAL, INC.
(See note 1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

In connection with the spin off, holders of Liberty Media common stock on June 1, 2004 received in the aggregate 139,921,145 shares of LGI Series A common stock, 6,053,143 shares of LGI Series B common stock and 145,974,288 shares of LGI Series C common stock.

The pro forma net earnings (loss) per share for the year ended December 31, 2004 set forth in our consolidated statements of operations was computed assuming that the shares issued in the spin off were issued and outstanding since January 1, 2004. 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 the rights offering conducting by LMI on July 26, 2004 (the LMI Rights Offering), have been increased 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,		
	2006	**2005**	**2004**
Weighted average common shares outstanding before adjustment	438,135,460	415,277,683	317,194,444
Adjustment for July 2004 LMI Rights Offering	—	—	7,767,008
Weighted average common shares, as adjusted (basic EPS computation)	438,135,460	415,277,683	324,961,452
Incremental shares attributable to the assumed exercise of outstanding options (treasury stock method)	—	—	215,597
Weighted average common shares, as adjusted (diluted EPS computation)	438,135,460	415,277,683	325,177,049

We reported losses from continuing operations during 2006 and 2005. Therefore, the dilutive effect at December 31, 2006 and 2005 of the aggregate number of then outstanding options, SARs, and nonvested shares of approximately 32.1 million and 32.4 million, respectively, and the aggregate number of shares issuable pursuant to the then outstanding convertible debt securities and other contracts that may be settled in cash or shares of approximately 39.4 million and 41.1 million, respectively, have not been included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation. As of December 31, 2004, there were 4.6 million options not included in the computation of diluted earnings per share from continuing operations for 2004 because their inclusion would have been anti-dilutive.

(4) Recent Accounting Pronouncements

FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet completed our evaluation of the impact of this standard on our consolidated financial statements.

SFAS 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. We have not completed our evaluation of the impact of this standard on our consolidated financial statements.

SFAS 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not completed our evaluation of the impact of this standard on our consolidated financial statements.

(5) Acquisitions

Significant 2006 Acquisitions

During 2006, our significant acquisitions included (i) J:COM's acquisition of a controlling interest in Cable West effective September 28, 2006 and (ii) the consolidation of Karneval effective September 18, 2006. These acquisitions, which are described below, are collectively referred to herein as the Significant 2006 Acquisitions.

A summary of the purchase prices, opening balance sheets and the effective acquisition dates for financial reporting purposes of the Significant 2006 Acquisitions is presented following the descriptions of these transactions below.

Acquisition of Cable West

On September 28, 2006, J:COM paid aggregate cash consideration of ¥55.8 billion ($472.5 million at the transaction date) before direct acquisition costs to increase its ownership interest in Cable West Inc. (Cable West) from an 8.6% non-controlling interest to an 85.0% controlling interest. On November 15, 2006, J:COM paid aggregate cash consideration of ¥7,736 million ($65.5 million at the transaction date) to increase its ownership interest in Cable West to 95.6%. Cable West is a broadband communications provider in Japan. For financial reporting purposes, J:COM began consolidating Cable West effective September 30, 2006. J:COM acquired Cable West in order to achieve certain financial, operational and strategic benefits through the integration of Cable West with its existing operation.

J:COM's acquisitions of additional Cable West ownership interests during the third and fourth quarters of 2006 have been accounted for as step acquisitions by our company of ownership interests in Cable West of 76.4% and 10.6%, respectively. The total cash consideration, together with direct acquisition costs, and the September 28, 2006 carrying value of our cost method investment in Cable West, has been allocated to the identifiable assets and liabilities of Cable West based on preliminary assessments of their respective fair values (taking into account the respective 76.4% and 10.6% Cable West ownership interests that we acquired during the third and fourth quarters of 2006, respectively), and the excess of the purchase prices over the adjusted preliminary fair values of such identifiable net assets was allocated to goodwill.

Acquisition of Karneval

On August 9, 2006, we announced that (i) our indirect subsidiary, Liberty Global Europe NV (Liberty Global Europe), had signed a total return swap agreement with each of Aldermanbury Investments Limited (AIL), an affiliate of JP Morgan, and Deutsche Bank AG, London Branch (Deutsche), to acquire Unite Holdco III BV (Unite Holdco), subject to regulatory approvals, and (ii) Unite Holdco had entered into a share purchase agreement to acquire for €322.5 million, subject to closing and post-closing adjustments, all interests in Karneval Media s.r.o. and Forecable s.r.o. (together Karneval) from ICZ Holding BV. On September 18, 2006, Unite Holdco acquired Karneval for aggregate cash consideration of €331.1 million ($420.1 million at the transaction date) before direct acquisition costs, including €8.6 million ($10.9 million at the transaction date) of net cash and working capital adjustments. Karneval provides cable television and broadband Internet services to residential customers and managed network services to corporate customers in the Czech Republic. We acquired Karneval in order to achieve certain financial, operational and strategic benefits through the integration of Karneval with our existing operations in the Czech Republic. On December 28, 2006, following the receipt of regulatory approvals, Liberty Global Europe completed its acquisition of Unite Holdco and settled the total return swap agreements with each of AIL and Deutsche.

In connection with the total return swap and share purchase agreements described above, Liberty Global Europe agreed to indemnify each of AIL and Deutsche and their affiliates with respect to any losses, liabilities and taxes incurred in connection with the acquisition, ownership and subsequent transfer of the Unite Holdco and Karneval interests. Liberty Global Europe's indemnity agreement with AIL and Deutsche was considered to be a variable interest in Unite Holdco, which was considered to be a variable interest entity under the provisions of FASB Interpretation No. 46(R), *Consolidation of Variable interest Entities* (FIN 46(R)). As Liberty Global Europe was responsible for all losses incurred by AIL and Deutsche in connection with their acquisition, ownership and ultimate disposition of Unite Holdco, Liberty Global Europe was considered to be Unite Holdco's primary beneficiary, as defined by FIN 46(R), and Liberty Global Europe was therefore required to consolidate Unite Holdco and its subsidiary Karneval, as of the closing date of Unite Holdco's acquisition of Karneval. As each of AIL and Deutsche did not have equity at risk in Unite Holdco, the full amount of Unite Holdco's results during the fourth quarter of 2006 was allocated to Liberty Global Europe. For financial reporting purposes, we began consolidating Unite Holdco effective September 30, 2006.

Our acquisition of Karneval through Unite Holdco has been accounted for using the purchase method of accounting. The total purchase price has been allocated to the acquired identifiable net assets of Karneval based on preliminary assessments of their respective fair values, and the excess of the purchase price over the preliminary fair values of such identifiable net assets was allocated to goodwill.

Opening Balance Sheet Information of the Significant 2006 Acquisitions

A summary of the purchase prices, opening balance sheets and the effective acquisition or consolidation dates for financial reporting purposes of the Significant 2006 Acquisitions is presented in the following table. The opening balance sheets presented in this table are based on preliminary purchase price allocations and are therefore subject to adjustment:

	Cable West(b)	Karneval
Effective acquisition or consolidation date for financial reporting purposes	**September 30, 2006**	**September 30, 2006**
LGI ownership interest at December 31, 2006	**95.6%**	**100%**
	amounts in millions	
Cash	$ 15.1	$ 12.4
Other current assets	45.4	2.6
Other investments	(16.4)	—
Property and equipment, net	300.5	119.3
Goodwill	362.3	257.9
Intangible assets subject to amortization(a)	110.0	40.2
Other assets, net	3.0	16.2
Current liabilities	(73.1)	(8.7)
Long-term debt and capital lease obligations	(65.1)	(1.8)
Other long-term liabilities	(135.0)	(10.0)
Minority interests in subsidiaries	(6.4)	—
Total purchase price	$ 540.3	$ 428.1
Purchase price:		
Cash consideration	$ 538.0	$ 420.1
Direct acquisition costs	2.3	8.0
	$ 540.3	$ 428.1

(a) The amounts reflected as intangible assets subject to amortization primarily relate to our preliminary assessment of the fair value of customer relationships. Such acquired intangible assets for Cable West and Karneval had preliminary weighted average lives of 10 and 5 years, respectively, at the respective acquisition dates.

(b) The Cable West column reflects the preliminary allocation of the aggregate purchase price associated with the Cable West interests acquired during the third and fourth quarters of 2006. The other investments amount for Cable West represents the elimination of the carrying amount of J:COM's cost method investment in Cable West.

The purchase accounting for each of the Significant 2006 Acquisitions, as reflected in these consolidated financial statements, is preliminary and subject to adjustment based upon our final assessment of the fair values of the identifiable tangible and intangible assets and liabilities of each acquired entity. As the open items in the valuation processes generally relate to property and equipment, intangible assets and, in the case of Cable West, deferred revenue, we would expect that the primary effects of any potential adjustments to the preliminary purchase price allocation would be changes to the values assigned to these items and to the related depreciation and amortization (including amortization of deferred revenue). In addition, our final assessment of the purchase price allocation could lead to adjustments to the amount of acquired deferred tax assets or assumed deferred tax liabilities.

Other 2006 Acquisition

INODE — On March 2, 2006 we acquired INODE Telekommunikationsdienstleistungs GmbH (INODE), an unbundled Digital Subscriber Line (DSL) provider in Austria, for cash consideration before direct acquisition costs of €93 million ($111 million at the transaction date). The INODE acquisition has been accounted for using the purchase method of accounting. The total purchase price has been allocated to the acquired identifiable net assets of INODE based on their respective fair values, and the excess of the purchase price over the fair value of such net identifiable assets was allocated to goodwill.

Significant 2005 Acquisitions

During 2005 we completed the following significant acquisitions, each of which is described in detail below: (i) the LGI Combination effective June 15, 2005, (ii) the acquisition of Cablecom effective October 24, 2005, (iii) the acquisition of Astral Telecom SA (Astral) effective October 14, 2005, (iv) the acquisition of NTL Ireland effective May 9, 2005, (v) the acquisition of a controlling interest in Austar United Communications Limited (Austar) effective December 14, 2005 and (vi) VTR's acquisition of a controlling interest in Metrópolis Intercom SA (Metrópolis) effective April 13, 2005. These acquisitions are collectively referred to herein as the Significant 2005 Acquisitions. As further described below, we also began consolidating LGI/Sumisho Super Media LLC (Super Media) and J:COM on January 1, 2005.

A summary of the purchase prices, opening balance sheets and the effective acquisition dates for financial reporting purposes of the Significant 2005 Acquisitions and the Super Media/J:COM consolidation is presented following the descriptions of these transactions below.

LGI Combination

On June 15, 2005, we completed the LGI Combination whereby LGI acquired all of the capital stock of UGC that LMI did not already own and LMI and UGC each became wholly owned subsidiaries of LGI. Among other matters, the LGI Combination was completed in order to eliminate the dual public holding company structure in which LMI's principal consolidated asset was its majority interest in UGC, another public company.

In the LGI Combination, (i) each outstanding share of LMI Series A and Series C common stock was exchanged for one share of the corresponding series of LGI common stock, and (ii) each outstanding share of UGC Class A common stock, UGC Class B common stock and UGC Class C common stock (other than those shares owned by LMI and its wholly owned subsidiaries) was converted into the right to receive for each share of common stock owned either (i) 0.2155 of a share of LGI Series A common stock and 0.2155 of a share of LGI Series C common stock (plus cash for any fractional share interest) or (ii) $9.58 in cash. Cash elections were subject to proration so that the aggregate cash consideration paid to UGC's stockholders would not exceed 20% of the aggregate value of the merger consideration payable to UGC's public stockholders. The effects of the LGI Combination have been included in our historical consolidated financial statements beginning with the June 15, 2005 acquisition date.

The LGI Combination has been accounted for as a step acquisition by our company of the remaining minority interest in UGC. The purchase price in this step acquisition includes 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. The details of the purchase price are presented in the following table (dollar amounts in millions):

Shares of LGI Series A common stock issued to UGC stockholders other than LMI and its wholly owned subsidiaries (including 2,067,786 shares issued to UGC subsidiaries)		65,694,765
Shares of LGI Series C common stock issued to UGC stockholders other than LMI and its wholly owned subsidiaries (including 2,067,786 shares issued to UGC subsidiaries)		65,694,765
		131,389,530
Fair value of LGI Series A and Series C common stock issued to UGC stockholders other than LMI and its wholly owned subsidiaries	$	2,878.2
Fair value of LGI Series A and Series C common stock issued to UGC subsidiaries		(90.6)
Fair value of outstanding LGI Series A and Series C common stock issued to UGC stockholders		2,787.6
Cash consideration		694.5
Direct acquisitions costs		9.0
Total purchase price		3,491.1
Elimination of minority interest in UGC		(994.8)
Purchase price allocated to the net assets of UGC	$	2,496.3

The fair value of the shares issued to UGC stockholders other than LMI in the LGI Combination was derived from a fair value of $43.812 per share of LGI Series A common stock, which was the average of the quoted market price per share of LGI Series A common stock (before giving effect to the September 6, 2005 stock split in the form of a stock dividend, pursuant to which holders received one share of LGI Series C common stock for each share of LGI Series A common and one share of LGI Series C common stock for each share of LGI Series B common stock) for the period beginning two trading days before and ending two trading days after the date that the LGI Combination was agreed to and announced (January 18, 2005). After eliminating the minority interest in UGC from our consolidated balance sheet, we allocated the remaining purchase price to the identifiable assets and liabilities of UGC based on their respective fair values (taking into account the 46.6% UGC ownership interest that LGI acquired in the LGI Combination), and the excess of the purchase price over the adjusted fair values of such identifiable net assets was allocated to goodwill.

Consolidation of Super Media/J:COM

On December 28, 2004, our 45.5% ownership interest in J:COM, and a 19.8% interest in J:COM owned by Sumitomo Corporation (Sumitomo) were combined in LGI/Sumisho Super Media. Super Media's investment in J:COM was recorded at the respective historical cost bases of our company and Sumitomo on the date that our respective J:COM interests were combined in Super Media. As a result of these transactions, we held a 69.7% noncontrolling interest in Super Media, and Super Media held a 65.3% controlling interest in J:COM at December 31, 2004.

Due to certain veto rights held by Sumitomo that precluded us from controlling Super Media, we accounted for our 69.7% ownership interest in Super Media using the equity method of accounting at December 31, 2004. On February 18, 2005, J:COM announced an IPO 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 of Super Media became effective upon this announcement. Super Media is managed by a management committee consisting of two members, one appointed by our company and one appointed by Sumitomo. From and after February 18, 2005, the management committee member appointed by our company has a casting or deciding vote with respect to any management committee decision on which our company and Sumitomo are unable to agree. 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 (i) engage in any business other than holding J:COM shares, (ii) sell J:COM shares, (iii) issue additional units in Super Media, (iv) make in-kind distributions or (v) dissolve Super Media, in each case subject to certain exceptions contemplated by the Super Media operating agreement. 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.

As a result of the above-described change in the governance of Super Media, we began accounting for Super Media and J:COM as consolidated subsidiaries effective January 1, 2005. As we paid no monetary consideration to Sumitomo to acquire the above-described casting vote, we have recorded the consolidation of Super Media/J:COM at historical cost.

On March 23, 2005, J:COM received net proceeds of ¥82.043 billion ($774.3 million at the transaction date) in connection with an IPO of its common shares, and on April 20, 2005, J:COM received additional net proceeds of ¥8,445 million ($79.1 million at the transaction date) in connection with the sale of additional common shares upon the April 15, 2005 exercise of the underwriters' over-allotment option. Also on March 23, 2005, Sumitomo contributed additional J:COM shares to Super Media, increasing Sumitomo's interest in Super Media to 32.4%, and decreasing our company's interest in Super Media to 67.6%. Sumitomo and our company are generally required to contribute to Super Media any additional shares of J:COM that either party acquires and to permit the other party to participate in any additional acquisition of J:COM shares during the term of Super Media. After giving effect to Sumitomo's additional contribution of J:COM shares to Super Media and the consummation of J:COM's IPO, including the subsequent exercise of the underwriters' over-allotment option, Super Media's ownership interest in J:COM was 54.5%.

In connection with the dilution of our ownership interest that resulted from (i) J:COM's issuance of common shares in March and April 2005 pursuant to its IPO and (ii) the exercise of stock options, we recorded a $120.7 million gain, which is reflected as an increase to additional paid-in capital in our consolidated statement of stockholders' equity for the year ended December 31, 2005. We provided no income taxes on this gain as we ceased providing income taxes on our outside basis in Super Media/J:COM when we began consolidating these entities on January 1, 2005.

Sumitomo also held an 8.3% direct interest in J:COM until September 26, 2005, when such interest was contributed to Super Media.

The March 2005 and September 2005 contributions of Sumitomo's J:COM interests to Super Media were recorded at historical cost and resulted in an aggregate non-cash increase to goodwill of $31.5 million.

At December 31, 2006, Super Media owned 3,987,238 shares of J:COM, or 62.5% of the issued and outstanding shares of J:COM, and LGI's ownership interest in Super Media was 58.7%.

See notes 7 and 22 for additional information concerning J:COM.

Acquisition of Cablecom

On October 24, 2005, LG Switzerland purchased from Glacier Holdings S.C.A. all of the issued share capital of Cablecom, the parent company of a Swiss broadband communications company, for a cash purchase price before direct acquisition costs of 2,826 million Swiss Francs (CHF) ($2,212.3 million at the transaction date). We acquired Cablecom in order to expand the markets in which we operate in Europe.

The Cablecom acquisition was funded through a combination of (i) a €550 million ($667 million at the transaction date) 9.5 year split-coupon floating rate payment-in-kind loan (the PIK Loan) entered into by LG Switzerland, (ii) a new offering of €300 million ($363 million at the transaction date) principal amount of 8.6% Senior Notes due 2014 by UPC Holding, a sister corporation of LG Switzerland and (iii) available cash. At the acquisition date, Cablecom reported outstanding debt of CHF 1.7 billion ($1.4 billion at the transaction date). For additional information concerning the LG Switzerland, UPC Holding and Cablecom debt, see note 11.

The Cablecom acquisition has been accounted for using the purchase method of accounting. The total purchase price has been allocated to the acquired identifiable net assets of Cablecom based on their respective fair values, and the excess of the purchase price over the fair values of such identifiable net assets was allocated to goodwill.

Acquisition of Astral

On October 14, 2005, we completed the acquisition of Astral, a broadband communications operator in Romania, for a cash purchase price of $407.1 million, before direct acquisition costs. We acquired Astral in order to achieve certain financial, operational and strategic benefits through the integration of Astral with our existing operations in Romania. The Astral acquisition has been accounted for using the purchase method of accounting. The total purchase price has been allocated to the acquired identifiable net assets of Astral based on their respective fair values, and the excess of the purchase price over the fair values of such identifiable net assets was allocated to goodwill.

Acquisition of NTL Ireland

On May 9, 2005, we announced that our indirect subsidiary, UPC Ireland BV (UPC Ireland), had signed a sale and purchase agreement to acquire MS Irish Cable Holdings BV (MS Irish Cable), subject to regulatory approval. MS Irish Cable, an affiliate of Morgan Stanley Dean Witter Equity Funding, Inc. (MSDW Equity), acquired NTL Communications (Ireland) Limited, NTL Irish Networks Limited and certain related assets (together NTL Ireland) on May 9, 2005 with funds provided by a loan from UPC Ireland. NTL Ireland, a cable television operator in Ireland, provides cable television and broadband Internet services to residential customers and managed network services to corporate customers. We acquired NTL Ireland in order to achieve certain financial, operational and strategic benefits through the integration of NTL Ireland with our existing operations in Ireland.

On December 12, 2005, following the receipt of regulatory approval, UPC Ireland completed its acquisition of MS Irish Cable. Upon closing, UPC Ireland paid MSDW Equity, as consideration for all of the outstanding share capital of MS Irish Cable and any MS Irish Cable indebtedness owed to MSDW Equity and its affiliates, an amount equal to MSDW Equity’s net investment in MS Irish Cable plus interest on the amount of the net investment and expenses incurred by MSDW Equity in connection with the transaction.

In connection with the sale and purchase agreement, UPC Ireland agreed to make MSDW Equity whole with respect to any economic effect on MSDW Equity regarding the acquisition, ownership and subsequent transfer of the NTL Ireland interest. The make whole arrangement with MSDW Equity was considered to be a variable interest in MS Irish Cable, which is a variable interest entity under the provisions of FIN 46(R). As UPC Ireland was responsible for all losses incurred by MSDW Equity in connection with its acquisition, ownership and ultimate disposition of MS Irish Cable, UPC Ireland was MS Irish Cable’s primary beneficiary, as defined by FIN 46(R), and UPC Ireland was therefore required to consolidate MS Irish Cable and its subsidiaries, including NTL Ireland, upon the May 9, 2005 closing of MS Irish Cable’s acquisition of NTL Ireland. As MSDW Equity had no equity at risk in

MS Irish Cable, the full amount of MS Irish Cable's results from May 9, 2005 through December 12, 2005 was allocated to UPC Ireland.

The acquisition of NTL Ireland through MS Irish Cable has been accounted for using the purchase method of accounting. The total purchase consideration of €349.4 million ($448.8 million at the transaction date), including direct acquisition costs of €16.0 million ($20.6 million at the transaction date), has been allocated to the acquired identifiable net assets of NTL Ireland based on their respective fair values, and the excess of the purchase price over the fair values of such identifiable net assets was allocated to goodwill.

Acquisition of Controlling Interest in Austar

On December 14, 2005 we completed a transaction that increased our indirect ownership of Austar, a DTH company in Australia, from a 36.7% non-controlling indirect ownership interest to a 55.2% controlling interest. We acquired a controlling interest in Austar in order to increase our investment in the Australian DTH industry. As a result of this transaction, we began using the consolidation method to account for our investment in Austar. Prior to obtaining a controlling interest in Austar, UGC used the equity method to account for its indirect investment in Austar.

Prior to December 14, 2005, Austar's share capital was owned 20.3% by the public and 79.7% (968 million shares) by United Austar Partners (UAP). UAP was 46% (446 million shares) owned by United Asia Pacific Communications (UAPC), an indirect wholly owned subsidiary of UGC, and 54% (522 million shares) owned by an independent third party, Castle Harlan Australia Mezzanine Partners Pty. Limited and Castle Harlan, Inc. (collectively, CHAMP).

On December 14, 2005, CHAMP sold to United AUN, Inc., a wholly owned subsidiary of UAPC (together with UAPC, the United Partners), units in UAP representing 224 million shares in Austar for net cash consideration of AUD 204.9 million ($155.0 million at the transaction date) before direct acquisition costs, and UAP transferred 298 million Austar shares to CHAMP in cancellation of their remaining units in Austar. Upon completion of this transaction, the United Partners owned 100% of the UAP partnership interest, CHAMP ceased to be a partner in UAP, and UAP owned a 55.2% economic and voting interest in Austar.

The December 14, 2005 transaction has been accounted for as a step acquisition by our company of an 18.5% interest in Austar. The total cash consideration, together with direct acquisition costs and our carryover basis in our equity method investment in Austar, has been allocated to the identifiable assets and liabilities of Austar based on their respective fair values (taking into account the 18.5% Austar ownership interest that we acquired in the December 14, 2005 step acquisition), and the excess of the purchase price over the adjusted fair values of such identifiable net assets was allocated to goodwill.

VTR Acquisition of Metrópolis

On April 13, 2005, VTR completed its previously announced combination with Metrópolis, a Chilean broadband communications company. Prior to the combination, LMI owned a 50% interest in Metrópolis, with the remaining 50% interest owned by Cristalerías de Chile SA (Cristalerías). As consideration for Cristalerías' interest in Metrópolis, (i) VTR issued 11,438,360 shares of its common stock to Cristalerías, representing 20% of the outstanding economic and voting shares of VTR subsequent to the transaction, (ii) VTR assumed certain indebtedness owed by Metrópolis to CristalChile Inversiones SA (CCI), an affiliate of Cristalerías, in the amount of CLP 6,067 million ($10.5 million at the transaction date), and (iii) UGC granted Cristalerías the right to put its 20% interest in VTR to UGC at fair value, subject to a minimum purchase price of $140 million, which put is exercisable until April 13, 2015. The acquisition of Cristalerías' interest in Metrópolis included the assumption of $25.8 million in debt payable to a Chilean telecommunications company (CTC) and CLP 30.335 billion

($51.8 million at the transaction date) of bank debt. The bank debt was repaid in April 2005 and the debt owed to CTC was repaid in July 2005 using proceeds from the Old VTR Bank Facility. See note 11. VTR merged with Metrópolis to achieve certain financial, operational and strategic benefits through the integration of Metrópolis with its existing operations.

The final regulatory approval for the combination, which was obtained in March 2005, imposed certain conditions on the combined entity. The most significant of these conditions require that the combined entity (i) re-sell broadband capacity to third party broadband Internet service providers on a wholesale basis; (ii) activate two-way capacity on 2.0 million Homes Passed within five years from the consummation date of the combination; and (iii) for three years after the consummation date of the combination, limit basic tier price increases to the rate of inflation plus a programming cost escalator. Another condition expressly prohibits us, as the controlling shareholder of VTR, from owning an interest, directly or indirectly through related parties, in any business that provides microwave or satellite television services in Chile. The DirecTV Group, Inc. (DirecTV) owns a satellite television distribution service that operates in Chile and elsewhere in the Americas. On December 12, 2006, Liberty Media announced publicly that it had agreed to acquire an approximate 39% interest in DirecTV. VTR and we have received written inquiries from Chilean regulatory authorities seeking to determine whether Liberty Media's acquisition of the DirecTV interest would violate or otherwise conflict with the regulatory condition prohibiting us from owning an interest in Chilean satellite or microwave television businesses. We currently are unable to predict the outcome of this inquiry.

In the absence of quoted market prices for VTR common stock, we estimated the fair value of the 20% interest in VTR that was exchanged for Cristalerías' interest in Metrópolis to be $180 million. The estimate was based on a discounted cash flow analysis and other available market data. Including the approximate $11.8 million fair value at April 13, 2005 of the put right that UGC granted to Cristalerías and $3.4 million in direct acquisition costs, the purchase price for Cristalerías' interest in Metrópolis totaled $195.2 million. We accounted for this merger as (i) a step acquisition by our company of an additional 30% interest in Metrópolis, and (ii) the sale of a 20% interest in VTR. Under the purchase method of accounting, the purchase price was allocated to the acquired identifiable tangible and intangible assets and liabilities based upon their respective fair values (taking into account the 30% Metrópolis interest acquired), and the excess of the purchase price over the fair value of such identifiable net assets was allocated to goodwill. Our proportionate share of Metrópolis' net assets represented by our historical 50% interest in Metrópolis was recorded at historical cost. UGC recorded a $4.6 million reduction of additional paid-in capital associated with the dilution of its indirect ownership interest in VTR from 100% to 80% as a result of the transaction. Our share of this loss was reflected as a reduction of additional paid-in capital in our consolidated statement of stockholders' equity for the year ended December 31, 2005.

Opening Balance Sheet Information of Significant 2005 Acquisitions

A summary of the purchase prices, opening balance sheets and the effective acquisition or consolidation dates for financial reporting purposes of the Significant 2005 Acquisitions and the Super Media / J:COM consolidation is presented in the following table. The opening balance sheets presented in this table reflect our final purchase price allocations, including certain purchase accounting adjustments that were recorded in 2006 upon the finalization of purchase accounting:

	Super Media/ J:COM	Metrópolis	NTL Ireland	LGI Combination	Astral	Cablecom	Austar
Effective acquisition or consolidation date for financial reporting purposes	**January 1, 2005**	**April 1, 2005**	**May 1, 2005**	**June 15, 2005**	**October 1, 2005**	**October 31, 2005**	**December 31, 2005**
LGI's ownership at December 31, 2006	**36.6%**	**80.0%(d)**	**100%**	**100%(e)**	**100%**	**100%**	**53.4%(f)**
				amounts in millions			
Cash	$ 101.7	$ 7.4	$ 9.3	$ —	$ 12.0	$ 27.8	$ 9.5
Other current assets	165.5	6.0	16.3	—	10.5	199.8	27.4
Investments in affiliates(a)	(987.3)	(55.0)	—	184.9	1.9	5.7	(123.1)
Property and equipment, net	2,441.2	138.0	282.5	223.6	111.5	1,295.5	92.4
Goodwill	1,875.3	224.3	208.5	1,610.7	265.2	2,241.2	316.1
Intangible assets subject to amortization(b)	—	—	—	622.5	74.7	325.1	72.8
Other assets, net	142.4	7.3	10.0	(77.4)	—	8.1	4.3
Current liabilities	(398.5)	(82.2)	(70.9)	—	(33.7)	(361.5)	(61.5)
Long-term debt and capital lease obligations	(2,112.7)	(38.4)	—	(11.7)	(14.5)	(1,415.3)	(217.3)
Other long-term liabilities	(415.1)	(12.2)	(6.9)	(56.3)	(18.2)	(88.8)	(17.5)
Minority interests in subsidiaries	(812.5)	—	—	994.8	—	(11.7)	—
Additional paid-in capital(c)	—	—	—	—	—	—	52.4
Total purchase price	$ —	$ 195.2	$ 448.8	$ 3,491.1	$ 409.4	$ 2,225.9	$ 155.5
Purchase price:							
Cash consideration	$ —	$ —	$ 428.2	$ 694.5	$ 407.1	$ 2,212.3	$ 155.0
Direct acquisition costs	—	3.4	20.6	9.0	2.3	13.6	0.5
Issuance of derivative instrument	—	11.8	—	—	—	—	—
Issuance of LGI stock	—	—	—	2,787.6	—	—	—
Issuance of VTR common stock	—	180.0	—	—	—	—	—
	$ —	$ 195.2	$ 448.8	$ 3,491.1	$ 409.4	$ 2,225.9	$ 155.5

(a) The investment in affiliate amounts for Super Media/J:COM, Austar and Metrópolis include reductions of $1,052.5 million, $161.8 million and $55.0 million, respectively, related to the elimination of the carrying amount of our equity method investment in such entities upon our acquisition of a controlling interest.

(b) The amounts reflected as intangible assets subject to amortization primarily relate to customer relationships. Such acquired intangible assets had a weighted average life of 9.1 years at the respective acquisition dates.

(c) The amount reflected in the Austar column represents the minority interests' share in the deficit of Austar at the transaction date, which has been recorded as a reduction of additional paid-in capital in accordance with the guidance set forth in EITF D-84, *Accounting for Subsequent Investments in an Investee After Suspension of Equity Method Loss Recognition When an Investor Increases Its Ownership Interest from Significant Interest to Control through a Market Purchase of Voting Securities.*

(d) The amounts reflected in the Metrópolis column represent the opening balance sheet of Metrópolis after applying step acquisition accounting. The column does not give effect to the consolidated impact of the related sale of 20% of VTR to Cristalerías. On a consolidated basis, the sale of a 20% minority interest in VTR resulted in a $198.2 million non-cash increase to minority interests in subsidiaries.

(e) The amounts reflected in the LGI Combination column represents the adjustments to the consolidated assets and liabilities of UGC at June 15, 2005 resulting from the application of step acquisition accounting in connection with the LGI Combination. As a result of the LGI Combination, our interest in UGC increased from 53.4% to 100%.

(f) The amounts reflected in the Austar column represent the opening balance sheet of Austar after applying step acquisition accounting. At December 31, 2006, we owned 676,258,394 or 53.4% of the issued and outstanding shares of Austar.

Other 2005 Acquisitions

Acquisition of the Remaining 19.9% Minority Interest in UPC Broadband France — In April 2005, a subsidiary of UPC Holding exercised the call right acquired in connection with the July 2004 Suez-Lyonnaise Télécom SA (Noos) acquisition (see discussion under *Significant 2004 Acquisitions* below) and purchased the remaining 19.9% minority interest in UPC Broadband France SAS (UPC Broadband France) that it did not already own for €90.1 million ($116.0 million at the transaction date) in cash. UPC Broadband France was an indirect wholly owned subsidiary and owner of our French broadband video and broadband Internet access operations. This acquisition was accounted for as a step acquisition of the remaining minority interest. As UPC Broadband France was a consolidated subsidiary at the time of this transaction, the purchase price was first applied to eliminate the minority interest in UPC Broadband France from our consolidated balance sheet, and the remaining purchase price has been allocated on a pro rata basis to the identifiable assets and liabilities of UPC Broadband France, taking into account their respective fair values at April 6, 2005 and the 19.9% interest acquired. The excess purchase price that remained after amounts had been allocated to the net identifiable assets of UPC Broadband France was recorded as goodwill.

Zonemedia — In January 2005, Chellomedia acquired the Class A shares of Zonemedia. The consideration for the transaction consisted of (i) $50.0 million in cash, before considering direct acquisition costs of $2.2 million, and (ii) 351,110 shares of LGI Series A common stock and 351,110 shares of LGI Series C common stock valued at $15.0 million. As part of the transaction, Chellomedia contributed to Zonemedia its 49% interest in Reality TV Ltd. and Chellomedia's Club channel business. Zonemedia is a programming company focused on the ownership, management and distribution of pay television channels.

The Zonemedia Class A shares purchased by Chellomedia represented an 87.5% interest in Zonemedia on a fully diluted basis. Subject to certain vesting conditions, Class B1 shares that initially represented 12.5% of Zonemedia's outstanding equity were issued to a group of selling shareholders of Zonemedia, who were retained as employees. In addition, the retained employees were entitled to receive the LGI Series A and Series C common stock that we issued as purchase consideration, subject to an escrow agreement. In light of the service and vesting conditions associated with the Zonemedia Class B1 and LGI Series A and Series C shares, we are recording stock-based compensation expense with respect to these agreements.

In April 2006, Chellomedia acquired further Class B1 shares from certain (now former) employees of Zonemedia in return for cash, bringing Chellomedia's holding in Zonemedia to 90%. In addition, such employees received a portion of the LGI Series A and Series C common stock held in escrow.

As further described in note 21, the Zonemedia Class B1 shares are subject to certain put and call rights.

Telemach — On February 10, 2005, we acquired 100% of the shares in Telemach d.o.o., a broadband communications provider in Slovenia, for €71.0 million ($91.4 million at the transaction date) in cash.

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J:COM Chofu Cable — On February 25, 2005, J:COM completed a transaction with Sumitomo, Microsoft Corporation (Microsoft) and our company whereby J:COM paid aggregate cash consideration of ¥4,420 million ($41.9 million at the transaction date) to acquire each entities' respective interests in J:COM Chofu Cable, Inc. (J:COM Chofu Cable), a Japanese broadband communications provider, and to acquire from Microsoft equity interests in certain telecommunications companies. Our share of the consideration was ¥972 million ($9.2 million at the transaction date). As a result of this transaction, J:COM acquired an approximate 92% equity interest in J:COM Chofu Cable.

J:COM Setamachi — On September 30, 2005, J:COM paid cash of ¥9,200 million ($81.0 million at the transaction date) and assumed debt and capital lease obligations of ¥5,480 million ($48.3 million at the transaction date) to purchase 100% of the outstanding shares of J:COM Setamachi Co. Ltd. (J:COM Setamachi). J:COM immediately repaid ¥3,490 million ($30.7 million at the transaction date) of the assumed debt. J:COM Setamachi is a broadband communications provider in Japan.

IPS — On November 23, 2005, Plator Holdings BV (Plator Holdings), an indirect subsidiary of Chellomedia, paid cash consideration of $62.8 million to acquire the 50% interests that it did not already own in certain businesses that provide thematic television channels in Spain and Portugal (IPS). Plator Holdings financed the purchase price with new bank borrowings. Prior to this transaction, we used the equity method to account for our investment in IPS. We have accounted for this transaction as a step acquisition of a 50% interest in IPS.

Accounting Treatment of UPC Broadband France, Zonemedia, Telemach, J:COM Chofu Cable, J:COM Setamachi and IPS Acquisitions — We have used the purchase method to account for the interests acquired in UPC Broadband France, Zonemedia, Telemach, J:COM Chofu Cable, J:COM Setamachi and IPS. Under the purchase method of accounting, the purchase price was allocated to the acquired identifiable tangible and intangible assets and liabilities based upon their respective fair values, and the excess of the purchase price over the fair value of such net identifiable assets was allocated to goodwill.

Pro Forma Information for 2006 and 2005 Acquisitions

The following unaudited pro forma consolidated operating results for 2006 and 2005 give effect to (i) the Significant 2006 Acquisitions as if they had been completed as of January 1, 2006 (for 2006 results) and January 1, 2005 (for 2005 results) and (ii) the Significant 2005 Acquisitions as if they had been completed as of January 1, 2005 (for 2005 results). No effect has been given to the 2006 acquisition of INODE or the 2005 acquisitions of Zonemedia, Telemach, J:COM Chofu Cable, J:COM Setamachi or IPS, since they would not have had a material impact on our results of operations if they had occurred at the beginning of the applicable periods. No effect has been given to the April 2005 acquisition of the minority interest in UPC Broadband France because, as described in note 6, UPC France's operations have been reclassified to discontinued operations.

These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable.

	Year ended December 31,	
	2006	2005
	amounts in millions, except per share amounts	
Revenue	$ 6,671.5	$ 5,788.5
Net loss from continuing operations	$ (341.6)	$ (353.3)
Loss per share from continuing operations — basic and diluted	$ (0.78)	$ (0.75)

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Pro Forma Information for 2005 Acquisitions

The following unaudited pro forma consolidated operating results for 2005 and 2004 give effect to (i) the Significant 2005 Acquisitions and (ii) the consolidation of Super Media/J:COM, as if such transactions had been completed as of January 1, 2005 (for 2005 results) and January 1, 2004 (for 2004 results). No effect has been given to the 2005 acquisitions of Zonemedia, Telemach, J:COM Chofu Cable, J:COM Setamachi or IPS, since they would not have had a material impact on our results of operations if they had occurred at the beginning of the applicable periods. No effect has been given to the July 2004 acquisition of Noos and the April 2005 acquisition of the minority interest in UPC Broadband France because, as described in note 6, UPC France's operations have been reclassified to discontinued operations.

These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable.

	Year ended December 31,	
	2005	2004
	amounts in millions, except per share amounts	
Revenue	$ 5,561.3	$ 4,746.2
Net loss from continuing operations	$ (337.0)	$ (508.1)
Loss per share from continuing operations — basic and diluted	$ (0.71)	$ (1.12)

Significant 2004 Acquisitions

During 2004 we completed the following significant acquisitions, each of which is described in detail below: (i) the acquisition of a controlling interest in UGC, and (ii) the acquisition of a controlling interest in Noos. These acquisitions are collectively referred to herein as the Significant 2004 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 Media Series A common stock valued, for financial reporting purposes, at $152.1 million and a cash payment of $12.8 million. We also incurred $3.0 million of direct 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.

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

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prior recognition of our share of UGC's losses. The following table reflects the amounts allocated to our assets and liabilities upon completion of the January 2004 acquisition of the Founders' shares (amounts in millions):

Cash	$ 310.4
Other current assets	298.8
Property and equipment	3,386.3
Goodwill	2,023.4
Customer relationships(1)	379.1
Trade names	62.4
Other intangible assets	4.5
Investments and other assets	347.5
Current liabilities	(1,407.3)
Long-term debt	(3,615.9)
Deferred income taxes	(754.1)
Other liabilities	(259.5)
Minority interest	(607.7)
Aggregate purchase price	167.9
Issuance of Liberty Media common stock	(152.1)
Aggregate cash consideration (including direct acquisition costs)	$ 15.8

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

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 $152.3 million 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 $104.5 million (including accrued interest) and (ii) $47.8 million 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 $1,020 million 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 $544.3 million.

Acquisitions of Controlling Interest in Noos

On July 1, 2004, UPC Broadband France acquired Noos from Suez SA (Suez). Noos is a provider of digital and analog cable television services and high-speed broadband Internet access services in France. The preliminary purchase price was subject to a review of certain historical financial information of Noos and UPC Broadband France. In January 2005, we completed our purchase price review with Suez, which resulted in the return of €43.7 million ($56.9 million as of January 19, 2005) to our company from an escrow account. The final purchase price for Noos was approximately €567.1 million ($690.0 million at the transaction dates), consisting of €487.1 million ($592.6 million at the transaction date) in cash, a 19.9% equity interest in UPC Broadband France, valued at €71.3 million ($86.8 million at the transaction date) and €8.7 million ($10.6 million at the transaction date) of direct acquisition costs. We acquired a controlling interest in Noos in order to achieve certain financial, operational and strategic benefits through the integration of Noos with our existing operations in France.

We 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 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 €9.7 million ($12.8 million) associated with the dilution of its ownership interest in UPC Broadband France as a result of the Noos transaction. Our $6.1 million 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 millions):

Working capital	$ (106.7)
Property, plant and equipment	769.9
Intangible assets(1)	11.8
Other long-term assets	4.0
Other long-term liabilities	(7.1)
Minority interest(2)	(85.4)
Equity in UPC Broadband France	6.1
Cash consideration for Noos	592.6
Less cash acquired	(18.8)
Net cash consideration for Noos	$ 573.8

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

(2) 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.

As discussed above under *Other 2005 Acquisitions*, in April 2005 a subsidiary of UPC Holding exercised its call right and purchased the remaining 19.9% minority interest in UPC Broadband France that it did not already own for €90.1 million ($116.0 million at the transaction date) in cash. No effect has been given to the July 2004 acquisition of Noos and the April 2005 acquisition of the minority interest in UPC Broadband France in the pro forma information presented above because, as described in note 6, UPC France's operations have been reclassified to discontinued operations.

Other 2004 Acquisition

PHL — On May 20, 2004, we acquired all of the issued and outstanding ordinary shares of Princes Holdings Limited (PHL) for €2.4 million, including €0.4 million of acquisition costs ($2.9 million at the transaction date). 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 €75.0 million ($89.5 million at the transaction date) to PHL. The proceeds from this loan were used to provide funds to discharge liabilities pursuant to a debt restructuring plan and to provide funds for capital expenditures and working capital. We 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. Our results of operations would not have been materially affected if the PHL acquisition had occurred on January 1, 2004.

(6) Dispositions

Discontinued Operations

UPC Norway — On December 19, 2005, we reached an agreement to sell 100% of UPC Norway to an unrelated third party. On January 19, 2006, we sold UPC Norway for cash proceeds of approximately €444.8 million ($536.7 million at the transaction date). On January 24, 2006, €175 million ($214 million at the transaction date) of the proceeds from the sale of UPC Norway were applied toward the prepayment of borrowings under the UPC Broadband Holding Bank Facility. See note 11. The amounts repaid may be reborrowed subject to covenant compliance. In accordance with SFAS 144, we have presented UPC Norway as a discontinued operation in our consolidated financial statements effective December 31, 2005. UPC Norway's net results for the 2006 period through the date of sale were not significant. In connection with the January 19, 2006 disposal of UPC Norway, we recognized a net gain of $223.1 million that includes realized cumulative foreign currency translation losses of $1.7 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statement of operations. Prior to its disposal, we included UPC Norway in our Other Western Europe reportable segment.

UPC Sweden — On April 4, 2006, we reached an agreement to sell 100% of UPC Sweden to a consortium of unrelated third parties. On June 19, 2006, we sold UPC Sweden for cash proceeds of Swedish krona (SEK) 2,984 million ($403.9 million at the transaction date) and the assumption by the buyer of capital lease obligations with an aggregate balance of approximately SEK 251 million ($34.0 million at the transaction date). We were required to use €150 million ($188.6 million at the transaction date) of the UPC Sweden sales proceeds to prepay borrowings under the UPC Broadband Holding Bank Facility. The amounts repaid may be reborrowed subject to covenant compliance. Effective March 31, 2006, we began accounting for UPC Sweden as a discontinued operation in our consolidated financial statements in accordance with SFAS 144. In connection with the June 19, 2006 disposal of UPC Sweden, we recognized a net gain of $155.2 million that includes realized cumulative foreign currency translation gains of $4.4 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statement of operations. Prior to its disposal, we included UPC Sweden in our Other Western Europe reportable segment.

UPC France — On July 19, 2006, we sold our 100% interest in UPC France to a consortium of unrelated third parties for cash proceeds of €1,253.2 million ($1,578.4 million at the transaction date), subject to post-closing adjustments. Effective June 1, 2006, we began accounting for UPC France as a discontinued operation in our consolidated financial statements in accordance with SFAS 144. Other than severance and bonus payments that were paid in connection with the disposition, UPC France's net results from July 1, 2006 through the date of sale were not significant. Pursuant to the terms of the UPC Broadband Holding Bank Facility, we are required to use €290.0 million ($365.3 million at the transaction date) of the cash proceeds from the UPC France sale to prepay or otherwise provide for the prepayment of a portion of the amounts outstanding under the UPC Broadband Holding Bank Facility. As permitted by the UPC Broadband Holding Bank Facility, we initially placed cash proceeds equal to the €290.0 million required prepayment in a restricted account that is reserved for the prepayment of amounts outstanding under the UPC Broadband Holding Bank Facility. In September 2006, we used €105.0 million ($138.5 million) of the amounts held in the UPC Holding restricted account, together with available cash of €25.0 million ($33 million), to repay amounts outstanding under the UPC Broadband Holding Bank Facility. During the fourth quarter of 2006, the UPC Broadband Bank Facility was amended to eliminate the requirement to use the remaining €185.0 million ($244.0 million) to prepay borrowings under the UPC Broadband Holding Bank Facility provided that such amount was reinvested in the business prior to a specified date. As a result of this amendment, the funds were withdrawn from the blocked account in December 2006 and reinvested in the business. In connection with the July 19, 2006 disposal of UPC France, we recognized a net gain of $625.4 million that includes realized cumulative foreign currency translation losses of $18.6 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statements of operations. Prior to its disposal, we presented UPC France as a separate reportable segment.

PT Norway — On June 9, 2006, our subsidiary, Priority Telecom BV (Priority Telecom), disposed of its 100% interest in PT Norway. Effective June 1, 2006, we began accounting for PT Norway as a discontinued operation in our consolidated financial statements in accordance with SFAS 144. In connection with the disposal of PT Norway, we recognized a net gain of $29.7 million that includes realized cumulative foreign currency translation losses of $0.4 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statement of operations. Prior to its disposal, we included PT Norway in our corporate and other category.

Operating Results of Discontinued Operations

The operating results that are included in discontinued operations are presented in the following table:

	Year ended December 31,		
	2006(1)	2005(2)	2004(2)
		amounts in millions	
Revenue	$ 325.4	$ 767.3	$ 531.5
Operating income (loss)	$ 25.1	$ 16.8	$ (38.1)
Earnings (loss) before income taxes and minority interests	$ 7.0	$ (31.2)	$ (66.5)
Net earnings (loss) from discontinued operations	$ 6.8	$ (20.5)	$ (28.5)

(1) Includes UPC Sweden, UPC France and PT Norway.

(2) Includes UPC Norway, UPC Sweden, UPC France and PT Norway.

As noted above, we were required to use proceeds from the UPC Norway, UPC Sweden and UPC France dispositions to repay certain amounts outstanding under the UPC Broadband Holding Bank Facility. Interest expense related to such required debt repayments of $17.9 million, $43.9 million and $29.5 million for the years ended December 31, 2006, 2005 and 2004, respectively, is included in discontinued operations in our consolidated statements of operations.

The major assets and liabilities of UPC Norway that are included in discontinued operations in our consolidated balance sheet as of December 31, 2005 are as follows (amounts in millions):

Current assets	$ 14.7
Property and equipment, net	162.9
Intangible and other assets, net	167.0
Total assets	$ 344.6
Current liabilities	$ 35.3
Other long-term liabilities	9.6
Total liabilities	$ 44.9

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Other Dispositions

UPC Belgium NV/SA — On December 31, 2006, we sold UPC Belgium NV/SA (UPC Belgium), a wholly owned subsidiary of UPC Holding that owns and operates broadband communications systems in Belgium, to Telenet Group Holding NV, an equity method affiliate that also owns and operates broadband communication systems in Belgium. For additional information, see note 7.

Sky Brasil — On August 23, 2006, following receipt of the necessary regulatory approvals, we completed the sale of our investment in a DTH satellite provider that operates in Brazil (Sky Brasil). Upon the completion of this transaction, the contingent obligation to refund the $60.0 million of cash consideration that we received for our Sky Brasil interest in October 2004 was eliminated. We recognized a $16.9 million pre-tax gain in connection with this transaction.

Primacom — On August 10, 2006, we sold our equity method investment in PrimaCom AG. We recognized a $35.8 million pre-tax gain in connection with this transaction.

Sky Mexico — On February 16, 2006, we received $88.0 million in cash upon the sale of our cost investment in a DTH satellite provider that operates in Mexico (Sky Mexico). We recognized a $45.3 million pre-tax gain in connection with this transaction.

SBS Investment — On November 8, 2005, we received cash consideration of €276.4 million ($325.6 million at the transaction date) in connection with the disposition of our 19% ownership interest in SBS Broadcasting SA (SBS), a European commercial television and radio broadcasting company. We recorded a pre-tax gain of $89.1 million in connection with this transaction. Consistent with our classification of our SBS shares as available-for-sale securities, the above-described gain was reflected as a component of our accumulated other comprehensive earnings (loss) account prior to its reclassification into our consolidated statement of operations.

The Wireless Group Investment — In June 2005, we sold our equity method investment in The Wireless Group plc for cash proceeds of £20.3 million ($37.1 million at the transaction date). We recorded a pre-tax gain of $17.3 million in connection with this transaction.

TyC and FPAS Equity Method Investments — On April 29, 2005, we sold our equity method investment in Fox Pan American Sports, LLC (FPAS), and a $4 million convertible subordinated note issued by FPAS, to another unaffiliated member of FPAS for a cash purchase price of $5 million. In addition, our majority owned subsidiary, Liberty Programming Argentina, LLC (LPA LLC), sold its equity method investment in Torneos y Competencias SA (TyC) to an unrelated entity for total consideration of $20.9 million, consisting of $13.0 million in cash and a $7.9 million secured promissory note issued by FPAS and assigned to our company by the purchaser. The owner of the minority interest in LPA LLC received $3.6 million of the total consideration received in connection with the sale of TyC upon the redemption of such interest. At March 31, 2005, we considered our investments in TyC and FPAS to be held for sale. As a result, we included cumulative foreign currency translation losses of $86.0 million in the carrying value of our investment in TyC for purposes of our March 31, 2005 impairment assessment. As a result of this analysis, we recorded a $25.4 million impairment charge during the three months ended March 31, 2005 to write-off the full amount of our investment in the equity of TyC at March 31, 2005. This impairment charge is included in share of results of affiliates, net, in our consolidated statement of operations. In the second quarter of 2005, we recognized an additional pre-tax loss of $62.7 million in connection with the April 29, 2005 sale of TyC and the related realization of cumulative foreign currency translation losses. Pursuant to GAAP, the recognition of cumulative foreign currency translation gains or losses is permitted only when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity.

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Cablevisión Subscription Rights — In March 2005, we completed the sale of a subscription right with respect to Cablevisión SA (Cablevisión) to an unaffiliated third party for aggregate cash consideration of $40.5 million. For additional information, see note 17.

EWT Holding GmbH Investment — In January 2005, we sold our equity method investment in EWT Holding GmbH (EWT), which indirectly owned a broadband communications provider in Germany, for €30.0 million ($39.1 million at the transaction dates) in cash. We received €27.0 million ($35.4 million at the transaction date) of the sale price in January 2005, and we received the remainder in June 2005. We recorded a pre-tax gain of $28.2 million in connection with this transaction.

Telewest Investment — On July 19, 2004, our investment in Telewest Communications plc Senior Notes and Senior Discount Notes was converted into 18,417,883 shares or 7.5% of the then issued and outstanding common stock of Telewest Global Inc. (Telewest), the successor to Telewest Communications plc. In connection with this transaction, we recognized a pre-tax gain of $168.3 million, 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 $215.7 million, resulting in a pre-tax loss of $16.4 million. Based on our third quarter 2004 determination that we would dispose of all remaining Telewest shares during the fourth quarter of 2004, the $12.4 million 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 earnings (loss) account prior to their reclassification into our consolidated statements of operations.

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

Our equity method affiliates generally are engaged in the cable and/or programming businesses in various foreign countries. The following table includes our carrying value and percentage ownership of certain of our investments in affiliates:

	December 31, 2006		December 31, 2005
	Percentage ownership	Carrying amount	Carrying amount
		amounts in millions	
Telenet Group Holding NV (Telenet)	(a)	$ 523.3	$ 293.5
Jupiter TV Co., Ltd. (Jupiter TV)	50%	293.3	266.4
Mediatti Communications, Inc. (Mediatti)	(b)	61.3	59.1
Other	Various	184.8	170.0
		$ 1,062.7	$ 789.0

(a) For a description of our indirect ownership interest in Telenet, see the discussion under Telenet below.

(b) At December 31, 2006, we held our ownership interest in Mediatti through a 95.2% owned subsidiary, which in turn owned a 45.6% voting interest in Mediatti.

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

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
Telenet	$ (24.3)	$ (33.5)	$ —
Jupiter TV	34.4	27.8	14.6
Mediatti	(5.3)	(6.9)	(2.3)
Austar	—	13.1	1.0
Super Media/J:COM	—	—	45.1
Other	8.2	(23.5)	(19.7)
	$ 13.0	$ (23.0)	$ 38.7

Our share of results of affiliates includes losses related to other-than-temporary declines in the value of our equity method investments of $0.4 million, $29.2 million and $26.0 million during 2006, 2005 and 2004, respectively. The 2005 and 2004 other-than-temporary losses are primarily related to our investments in TyC, Metrópolis and FPAS, which are included in other in the above tables. See notes 5 and 6.

At December 31, 2006 and 2005, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates' net assets by $690.0 million and $566.8 million, 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. At December 31, 2006, such estimated useful lives ranged from 5 to 10 years.

Telenet

General — Telenet is the largest broadband communications operator in Belgium in terms of number of subscribers. At December 31, 2006 and 2005, we indirectly owned 29,092,474 or 28.8% and 20,611,336 or 20.6%, respectively, of Telenet's then outstanding ordinary shares, including 10,134,118 and 7,722,918 shares, respectively, that were held by our indirect wholly owned subsidiaries, and 18,958,356 and 12,888,418 shares, respectively, that were held through Belgian Cable Investors, a Delaware partnership (Belgian Cable Investors) and a majority owned subsidiary of Chellomedia. The shares held by Belgian Cable Investors at December 31, 2006 include 6,750,000 shares that are held directly by Belgian Cable Investors and 12,208,356 shares that are held by certain entities that are majority owned by Belgian Cable Investors (the Investcos). The December 31, 2005 share amounts include 680,062 shares owned by the Investcos that were attributed to other co-investors in Telenet. At December 31, 2006 and 2005, our Telenet shares had a market value of €624.0 million ($823.0 million) and €325.7 million ($385.3 million), respectively.

2006 Transactions — Acquisition of Additional Telenet Interests — As discussed in greater detail below, we acquired 8,481,138 of Telenet's outstanding ordinary shares from third parties during November and December of 2006.

On November 13, 2006, Belgian Cable Investors, paid cash consideration of €135.0 million ($172.9 million at the transaction date) or €20.00 ($25.62 at the transaction date) per share, before direct acquisition costs, to exercise certain call options to acquire 6,750,000 ordinary shares of Telenet from various members of the "Mixed Intercommunales" (entities comprised of certain Flanders municipalities and Electrabel NV). The Mixed Intercommunales and certain of our subsidiaries are members of a syndicate (the Telenet Syndicate) that controls

Telenet by virtue of the Telenet Syndicate's collective ownership of a majority of the outstanding Telenet shares. As a result of this transaction and as further described below, we obtained sufficient governance rights to allow us to exercise voting control over Telenet. As we did not obtain regulatory approval to exercise our voting control over Telenet until February 26, 2007, we continued to use the equity method to account for Telenet through December 31, 2006. We will begin accounting for Telenet as a consolidated subsidiary effective January 1, 2007.

Under the agreement between the Telenet Syndicate shareholders (the Syndicate Agreement) we have the right (which we could not exercise until we obtained competition clearance from the European Commission on February 26, 2007) to nominate nine of the 17 members of the Telenet Board and the other Telenet Syndicate shareholders are obligated to vote for such nominees at the relevant Telenet shareholders meeting. Under the Syndicate Agreement and the Telenet Articles of Association, certain Telenet Board decisions must receive the affirmative vote of varying majorities of the directors nominated by the other Telenet Syndicate shareholders in order to be effective. Based on the shareholdings of the other Telenet Syndicate shareholders at December 31, 2006, these special voting requirements currently apply only to certain minority-protective decisions including affiliate transactions, incurrence of debt in excess of that required to fund Telenet's business plan and dispositions of assets representing more than 20% of Telenet's fair market value.

Belgian Cable Holdings, a Delaware partnership (Belgian Cable Holdings), an indirect subsidiary of Chellomedia, owns a majority common equity interest and a 100% preferred interest in Belgian Cable Investors. Belgian Cable Holdings provided 100% of the funding for Belgian Cable Investors' acquisition of 6,750,000 Telenet shares on November 13, 2006, as described above. In connection with this funding, the interest in Belgian Cable Investors of Cable Partners Belgium LLC (Cable Partners Belgium), an unrelated third party and the minority investor in Belgian Cable Investors was diluted effective in January 2007 from 21.6% to 10.5%. At December 31, 2006 and 2005, the accreted value of Belgian Cable Holdings' preferred interest in Belgian Cable Investors was $216.1 million and $182.6 million, respectively.

In addition, in November 2006, LGI Ventures BV (LGI Ventures), formerly Chellomedia Investments BV, a wholly owned subsidiary of Chellomedia, paid cash consideration of €22.2 million ($28.4 million at the transaction date), before direct acquisition costs, to acquire 931,138 Telenet shares and 136,464 warrants to purchase 409,392 Telenet shares from certain of our co-investors in Telenet. In December 2006, Liberty Global Europe, the indirect parent of Chellomedia, paid cash consideration of €17.2 million ($22.5 million at the transaction date), before direct acquisition costs, to acquire 800,000 Telenet shares through open market purchases.

Also in November 2006, the Investcos distributed 680,062 Telenet shares and 1,159 warrants to purchase 3,477 Telenet shares to certain of our co-investors in Telenet in exchange for the redemption of €14.0 million ($18.0 million at the transaction date) of the then redemption value of certain mandatorily redeemable securities of the Investcos that were held by these Telenet co-investors. These shares and warrants were in turn sold by the Telenet co-investors to LGI Ventures for cash consideration of €14.0 million ($18.0 million at the transaction date), before direct acquisition costs. With the exception of the redemption of the Investcos' mandatorily redeemable securities (which securities are further described below), the impact of these transactions is eliminated in consolidation as each of LGI Ventures and the Investcos were consolidated subsidiaries of Chellomedia at the transaction date. Following this redemption, the estimated redemption value of the remaining outstanding mandatorily redeemable securities of the Investcos that were held by third parties was reduced to an insignificant amount.

The Investcos' securities mentioned above have been mandatorily redeemable at the option of the third-party holders since the October 2005 IPO of Telenet (see below). The estimated redemption value of the Investcos' securities held by third parties is included in debt in our consolidated balance sheets and changes in the estimated redemption value of the Investcos' securities held by third parties are included in interest expense in our consolidated statements of operations. During 2006 and 2005, we recorded increases to the estimated redemption value of these securities aggregating €3.3 million ($4.1 million at the average rate during the period) and €28.3 million ($34.1 million at the average rate during the period), respectively.

2006 Transactions — Sale of UPC Belgium to Telenet — On December 31, 2006, we sold UPC Belgium to Telenet for cash consideration of €184.5 million ($243.3 million at the transaction date), after deducting cash received to settle net cash and working capital adjustments of €20.9 million ($27.6 million at the transaction date). The terms of this transaction were voted on and approved by Telenet's board of directors, with the Telenet board members affiliated with LGI abstaining from the vote. In connection with this transaction, we recognized a pre-tax gain of $104.7 million after eliminating the percentage of the gain equal to our ownership interest in Telenet at December 31, 2006. The pre-tax gain recognized includes realized foreign currency transaction gains of $7.3 million. Due to our continuing ownership interest in Telenet, we have not accounted for UPC Belgium as a discontinued operation.

2005 Transactions — On October 14, 2005, Telenet completed an IPO at a price of €21 ($25.26 at the transaction date) per share of 30,553,293 ordinary shares held by existing shareholders, and 13,333,333 newly issued Telenet ordinary shares. In connection with the dilution of the Investcos' ownership interest in Telenet from 18.9% to 16.4% as a result of the Telenet IPO, we recorded a gain of €31.5 million ($38.4 million at the transaction date), which is reflected as an increase to additional paid-in capital in our consolidated statement of stockholders' equity. No deferred income taxes were required to be provided on this gain.

In connection with the Telenet IPO, LGI Ventures purchased 7,722,918 of Telenet's ordinary shares on October 14, 2005 for an aggregate cash purchase price of €160.2 million ($193.7 million at the transaction date). As a result of the purchases, LGI Ventures and Belgian Cable Investors increased their combined economic ownership in the outstanding ordinary shares of Telenet from 14.1% to 19.9%, representing the 7,722,918 shares purchased by LGI Ventures and Belgian Cable Investors' attributed ownership of 12,208,356 or 94.7% of the 12,888,418 shares then held directly by the Investcos. Following the completion of the Telenet IPO and related transactions (including the LGI Ventures purchases), LGI Ventures and Belgian Cable Investors together exercised voting control over a total of 21.5% of the Telenet shares outstanding following the Telenet IPO.

In connection with the consummation of the Telenet IPO on October 14, 2005, the Investcos' securities held by third parties became immediately redeemable at the option of the holder, and the Investcos redeemed €73.0 million ($88.2 million at the transaction date) of the then estimated redemption value of these securities subsequent to the Telenet IPO in October 2005. In connection with Telenet's October 2005 IPO, we recorded a €33.3 million ($41.6 million at the average rate for the period) increase in the estimated redemption value of the Investcos' securities.

2004 Transactions — On December 16, 2004, certain indirect wholly owned subsidiaries of Chellomedia, acquired LMI's wholly owned subsidiary Belgian Cable Holdings for $121.1 million in cash. Belgian Cable Holding's only assets were debt securities of Cable Partners Belgium, its parent, Cable Partners Europe and one of the Investcos and related contract rights. The purchase price was equal to LMI's carrying value for the debt securities, which included an unrealized gain of $10.5 million. On December 17, 2004, UGC entered into a restructuring transaction with Cable Partners Belgium and certain other parties. In this restructuring, Belgian Cable Holdings purchased equity of Belgian Cable Investors, consisting of a majority common equity interest and a 100% preferred equity interest for cash proceeds of $138.0 million and the Investco debt security. Belgian Cable Investors then distributed $115.6 million of these proceeds to Cable Partners Belgium, which used the proceeds to repurchase the Cable Partners Belgium debt securities held by Belgian Cable Investors. As previously described in this note, Cable Partners Belgium's common equity interest in Belgian Cable Investors was diluted from 21.6% to 10.5% in connection with Belgian Cable Investors' November 13, 2006 acquisition of an additional interest in Telenet.

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Other — We hold certain call options and warrants with respect to Telenet ordinary shares. For additional information, see note 9.

As further described in note 21, Cable Partners Belgium has the right to require Belgian Cable Holdings to purchase all of Cable Partners Belgium'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.

Summarized financial information of Telenet for the periods in which we used the equity method to account for Telenet is as follows:

	December 31, 2006	December 31, 2005
	amounts in millions	
Financial Position		
Current assets	$ 221.9	$ 399.9
Property and equipment, net	1,291.4	1,116.9
Goodwill	1,295.8	1,201.7
Other assets, net	606.5	374.5
Total assets	$ 3,415.6	$ 3,093.0
Current liabilities	$ 551.2	$ 616.6
Debt	1,786.1	1,577.8
Other liabilities	121.4	57.5
Shareholders' equity	956.9	841.1
Total liabilities and shareholders' equity	$ 3,415.6	$ 3,093.0

	Year ended December 31, 2006	Year ended December 31, 2005
	amounts in millions	
Results of Operations		
Revenue	$ 1,020.8	$ 916.2
Operating, selling, general and administrative expenses	(568.4)	(505.2)
Depreciation and amortization	(272.8)	(246.2)
Operating income	179.6	164.8
Interest expense, net	(111.7)	(239.4)
Other, net	(53.9)	(15.9)
Net earnings (loss)	$ 14.0	$ (90.5)

Jupiter TV

Jupiter TV, formerly Jupiter Programming Co., Ltd., 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 *Jupiter Shop Channel*.

On April 22, 2004, Jupiter TV issued 24,000 shares of Jupiter TV ordinary shares to Sumitomo for ¥6,000 million ($54.3 million at the transaction date). On April 26, 2004, Jupiter TV paid ¥3,000 million ($27.7 million at the transaction date) to each of our company and Sumitomo to redeem 12,000 shares of Jupiter TV 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 Jupiter TV in exchange for 24,000 ordinary shares of Jupiter TV valued at ¥6,000 million ($54.8 million at the transaction date). We recognized a $25.3 million 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.

Summarized financial information of Jupiter TV is as follows:

	December 31, 2006	December 31, 2005
	amounts in millions	
Financial Position		
Current assets	$ 320.8	$ 237.4
Investments	70.5	70.6
Property and equipment, net	63.6	47.1
Intangible and other assets, net	58.8	59.2
Total assets	$ 513.7	$ 414.3
Current liabilities	$ 193.7	$ 179.1
Long-term debt and capital leases	17.3	31.1
Other liabilities	10.3	6.3
Minority interest	77.8	48.7
Owners' equity	214.6	149.1
Total liabilities and owners' equity	$ 513.7	$ 414.3

	Year ended December 31, 2006	2005	2004
		amounts in millions	
Results of Operations			
Revenue	$ 961.2	$ 798.1	$ 562.9
Operating, selling, general and administrative expenses	(752.3)	(636.5)	(478.9)
Depreciation and amortization	(21.2)	(16.2)	(12.8)
Operating income	187.7	145.4	71.2
Other, net	(108.1)	(77.1)	(38.9)
Earnings from continuing operations	$ 79.6	$ 68.3	$ 32.3
Net earnings	$ 68.8	$ 55.1	$ 29.9

Mediatti

Mediatti is a provider of cable television and broadband Internet access services in Japan. 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 ($52.5 million). In 2005 we acquired an additional 5,863 Mediatti shares for an aggregate cash purchase price of ¥1,701 million ($14.3 million). Our interest in Mediatti is held through Liberty Japan MC LLC, (Liberty Japan MC), a company of which we own 95.2% and Sumitomo owns 4.8%.

In February 2006, Liberty Japan MC acquired an additional 3.1% voting interest in Mediatti for cash consideration of ¥1,044 million ($8.8 million at the transaction date). At December 31, 2006, Liberty Japan MC owned a 45.6% voting interest in Mediatti.

Summarized financial information of Mediatti is as follows:

	December 31, 2006	December 31, 2005
	amounts in millions	
Financial Position		
Current assets	$ 48.7	$ 36.9
Investments	6.7	6.4
Property and equipment, net	197.2	130.2
Intangibles and other assets, net	71.2	45.3
Total assets	$ 323.8	$ 218.8
Current liabilities	$ 39.2	$ 32.2
Debt	143.6	70.2
Other liabilities	52.5	28.1
Minority interests	3.5	1.6
Shareholders' equity	85.0	86.7
Total liabilities and shareholders' equity	$ 323.8	$ 218.8

	Year ended December 31, 2006	2005	2004
		amounts in millions	
Results of Operations			
Revenue	$ 87.5	$ 78.4	$ 51.7
Operating, selling, general and administrative expenses	(67.0)	(56.9)	(38.9)
Depreciation and amortization	(27.9)	(32.0)	(20.0)
Operating loss	(7.4)	(10.5)	(7.2)
Other, net	(4.5)	(7.1)	(2.3)
Net loss	$ (11.9)	$ (17.6)	$ (9.5)

Super Media/J:COM

As further described in note 5, we accounted for our ownership interests in Super Media/J:COM using the equity method of accounting through December 31, 2004. As a result of a February 2005 change in the governance of Super Media, we began accounting for Super Media and J:COM as consolidated subsidiaries effective January 1, 2005.

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 billion ($275.7 million at the transaction date). Such amount includes ¥14.065 billion ($129.2 million at the transaction date) 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.

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On December 21, 2004, we received cash proceeds of ¥42.755 billion ($410.1 million at the transaction date) 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 a pre-tax gain of $55.4 million in our statement of operations related to foreign currency translation gains that previously had been reflected in accumulated other comprehensive earnings (loss).

Summarized results of operations information of J:COM for 2004, the period in which we used the equity method to account for J:COM is as follows (amounts in millions):

Results of Operations	
Revenue	$ 1,504.7
Operating, selling, general and administrative expenses	(915.9)
Depreciation and amortization	(378.9)
Operating income	209.9
Interest expense, net	(94.9)
Other, net	(15.5)
Net earnings	$ 99.5

Austar

As described in note 5, we completed a transaction on December 14, 2005 that increased our indirect ownership of Austar, a DTH company in Australia, from an indirect 36.7% non-controlling ownership interest to a 55.2% controlling interest. As a result of this transaction, we began using the consolidation method to account for our investment in Austar. Prior to obtaining a controlling interest in Austar, we used the equity method to account for our indirect investment in Austar. Summarized results of operations of Austar for the periods in which we used the equity method to account for Austar are presented below:

	Year ended December 31,	
	2005	2004
	amounts in millions	
Results of Operations		
Revenue	$ 345.7	$ 284.2
Operating, selling, general and administrative expenses	(245.7)	(218.1)
Depreciation and amortization	(49.4)	(43.8)
Operating income	50.6	22.3
Interest expense, net	(23.4)	(23.0)
Other, net	17.8	3.9
Net earnings	$ 45.0	$ 3.2

Other

We have various other current and former equity affiliates, including (i) an indirect 50% ownership interest in Melita Cable Plc (Melita), a broadband operator in Malta, (ii) certain businesses that own thematic channels in Spain and Portugal (IPS), which became consolidated subsidiaries of LGI in November 2005 and (iii) PrimaCom AG (PrimaCom), a broadband communications provider in Germany, which we sold in August 2006. Summarized financial information of these equity method affiliates for the periods in which we used the equity method to account for these entities are presented below.

	Melita December 31, 2006	Melita December 31, 2005	PrimaCom December 31, 2005
	amounts in millions		
Financial Position			
Current assets	$ 13.7	$ 7.5	$ 25.2
Property and equipment, net	69.6	57.7	280.6
Intangible and other assets, net	—	—	268.6
Total assets	$ 83.3	$ 65.2	$ 574.4
Current liabilities	$ 53.9	$ 33.3	$ 113.6
Debt and capital leases	6.2	12.9	373.2
Other liabilities	—	—	31.6
Minority interest	—	—	0.5
Owners' equity	23.2	19.0	55.5
Total liabilities and owners' equity	$ 83.3	$ 65.2	$ 574.4

	Melita			IPS		PrimaCom(a)	
	Year ended December 31,			Ten months ended October 31,	Year ended December 31,	Year ended December 31,	
	2006	2005	2004	2005	2004	2005	2004
	amounts in millions						
Results of Operations							
Revenue	$ 39.8	$ 34.2	$ 29.7	$ 43.6	$ 51.8	$ 147.1	$ 151.4
Operating, selling, general and administrative expenses	(20.2)	(15.3)	(14.7)	(23.9)	(25.4)	(88.5)	(89.6)
Depreciation and amortization	(5.6)	(4.8)	(4.7)	(1.0)	(0.9)	(53.2)	(56.6)
Operating income	14.0	14.1	10.3	18.7	25.5	5.4	5.2
Other, net	(6.2)	(6.6)	(4.8)	(9.7)	(9.7)	130.6	(89.7)
Earnings (loss) from continuing operations	$ 7.8	$ 7.5	$ 5.5	$ 9.0	$ 15.8	$ 136.0	$ (84.5)
Net earnings (loss)	$ 7.8	$ 7.5	$ 5.5	$ 9.0	$ 15.8	$ 300.3	$ (136.3)

(a) As discussed in note 6, we disposed of our investment in PrimaCom on August 10, 2006. Although we used the equity method to account for PrimaCom through August 10, 2006, this presentation does not include PrimaCom's summarized results of operations data for the 2006 period ended on August 10, 2006. This data has been omitted because (i) such information is not readily available and (ii) PrimaCom's results of operations during the 2006 period had no significant impact on our operating results due to the fact that our share of PrimaCom's losses during the period ended August 10, 2006 was limited to the $4.9 million carrying value of our investment in PrimaCom at December 31, 2005.

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Dispositions

During 2006 and 2005, we sold a number of our equity method investments. For additional information, see note 6.

(8) Other Investments

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

	December 31, 2006	December 31, 2005
	amounts in millions	
ABC Family	$ 351.0	$ 365.1
News Corp.	118.1	85.5
Other	8.5	118.4
Total other investments	$ 477.6	$ 569.0

Our investments in ABC Family and News Corp. are accounted for as available-for-sale securities.

ABC Family

At December 31, 2006, 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 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 Media contributed this interest to our company in connection with the spin off. We recognized dividend income on our investment in shares of ABC Family preferred stock of $31.1 million during each of 2006 and 2005 and $18.2 million during the period from the Spin Off Date through December 31, 2004. During 2006 and 2005, we recognized losses of $13.8 million and $3.4 million, respectively, to reflect other-than-temporary declines in the fair value of our investment in ABC Family preferred stock. As further described in note 11, our interest in ABC Family preferred stock is pledged as security for certain indebtedness.

News Corp.

Liberty Media 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 $83.7 million ($29.8 million of which was received in 2005), resulting in a pre-tax gain of $37.2 million. Accordingly, we owned 5,500,000 shares of News Corp. Class A common stock at December 31, 2006 and 2005. In August 2005, we entered into a prepaid forward sale transaction with respect to our investment in News Corp. Class A common stock. See note 9.

Unrealized holding gains and losses

Unrealized holding gains 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,			
	2006		2005	
	Equity securities	Debt Securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	$ 61.3	$ —	$ 28.7	$ —

Dispositions

During 2006, 2005 and 2004, we sold a number of our cost and available-for-sale investments. For additional information, see note 6.

(9) Derivative Instruments

Through our subsidiaries, we have entered into various derivative instruments to manage interest rate and foreign currency exposure. With the exception of J:COM's interest rate swaps, which are accounted for as cash flow hedges, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of all other derivative instruments are recorded in realized and unrealized gains (losses) on financial and derivative instruments in our consolidated statements of operations. The following table provides details of the fair value of our financial and derivative instrument assets (liabilities), net:

	December 31,	
	2006	2005
	amounts in millions	
Cross-currency and interest rate exchange contracts	$ (174.6)	$ 174.6
Embedded derivatives(1)	3.1	1.0
Foreign exchange contracts	28.0	6.3
Call and put contracts	37.4	12.9
Other	—	0.8
Total(1)	$ (106.1)	$ 195.6
Current asset	$ 51.0	$ 7.3
Long-term asset	166.5	227.9
Current liability	(40.3)	(22.4)
Long-term liability	(283.3)	(17.2)
Total(1)	$ (106.1)	$ 195.6

(1) Excludes embedded derivative components of the UGC Convertible Notes (see note 11) at December 31, 2005 and the prepaid forward sale of News Corp. Class A common stock at December 31, 2006 and 2005, as all amounts related to these items are included in long-term debt and capital lease obligations in our consolidated balance sheets. As discussed in note 23, we changed our method of accounting for the UGC Convertible Notes effective January 1, 2006.

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

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
Cross-currency and interest rate exchange contracts	$ (312.0)	$ 216.0	$ (64.1)
Embedded derivatives(1)	(22.8)	70.0	23.0
UGC Convertible Notes(2)	(82.8)	—	—
Foreign exchange contracts	21.3	11.7	0.2
Call and put contracts	44.5	8.8	1.7
Other	4.2	3.5	3.4
Total	$ (347.6)	$ 310.0	$ (35.8)

(1) Includes gains and losses associated with the embedded derivative component of the UGC Convertible Notes during 2005 and 2004 and the forward sale of the News Corp. Class A common stock during 2006 and 2005. As discussed in note 23, we changed our method of accounting for the UGC Convertible Notes effective January 1, 2006.

(2) Represents the change in the fair value of the UGC Convertible Notes during 2006 that is not attributable to the remeasurement of the UGC Convertible Notes into U.S. dollars. Gains and losses arising from the remeasurement of the UGC Convertible Notes into U.S. dollars are reported as foreign currency transaction gains (losses), net.

Cross-currency and Interest Rate Exchange Contracts

The terms of significant outstanding contracts at December 31, 2006, were as follows:

Cross-currency Interest Rate Swaps:

Maturity date	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate (on notional amount) due from counterparty	Interest rate (on notional amount) due to counterparty
	amounts in millions			
UPC Broadband Holding BV (UPC Broadband Holding), a subsidiary of UPC Holding:				
March 2013(a)	$ 525.0	€ 393.5	LIBOR + 2.0%	EURIBOR + 2.18%
March 2013(b)	360.0	272.3	LIBOR + 2.0%	5.70%
December 2013(b)	890.0	671.7	LIBOR + 2.0%	5.77%
	$ 1,775.0	€ 1,337.5		
July 2009(c)	€ 60.0	CZK 1,703.1	5.50%	5.15%
September 2012(c)	200.0	5,800.0	5.46%	5.30%
	€ 260.0	CZK 7,503.1		
July 2009(d)	€ 25.0	SKK 951.1	5.50%	6.58%
September 2012(d)	50.0	1,900.0	5.46%	6.04%
	€ 75.0	SKK 2,851.1		
July 2009(e)	€ 410.0	HUF 118,937.5	5.50%	8.75%
July 2009(f)	€ 245.0	PLN 1,000.6	5.50%	7.00%
December 2009(g)	€ 200.0	RON 709.1	5.50%	10.98%
January 2010(g)	60.0	213.1	5.50%	9.65%
	€ 260.0	RON 922.2		
Chellomedia Programming Financing Holdco BV (Chellomedia PFH), an indirect subsidiary of Chellomedia:				
July 2013(h)	€ 32.5	HUF 8,632.0	5.50%	9.55%
Cablecom Luxembourg S.C.A. (Cablecom Luxembourg), a subsidiary of Cablecom and the parent of Cablecom GmbH:				
September 2012(i)	€ 229.1	CHF 335.8	EURIBOR + 2.50%	CHF LIBOR + 2.46%
VTR(j):				
July 2014	$ 145.0	CLP 80,257.5	LIBOR + 3.0%	11.34%
July 2014	145.0	80,257.5	LIBOR + 3.0%	11.04%
July 2014	185.0	102,397.5	LIBOR + 3.0%	11.07%
	$ 475.0	CLP 262,912.5		

(a) Swap contract effectively converts the underlying principal amount of UPC Broadband Holding's U.S. dollar-denominated LIBOR (London Interbank Offered Rate)-indexed floating rate debt to euro-denominated EURIBOR (Euro Interbank Offered Rate)-indexed floating rate debt for the indicated period.

(b) Swap contract effectively converts the underlying principal amount of UPC Broadband Holding's U.S. dollar-denominated LIBOR-indexed floating rate debt to euro-denominated fixed rate debt for the indicated period.

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(c) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a Czech koruna (CZK)-denominated fixed rate instrument for the indicated period.

(d) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a Slovakian koruna (SKK)-denominated fixed rate instrument for the indicated period.

(e) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a Hungarian forint (HUF)-denominated fixed rate instrument for the indicated period.

(f) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a Polish zloty (PLN)-denominated fixed rate instrument for the indicated period.

(g) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a Romanian new lei (RON)-denominated fixed rate instrument for the indicated period.

(h) Swap contract effectively converts the indicated notional amount from a euro-denominated fixed rate instrument to a HUF-denominated fixed-rate instrument for the indicated period.

(i) Swap contract effectively converts the underlying principal amount of Cablecom Luxembourg euro-denominated EURIBOR-indexed floating rate debt to CHF-denominated LIBOR-indexed floating rate debt for the indicated period.

(j) Each swap contract effectively converts the underlying principal amount of VTR's U.S. dollar-denominated LIBOR-indexed floating rate debt to CLP-denominated fixed rate debt.

Interest Rate Swaps:

Maturity date	Notional amount		Interest rate due from counterparty	Interest rate due to counterparty
	amounts in millions			
UPC Broadband Holding(a):				
January 2007	€	583.0	EURIBOR	2.93%
July 2008		393.5	3 month EURIBOR	6 month EURIBOR+0.01%
January 2009		210.0	EURIBOR	3.58%
April 2010		1,000.0	EURIBOR	3.28%
January 2011		193.5	EURIBOR	3.83%
September 2012		500.0	EURIBOR	2.96%
	€	2,880.0		
Chellomedia PFH:				
December 2013(b)	$	90.0	LIBOR	4.98%
December 2013(c)	€	105.0	EURIBOR	3.95%
LG Switzerland:				
April 2007(d)	€	588.1	EURIBOR	2.82%
Cablecom Luxembourg(e):				
December 2010	CHF	618.5	CHF LIBOR	2.19%
September 2012		711.5	CHF LIBOR	2.33%
	CHF	1,330.0		
Austar Entertainment Pty Ltd. (Austar Entertainment)(f):				
August 2011	AUD	100.0	AUD BBSY	6.38%
August 2011		175.0	AUD BBSY	6.14%
August 2013		130.0	AUD BBSY	6.34%
August 2013		100.0	AUD BBSY	6.38%
	AUD	505.0		

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Maturity date	Notional amount amounts in millions		Interest rate due from counterparty	Interest rate due to counterparty
Liberty Cablevision of Puerto Rico Ltd. (Liberty Puerto Rico):				
June 2013(g)	$	150.0	LIBOR	5.06%
VTR(h):				
July 2007 — July 2014	CLP	55,350.0	TAB	7.75%
July 2008 — July 2014		55,350.0	TAB	7.80%
	CLP	110,700.0		
J:COM(i):				
June 2009	¥	29,394.7	TIBOR	0.52%
December 2009		5,500.0	TIBOR	0.55%
December 2009		1,500.0	TIBOR	0.69%
December 2009		3,000.0	TIBOR	0.70%
September 2010		3,000.0	TIBOR	1.46%
September 2011		2,000.0	TIBOR	1.37%
October 2011		5,000.0	¥ LIBOR	1.33%
October 2011		5,000.0	¥ LIBOR	1.38%
April 2013		10,000.0	¥ LIBOR	1.75%
April 2013		5,000.0	¥ LIBOR	1.71%
April 2013		5,000.0	¥ LIBOR	1.81%
October 2013		5,000.0	¥ LIBOR	1.59%
October 2013		5,000.0	¥ LIBOR	1.67%
October 2013		5,000.0	¥ LIBOR	1.69%
October 2013		4,500.0	¥ LIBOR	1.58%
	¥	93,894.7		

(a) Each contract effectively fixes the EURIBOR on the underlying principal amount of UPC Broadband Holding's euro-denominated debt, as indicated in the table.

(b) This contract effectively fixes the LIBOR on the underlying principal amount of Chellomedia PFH's U.S. dollar-denominated debt.

(c) This contract effectively fixes the EURIBOR on the underlying principal amount of Chellomedia PFH's euro-denominated debt.

(d) At December 31, 2006, this contract effectively fixes the EURIBOR rate on the underlying principal amount of LG Switzerland's euro-denominated debt. The notional amount of this contract increases ratably through January 2007 to a maximum amount of €597.9 million ($788.6 million) and remains at that level through the maturity date of the contract.

(e) Each contract effectively fixes the CHF LIBOR on the underlying principal amount of Cablecom Luxembourg's CHF-denominated debt.

(f) Each contract effectively fixes the AUD BBSY (Australian Bank Bill Swap Rate) on the underlying principal amount of Austar's AUD-denominated debt.

(g) This contract effectively fixes the LIBOR on the underlying principal amount of the U.S. dollar-denominated debt of our Puerto Rico subsidiary.

(h) For the periods indicated in the table, the swap contract effectively fixes the 180-day CLP-denominated Tasa Activa Bancaria (TAB) on the underlying principal amount of VTR's CLP-denominated debt.

(i) These swap agreements effectively fix the TIBOR (Tokyo Interbank Offered Rate) or Japanese yen LIBOR component of the interest rates on borrowings pursuant to J:COM's Credit Facility and on other J:COM debt. See note 11. J:COM accounts for these derivative instruments as cash flow hedging instruments. Accordingly, the effective component of the change in the fair value of these instruments is reflected in other comprehensive earnings (loss), net.

Interest Rate Caps:

Each contract caps the EURIBOR rate on the underlying principal amount of UPC Broadband Holding's euro-denominated debt, as detailed below:

Start date	Maturity date	Notional amount		Cap level
		amounts in millions		
January 2006	January 2007	€	600.0	4.0%
July 2006	January 2007	€	400.0	4.0%

News Corp. prepaid forward sale

On August 2, 2005, we entered into a prepaid forward sale transaction with respect to 5,500,000 shares of News Corp. Class A common stock, which we account for as an available-for-sale investment. In consideration for entering into the forward contract, we received cash consideration of $75.0 million. The forward contract includes a debt host instrument and an embedded derivative. The embedded derivative has the combined economics of a put exercisable by LGI and a call exercisable by the counterparty. As the net fair value of the embedded derivative at the inception date was zero, the full $75.0 million received at the inception date is associated with the debt host contract and such amount represents the present value of the amount to be paid upon the maturity of the forward contract. The forward contract is scheduled to mature on July 7, 2009, at which time we are required to deliver a variable number of shares of News Corp. Class A common stock to the counterparty not to exceed 5,500,000 shares (or the cash value thereof). If the per share price of News Corp. Class A common stock at the maturity of the forward contract is less than or equal to $16.24, then we are required to deliver 5,500,000 shares to the counterparty or the cash value thereof. If the per share price at the maturity is greater than $16.24, we are required to deliver less than 5,500,000 shares to the counterparty or the cash value of such lesser amount, with the number of such shares to be delivered or cash to be paid in this case depending on the extent that the share price exceeds $16.24 on the maturity date. The delivery mechanics of the forward contract effectively permit us to participate in the price appreciation of the underlying shares up to an agreed upon price. We have pledged 5,500,000 shares of News Corp. Class A common stock to secure our obligations under the forward contract. We account for the embedded derivative separately at fair value with changes in fair value reported in our consolidated statements of operations. The fair value of the embedded derivative and the accreted value of the debt host instrument are presented together in the caption long-term debt and capital lease obligations in our consolidated balance sheets, as set forth below:

	December 31,	
	2006	2005
	amounts in millions	
Debt host contract	$ 79.9	$ 76.4
Embedded equity derivative	21.0	(3.5)
	$ 100.9	$ 72.9

Foreign Exchange Contracts

Several of our subsidiaries have outstanding foreign currency forward contracts. Changes in the fair value of these contracts are recorded in realized and unrealized gains (losses) on financial and derivative instruments in our consolidated statements of operations. The following table summarizes our outstanding foreign currency forward contracts at December 31, 2006:

LGI subsidiary	Currency purchased forward		Currency sold forward		Maturity dates
	amounts in millions				
UPC Broadband Holding	€	166.0	CZK	4,700.0	January 2007 — March 2007
J:COM	$	12.1	¥	1,399.2	January 2007 — January 2008
VTR	$	32.1	CLP	17,082.9	January 2007 — November 2007
LG Switzerland	€	606.4	CHF	925.1	April 2007
Austar Entertainment	$	35.9	AUD	48.4	January 2007 — December 2008
Liberty Global Europe Financing BV	$	36.4	CLP	19,360.0	March 2007
Liberty Global Europe Financing BV	$	175.0	€	131.1	January 2007

Cristalerías Put Right

In connection with VTR's April 2005 acquisition of Metrópolis, UGC granted a put right to Cristalerías with respect to the 20% interest in VTR owned by Cristalerías. We account for the Cristalerías put right at fair value, with changes in fair value reported in realized and unrealized gains (losses) on financial and derivative instruments, net. For additional information, see note 5.

Telenet Call Options and Warrants

At December 31, 2006, Belgian Cable Investors held call options to acquire an additional 18,668,826 shares in Telenet, or 18.5% of the total shares outstanding at that date. The call options are priced at €25.00 ($32.97) per share and include 10,093,041 options that expire in August 2007 and 8,575,785 options that expire in August 2009, or earlier under certain circumstances. In addition, at December 31, 2006, the Investcos and LGI Ventures held certain warrants that are convertible at a price of €13.33 ($17.58) per share into 116,523 and 412,869 Telenet ordinary shares, respectively. The warrants held by the Investcos at December 31, 2006 include warrants exercisable for 37,272 shares that are attributable to our co-investors in Telenet. These warrants expire on August 9, 2009. In November 2006, we exercised certain other Telenet call options. For additional information see note 7.

Since the consummation of Telenet's IPO in October 2005 (see note 7), we have accounted for our Telenet call options and warrants as derivative instruments that are carried at fair value, with changes in fair value included in realized and unrealized gains (losses) on financial and derivative instruments in our consolidated statements of operations. Prior to the consummation of the Telenet IPO, these instruments were included with our equity method investment in Telenet and carried at cost, subject to other-than-temporary impairment, due to the fact that the instruments did not then meet the definition of a derivative instrument.

(10) Long-lived Assets

Property and Equipment

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

	December 31,	
	2006	2005
	amounts in millions	
Cable distribution systems	$ 9,835.5	$ 8,559.8
Support equipment, buildings and land	1,224.5	1,161.7
	11,060.0	9,721.5
Accumulated depreciation	(2,923.1)	(1,730.2)
Net property and equipment	$ 8,136.9	$ 7,991.3

Depreciation expense related to our property and equipment was $1,635.8 million, $1,163.9 million and $724.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2006 and 2005, the amount of property and equipment, net, recorded under capital leases was $428.6 million and $342.7 million, respectively. Amortization of assets under capital leases is included in depreciation and amortization in our consolidated statements of operations. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

During the years ended December 31, 2006 and 2005, we recorded $150.4 million and $153.2 million of non-cash increases to our property and equipment, respectively, as a result of assets acquired under capital lease arrangements. Most of these lease arrangements were entered into by J:COM. Our capital lease additions were not significant in 2004.

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Goodwill

Changes in the carrying amount of goodwill during 2006 were as follows:

	January 1, 2006	Acquisition related adjustments	Sale of UPC Belgium	Reclassified to discontinued operations	Release of pre-acquisition valuation allowance	Foreign currency translation adjustments and other	December 31, 2006
				amounts in millions			
UPC Broadband Division:							
The Netherlands	$ 1,270.9	$ 10.0	$ —	$ —	$ (20.2)	$ 142.7	$ 1,403.4
Switzerland	2,165.4	41.7	—	—	—	142.8	2,349.9
France	94.4	0.8	—	(96.9)	—	1.7	—
Austria	646.1	77.1	—	—	(11.9)	79.8	791.1
Other Western Europe	492.0	(23.6)	(93.0)	(159.6)	—	34.2	250.0
Total Western Europe	4,668.8	106.0	(93.0)	(256.5)	(32.1)	401.2	4,794.4
Hungary	352.3	13.8	—	—	—	36.2	402.3
Other Central and Eastern Europe	613.4	287.4	—	—	(5.6)	153.2	1,048.4
Total Central and Eastern Europe	965.7	301.2	—	—	(5.6)	189.4	1,450.7
Total UPC Broadband Division	5,634.5	407.2	(93.0)	(256.5)	(37.7)	590.6	6,245.1
J:COM (Japan)	2,006.3	441.9	—	—	(13.8)	(79.8)	2,354.6
VTR (Chile)	569.9	(0.4)	—	—	(19.8)	(22.1)	527.6
Corporate and other	809.4	(24.4)	—	—	(5.0)	35.3	815.3
Total LGI	$ 9,020.1	$ 824.3	$ (93.0)	$ (256.5)	$ (76.3)	$ 524.0	$ 9,942.6

Changes in the carrying amount of goodwill during 2005 were as follows:

	January 1, 2005	LGI Combination	Other acquisition related adjustments	Reclassified to discontinued operations	Release of pre-acquisition valuation allowances	Foreign currency translation adjustments and other	December 31, 2005
				amounts in millions			
UPC Broadband Division:							
The Netherlands	$ 823.5	$ 573.8	$ —	$ —	$ (5.6)	$ (120.8)	$ 1,270.9
Switzerland	—	—	2,196.7	—	—	(31.3)	2,165.4
France	6.5	66.6	26.8	—	(0.4)	(5.1)	94.4
Austria	545.2	183.9	—	—	(7.3)	(75.7)	646.1
Other Western Europe	282.0	200.0	208.1	(122.9)	(2.0)	(73.2)	492.0
Total Western Europe	1,657.2	1,024.3	2,431.6	(122.9)	(15.3)	(306.1)	4,668.8
Hungary	193.0	198.5	—	—	(0.9)	(38.3)	352.3
Other Central and Eastern Europe	121.4	218.3	290.0	—	(3.1)	(13.2)	613.4
Total Central and Eastern Europe	314.4	416.8	290.0	—	(4.0)	(51.5)	965.7
Total UPC Broadband Division	1,971.6	1,441.1	2,721.6	(122.9)	(19.3)	(357.6)	5,634.5
J:COM (Japan)(1)	2,077.9	—	123.8	—	(40.3)	(155.1)	2,006.3
VTR (Chile)	199.1	101.5	226.9	—	(26.3)	68.7	569.9
Corporate and Other	294.0	74.7	443.9	—	—	(3.2)	809.4
Total LGI(1)	$ 4,542.6	$ 1,617.3	$ 3,516.2	$ (122.9)	$ (85.9)	$ (447.2)	$ 9,020.1

(1) The January 1, 2005 balance includes $1,875.3 million that is associated with the January 1, 2005 consolidation of Super Media / J:COM. See note 5.

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During the years ended December 31, 2006 and 2005, certain of our subsidiaries 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 for prior business combinations, and accordingly, the reversal of the valuation allowance resulted in a reduction to goodwill recorded in the acquisition rather than as an income tax benefit.

Intangible Assets Subject to Amortization, Net

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

	December 31, 2006	December 31, 2005
	amounts in millions	
Gross carrying amount		
Customer relationships	$ 1,797.0	$ 1,600.3
Other	120.0	75.2
	$ 1,917.0	$ 1,675.5
Accumulated amortization		
Customer relationships	$ (308.2)	$ (65.2)
Other	(30.5)	(8.5)
	$ (338.7)	$ (73.7)
Net carrying amount		
Customer relationships	$ 1,488.8	$ 1,535.1
Other	89.5	66.7
	$ 1,578.3	$ 1,601.8

Amortization of intangible assets with finite useful lives was $248.9 million, $110.1 million and $59.1 million in 2006, 2005 and 2004, respectively. Based on our amortizable intangible assets, including amounts classified as discontinued operations subsequent to December 31, 2006, we expect that amortization expense will be as follows for the next five years and thereafter (amounts in millions):

2007	$ 278.4
2008	271.4
2009	225.9
2010	212.8
2011	145.3
Thereafter	444.5
Total	$ 1,578.3

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(11) Debt

The U.S. dollar equivalents of the components of our company's consolidated debt and capital lease obligations are as follows:

	December 31, 2006			Fair value		Carrying value (c)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)		December 31,		December 31,	
		Local currency	US $	2006	2005	2006	2005
	amounts in millions						
Debt:							
UPC Broadband Holding Bank Facility	6.45%	€ 1,330.0	$ 1,754.2	$ 4,025.3	$ 4,059.5	$ 4,010.6	$ 4,052.8
Cablecom Luxembourg Bank Facility and Cablecom GmbH Revolving Facility	4.63%	CHF 150.0	123.0	1,097.6	204.3	1,094.7	204.3
Cablecom Luxembourg Old Senior Notes	9.38%	—	—	423.5	1,140.5	424.8	1,174.0
Cablecom Luxembourg New Senior Notes	8.00%	—	—	396.9	—	395.7	—
LG Switzerland PIK Loan	11.74%	—	—	775.7	650.8	775.7	650.8
J:COM Credit Facility	0.97%	¥ 30,000.0	251.9	647.3	1,059.8	642.5	1,059.8
Other J:COM debt	1.15%	¥ 5,700.0	47.9	971.8	183.2	966.7	183.2
UGC Convertible Notes	1.75%	—	—	702.3	556.2	702.3	565.5
UPC Holding Senior Notes 7.75%	7.75%	—	—	665.3	553.3	659.5	591.6
UPC Holding Senior Notes 8.63%	8.63%	—	—	412.5	342.6	395.7	355.0
VTR Bank Facility	8.37%	CLP 136,391.6	255.3	471.1	341.4	475.0	341.4
Secured borrowing on ABC Family preferred stock	7.46%	—	—	345.0	—	345.0	—
Austar Bank Facility	7.90%	AUD 210.0	165.5	306.4	139.4	306.4	139.4
Chellomedia Bank Facility	7.31%	€ 50.0	65.9	226.8	—	229.1	—
Liberty Puerto Rico Bank Facility	7.48%	$ 9.0	9.0	150.7	127.5	149.9	127.5
Other	7.17%	—	—	210.4	280.9	206.7	280.9
Total debt	6.11%		$ 2,672.7	$ 11,828.6	$ 9,639.4	11,780.3	9,726.2
Capital lease obligations:							
J:COM						423.8	326.6
Other subsidiaries						26.0	62.2
Total capital lease obligations						449.8	388.8
Total debt and capital lease obligations						12,230.1	10,115.0
Current maturities						(1,384.9)	(270.0)
Long-term debt and capital lease obligations						$ 10,845.2	$ 9,845.0

(a) Represents the weighted average interest rate in effect at December 31, 2006 for all borrowings outstanding pursuant to each debt instrument including the applicable margin. The interest rates presented do not include the impact of our interest rate exchange agreements. See note 9.

(b) Unused borrowing capacity represents the maximum availability under the applicable facility at December 31, 2006 without regard to covenant compliance calculations. At December 31, 2006, the full amount of unused borrowing capacity was available to be borrowed under each of the respective facilities except as indicated below. At December 31, 2006, the availability of the unused borrowing capacity of the UPC Broadband Holding Bank Facility and the Austar Bank Facility was limited by covenant compliance calculations. Based on the December 31, 2006 covenant compliance calculations, the aggregate amount that will be available for borrowing when the December 31, 2006 bank reporting requirements have been completed is €136.5 million ($180.0 million) under the UPC Broadband Holding Bank Facility and AUD 163.1 million ($128.6 million) under the Austar Bank Facility.

(c) Includes unamortized debt discount or premium, if applicable.

UPC Broadband Holding Bank Facility

The UPC Broadband Holding Bank Facility, as amended, is the senior secured credit facility of UPC Broadband Holding. The UPC Broadband Holding Bank Facility is secured by a pledge over the shares of UPC Broadband Holding and the shares of UPC Broadband Holding's majority owned operating companies. The UPC Broadband Holding Bank Facility is also guaranteed by UPC Holding, the immediate parent of UPC Broadband Holding, and is senior to other long-term debt obligations of UPC Broadband Holding and UPC Holding. The agreement governing the UPC Broadband Holding Bank Facility contains covenants that limit among other things, UPC Broadband Holding'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 into or guarantee a loan and enter into a hedging arrangement.

The UPC Broadband Holding Bank Facility permits UPC Broadband Holding to transfer funds to its parent company (and indirectly to LGI) through loans, advances or dividends provided that UPC Broadband Holding maintains compliance with applicable covenants. If a change of control occurs, as defined in the UPC Broadband Holding Bank Facility, the facility agent may cancel each Facility and demand full payment. The UPC Broadband Holding Bank Facility requires compliance with various financial covenants such as: (i) senior debt to annualized EBITDA (as defined in the UPC Broadband Holding Bank Facility), (ii) EBITDA to total cash interest, (iii) EBITDA to senior debt service, (iv) EBITDA to senior interest and (v) total debt to annualized EBITDA.

As of December 31, 2006, there are four facilities under the UPC Broadband Holding Bank Facility: Facilities I, J, K and L, respectively. Facilities I and L are repayable and redrawable term loans with maximum borrowing capacity of €500 million ($659.5 million) and €830 million ($1,094.7 million), respectively. At December 31, 2006, there were no borrowings outstanding under either Facility I or L. Borrowings under Facility I are due and payable in one installment on April 1, 2010. Borrowings under Facility L are to be repaid in one installment on July 3, 2012. At December 31, 2006, the amounts borrowed under Facilities J and K aggregated €1,695 million ($2,235.6 million) and $1,775 million, with each denomination split evenly between Facilities J and K. Amounts outstanding under each of Facilities J and K are to be repaid in one installment on March 31, 2013 and December 31, 2013, respectively. The U.S. dollar equivalents of the components of the UPC Broadband Holding Bank Facility at December 31, 2006 are summarized in the following table:

			December 31, 2006		
Facility	Denomination Currency	Maturity	Interest rate (1)	Unused borrowing capacity (2)	Outstanding principal amount
				amounts in millions	
I	Euro	April 1, 2010	EURIBOR + 2.50%	$ 659.5	$ —
J(3)	USD	March 31, 2013	LIBOR + 2.00%	—	887.5
J	Euro	March 31, 2013	EURIBOR + 2.25%	—	1,048.5
K(3)	USD	December 31, 2013	LIBOR + 2.00%	—	887.5
K	Euro	December 31, 2013	EURIBOR + 2.25%	—	1,187.1
L	Euro	July 3, 2012	EURIBOR + 2.25%	1,094.7	—
Total				$ 1,754.2	$ 4,010.6

(1) The interest rate margin is variable and is adjusted based on certain leverage ratios. Interest rate information shown in the table does not reflect the impact of interest rate exchange agreements. As of December 31, 2006, the EURIBOR rate was 3.26% and the LIBOR rate was 5.64%. Excluding the effects of interest rate exchange agreements, the weighted-average interest rate on all Facilities at December 31, 2006 was 6.45%.

(2) Facilities I and L are repayable and redrawable term loans. The borrowing capacity under each facility can be used to finance additional permitted acquisitions and for general corporate purposes, subject to covenant compliance. Based on the December 31, 2006 covenant compliance calculations, the aggregate amount that was available for borrowing under Facilities I and L was €136.5 million ($180.0 million), subject to the completion of UPC Holding's fourth quarter bank reporting requirements. Facilities I and L provide for an annual commitment fee of 0.75% of the unused portion of each Facility.

(3) These U.S. dollar facilities include call protection through May 10, 2007, such that any amounts voluntarily prepaid during that period will need to include an additional 1% on the aggregate amount repaid.

The covenant in the UPC Broadband Holding Facility relating to disposals of assets includes a basket for permitted disposals of assets, which allows for disposals of assets, the Annualized EBITDA of which does not exceed a certain percentage of the Annualized EBITDA of the borrower group, with the capitalized term having the meaning set forth in the UPC Broadband Holding Bank Facility. The UPC Broadband Holding Bank Facility includes a recrediting mechanism, in relation to the permitted disposals basket, based on the proportion of net sales proceeds that are (i) used to prepay facilities and (ii) reinvested in the borrower group.

The UPC Broadband Holding Bank Facility includes a mandatory prepayment requirement of four times Annualized EBITDA, as defined in the UPC Broadband Holding Bank Facility, of disposed assets. The prepayment amount may be allocated to one or more of the facilities at UPC Broadband Holding's discretion and then applied to the loans under the relevant facility on a pro-rata basis. A prepayment may be waived by the majority lenders subject to the requirement to maintain pro forma covenant compliance. If the mandatory prepayment amount is less than €100 million ($131.9 million), then no prepayment is required (subject to pro forma covenant compliance). No such prepayment is required to be made where an amount, equal to the amount that would otherwise be required to be prepaid, is deposited in a blocked account on terms that the principal amount deposited may only be released in order to make the relevant prepayment or to reinvest in assets in accordance with the terms of the UPC Broadband Holding Bank Facility, which expressly includes permitted acquisitions and capital expenditures. Any amounts deposited in the blocked account that have not been reinvested (or contracted to be so reinvested), within 12 months of the relevant permitted disposal, are required to be applied in prepayment in accordance with the terms of the UPC Broadband Holding Bank Facility.

In connection with refinancings of the UPC Broadband Holding Bank Facility that occurred in May and July 2006 and March 2005, we recognized debt extinguishment losses of $22.2 million and $12.0 million during 2006 and 2005, respectively, primarily representing the write-off of deferred financing costs and creditor fees.

Cablecom Luxembourg Old Senior Notes

At December 31, 2005, the Cablecom Luxembourg Old Senior Notes were comprised of (i) CHF 259.0 million ($212.3 million) principal amount of Cablecom Luxembourg Series A Floating Rate Senior Secured Notes due 2010 (the Cablecom Luxembourg Old Series A CHF Notes), (ii) €157.9 million ($208.3 million) principal amount of Cablecom Luxembourg Floating Rate Senior Secured Notes due 2010 (the Cablecom Luxembourg Old Series A Euro Notes) and €335.7 million ($442.8 million) principal amount of Cablecom Luxembourg Series B Floating Rate Senior Secured Notes due 2012 (the Cablecom Luxembourg Old Series B Euro Notes, and together with the Cablecom Luxembourg Old Series A CHF Notes and Cablecom Luxembourg Old Series A Euro Notes, the Cablecom Luxembourg Old Floating Rate Notes) and (iii) €289.9 million ($382.4 million) principal amount of 9.375% Senior Notes due 2014 (the Cablecom Luxembourg Old Fixed Rate Notes). The principal amounts disclosed in this paragraph do not include the premiums recorded as a result of the application of purchase accounting in connection with the Cablecom acquisition.

In connection with the Cablecom acquisition, under the terms of the Indentures for the Cablecom Luxembourg Old Senior Notes, Cablecom Luxembourg was required to effect a change of control offer (the Change of Control Offer) for the Cablecom Luxembourg Old Senior Notes at 101% of their respective principal amounts. Pursuant to the Change of Control Offer, Cablecom Luxembourg on December 8, 2005 used CHF 268.7 million ($223.2 million at the transaction date) of proceeds from the Facility A term loan under the Cablecom Luxembourg Bank Facility (see below) to (i) purchase CHF 133.0 million ($101.7 million at the transaction date) of the Cablecom Luxembourg Old Series A CHF Notes, (ii) purchase €42.8 million ($50.5 million at the transaction date) of the Cablecom Luxembourg Old Series A Euro Notes, (iii) purchase €40.0 million ($47.1 million at the transaction date) principal amount of the Cablecom Luxembourg Old Series B Euro Notes and (iv) fund the costs and expenses of the Change of Control Offer. All of the purchased amounts set forth above include principal, call premium and accrued interest.

On January 20, 2006, Cablecom Luxembourg used the remaining available proceeds from the Facility A and Facility B term loans under the Cablecom Luxembourg Bank Facility to fund the redemption of all of the Cablecom Luxembourg Old Floating Rate Notes that were not tendered in the Change of Control Offer (the Cablecom Old Note Redemption). The Cablecom Old Note Redemption price paid was 102% of the respective principal amounts plus accrued and unpaid interest through the Cablecom Old Note Redemption date. We recognized a $7.6 million loss on the extinguishment of the Cablecom Luxembourg Old Floating Rate Notes during the three months ended March 31, 2006. This loss represents the difference between the redemption and carrying amounts of the Cablecom Luxembourg Old Floating Rate Notes at the date of the Cablecom Old Note Redemption.

The Cablecom Luxembourg Old Fixed Rate Notes mature on April 15, 2014. At any time on or after April 15, 2007, Cablecom Luxembourg is permitted to redeem some or all of the Cablecom Luxembourg Old Fixed Rate Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and

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unpaid interest to the applicable redemption date, if redeemed during the twelve-month period commencing on April 15 of the years set out below:

Year	Percentage
2007	109.375%
2008	107.031%
2009	104.688%
2010	103.125%
2011	101.563%
2012 and thereafter	100.000%

As described below, the Cablecom Luxembourg Old Fixed Rate Notes will be redeemed in full on April 15, 2007.

Cablecom Luxembourg New Senior Notes

On October 31, 2006, Cablecom Luxembourg issued €300.0 million ($383.2 million at the transaction date) principal amount of 8.0% Senior Notes due 2016 (the Cablecom Luxembourg New Senior Notes) and the net proceeds from the sale of the Cablecom Luxembourg New Senior Notes, together with available cash, were placed into an escrow account (the Cablecom Luxembourg Defeasance Account) for the benefit of the holders of the Cablecom Luxembourg Old Fixed Rate Notes in connection with the covenant defeasance of such Notes. This covenant defeasance eliminated substantially all of the covenants and other obligations of Cablecom Luxembourg contained in the Cablecom Luxembourg Old Fixed Rate Notes and the relevant indenture until redemption of the Cablecom Luxembourg Old Fixed Rate Notes on April 15, 2007. The cash deposited into the Cablecom Luxembourg Defeasance Account (€331.6 million or $437.4 million at December 31, 2006) is reserved for the payment of the redemption price plus, accrued interest that will be due in connection with the April 15, 2007 redemption of the Cablecom Luxembourg Old Fixed Rate Notes. In addition, pursuant to the terms of the LG Switzerland PIK Loan (see below), the redemption of the Cablecom Luxembourg Old Fixed Rate Notes will require the repayment of the LG Switzerland PIK Loan.

The indenture for the Cablecom Luxembourg New Senior Notes provides that, on or after April 15, 2007, Cablecom Luxembourg and UPC Holding may, at their option, effect a series of transactions (the Cablecom Fold-In) under which Cablecom, the indirect parent company of Cablecom Luxembourg, and its subsidiaries would become indirect subsidiaries of UPC Holding. In the event that the Cablecom Fold-In occurs, Cablecom Luxembourg and UPC Holding may, at their sole option, assign (or otherwise transfer) Cablecom Luxembourg's obligations under the Cablecom Luxembourg New Senior Notes to UPC Holding, at which time the terms (other than interest, maturity and redemption provisions) of such Notes, including the covenants, will be modified to become substantially identical to the terms of the existing senior notes of UPC Holding (see below) outstanding on the issue date of the Cablecom Luxembourg New Senior Notes. As discussed below, the Cablecom Luxembourg Bank Facility contains a similar accession mechanism under which the term loan lenders have agreed to roll their participations in the term loans into the UPC Broadband Holding Bank Facility at the election of Cablecom Luxembourg, subject to certain conditions.

As the Cablecom Luxembourg Old Fixed Rate Notes will be redeemed on April 15, 2007 with funds held in the Cablecom Luxembourg Defeasance Account, we have included in our December 31, 2006 consolidated balance sheet (i) the outstanding principal amount of the Cablecom Luxembourg Old Fixed Rate Notes in current portion of debt and capital lease obligations and (ii) the funds held in the Cablecom Luxembourg Defeasance Account in the current balance of restricted cash. We have not eliminated the Cablecom Luxembourg Old Fixed Rate Notes or the

Cablecom Luxembourg Defeasance Account from our consolidated balance sheet as the Cablecom Luxembourg Old Fixed Rate Notes were not legally defeased as of December 31, 2006.

Cablecom Luxembourg Bank Facility

On December 5, 2005, Cablecom Luxembourg and Cablecom GmbH entered into a facilities agreement (the Cablecom Luxembourg Bank Facility) with certain banks and financial institutions as lenders. The Cablecom Luxembourg Bank Facility provides the terms and conditions upon which (i) the lenders have made available to Cablecom Luxembourg two term loans (Facility A and Facility B) in an aggregate principal amount not to exceed CHF 1,330 million ($1,090.3 million).

The Facility A term loan, which matures on December 31, 2010 and is available to be drawn in Swiss francs up to an aggregate principal amount of CHF 618 million ($506.6 million), was fully drawn at December 31, 2006. In January 2006, the remaining availability under the Facility A term loan was drawn to fund the Cablecom Old Note Redemption. The interest rate applicable to the Facility A term loan is equal to CHF LIBOR plus a margin of 2.50% through June 5, 2007 (thereafter the margin adjusts based on a leverage ratio), plus any mandatory costs.

The Facility B term loan, which matures on September 30, 2012 and is available to be drawn in Swiss francs, U.S. dollars or euros up to an aggregate principal amount equivalent to CHF 712 million ($583.7 million), was fully drawn at December 31, 2006. In connection with the January 2006 funding of the Cablecom Old Note Redemption, the Facility B term loan was drawn in full in the form of CHF 355.8 million ($277.3 million at the transaction date) and €229.1 million ($277.1 million at the transaction date). The interest rate applicable to principal denominated in Swiss francs under the Facility B term loan is equal to CHF LIBOR plus a margin of 2.75% to September 5, 2006 and thereafter 2.50% plus, in each case, any mandatory costs. The interest rate applicable to principal denominated in euros under the Facility B term loan is equal to EURIBOR plus a margin of 2.50% plus any mandatory costs.

Amounts outstanding under the Facility A and B term loans are subject to scheduled repayment dates. In addition, the Facility A and B term loans must be prepaid on the occurrence of certain events, including a “change of control” of Liberty Global Europe, Inc. (LG Europe), Cablecom, Cablecom Luxembourg or Cablecom GmbH. The Facility A and B term loans may also be voluntarily prepaid in whole or in part, without premium or penalty but subject to break funding costs.

The Cablecom Luxembourg Bank Facility also provides the structure for a CHF 150.0 million ($123.0 million) revolving credit facility (the Cablecom Luxembourg Revolving Facility) to be available to replace an existing CHF 150.0 million ($123.0 million) revolving credit facility of Cablecom GmbH (the Cablecom GmbH Revolving Facility). To date, the Cablecom GmbH Revolving Facility remains in place and there are no commitments to fund the Cablecom Luxembourg Revolving Facility. Any amounts borrowed under the Cablecom Luxembourg Revolving Facility would be subject to scheduled repayments through the December 31, 2010 maturity date and to “change of control” and prepayment provisions similar to those described above for the Facility A and B term loans. Cablecom Luxembourg will guarantee any amounts borrowed under the Cablecom Luxembourg Revolving Facility.

Based on the December 31, 2006 covenant compliance calculations, the full amount of the Cablecom GmbH Revolving Facility was available for borrowing, subject to the completion of Cablecom GmbH’s fourth quarter bank reporting requirements. The Cablecom GmbH Revolving Facility provides for an annual commitment fee of 0.75% on undrawn balances.

The Cablecom Luxembourg Bank Facility includes an accession mechanism under which the term loan lenders have agreed to roll their participations in the term loans into the UPC Broadband Holding Bank Facility at the election of Cablecom Luxembourg, at any time, subject to there being no actual event of default (as defined therein) under the Cablecom Luxembourg Bank Facility or actual or potential event of default (as defined therein) under the UPC Broadband Holding Bank Facility and provided that any amendments or waivers granted by the lenders under the UPC Broadband Holding Bank Facility have been approved by the applicable term loan lenders.

In addition to customary restrictive covenants, prepayment requirements and events of default, the Cablecom Luxembourg Bank Facility requires compliance with various financial covenants such as: (i) Total Debt to EBITDA, (ii) Senior Debt to EBITDA, (iii) EBITDA to Total Cash Interest and (iv) EBITDA to Debt Service, each capitalized term as defined in the Cablecom Luxembourg Bank Facility. The Cablecom Luxembourg Bank Facility permits Cablecom Luxembourg to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that Cablecom Luxembourg maintains compliance with applicable covenants.

The Cablecom Luxembourg Bank Facility is secured by pledges over (i) the shares of Cablecom GmbH and (ii) certain intercompany loan notes**.** Cablecom Luxembourg and Cablecom Gmbh will guarantee any amounts borrowed under the Cablecom Luxembourg Revolving Facility.

LG Switzerland PIK Loan

The €550 million ($667 million at the transaction date), 9.5 year split-coupon floating rate Payment-In-Kind (PIK) Loan was executed on October 7, 2005 pursuant to a PIK Loan Facility Agreement, dated September 30, 2005 as amended and restated on October 10, 2005 (the PIK Loan). The PIK Loan bears interest at a rate per annum equal to (i) three-month EURIBOR (payable quarterly in cash), which was 3.49% at December 31, 2006, plus (ii) a margin of 1.75% (payable quarterly in cash), plus (iii) a PIK margin of 6.50% (to be capitalized and added to principal at the end of each interest period or, at the election of LG Switzerland, paid in cash) plus (iv) with respect to any period, or part thereof, after April 15, 2008, an additional PIK margin of 2.50% (to be capitalized and added to principal at the end of each interest period or, at the election of LG Switzerland, paid in cash). The net proceeds received from the PIK Loan of €531.7 million ($647.8 million at the transaction date), less €50 million ($60.9 million at the transaction date) placed in escrow to secure cash interest payments, were used to finance the Cablecom acquisition.

The PIK Loan is unsecured senior debt of LG Switzerland and pari passu or senior in right of payment to all other indebtedness of LG Switzerland. The PIK Loan is structurally subordinated to all indebtedness of LG Switzerland's subsidiaries, including the Cablecom Luxembourg Bank Facility and the Cablecom Luxembourg New Senior Notes and Cablecom Luxembourg Old Fixed Rate Notes and any other future debt incurred by LG Switzerland's subsidiaries. The PIK Loan is not guaranteed by Cablecom or any of its subsidiaries.

The PIK Loan contains covenants and events of default similar to the covenants governing the Cablecom Luxembourg Old Fixed Rate Notes described above. In addition, the PIK Loan requires LG Switzerland to make a prepayment offer at 101% of par following a "Change of Control," as defined in the PIK Loan.

The PIK Loan may not be optionally prepaid prior to April 16, 2007. From and following April 16, 2007, the PIK Loan may be prepaid by LG Switzerland in designated minimum amounts. Optional prepayments during the 12-month period beginning on April 16, 2007 will be made at par. The PIK Loan matures on April 15, 2015. As discussed above, all amounts outstanding under the PIK Loan are required to be repaid in connection with the redemption of the Cablecom Luxembourg Old Fixed Rate Notes in April 2007. In light of this requirement, we have included €248.1 million ($327.2 million) of the borrowings outstanding under the PIK Loan at December 31, 2006 in current portion of debt and capital lease obligations in our consolidated balance sheet. The remaining outstanding balance of €340.0 million ($448.4 million) at December 31, 2006 is expected to be refinanced with available long-term debt, and accordingly, we have continued to include that amount in long-term debt and capital lease obligations in our consolidated balance sheet.

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J:COM Credit Facility

In December 2005, J:COM entered into a credit facility agreement with a syndicate of banks (the J:COM Credit Facility). The J:COM Credit Facility originally consisted of three facilities: a ¥30 billion ($251.9 million) five-year revolving credit loan (the J:COM Revolving Loan); an ¥85 billion ($713.8 million) five-year amortizing term loan (the J:COM Tranche A Term Loan); and a ¥40 billion ($335.9 million) seven-year amortizing term loan (the J:COM Tranche B Term Loan). Borrowings may be made under the J:COM Credit Facility on a senior, unsecured basis. Amounts repaid under the J:COM Tranche A and B Term Loans may not be reborrowed. On December 21, 2005 the proceeds of the J:COM Tranche A and B Term Loans were used, together with available cash, to repay in full outstanding loans totaling ¥128 billion ($1,100 million at the transaction date), under J:COM's then existing credit facilities. As discussed below, J:COM refinanced the J:COM Tranche B Term Loan during the second quarter of 2006. In connection with its 2006 and 2005 debt refinancings, J:COM recognized debt extinguishment losses of ¥378.0 million ($3.3 million at the average exchange rate for the period) and ¥2,469 million ($21.1 million at the average exchange rate for the period), respectively, primarily representing the write-off of deferred financing costs.

The J:COM Revolving Loan and the J:COM Tranche A Term Loan bear interest equal to TIBOR plus a variable margin to be adjusted based on the leverage ratio of J:COM. The weighted-average interest rate, including applicable margins, on the J:COM Tranche A Term Loan at December 31, 2006 was 0.973%**.** Borrowings under the J:COM Revolving Loan may be used by J:COM for general corporate purposes. Amounts drawn under the J:COM Tranche A Term Loan have a final maturity date of December 31, 2010, and amortize in quarterly installments commencing March 31, 2006. The final maturity date of all amounts outstanding under the J:COM Revolving Loan is December 31, 2010 and will be available for drawdown until one month prior to its final maturity. In addition to customary restrictive covenants and events of default, the unsecured J:COM Credit Facility requires compliance with various financial covenants such as: (i) Maximum Senior Debt to EBITDA, (ii) Minimum Debt Service Coverage Ratio and (iii) a Total Shareholder's Equity test, each capitalized term as defined in the J:COM Credit Facility. The J:COM Credit Facility permits J:COM to transfer funds to its shareholders (and indirectly to LGI) through loans, dividends or other distributions provided that J:COM maintains compliance with applicable covenants. At December 31, 2006, ¥30 billion ($251.9 million) was available for borrowing under the J:COM Revolving Loan. The J:COM Revolving Loan provides for an annual commitment fee of 0.20% on the unused portion.

Other J:COM debt

During April and May of 2006, J:COM refinanced ¥38 billion ($323 million at the transaction date) and ¥2,000 million ($18 million at the transaction date), respectively, of the J:COM Tranche B Term Loan with ¥20 billion of fixed-interest rate loans and ¥20 billion of variable-interest rate loans. At December 31, 2006, the fixed-interest rate loans had a weighted average interest rate of 2.08%, while the new variable-interest rate loans had a weighted average interest rate of Japanese yen LIBOR plus 0.30% (0.8% as of December 31, 2006 including margin). These loans, which contain covenants similar to those of the J:COM Credit Facility, mature in 2013 and are each to be repaid in one installment on their respective maturity dates.

In connection with the September 2006 acquisition of Cable West, J:COM entered into (i) a ¥2,000 million variable-interest rate term loan agreement, (ii) a ¥20 billion seven-year fixed-interest rate term loan agreement, and (iii) a ¥30 billion syndicated term loan agreement. The ¥2,000 million ($17 million at the transaction date) and ¥20 billion ($169.7 million at the transaction date) term loans were fully drawn in September 2006. On October 27, 2006, the full amount of the ¥30 billion syndicated term loan ($252.6 million at the transaction date) was drawn and a portion of the proceeds was used to repay the then outstanding balance of the J:COM Revolving Loan (¥14 billion or $117.9 million at the transaction date). The new term loans mature between 2011 and 2013. The interest rate on the ¥2,000 million term loan is based on the six-month TIBOR plus a margin of 0.25% (0.757% as of December 31, 2006 including margin). The ¥20 billion term loan bears interest as to ¥10 billion of the outstanding principal amount at a fixed interest rate of 1.72% and as to the remaining ¥10 billion principal amount at a fixed interest rate of 1.90%. The ¥30 billion syndicated term loan bears interest at (i) Japanese yen LIBOR plus a margin of 0.25% (0.8% as of December 31, 2006 including margin) as to the ¥10 billion ($84.0 million) principal amount that is due in October 2011, (ii) Japanese yen LIBOR plus a margin of 0.35% (0.9% as of December 31, 2006 including margin) as to the ¥19.5 billion ($163.8 million) principal amount that is due in October 2013, and (iii) a fixed rate of 2.05% as to the ¥500 million ($4.2 million) principal amount that is due in October 2013. These loans contain covenants similar to those of the J:COM Credit Facility.

UGC Convertible Notes

On April 6, 2004, UGC completed the offering and sale of €500.0 million ($604.6 million at the transaction date) 1 3/4% euro-denominated convertible senior notes (UGC Convertible Notes) due April 15, 2024. Interest is payable semi-annually on April 15 and October 15 of each year. The UGC Convertible Notes are senior unsecured obligations that rank equally in right of payment with all of UGC's existing and future senior and unsecured indebtedness and ranks senior in right of payment 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 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 11,044,375 shares of LGI Series A common stock and 11,044,375 shares of LGI Series C common stock at an aggregate conversion price of €45.27 ($59.71) for one share of LGI Series A common stock and one share of LGI Series C common stock, which was equivalent to a conversion price of $55.68 for one share of LGI Series A common stock and one share of LGI Series C common stock and a conversion rate of 22.09 shares of LGI Series A common stock and 22.09 shares of LGI Series C common stock 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 LGI Series A common stock reaches a specified threshold, (ii) the combined price of LGI Series A and Series C common stock reaches a specified threshold, (iii) UGC has called the UGC Convertible Notes for redemption, (iv) the trading price for the UGC Convertible Notes falls below either of two specified thresholds or (v) we make certain distributions to holders of LGI Series A common stock or specified corporate transactions occur.

The UGC Convertible Notes are compound financial instruments that contain a foreign currency debt component and an equity component that is indexed to LGI Series A common stock, LGI Series C common stock and to currency exchange rates (euro to U.S. dollar). Through December 31, 2005, we accounted for the embedded equity derivative separately at fair value, with changes in fair value reported in our consolidated statements of operations. Effective January 1, 2006, we began accounting for the UGC Convertible Notes at fair value. See note 23. At December 31, 2005, the fair value of the embedded equity derivative and the accreted value of the debt host contract were presented together in the caption long-term debt and capital lease obligations in our consolidated balance sheet, as follows (amounts in millions):

Debt host contract	$ 437.5
Embedded equity derivative	128.0
	$ 565.5

UPC Holding Senior Notes

On July 29, 2005 UPC Holding issued €500 million ($607 million at the transaction date) principal amount of 7.75% Senior Notes. On October 10, 2005, UPC Holding issued €300 million ($363 million at the transaction date) principal amount of 8.625% Senior Notes. Both issues of the UPC Holding Senior Notes mature on January 15, 2014.

Both issues of the UPC Holding Senior Notes are senior obligations that rank equally with all of the existing and future senior debt and senior to all existing and future subordinated debt of UPC Holding. The UPC Holding Senior Notes are secured by a first-ranking pledge of all shares of UPC Holding.

At any time prior to July 15, 2008, UPC Holding may redeem some or all of the UPC Holding Senior Notes by paying a “make-whole” premium, which is the present value of all scheduled interest payments until July 15, 2008 using the discount rate equal to the yield of the comparable German government bond (BUND) issue as of the redemption date plus 50 basis points.

At any time on or after July 15, 2008, UPC Holding may redeem some or all of the UPC Holding Senior Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on July 15 of the years set out below:

	Redemption price	
Year	7.75% Senior Notes	8.625% Senior Notes
2008	107.750%	108.625%
2009	103.875%	104.313%
2010	101.938%	102.156%
2011 and thereafter	100.000%	100.000%

In addition, at any time prior to July 15, 2008, UPC Holding may redeem up to 35% of the UPC Holding Senior Notes (at redemption price of 107.75% and 108.625% of the respective principal amounts) with the net proceeds from one or more specified equity offerings.

UPC Holding may redeem all of the UPC Holding Senior Notes at a price equal to their principal amount plus accrued and unpaid interest upon the occurrence of certain changes in tax law. If UPC Holding or certain of its subsidiaries sell certain assets or experience specific changes in control, UPC Holding must offer to repurchase the UPC Holding Senior Notes at a redemption price of 101%.

VTR Bank Facility

On September 20, 2006, VTR replaced its then existing bank credit facility (the Old VTR Bank Facility) with a new senior secured credit agreement (the VTR Bank Facility) consisting of (i) a CLP 122.6 billion ($229.5 million) Chilean peso-denominated seven-year amortizing term loan (the VTR Tranche A Term Loan), which would bear interest, if and when drawn, at TAB plus 2.5% (8.62% at December 31, 2006 including margin) and has a three-year availability period, which commenced September 20, 2006, (ii) a $475 million U.S. dollar-denominated eight-year term loan due in 2014 (the VTR Tranche B Term Loan), which bears interest at LIBOR plus 3.0% (8.37% at December 31, 2006 including margin), and (iii) a CLP 13.8 billion ($25.8 million) CLP-denominated six and a half-year revolving loan (the VTR Tranche C Revolving Loan), which would bear interest, if and when drawn, at TAB plus 2.5% (8.62% at December 31, 2006 including margin).

At closing on September 20, 2006, the full $475 million of the VTR Tranche B Term Loan was drawn. Proceeds were used to (i) repay the CLP 175.5 billion ($326.7 million at the transaction date) outstanding balance of the Old VTR Bank Facility, (ii) repay an intercompany loan payable to one of our subsidiaries ($50.7 million principal amount outstanding at the transaction date), (iii) pay financing fees and other transaction costs, and (iv) fund an increase in cash and cash equivalents to be used for capital expenditures and other general corporate uses. VTR recognized a $4.6 million loss in connection with the September 2006 refinancing of the Old VTR Bank Facility.

Based on the December 31, 2006 covenant compliance calculations, the full amount of each of the VTR Tranche A Term Loan and the VTR Tranche C Revolving Loan was available for borrowing, subject to the completion of VTR's fourth quarter bank reporting requirements. The VTR Tranche A Term Loan has a commitment fee on undrawn balances of 0.825% in the first year and 1.375% in the second and third year of the availability period. The VTR Tranche C Revolving Loan has a commitment fee on undrawn balances of 0.50% per year.

In addition to customary restrictive covenants, prepayment requirements and events of default, the VTR Bank Facility requires compliance with various financial covenants such as: (i) Senior Debt to Annualized Operating Cash Flow, (ii) Operating Cash Flow to Interest Expense and (iii) Operating Cash Flow to Senior Debt Service, each capitalized term as defined in the VTR Bank Facility. The VTR Bank Facility permits VTR to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that VTR maintains compliance with applicable covenants.

The VTR Bank Facility is secured by pledges over (i) the VTR shares owned by our company, (ii) the shares of certain VTR subsidiaries and (iii) certain network and other assets of VTR and certain of its subsidiaries**.** The VTR Bank Facility is also guaranteed by VTR (in respect of other obligors' obligations) and certain of its subsidiaries.

During the third and fourth quarters of 2006, VTR made cash distributions to its shareholders aggregating CLP 53.6 billion ($99.3 million at the transaction dates), including CLP 42.9 billion ($79.4 million at the transaction dates) distributed to our company**.**

In July 2005, VTR borrowed CLP 14.724 billion ($25.5 million as of the transaction date) under the Old VTR Bank Facility to fund the repayment of an existing obligation to CTC, a Chilean telecommunications company. In September 2005, the Old VTR Bank Facility was amended to improve the maturity and other terms of the existing facility, raising proceeds of CLP 70.674 billion ($132.3 million as of September 20, 2005). These proceeds were used to repay a total of $119.6 million in shareholder loans and accrued interest owed to our subsidiaries and $10.4 million of principal and accrued interest owed to an affiliate of Cristalerías. See note 5.

Borrowing Secured by ABC Family Preferred Stock

We own a 99.9% beneficial interest in Liberty Family Preferred, LLC (LFP LLC), an entity that owns 345,000 shares of the 9% Series A preferred stock of ABC Family with an aggregate liquidation value of $345.0 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 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. The carrying value of the

ABC Family preferred stock was $351.0 million and $365.1 million at December 31, 2006 and December 31, 2005, respectively, and is included in other investments in our consolidated balance sheets.

On March 23, 2006, LFP LLC entered into a Loan and Pledge Agreement with Deutsche Bank AG, which allowed LFP LLC to borrow up to $345.0 million. On March 29, 2006, LFP LLC borrowed the full available amount and received net proceeds of $338.9 million ($345.0 million less prepaid interest of $6.1 million). The net proceeds received by LFP LLC were then loaned to LGI. The borrowing bears interest at three-month LIBOR plus 2.1% and matures on August 1, 2007. LFP LLC has pledged all 345,000 shares of the ABC Family preferred stock as security for the borrowing. The borrowing is non-recourse to LFP LLC and LGI, except for the collateral and except for LGI's conditional limited guarantee of any and all amounts due under the Loan and Pledge Agreement. We believe that the likelihood of having to honor this guarantee is remote.

Austar Bank Facility

On August 3, 2006, Austar Entertainment entered into a new senior secured debt facility (the Austar Bank Facility) with a selected syndicate of local and international banks. The Austar Bank Facility allows Austar Entertainment to borrow up to AUD 600.0 million ($473.0 million). The Austar Bank Facility is comprised of (i) Tranche A, an AUD-denominated, five-year term loan facility due in 2011 for AUD 275.0 million ($216.8 million), which bears interest at BBSY plus margins ranging from 0.9% to 1.4% (the Austar Tranche A Term Loan); (ii) Tranche B, an AUD-denominated, seven-year term loan facility due in 2013 for AUD 300.0 million ($236.5 million), which bears interest at BBSY plus margins ranging from 1.3% to 1.7% (the Austar Tranche B Term Loan); and (iii) an AUD-denominated, six-year revolving loan facility for AUD 25.0 million ($19.7 million) (the Austar Revolving Loan), which bears interest at BBSY plus margins ranging from 0.9% to 1.4%. Borrowings under the Austar Bank Facility mature between 2011 and 2013. As of December 31, 2006, AUD 275.0 million ($216.8 million), AUD 90.0 million ($70.9 million), and AUD 23.7 million ($18.68 million) of the Austar Tranche A Term Loan, the Austar Tranche B Term Loan and the Austar Revolving Loan, respectively, were outstanding under the Austar Bank Facility at a 7.90% weighted average rate (including margin).

Austar Entertainment used the initial borrowings under the Austar Bank Facility, together with available cash, (i) to repay all amounts outstanding under Austar Entertainment's old bank facility of AUD 190.0 million ($144.4 million at the transaction date) and (ii) to fund a AUD 201.6 million ($151.7 million at the transaction date) capital distribution to Austar's shareholders on September 20, 2006, including a AUD 107.2 million ($80.7 million at the transaction date) distribution to our company. The AUD 94.4 million ($71.0 million at the transaction date) capital distribution that was paid to Austar's minority interest owners has been reflected as a reduction of our additional paid-in capital due to the fact that the minority interests' share of Austar's deficit at the acquisition date was charged to our additional paid-in capital.

In addition to customary restrictive covenants, prepayment requirements and events of default, the Austar Bank Facility requires compliance with various financial covenants such as: (i) Adjusted Total Debt to EBITDA and (ii) EBITDA to Total Interest Expense, each capitalized term as defined in the Austar Bank Facility. The Austar Bank Facility permits Austar Entertainment to transfer funds to Austar (and indirectly to Austar's shareholders, including subsidiaries of LGI) through loans, dividends or distributions provided that Austar Entertainment maintains compliance with applicable covenants.

The Austar Bank Facility is secured by pledges over (i) Austar Entertainment shares (ii) shares of certain of Austar's subsidiaries and (iii) certain other assets of Austar and certain of its subsidiaries. The Austar Bank Facility is also guaranteed by Austar and certain of its subsidiaries.

Chellomedia Bank Facility

On December 12, 2006, Chellomedia PFH, an indirect subsidiary of Chellomedia, consummated a senior secured credit facility (the Chellomedia Bank Facility) with certain banks and financial institutions as lenders. The Chellomedia Bank Facility provides the terms and conditions upon which the lenders have made available to Chellomedia PFH the following: (a) four term facilities: (i) a seven-year €87.4 million ($115.3 million) term loan facility, (ii) a seven-year €17.6 million ($23.2 million) term loan facility, (iii) a seven-year $74.9 million term loan facility and (iv) a seven-year $15.1 million term loan facility; (b) a seven-year €25.0 million ($33.0 million) delayed draw facility (which may be drawn through June 8, 2007); and (c) a six-year €25.0 million ($33.0 million) revolving facility (which may also be drawn in Hungarian forints). As of December 31, 2006, the four term facilities have been drawn in full and the delayed draw facility and revolving facility have no outstanding borrowings. The proceeds of the four term facilities have been applied (i) to refinance the €65.0 million ($86.0 million at the transaction date) senior secured credit facility for Plator Holding dated November 23, 2005, (ii) to repay a €43.0 ($56.7 million at the transaction date) intercompany loan related to an August 2006 acquisition and (iii) to loan €34.7 million ($45.8 million) and $90.0 million to its parent entities. The margin for the term facilities and delayed draw facility is 3.00% per annum (over LIBOR or, in relation to any loan in euro, EURIBOR) and the margin for the revolving facility is 2.75% per annum (over EURIBOR or, in relation to any loan in Hungarian forints, BUBOR) with a downward adjustment to 2.50% per annum if a specified leverage ratio is obtained.

In addition to customary restrictive covenants, prepayment requirements and events of default, the Chellomedia Bank Facility requires Chellomedia PFH to comply with various financial covenants such as: (i) Total Net Debt to Annualized EBITDA, (ii) Senior Net Debt to Annualized EBITDA and (iii) EBITDA to Total Cash Interest Payable, each capitalized term as defined in the Chellomedia Bank Facility. The Chellomedia Bank Facility permits Chellomedia PFH to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that Chellomedia PFH maintains compliance with applicable covenants.

The Chellomedia Bank Facility is secured by pledges over (i) the shares of Chellomedia PFH and certain of its material subsidiaries and (ii) certain bank accounts and intercompany loan receivables of Chellomedia PFH's immediate parent company, Chellomedia PFH and certain of its subsidiaries. The Chellomedia Bank Facility is also guaranteed by Chellomedia PFH's immediate parent company, Chellomedia PFH (in respect of other obligors' obligations) and certain of Chellomedia PFH's subsidiaries.

Liberty Puerto Rico Bank Facility

On March 1, 2006, Liberty Puerto Rico refinanced its existing bank facility with a portion of the proceeds from a $150 million seven-year amortizing term loan under an amended and restated senior secured bank credit facility (the Liberty Puerto Rico Bank Facility). The Liberty Puerto Rico Bank Facility also provides for a $10 million six-year revolving loan. Borrowings under the Liberty Puerto Rico Bank Facility have a final maturity in 2013 and bear interest at a margin of 2.25% over LIBOR. The $10 million revolving loan has a commitment fee on undrawn balances of 0.50% per year.

In addition to customary restrictive covenants, prepayment requirements and events of default, the Liberty Puerto Rico Bank Facility requires compliance with various financial covenants such as: (i) Net Debt to Annualized EBITDA and (ii) Annualized EBITDA to Total Cash Interest Charges, each capitalized term as defined in the Liberty Puerto Rico Bank Facility. The Liberty Puerto Rico Bank Facility permits Liberty Puerto Rico to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that Liberty Puerto Rico maintains compliance with applicable covenants.

The Liberty Puerto Rico Bank Facility is secured by pledges over (i) the Liberty Puerto Rico shares indirectly owned by our company and (ii) certain other assets owned by Liberty Puerto Rico. The Liberty Puerto Rico Bank Facility is also guaranteed by Liberty Puerto Rico's material subsidiaries.

Other Debt

Other debt at December 31, 2006 includes the $100.9 million carrying amount of the News Corp. prepaid forward sales transaction (see note 9) and the $90.7 million carrying amount of Austar's subordinated transferable adjustable redeemable securities.

Maturities of Debt and Capital Lease Obligations

Debt maturities for the next five years and thereafter are as follows (amounts in millions):

Year ended December 31:	
2007	$ 1,231.3
2008	221.3
2009	307.3
2010	723.4
2011	388.1
Thereafter	8,812.1
Total debt maturities	11,683.5
Unamortized premiums and discounts and embedded equity derivatives, net	96.8
Total debt	$ 11,780.3
Current portion	$ 1,273.6
Noncurrent portion	$ 10,506.7

Maturities of capital lease obligations for the next five years and thereafter are as follows (amounts in millions):

Year ended December 31:	
2007	$ 114.9
2008	100.6
2009	89.6
2010	73.5
2011	44.7
Thereafter	50.1
	473.4
Less: amount representing interest	(23.6)
Present value of net minimum lease payments	$ 449.8
Current portion	$ 111.3
Noncurrent portion	$ 338.5

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The current portion of our debt and capital lease obligations at December 31, 2006 is as follows (amounts in millions):

Debt:	
Cablecom Luxembourg Old Fixed Rate Notes	$ 424.8
Secured borrowing on ABC Family preferred stock	345.0
LG Switzerland PIK Loan	327.3
J:COM Credit Facility	107.1
Other J:COM debt	45.4
Other	24.0
Total current portion of debt	1,273.6
Capital lease obligations:	
J:COM	108.2
UPC Broadband Division	3.1
Total current portion of capital lease obligations	111.3
Total current portion of debt and capital lease obligations	$ 1,384.9

(12) Deferred Construction and Maintenance Revenue

J:COM and its subsidiaries provide rebroadcasting services to noncable television viewers who receive poor reception of broadcast television signals as a result of obstacles that have been constructed by third parties. J:COM and its subsidiaries enter into agreements with these third parties, whereby J:COM receives up-front compensation to construct and maintain cable facilities to provide rebroadcasting services to the affected viewers at no cost to the viewers during the agreement period. Revenue from these agreements has been deferred and is being recognized on a straight-line basis over the terms of the agreements, which generally are 20 years. During the years ended December 31, 2006 and 2005, J:COM recognized revenue under these arrangements totaling ¥4,367.0 million ($37.5 million at the average exchange rate for the period) and ¥3,327.4 million ($30.3 million at the average exchange rate for the period), respectively. Deferred revenue recorded under these arrangements is included in our current and long-term liabilities as follows:

	December 31, 2006	December 31, 2005
	amounts in millions	
Current liabilities — Deferred revenue and advance payments from subscribers and others	$ 31.0	$ 26.9
Other long-term liabilities	462.2	376.0
Total	$ 493.2	$ 402.9

(13) Income Taxes

Prior to the Spin Off Date, LMC International and its 80%-or-more-owned domestic subsidiaries (the LMC International Tax Group) were included in the consolidated federal and state income tax returns of Liberty Media. 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 were excluded from the consolidated federal and state income tax returns of Liberty Media. The intercompany tax amounts owed to Liberty Media 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 Media. Under the Tax Sharing Agreement, Liberty Media 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 Media 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 Media 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. Pursuant to the Tax Sharing Agreement, Liberty Media allocated certain tax benefits aggregating $26.7 million to our company during 2005. The allocation of these tax benefits was treated as a capital transaction and reflected as an increase to additional paid-in capital in our consolidated statement of stockholders' equity.

As a result of the LGI Combination, LGI succeeded LMI as the entity responsible for filing consolidated domestic tax returns and UGC became a part of the LGI consolidated tax group. The income taxes of domestic and foreign subsidiaries not included within the consolidated U.S. tax group are presented in our financial statements based on a separate return basis for each tax-paying entity or group.

Periodically, we reevaluate the estimated blended state tax rate used to compute certain of our deferred tax balances. As a result of the LMI Tax Group becoming a separate tax paying entity in connection with the June 2004 spin off, we concluded that the blended state tax rate should be decreased. In connection with the June 2005 LGI Combination, we concluded that the estimated blended state tax rate should be increased. As a result of these changes in estimates, we recorded a $4.6 million deferred tax expense during 2005 and a $22.9 million deferred tax benefit during 2004.

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Income tax benefit (expense) consists of:

	Current	Deferred	Total
		amounts in millions	
Year ended December 31, 2006:			
Federal	$ (28.2)	$ 58.6	$ 30.4
State and local	(2.2)	3.1	0.9
Foreign	(62.3)	38.9	(23.4)
	$ (92.7)	$ 100.6	$ 7.9
Year ended December 31, 2005:			
Federal	$ (56.4)	$ 17.6	$ (38.8)
State and local	(4.0)	(1.7)	(5.7)
Foreign	(43.9)	59.7	15.8
	$ (104.3)	$ 75.6	$ (28.7)
Year ended December 31, 2004:			
Federal	$ (51.9)	$ 69.5	$ 17.6
State and local	(4.6)	13.7	9.1
Foreign	(9.8)	(3.0)	(12.8)
	$ (66.3)	$ 80.2	$ 13.9

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Income tax benefit (expense) attributable to our company's earnings (loss) before taxes, minority interest and discontinued operations 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,		
	2006	2005	2004
		amounts in millions	
Computed "expected" tax benefit (expense)	$ 59.6	$ (30.1)	$ 47.7
Change in valuation allowance	119.7	40.7	(52.8)
Enacted tax law, case law and rate changes	(65.1)	(12.7)	(106.5)
International rate differences	(41.1)	(6.9)	6.5
Income recognized for tax purposes, but not for financial reporting purposes	(40.7)	(23.7)	(25.8)
Non-deductible or taxable foreign currency exchange results	(18.3)	60.6	(27.7)
Non-taxable investment income (loss)	16.8	(34.0)	23.7
Non-deductible interest and other expenses	(15.6)	(53.9)	(75.0)
Foreign taxes	(6.8)	(3.4)	0.3
State and local income taxes, net of federal income taxes	0.6	(5.5)	1.6
Losses on sale of investments, affiliates and other assets	—	46.8	84.7
Change in estimated blended state tax rate	—	(4.6)	22.9
Gain on extinguishment of debt	—	—	107.9
Other, net	(1.2)	(2.0)	6.4
	$ 7.9	$ (28.7)	$ 13.9

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

	December 31,	
	2006	2005
	amounts in millions	
Current deferred tax assets	$ 131.6	$ 155.7
Non-current deferred tax assets	184.2	75.7
Current deferred tax liabilities	(5.6)	(2.5)
Non-current deferred tax liabilities	(537.1)	(546.0)
Net deferred tax liability	$ (226.9)	$ (317.1)

Our deferred income tax valuation allowance decreased $140.4 million in 2006. Such decrease reflects the net effect of (i) net tax benefits recorded in the statement of operations of $119.7 million, (ii) acquisitions and similar transactions, (iii) foreign currency translation adjustments, (iv) valuation allowances released to goodwill, and (v) other.

Approximately $1,595 million of the valuation allowance recorded as of December 31, 2006 was attributable to deferred tax assets for which any subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets 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 are presented below:

	December 31,	
	2006	2005
	amounts in millions	
Deferred tax assets:		
Net operating loss carryforwards	$ 2,314.6	$ 2,225.8
Debt	249.8	135.2
Property and equipment, net	188.0	242.9
Deferred revenue	157.0	123.9
Intangible assets, net	27.3	57.0
Deferred compensation and severance	22.7	34.6
Investments	8.4	15.9
Other future deductible amounts	190.1	136.7
Deferred tax assets	3,157.9	2,972.0
Valuation allowance	(1,921.5)	(2,061.9)
Deferred tax assets, net of valuation allowance	1,236.4	910.1
Deferred tax liabilities:		
Intangible assets	(457.9)	(416.1)
Investments	(410.1)	(377.6)
Property and equipment	(352.5)	(276.2)
Other future taxable amounts	(242.8)	(157.3)
Deferred tax liabilities	(1,463.3)	(1,227.2)
Net deferred tax liability	$ (226.9)	$ (317.1)

The significant components of our tax loss carryforwards and related tax assets at December 31, 2006 are as follows:

Country	Tax loss carryforward	Related tax asset	Expiration date
	amounts in millions		
Switzerland	$ 3,627.3	$ 800.3	2007-2013
The Netherlands	2,975.5	758.7	2011-2015
France	924.4	318.2	Indefinite
Ireland	424.3	53.0	Indefinite
Luxembourg	361.2	109.7	Indefinite
Chile	274.8	46.7	Indefinite
Australia	231.0	69.3	Indefinite
Austria	205.9	51.5	Indefinite
Japan	153.4	61.4	2009-2013
Poland	60.3	11.5	2007-2010
United States	36.6	13.2	2022-2026
Other	70.8	21.1	Various
Total	$ 9,345.5	$ 2,314.6	

Our tax loss carryforwards within each jurisdiction combine all companies' tax losses in that jurisdiction, however, certain tax jurisdictions limit the ability to offset taxable income of a separate company or different tax group with the tax losses associated with another separate company or group. Some losses are limited in use due to change in control or same business tests. We intend to indefinitely reinvest earnings from certain foreign operations except to the extent the earnings are subject to current U.S. income taxes. At December 31, 2006, U.S. and non-U.S. income and withholding taxes for which a deferred tax might otherwise be required have not been provided on an estimated $4.5 billion of cumulative 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. 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" (CFCs) 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.

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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.

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

(14) 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 LGI Series A common stock, 50,000,000 shares are designated LGI Series B common stock and 500,000,000 shares are designated LGI Series C common stock and (ii) 50,000,000 shares of LGI preferred stock, par value $.01 per share. LGI's restated certificate of incorporation authorizes the board of directors to authorize the issuance of one or more series of preferred stock.

Under LGI's restated certificate of incorporation, holders of LGI Series A common stock are entitled to one vote for each share of such stock held, and holders of LGI Series B common stock are entitled to 10 votes for each share of such stock held, on all matters submitted to a vote of LGI stockholders at any annual or special meeting. Holders of LGI Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders of LGI Series C common stock are entitled to 1/100th of a vote per share).

Each share of LGI Series B common stock is convertible into one share of LGI Series A common stock. One share of LGI Series A common stock is reserved for issuance for each share of LGI Series B common stock that is either issued or subject to future issuance pursuant to outstanding stock options. At December 31, 2006, there were 6,748,229, 3,066,716 and 9,566,033 shares of LGI Series A, Series B and Series C common stock, respectively, reserved for issuance pursuant to outstanding stock options, 5,652,674 and 5,651,058 shares of LGI Series A and Series C common stock, respectively, reserved for issuance pursuant to outstanding SARs and 11,044,375 shares of each of LGI Series A and Series C common stock reserved for issuance upon conversion of the UGC Convertible Notes. In addition to these amounts, one share of LGI Series A common stock is reserved for issuance for each share of LGI Series B common stock that is either issued (7,284,799 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 holders of LGI Series A, Series B and 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. 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 LGI Series A, Series B and Series C common stock will share equally, on a share for share basis, in our assets remaining for distribution to the holders of LGI common stock.

LMI Rights Offering

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. Each whole right to purchase LMI Series A common stock entitled the holder to purchase one share of LMI Series A common stock and one share of LMI Series C common stock at a combined subscription price of $25.00. Each whole right to purchase LMI Series B common stock entitled the holder to purchase one share of LMI Series B common stock and one share of LMI Series C common stock at a combined subscription price of $27.50. Each whole 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, 1,211,157 shares of LMI Series B common stock and 29,456,157 shares of LMI Series C common stock in exchange for aggregate cash proceeds of $739.4 million, before deducting related offering costs of $3.7 million.

Structured Stock Repurchase Instruments

Pursuant to the guidance contained in EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19), we accounted for the following call agreements as equity instruments.

In January 2006, we paid $10.7 million to enter into a call option contract pursuant to which we contemporaneously (i) sold call options on 500,000 shares of LGI Series A common stock at an exercise price of $21.80 and (ii) purchased call options on an equivalent number of shares of LGI Series A common stock with an exercise price of zero. In connection with the February 2006 expiration of this agreement, we exercised our call options and acquired 500,000 shares of LGI Series A common stock.

In November 2005, we paid $12.0 million to enter into a call option contract pursuant to which we contemporaneously (i) sold call options on 500,000 shares of LGI Series A common stock at an exercise price of $24.35 and (ii) purchased call options on an equivalent number of shares of LGI Series A common stock with an exercise price of zero. At the expiration of this contract in December 2005, we exercised our call options and acquired 500,000 shares of LGI Series A common stock.

In October 2005, we paid $11.8 million to enter into a call option contract pursuant to which we contemporaneously (i) sold call options on 500,000 shares of LGI Series A common stock at an exercise price of $24.25 and (ii) purchased call options on an equivalent number of shares of LGI Series A common stock with an exercise price of zero. In connection with the November 2005 expiration of this agreement, we received a cash payment of $12.1 million.

In July 2005, we paid $11.2 million to enter into a call option agreement pursuant to which we contemporaneously (i) sold call options on 250,000 shares of LGI Series A common stock and 250,000 shares of LGI Series C common stock at a combined exercise price of $46.14 and (ii) purchased call options on an equivalent number of shares of LGI Series A and Series C common stock with an exercise price of zero. In connection with the August 2005 expiration of this agreement, we received a cash payment of $11.5 million.

Stock Repurchases

During 2004, we purchased 3 million shares of our LGI Series A and Series C common stock from Comcast Corporation in a private transaction for a cash purchase price of $127.9 million. These shares were cancelled during the second quarter of 2005.

On June 20, 2005, our board of directors authorized a stock repurchase program. Under the program, we may acquire from time to time up to $200 million in LGI Series A and Series C common stock. During 2005, we repurchased under this program 2,048,231 and 1,455,859 shares of LGI Series A and Series C common stock, respectively, for aggregate cash consideration of $78.9 million.

During the first quarter of 2006, we purchased an additional $121.1 million of our LGI Series A and Series C common stock pursuant to the June 20, 2005 stock repurchase program.

On March 8, 2006, our board of directors approved a new stock repurchase program under which we may acquire an additional $250 million of our LGI Series A and Series C common stock through open market transactions or privately negotiated transactions, which may include derivative transactions. The timing of the repurchase of shares pursuant to this program will depend on a variety of factors, including market conditions. This program may be suspended or discontinued at any time. Under this program, we acquired $132.1 million of our LGI Series A and Series C common stock during the second and third quarters of 2006. At December 31, 2006, we were authorized under the March 8, 2006 stock repurchase program to acquire an additional $117.9 million of our LGI Series A and Series C common stock.

On June 21, 2006, we purchased 10,000,000 shares of our LGI Series A common stock at $25.00 per share and 10,288,066 shares of our LGI Series C common stock at $24.30 per share, for an aggregate purchase price of $500.0 million before acquisition costs, pursuant to two self-tender offers. On September 15, 2006, we purchased 20,000,000 shares of our LGI Series A common stock at $25.00 per share and 20,534,000 shares of our LGI Series C common stock at $24.35 per share, for an aggregate purchase price of $1.0 billion before acquisition costs, pursuant to two modified Dutch auction self-tender offers. On January 10, 2007, we purchased 5,084,746 shares of our LGI Series A common stock at $29.50 per share and 5,246,590 shares of our LGI Series C common stock at $28.59 per share, for an aggregate purchase price of $300.0 million before acquisition costs, pursuant to two modified Dutch auction self-tender offers. Shares purchased pursuant to the foregoing tender offers are not applied against our March 8, 2006 stock repurchase program.

Pursuant to the foregoing stock repurchase programs and the June and September 2006 self-tender offers, during 2006, we repurchased a total of 32,698,558 shares of our LGI Series A common stock at a weighted average price of $24.79 per share and 40,528,748 shares of our LGI Series C common stock at a weighted average price of $23.35 per share, for an aggregate cash purchase price of $1,756.9 million, including direct acquisition costs.

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Stock Split

On September 6, 2005, LGI effected a stock split in the form of a stock dividend of LGI Series C common stock to holders of record of LGI Series A and Series B common stock. Pursuant to the terms of this stock dividend, holders of record received one share of LGI Series C common stock for each share of LGI Series A common stock, and one share of LGI Series C common stock for each share of LGI Series B common stock. Unless otherwise indicated, all LGI share and per share amounts presented herein have been retroactively adjusted to give effect to this stock dividend.

Treasury Stock

In connection with the LGI Combination, we issued 2,067,786 shares of each of LGI Series A and Series C common stock to subsidiaries of UGC. During 2006, all of such shares were cancelled.

Equity Transactions of Subsidiaries and Affiliates

During 2006, 2005 and 2004, we recorded adjustments to additional paid-in capital associated with the dilution of our ownership interests and the equity transactions of certain of our subsidiaries and affiliates. See notes 5 and 7.

SARs Reclassification

During the fourth quarter of 2005, we concluded that we had both the ability and intent to satisfy most of our obligations under LGI SARs with shares of LGI common stock. As a result, we have reclassified $50.3 million of our obligations under LGI SARs from liability accounts to additional paid-in capital.

Restricted Net Assets

At December 31, 2006, $6,907.5 million 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.

(15) Stock Incentive Awards

As discussed in note 3, our stock-based compensation expense is based on the stock incentive awards held by our and our subsidiaries' employees, including stock incentive awards related to LGI common stock, J:COM common stock, Zonemedia common stock and the common stock of certain of our other subsidiaries. The following table summarizes our stock-based compensation expense for the indicated periods:

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
LGI Series A, Series B and Series C common stock	$ 58.0	$ 28.8	$ 135.4
J:COM ordinary shares	2.9	23.1	7.2
Restricted shares of LGI and Zonemedia	7.1	5.1	—
Other	2.0	2.0	—
	$ 70.0	$ 59.0	$ 142.6

The following table provides certain information related to nonvested stock awards as of December 31, 2006:

	As of December 31, 2006			
	LGI Series A, Series B and Series C common stock (a)	J:COM ordinary shares (b)	Restricted shares of LGI and Zonemedia (c)	SARs on VTR common stock
Total compensation cost related to nonvested awards not yet recognized (in millions)	$ 76.9	$ 1.2	$ 12.4	$ 5.3
Weighted average period remaining for expense recognition (in years)	2.63	0.46	3.00	3.00

(a) Amounts relate to the LGI incentive plans (including the Transitional Plan) and the UGC incentive plans described below.

(b) Amounts include compensation expense related to the J:COM Plan in 2006 and 2005 and the Liberty Jupiter Plan in 2005, as discussed below.

(c) Amounts relate to the restricted shares of LGI and Zonemedia common stock held by employees of Zonemedia. For additional information, see note 5.

The following table summarizes certain information related to the LGI common stock-incentive awards granted and exercised pursuant to the LGI and UGC incentive plans described below:

	Year ended December 31,		
	2006	2005	2004
	dollar amounts in millions, except per share amounts		
LGI Series A, Series B and Series C common stock:			
Assumptions used to estimate fair value of awards granted:			
Risk-free interest rate	4.58 – 5.20%	3.70 – 4.55%	3.61 – 4.36%
Expected life	4.5 – 6.0 years	4.0 – 6.0 years	6.0 years
Expected volatility	24.80 – 29.60%	25.25 – 45.60%	25.00 – 100%
Expected dividend yield	none	none	none
Weighted average grant-date fair value per share of awards granted:			
Options	$ 6.52	$ 7.64	$ 9.01
SARs	$ 6.36	$ 5.16	$ 14.03
Restricted stock	$ 20.28	$ 22.23	$ 22.19
Total intrinsic value of awards exercised:			
Options	$ 10.9	$ 17.8	$ 7.0
SARs	$ 22.4	$ 24.9	$ 12.0
Total share-based liabilities paid	$ —	$ 24.9	$ 12.0
Cash received from exercise of options	$ 17.5	$ 20.8	$ 16.1
Income tax benefit related to stock-based compensation	$ 14.2	$ 0.7	$ 36.2
Income tax expense related to exercise of options SARs and restricted stock	$ (5.4)	$ —	$ —

Stock Incentive Plans — LGI Common Stock

The LGI Incentive Plan

The Liberty Global, Inc. 2005 Incentive Plan, as amended and restated (the LGI 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 to 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, 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 LGI common stock with respect to which awards may be issued under the incentive plan is 50 million, subject to anti-dilution and other adjustment provisions of the LGI Incentive Plan, of which no more than 25 million shares may consist of LGI Series B common stock. With limited exceptions, no person may be granted in any calendar year awards covering more than 4 million shares of our common stock, of which no more than 2 million shares may consist of LGI Series B 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. Options and SARs under the LGI Incentive Plan issued prior to the LGI Combination generally vest at the rate of 20% per year on each anniversary of the grant date and expire 10 years after the grant date. Options and SARs under the LGI Incentive Plan issued after the LGI Combination generally (i) vest 12.5% on the six month anniversary of the grant date and then vest at a rate of 6.25% each quarter thereafter and (ii) expire seven years after the grant date. The LGI Incentive Plan had 35,430,183 shares available for grant as of December 31, 2006. These shares may be awarded at or above fair value in any series of stock, except that no more than 23,372,168 shares may be awarded in LGI Series B common stock.

In 2004, our company entered into an option agreement with John C. Malone, our Chairman of the Board, pursuant to which our company granted to Mr. Malone, under the LGI Incentive Plan, options to acquire 1,568,562 shares of LGI Series B common stock at an exercise price per share of $19.26 and 1,568,562 shares of LGI Series C common stock at an exercise price per share of $17.49. These options were fully exercisable immediately; however, Mr. Malone's rights with respect to the options and any shares issued upon exercise 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 LGI. 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 LGI will have the right to require Mr. Malone to sell to our company, at the exercise price of the options, any shares of LGI common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with our company.

As a protective measure in order to avoid the potential application of additional taxes under Section 409A of the Internal Revenue Code of 1986 (Section 409A), we entered into a modification agreement with Mr. Malone effective December 22, 2005 (the Section 409A Modification Effective Date), to increase the exercise prices of such options, which were not vested as of December 31, 2004. The exercise price per share of Mr. Malone's options to acquire 1,568,562 shares of LGI Series B common stock was increased from $19.26 to $20.10, and the exercise price per share of Mr. Malone's options to acquire 1,568,562 shares of LGI Series C common stock was increased from $17.49 to $18.26.

On December 22, 2005, we paid Mr. Malone $2.5 million of consideration equal to the aggregate amount of the increase in the exercise price of Series B Stock and Series C Stock underlying these options. The consideration was paid through a grant under the LGI Incentive Plan of 59,270 restricted shares of LGI Series B common stock and 58,403 restricted shares of LGI Series C common stock using fair market values as of the Section 409A Modification Effective Date. The restriction period with respect to these restricted shares expired or will expire with respect to 40% of the original number of restricted shares on June 7, 2006 and with respect to an additional 20% of the original number of these restricted shares on each June 7 thereafter through 2009.

The LGI Directors Incentive Plan

The Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan, as amended and restated (the LGI 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 LGI 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 to 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, SARs, restricted shares, stock units or any combination of the foregoing under the LGI Directors Incentive Plan (collectively, awards). Only non-employee members of our board of directors are eligible to receive awards under the LGI Directors Incentive Plan. The maximum number of shares of our common stock with respect to which awards may be issued under the LGI Directors Incentive Plan is 10 million, subject to anti-dilution and other adjustment provisions, of which no more than 5 million shares may consist of LGI Series B common stock. Shares of our common stock issuable pursuant to awards made under the LGI Directors Incentive Plan will be made available from either authorized but unissued shares or shares that have been issued but reacquired by our company. Options issued prior to the LGI Combination under the LGI Directors Incentive Plan vest on the first anniversary of the grant date and expire 10 years after the grant date. Options issued after the LGI Combination under the LGI Directors Incentive Plan will vest as to one-third on the date of the first annual meeting of stockholders following the grant date and as to an additional one-third on the date of the second and third annual meetings of stockholders following the grant date, provided the director continues to serve as director on such date. The LGI Directors Incentive Plan had 9,697,054 shares available for grant as of December 31, 2006. These shares may be awarded at or above fair value in any series of stock, except that no more than 5 million shares may be awarded in LGI Series B common stock.

The Transitional Plan

As a result of the spin off and related adjustments to Liberty Media's outstanding stock incentive awards, options to acquire shares of LGI Series A, Series B and Series C common stock were issued to LMI's directors and employees, Liberty Media's directors and certain of its employees 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 Media stock incentive awards that were adjusted. No new grants will be made under the Transitional Plan.

UGC Equity Incentive Plan, UGC Director Plans and UGC Employee Plan

Options, restricted stock and SARs were granted to employees and directors of UGC prior to the LGI Combination under these plans. No new grants will be made under these plans.

Stock Award Activity — LGI Common Stock

The following tables summarize the activity during 2006 in LGI stock awards under the LGI and UGC incentive plans, as described above. The tables also include activity related to LGI stock awards held by Zonemedia employees and Liberty Media employees:

Options — LGI Series A common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	6,532,038	$ 19.95		
Granted	880,850	$ 20.67		
Expired or canceled	(9,475)	$ 79.11		
Forfeited	(127,614)	$ 22.26		
Exercised	(527,570)	$ 15.85		
Outstanding at December 31, 2006	6,748,229	$ 20.24	5.64	$ 73.9
Exercisable at December 31, 2006	3,946,138	$ 19.41	5.05	$ 52.2

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Options — LGI Series B common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	3,066,716	$ 20.01		
Granted	—	$ —		
Expired or canceled	—	$ —		
Forfeited	—	$ —		
Exercised	—	$ —		
Outstanding at December 31, 2006	3,066,716	$ 20.01	5.83	$ 28.6
Exercisable at December 31, 2006	3,066,716	$ 20.01	5.83	$ 28.6

Options — LGI Series C common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	9,449,833	$ 18.80		
Granted	880,850	$ 20.11		
Expired or canceled	(9,475)	$ 74.89		
Forfeited	(127,614)	$ 21.24		
Exercised	(627,561)	$ 14.59		
Outstanding at December 31, 2006	9,566,033	$ 19.11	5.72	$ 97.9
Exercisable at December 31, 2006	6,763,942	$ 18.58	5.41	$ 76.6

Restricted stock — LGI Series A common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2006	347,797	$ 23.01	
Granted	587,076	$ 20.56	
Expired or canceled	(68,269)	$ 22.80	
Forfeited	(22,270)	$ 20.71	
Released from restrictions	(184,145)	$ 22.08	
Outstanding at December 31, 2006	660,189	$ 21.19	3.17

Restricted stock — LGI Series B common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2006	59,270	$ 22.23	
Granted	—	$ —	
Expired or canceled	—	$ —	
Forfeited	—	$ —	
Released from restrictions	(23,708)	$ 22.23	
Outstanding at December 31, 2006	35,562	$ 22.23	3.00

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Restricted stock — LGI Series C common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2006	406,164	$ 21.62	
Granted	587,080	$ 20.00	
Expired or canceled	(68,269)	$ 21.58	
Forfeited	(22,270)	$ 20.11	
Released from restrictions	(207,470)	$ 21.05	
Outstanding at December 31, 2006	695,235	$ 20.47	3.16

SARs — LGI Series A common stock:	Number of shares	Weighted average base price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	6,267,624	$ 14.00		
Granted	809,625	$ 20.49		
Expired or canceled	(3,126)	$ 24.02		
Forfeited	(196,359)	$ 17.16		
Exercised	(1,225,090)	$ 10.64		
Outstanding at December 31, 2006	5,652,674	$ 15.54	6.56	$ 54.8
Exercisable at December 31, 2006	1,305,967	$ 16.21	6.55	$ 13.1

SARs — LGI Series C common stock:	Number of shares	Weighted average base price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	6,257,092	$ 13.25		
Granted	809,625	$ 19.92		
Expired or canceled	(3,126)	$ 22.73		
Forfeited	(196,359)	$ 16.30		
Exercised	(1,216,174)	$ 10.07		
Outstanding at December 31, 2006	5,651,058	$ 14.78	6.56	$ 53.2
Exercisable at December 31, 2006	1,304,351	$ 15.38	6.55	$ 12.8

At December 31, 2006, total SARs outstanding included 1,213,567 LGI Series A common stock capped SARs and 1,213,567 LGI Series C common stock capped SARs and total SARs exercisable included 207,557 LGI Series A common stock capped SARs and 207,557 LGI Series C common stock capped SARs. The holder of an LGI Series A common stock capped SAR will receive the difference between $6.84 and the lesser of $10.90 or the market price of LGI Series A common stock on the date of exercise. The holder of a LGI Series C common stock capped SAR will receive the difference between $6.48 and the lesser of $10.31 or the market price of LGI Series C common stock on the date of exercise.

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LGI Performance Plan

On October 31, 2006 and November 1, 2006, the compensation committee of our board of directors and our board, respectively, authorized the implementation of a new performance-based incentive plan for our senior executives (the Senior Executive Performance Plan) pursuant to the LGI Incentive Plan. The aggregate amount of the maximum achievable awards that may be allocated under the Senior Executive Performance Plan, as finalized in February 2007, is $313.5 million. In February 2007, the full amount of the maximum achievable awards were allocated or reserved for allocation to participants including our President and Chief Executive Officer, and each of our other executive officers. On January 12, 2007, the compensation committee of our board authorized the implementation of a similar performance-based incentive plan (the Key Employee Performance Plan) pursuant to the LGI Incentive Plan, for certain key employees not participating in the Senior Executive Performance Plan. The aggregate amount of the maximum achievable awards under the Key Employee Performance Plan, as finalized in February 2007, is $86.5 million.

Each Performance Plan is a five-year plan, with a two-year performance period, beginning January 1, 2007, and a three-year service period beginning January 1, 2009. At the end of the two-year performance period, each participant may become eligible to receive varying percentages of the maximum achievable award specified for such participant based on achievement of specified compound annual growth rates in consolidated operating cash flow (see note 22), adjusted for events such as acquisitions, dispositions and changes in foreign currency exchange rates that affect comparability (OCF CAGR).

If OCF CAGR is less than 12%, no participant will be eligible to receive any amount under the Performance Plans. At OCF CAGRs ranging from 12% to 17%, the percentages of the maximum achievable awards that participants will become eligible to receive will range from 50% to 100%, subject to the other requirements of the Performance Plans. The amount of the award initially determined on this basis may be reduced at the discretion of the compensation committee based on an assessment of the participant's individual job performance during the performance period.

Awards will be paid or will vest during the following three-year period, and will be subject to forfeiture upon certain events of termination of employment or acceleration in certain circumstances. Further the compensation committee will have the discretion to reduce the unpaid balance of an award based on an assessment of the participant's individual job performance during the service period. Awards may be settled in cash, restricted or unrestricted shares of LGI Series A and Series C common stock, or any combination of the foregoing, at the discretion of the compensation committee. Payments will be made or will vest in equal semi-annual installments on each March 31 and September 30. Participants in the Senior Executive Performance Plan will generally not be eligible to receive any equity incentive awards that would otherwise be granted in 2007 and 2008.

The compensation committee has determined that its current intention is to settle awards earned under each Performance Plan using restricted or unrestricted stock, although it reserves the right to change that determination in the future. In light of the compensation committee's current intention, we will account for awards granted under the Performance Plans as liability-based awards pursuant to the provisions of SFAS No. 123(R). As no awards were granted during 2006 and as the requisite service period does not begin until January 1, 2007, we will not begin recording compensation expense under the Performance Plans until January 2007. Compensation expense under the Performance Plans will be (i) recognized using the accelerated attribution method based on our assessment of the awards that are probable to be earned and (ii) reported as stock-based compensation in our consolidated statements of operations, notwithstanding the fact that the compensation committee could elect at a future date to cash settle all or any portion of vested awards under the Performance Plans.

J:COM Stock Option Plans

J:COM has granted options and stock purchase warrants under various plans for certain directors and employees of J:COM and its consolidated subsidiaries and managed affiliates, and certain non-employees. Options or warrants granted to non-management employees vest two years from the date of grant, unless their individual grant agreements provide otherwise. Options or warrants granted to management employees and non-employees vest in four equal installments from date of grant, unless their individual grant agreements provide otherwise. With the exception of the options granted in 2006, these options generally expire at dates ranging from August 2010 to August 2012. As of December 31, 2006, J:COM has granted the maximum number of options under existing authorized plans.

A summary of the J:COM Stock Option Plan activity during 2006 is as follows:

Options — J:COM ordinary shares:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2006	177,504	¥ 80,141		
Granted(a)	304	¥ 1		
Expired or canceled	(2,404)	¥ 80,000		
Forfeited	(692)	¥ 80,000		
Exercised	(18,771)	¥ 80,000		
Outstanding at December 31, 2006	155,941	¥ 80,030	4.72	¥ 2,490.3
Exercisable at December 31, 2006	147,745	¥ 80,152	4.65	¥ 2,341.4

(a) The exercise price of these options was significantly below the market price of J:COM common stock on the date of grant. These options expire in March 2026.

During 2006 and 2005, J:COM received cash proceeds of $13.2 million and $8.5 million, respectively, in connection with the exercise of stock options.

Austar Stock Option Plans

At December 31, 2006 and 2005, our majority owned subsidiary, Austar, had 50,000 options outstanding to purchase ordinary shares at an exercise price of $4.70. All options outstanding at December 31, 2006 and 2005 were fully vested and exercisable and expire in 2009. No additional options are expected to be issued pursuant to this plan.

Prior to our acquisition of a controlling interest in Austar on December 14, 2005, Austar had implemented compensatory plans that provided for the purchase of Austar Class A and Class B shares by senior management at various prices and the conversion of the purchased shares into Austar ordinary shares, subject to vesting schedules. At December 31, 2005, Austar senior management held Class A and Class B shares that had not been converted into ordinary shares aggregating 20,840,817 and 54,025,795, respectively. As of December 31, 2006, none of the 54,025,795 Class B shares have been converted into ordinary shares, as they have not vested. During 2006, all of the remaining 20,840,817 Class A shares were converted into ordinary shares.

Stock-based compensation expense with respect to Austar's compensatory plans was not significant during 2006.

Liberty Jupiter Stock Plan

Four individuals, including one of our executive officers, an officer of one of our subsidiaries and one of LMI's former directors (who ceased being a director effective with the LGI Combination) own an 18.8% common stock interest in Liberty Jupiter, which owned an approximate 4.3% indirect interest in J:COM. Prior to the adoption of SFAS 123(R), we recorded stock-based compensation pursuant to this plan based on changes in the market price of J:COM common stock. As a result of our January 1, 2006 adoption of SFAS 123(R), we no longer account for this arrangement as a share-based compensation plan and have reclassified the liability as of January 1, 2006 to minority interests in consolidated subsidiaries in our consolidated balance sheet. See note 21.

VTR Phantom SARs Plan

In April 2006, VTR's board of directors adopted a phantom SARs plan with respect to 1,000,000 shares of VTR's common stock (the VTR Plan). SARs granted under the VTR Plan vest in equal semi-annual installments over a four-year period and expire no later than July 1, 2010. Vested SARs are exercisable within 60 days of receipt of an annual valuation report as defined in the VTR Plan. Upon exercise, the SARs are payable in cash or, for any such time as VTR is publicly traded, cash or shares of VTR or any combination thereof, in each case at the election of the compensation committee that administers the VTR Plan. On April 12, 2006, the VTR compensation committee granted a total of 945,000 SARs, each with a base price of CLP 10,440 and a vesting commencement date of January 1, 2006. The remaining SARs with respect to 55,000 shares available for grant may be awarded at a price to be determined by the VTR compensation committee. As the outstanding SARs under this plan currently must be settled in cash, we use the liability method to account for the VTR phantom SARs.

A summary of the VTR Plan activity during 2006 is as follows:

SARs — VTR common stock:	Number of shares	Weighted average base price		Weighted average remaining contractual term in years	Aggregate intrinsic value in millions	
Outstanding at January 1, 2006	—	CLP	—			
Granted	945,000	CLP	10,440			
Expired or canceled	—	CLP	—			
Forfeited	(302,000)	CLP	10,440			
Exercised	—	CLP	—			
Outstanding at December 31, 2006(a)	643,000	CLP	10,440	3.50	CLP	4,782.6
Exercisable at December 31, 2006	n/a		n/a	n/a		n/a

(a) The fair value of these awards at December 31, 2006 was calculated using an expected volatility of 24.8%, an expected life of 3.0 years and a risk-free return of 5.61%. In addition, we were required to estimate the fair value of VTR common stock at December 31, 2006. Accordingly, the fair value of these awards is remeasured each reporting period, and compensation expense is adjusted to reflect the updated fair value.

United Chile Synthetic Option Plan

Pursuant to a synthetic option plan (the United Chile Synthetic Option Plan) that was adopted in December 2006 to replace the former UIH Latin America, Inc. Stock Option Plan, certain of our directors, executive officers and officers, and one of our employees, hold an aggregate of 574,843 synthetic options with respect to hypothetical shares of United Chile LLC (United Chile), the owner of our 80% ownership interest in VTR. These synthetic options represent a 2.8% fully diluted equity interest in United Chile. For purposes of determining the value attributable to these synthetic options, United Chile is assumed to have a specified share capital and intercompany indebtedness. These assumptions are designed to replicate at United Chile the share capital and indebtedness, net of the value of certain assets, that UIH Latin America, Inc. would have had absent certain intercompany transactions that occurred in 2006. All of the synthetic options outstanding under the United Chile Phantom Plan are fully vested and expire between 2009 and 2011. These synthetic options had no intrinsic value and minimal fair value at December 31, 2006. No new grants may be made under the United Chile Synthetic Option Plan. We account for the United Chile Synthetic Option Plan awards as liability-based awards.

(16) Related Party Transactions

Prior to the LGI Combination, Liberty Media may have been deemed to be an affiliate of LMI by virtue of John C. Malone's voting power in Liberty Media and LMI, as well as his positions as Chairman of the Board of Liberty Media and Chairman of the Board, Chief Executive Officer and President of LMI, and the fact that six of LMI's eight directors were also directors of Liberty Media. As a result of (i) the dilution of Mr. Malone's voting power, (ii) his ceasing to be our Chief Executive Officer and President and (iii) the reduction in the number of common directors between LGI and Liberty Media that occurred in connection with the June 15, 2005 LGI Combination, we believe that Liberty Media is no longer an affiliate of our company. Accordingly, transactions with Liberty Media or its subsidiaries that occurred after the LGI Combination are not disclosed below.

Prior to the Spin Off Date in 2004, Liberty Media loaned one of our subsidiaries $116.7 million. This loan was repaid during the third quarter of 2004. In connection with the spin off, we entered into certain agreements with Liberty Media, pursuant to which Liberty Media allocated administrative, facilities and aircraft costs to our company. Most of the intercompany amounts owed to Liberty Media as a result of these arrangements at the Spin Off Date were contributed to our equity in connection with the spin off. Amounts allocated to our company pursuant to these arrangements through the date of the LGI Combination were considered to be related party transactions. Other agreements between our company and Liberty Media that were entered into in connection with the spin off include the Reorganization Agreement (see note 2) and the Tax Sharing Agreement (see note 13).

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Our related party transactions, which include related party transactions of J:COM during the 2006 and 2005 periods in which we consolidated J:COM, are summarized in the following table:

	Year ended December 31,		
	2006	2005	2004
	amounts in millions		
Revenue earned from related parties of:			
J:COM(a)	$ 54.4	$ 52.3	$ —
LGI and consolidated subsidiaries other than J:COM(b)	2.1	6.6	5.5
Total LGI	$ 56.5	$ 58.9	$ 5.5
Operating expenses charged by related parties of:			
J:COM(c)	$ 55.0	$ 73.6	$ —
LGI and consolidated subsidiaries other than J:COM(d)	20.0	18.4	15.9
Total LGI	$ 75.0	$ 92.0	$ 15.9
SG&A expenses charged by related parties of:			
J:COM(e)	$ 11.4	$ 13.5	$ —
LGI and consolidated subsidiaries other than J:COM(f)	—	1.5	12.3
Total LGI	$ 11.4	$ 15.0	$ 12.3
Interest expense charged by related parties of:			
J:COM(g)	$ 10.1	$ 9.5	$ —
LGI and consolidated subsidiaries other than J:COM(h)	—	0.2	2.3
Total LGI	$ 10.1	$ 9.7	$ 2.3
Interest and other income recognized from related parties of LGI and consolidated subsidiaries other than J:COM(i)	$ 0.7	$ 2.2	$ 11.8
Capital lease additions — related parties of J:COM(j)	$ 142.7	$ 144.3	$ —

(a) J:COM provides programming, construction, management and distribution services to its managed affiliates. In addition, J:COM sells construction materials to such affiliates, provides distribution services to other LGI affiliates and receives distribution fees from Jupiter TV, a 50% joint venture owned by our company and Sumitomo.

(b) Amounts consist primarily of management, advisory and programming license fees, call center charges and fees for uplink services charged to our equity method affiliates.

(c) J:COM (i) purchases certain cable television programming from Jupiter TV and other affiliates, (ii) incurs rental expense for the use of certain vehicles and equipment under operating leases with two Sumitomo subsidiaries and an affiliate of Sumitomo and (iii) paid monthly fees to an equity method affiliate during 2005 for broadband Internet provisioning services based on an agreed-upon percentage of subscription revenue collected by J:COM.

(d) Amounts consist primarily of programming costs and interconnect fees charged by equity method affiliates.

(e) J:COM has management service agreements with Sumitomo under which officers and management level employees are seconded from Sumitomo to J:COM, whose services are charged as service fees to J:COM based on their payroll costs. Amounts also include rental expense paid to the Sumitomo entities, as described in (c) above.

(f) The 2005 and 2004 amounts include administrative, facility and aircraft allocations from Liberty Media. The 2005 amount includes allocations through the June 15, 2005 date of the LGI Combination. We believe such allocated amounts to be reasonable.

(g) Amounts consist of related party interest expense, primarily related to assets leased from the aforementioned Sumitomo entities.

(h) The 2004 amount includes $1.5 million of interest charges from Liberty Media.

(i) Amounts primarily represent interest recognized on loans to equity affiliates (primarily J:COM in 2004).

(j) J:COM leases, in the form of capital leases, customer premise equipment, various office equipment and vehicles from the aforementioned Sumitomo entities. At December 31, 2006 and 2005, capital lease obligations of J:COM aggregating ¥41.5 billion ($348.5 million) and ¥34.5 billion ($292.5 million), respectively, were owed to these Sumitomo entities.

On December 31, 2006, we sold our 100% interest in UPC Belgium to Telenet, an equity method affiliate. For additional information, see note 7.

As discussed in more detail in note 5, on February 25, 2005, J:COM completed a transaction with Sumitomo, Microsoft and our company whereby J:COM paid aggregate cash consideration of ¥4,420 million ($41.9 million at the transaction date) to acquire each entities' respective interests in Chofu Cable, and to acquire from Microsoft equity interests in certain telecommunications companies.

(17) Transactions with Officers

VLG Acquisition Corp.

Prior to March 2, 2005, Liberty Media owned an indirect 78.2% economic and non-voting interest in VLG Argentina LLC (VLG Argentina), an entity that owned a 50% interest in Cablevisión, the largest cable television company in Argentina. VLG Acquisition Corp. (VLG Acquisition), an entity in which neither Liberty Media nor our company has any ownership interests, owned the remaining 21.8% economic interest and all of the voting power in VLG Argentina. A former executive officer and an officer of one of our subsidiaries, each of whom was then an officer of LMI, were shareholders of VLG Acquisition. Prior to joining our company, they sold their equity interests in VLG Acquisition to the remaining shareholder, but each retained a contractual right to 33% of any proceeds in excess of $100,000 from the sale of VLG Acquisition's interest in VLG Argentina, or from distributions to VLG Acquisition by VLG Argentina in connection with a sale of VLG Argentina's interest in Cablevisión. Although we have no direct or indirect equity interest in Cablevisión, we had the right and obligation pursuant to Cablevisión's debt restructuring agreement to contribute $27.5 million to Cablevisión in exchange for newly issued Cablevisión shares representing approximately 40.0% of Cablevisión's fully diluted equity (the Subscription Right).

On November 2, 2004, a subsidiary of our company, Liberty Media, VLG Acquisition and the then sole shareholder of VLG Acquisition entered into an agreement with a third party to transfer all of the equity in VLG Argentina and all of our rights and obligations with respect to the Subscription Right to the third party for aggregate consideration of $65 million. This agreement provided that $40.5 million of such proceeds would be allocated to our company for the Subscription Right. We received 50% of such proceeds as a down payment in November 2004 and we received the remainder in March 2005. We recognized a gain of $40.5 million during the three months ended March 31, 2005 in connection with the closing of this transaction.

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

For a description of certain transactions involving stock options held by our Chairman of the Board, see note 15.

(18) Restructuring Charges

Restructuring Charges

A summary of our restructuring charge activity in 2006 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
			amounts in millions		
Restructuring liability as of January 1, 2006	$ 14.1	$ 13.4	$ 30.3	$ 9.4	$ 67.2
Restructuring charges (credits)	15.7	1.0	(1.0)	(0.7)	15.0
Cash paid	(19.6)	(4.8)	(5.8)	(5.9)	(36.1)
Acquisitions and other	2.8	0.4	1.5	(1.0)	3.7
Foreign currency translation adjustments	1.3	1.4	0.8	(0.2)	3.3
Restructuring liability as of December 31, 2006	14.3	11.4	25.8	1.6	53.1
Short-term portion	11.2	2.7	4.5	1.6	20.0
Long-term portion	3.1	8.7	21.3	—	33.1
Total	$ 14.3	$ 11.4	$ 25.8	$ 1.6	$ 53.1

Our 2006 restructuring charges include €8.6 million ($10.8 million at the average exchange rate during the period) related primarily to the cost of terminating certain employees in connection with the integration of our broadband communications operations in Ireland.

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A summary of our restructuring charge activity in 2005 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
			amounts in millions		
Restructuring liability as of January 1, 2005	$ 10.6	$ 30.0	$ 30.5	$ 1.5	$ 72.6
Restructuring charges (credits):					
Continuing operations	2.6	(8.6)	4.3	(0.2)	(1.9)
Discontinued operations	1.6	—	—	(0.8)	0.8
	4.2	(8.6)	4.3	(1.0)	(1.1)
Cash paid	(14.8)	(4.1)	(4.8)	(1.3)	(25.0)
Acquisitions and other	15.0	(0.7)	0.4	9.4	24.1
Foreign currency translation adjustments	(0.9)	(3.2)	(0.1)	0.8	(3.4)
Restructuring liability as of December 31, 2005	$ 14.1	$ 13.4	$ 30.3	$ 9.4	$ 67.2
Short-term portion	$ 10.6	$ 2.3	$ 4.7	$ 9.4	$ 27.0
Long-term portion	3.5	11.1	25.6	—	40.2
Total	$ 14.1	$ 13.4	$ 30.3	$ 9.4	$ 67.2

In June 2005, the UPC Broadband Division made the decision to occupy certain corporate office space that had been previously exited by its operations in The Netherlands. As a result of this decision, we reduced our restructuring liability by €6.2 million ($7.7 million at the average rate during the period). In connection with our acquisition of Cablecom in October 2005 and VTR's acquisition of a controlling interest in Metrópolis in April 2005, restructuring liabilities of $9.5 million and $10.2 million, respectively, were recorded to provide for the cost of terminating certain executive management and other redundant employees of the target companies, and in the case of Metrópolis, to also provide for the cost to remove Metrópolis' redundant broadband distribution systems. In addition, certain of our other acquisitions during 2005 resulted in additions to our restructuring liability.

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

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
	amounts in millions				
Restructuring liability as of January 1, 2004	$ 8.4	$ 16.8	$ 34.4	$ 2.4	$ 62.0
Restructuring charges (credits):					
Continuing operations	5.9	16.9	—	(0.2)	22.6
Discontinued operations	2.2	—	—	1.0	3.2
	8.1	16.9	—	0.8	25.8
Cash paid	(6.9)	(5.7)	(7.6)	(1.1)	(21.3)
Foreign currency translation adjustments	1.0	2.0	3.7	(0.6)	6.1
Restructuring liability as of December 31, 2004	$ 10.6	$ 30.0	$ 30.5	$ 1.5	$ 72.6
Short-term portion	$ 5.0	$ 5.3	$ 3.8	$ 0.3	$ 14.4
Long-term portion	5.6	24.7	26.7	1.2	58.2
Total	$ 10.6	$ 30.0	$ 30.5	$ 1.5	$ 72.6

During 2004, we recorded an aggregate charge of $5.7 million for severance benefits as a result of a restructuring plan to change the management structure of our operations in The Netherlands from a three-region model to a centralized management organization, eliminating certain redundancies and vacating space under an office lease. In December 2004, we changed our estimate regarding the timing and amount of sub-lease income related to a restructuring plan that was finalized in 2001. Accordingly, the restructuring liability was increased by $16.0 million to reflect our then best estimate regarding future sub-lease income for the vacated property.

(19) Defined Benefit Plans

Certain of our indirect subsidiaries in Europe and Japan maintain various funded and unfunded defined benefit pension plans for their employees. Annual service cost for these employee benefit plans is determined using the projected unit credit actuarial method. The subsidiaries that maintain funded plans have established investment policies for assets. The investment strategies are long-term in nature and designed to meet the following objectives:

- Ensure that funds are available to pay benefits as they become due;
- Maximize the trusts total returns subject to prudent risk taking; and
- Preserve and/or improve the funded status of the trusts over time.

Allocations to real estate occur over multiple time periods. Assets targeted to real estate, but not yet allocated, are invested in fixed income securities with corresponding adjustments to fixed income rebalancing guidelines.

The subsidiaries review the asset mix of the funds on a regular basis. Generally, asset mix will be rebalanced to the target mix as individual portfolios approach their minimum or maximum levels.

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As discussed in note 23, effective December 31, 2006, we adopted SFAS 158. The incremental effect on the individual line items in our balance sheet as of December 31, 2006 was as follows:

	Before application of SFAS 158	Adjustments	After application of SFAS 158
		amounts in millions	
Other long-term liabilities (includes liability for pension benefits of $48.1 million at December 31, 2006)	$ 1,292.2	$ (8.5)	$ 1,283.7
Non-current deferred tax liabilities	$ 536.2	$ 0.9	$ 537.1
Total liabilities	$ 16,418.3	$ (7.6)	$ 16,410.7
Accumulated other comprehensive earnings, net of taxes	$ 162.2	$ 7.6	$ 169.8
Total stockholders' equity	$ 7,239.5	$ 7.6	$ 7,247.1

The following is a summary of the funded status of the pension plans:

	Year ended December 31, 2006	2005
	amounts in millions	
Projected benefit obligations at beginning of period	$ 159.8	$ 47.8
Acquisitions(a)	17.6	136.0
Service cost	10.8	4.5
Interest cost	6.1	2.7
Actuarial loss (gain)	(5.2)	2.7
Realized gain on settlement	—	(6.0)
Plan participants' contributions	5.6	1.4
Benefits paid	(15.5)	(22.0)
Effect of change in exchange rates	14.2	(7.3)
Projected benefit obligations at end of period	$ 193.4	$ 159.8
Accumulated benefit obligations at end of period	$ 184.4	$ 147.0
Fair value of plan assets at beginning of period	$ 116.1	$ 10.6
Acquisitions(a)	8.3	102.8
Actual return on plan assets	7.3	3.6
Group contributions	12.5	2.2
Participants' contributions	5.6	1.4
Benefits paid	(15.0)	(1.0)
Effect of change in exchange rates	10.5	(3.5)
Fair value of plan assets at end of period	$ 145.3	$ 116.1
Funded status of the plans:		
Funded status of the plans	$ (48.1)	(43.7)
Unrecognized net actuarial gain	—	(1.3)
Net liability in the balance sheet	$ (48.1)	$ (45.0)

(a) Amounts primarily relate to the October 2005 Cablecom acquisition and include purchase accounting adjustments recorded during 2006 to increase Cablecom's projected benefit obligation and fair value of plan assets by $13.4 million and $8.3 million, respectively.

Actuarial Assumptions

The measurement date used to determine pension plan assumptions was December 31 for each of 2006 and 2005. The actuarial assumptions used to compute the net periodic pension cost are based on information available as of the beginning of the period, specifically market interest rates, past experience and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. In computing future costs and obligations, the subsidiaries must make assumptions about such items as employee mortality and turnover, expected salary and wage increases, discount rate, expected long-term rate of return on plan assets and expected future cost increases.

The subsidiaries set their discount rates annually based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to maturity of the pension benefits.

The expected rates of return on the assets of the funded plans are the long-term rates of return the subsidiaries expect to earn on their trust assets. The rates of return are determined by the investment composition of the plan assets and the long-term risk and return forecast for each asset category. The forecasts for each asset class are generated using historical information as well as an analysis of current and expected market conditions. The expected risk and return characteristics for each asset class are reviewed annually and revised, as necessary, to reflect changes in the financial markets. To compute the expected return on plan assets, the subsidiaries apply an expected rate of return to the fair value of the plan assets.

The weighted average assumptions used in determining benefit obligations are as follows:

	December 31,	
	2006	2005
Expected rate of salary increase	2.14%	2.17%
Discount rate	3.09%	3.25%
Return on plan assets	4.56%	4.60%

The components of net periodic pension cost recorded in our consolidated statements of operations are as follows:

	Year ended December 31,	
	2006	2005
	amounts in millions	
Service cost	$ 10.8	$ 4.5
Interest cost	6.1	2.7
Expected return on plan assets	(5.8)	(1.8)
Realized gain on settlement	—	(6.0)
Amortization of actuarial loss	—	0.2
Net periodic pension cost (benefit)	$ 11.1	$ (0.4)

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The allocation of the assets of the funded plans is as follows:

	December 31, 2006	December 31, 2005
Debt securities	43%	48%
Equity securities	39%	32%
Real estate	9%	17%
Other	9%	3%
	100%	100%

The weighted average target asset mix established for the funded plans is as follows:

Debt securities	50%
Equity securities	31%
Real estate	10%
Other	9%
	100%

Total group contributions expected to be paid during 2007 are $13 million. The expected benefits to be paid with respect to pensions as of December 31, 2006 were as follows (amounts in millions):

2007	$ 3.6
2008	$ 3.9
2009	$ 4.2
2010	$ 5.0
2011	$ 5.2
2012 - 2015	$ 33.9

(20) Other Comprehensive Earnings (Loss)

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

	Foreign currency translation adjustments	Unrealized gains (losses) on securities	Unrealized gains (losses) on cash flow hedges	Other	Accumulated other comprehensive earnings (loss)
			amounts in millions		
Balance at January 1, 2004	$ (174.4)	$ 127.8	$ —	$ —	$ (46.6)
Other comprehensive earnings (loss)	129.1	(122.3)	—	—	6.8
Effect of change in estimated blended state income tax rate (note 13)	2.2	0.5	—	—	2.7
Spin off transaction (note 2)	—	51.1	—	—	51.1
Balance at December 31, 2004	(43.1)	57.1	—	—	14.0
Other comprehensive earnings (loss)	(244.0)	(36.9)	4.8	—	(276.1)
Effect of change in estimated blended state income tax rate (note 13)	(0.6)	(0.2)	—	—	(0.8)
Balance at December 31, 2005	(287.7)	20.0	4.8	—	(262.9)
Other comprehensive earnings (loss)	406.8	19.5	(1.2)	—	425.1
Adjustment to initially adopt SFAS 158, net of taxes (notes 19 and 23)	—	—	—	7.6	7.6
Balance at December 31, 2006	$ 119.1	$ 39.5	$ 3.6	$ 7.6	$ 169.8

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

	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
		amounts in millions	
Year ended December 31, 2004:			
Foreign currency translation adjustments	$ 133.7	$ (4.6)	$ 129.1
Unrealized gains (losses) on securities	(210.0)	87.7	(122.3)
Effect of change in estimated blended state income tax rate (note 13)	—	2.7	2.7
Other comprehensive earnings (loss)	$ (76.3)	$ 85.8	$ 9.5
Year ended December 31, 2005:			
Foreign currency translation adjustments	$ (236.8)	$ (7.2)	$ (244.0)
Unrealized gains (losses) on securities	(58.6)	21.7	(36.9)
Unrealized gains on cash flow hedges	4.8	—	4.8
Effect of change in estimated blended state income tax rate (note 13)	—	(0.8)	(0.8)
Other comprehensive earnings (loss)	$ (290.6)	$ 13.7	$ (276.9)
Year ended December 31, 2006:			
Foreign currency translation adjustments	$ 404.7	$ 2.1	$ 406.8
Unrealized gains (losses) on securities	30.5	(11.0)	19.5
Unrealized losses on cash flow hedges	(1.2)	—	(1.2)
Other comprehensive earnings (loss)	$ 434.0	$ (8.9)	$ 425.1

(21) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable leases, programming contracts, satellite carriage commitments, purchases of customer premise equipment and construction activities. We expect that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases. As of December 31, 2006, the U.S. dollar equivalents (based on December 31, 2006 exchange rates) of such commitments are as follows:

	Payments due during						
	2007	2008	2009	2010	2011	Thereafter	Total
				amounts in millions			
Operating leases	$ 136.8	$ 105.8	$ 90.4	$ 74.4	$ 44.9	$ 143.3	$ 595.6
Programming, satellite and other purchase obligations	130.4	73.5	41.1	11.6	6.6	39.0	302.2
Other commitments	50.0	9.1	8.4	5.9	5.1	9.8	88.3
	$ 317.2	$ 188.4	$ 139.9	$ 91.9	$ 56.6	$ 192.1	$ 986.1

Programming commitments consist of obligations associated with certain of our programming, studio output, and sports right contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees, without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems, or (iii) whether we discontinue our premium movie and sports services. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. The ultimate amount payable in excess of the contractual minimums of our studio output contracts, which expire at various dates through 2014, is dependent upon the number of subscribers to our premium movie service and the theatrical success of the films that we exhibit. Satellite commitments consist of obligations associated with satellite carriage services provided to our company. Other purchase obligations include 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, 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.

Rental expense under non-cancelable operating lease arrangements amounted to $120.8 million, $119.9 million and $71.4 million, in 2006, 2005 and 2004, respectively. It is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases.

We have established various defined contribution benefit plans for our employees. The aggregate expense for matching contributions under our various defined contribution employee benefit plans was $36.0 million, $14.7 million and $10.8 million in 2006, 2005 and 2004, respectively.

Contingent Obligations

Our equity method investment in Mediatti is owned by our consolidated subsidiary, Liberty Japan MC. Another shareholder of Mediatti, Olympus Capital and certain of its affiliates (Olympus), 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 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 value. If Olympus does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at the then fair value. If both the Olympus put right and the Liberty Japan MC call right are not exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010. Upon Olympus' exercise of its put right, or our exercise of our call right, we have the option to use cash, or subject to certain conditions being met, marketable securities, including LGI common stock, to acquire Olympus' interest in Mediatti.

Cable Partners Belgium has the right to require Belgian Cable Holdings to purchase all of Cable Partners Belgium'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. Belgian Cable Holdings has the corresponding right to require Cable Partners Belgium to sell all of its interest in Belgian Cable Investors to Belgian Cable

Holdings for the then appraised fair value during the first 30 days of every six-month period following December 2009. Upon Cable Partners Belgium's exercise of its put right, we have the option to use cash, or subject to certain conditions being met, marketable securities, including LGI common stock, to acquire Cable Partners Belgium's interest in Belgian Cable Investors. For additional information, see note 7.

Zonemedia's Class B1 shareholders have the right, subject to vesting, to put 60% and 100% of their Class B1 shares to Chellomedia at fair value (limited to a maximum of 10 times Zonemedia EBITDA, as defined in the Zonemedia shareholders agreement) on or after January 7, 2008 and January 7, 2010, respectively. Chellomedia has a corresponding call right that is not subject to any fair value limitations. The put and call rights are to be settled in cash.

In connection with the April 13, 2005 combination of VTR and Metrópolis, Cristalerías acquired the right to require UGC to purchase Cristalerías' equity interest in VTR at fair value, subject to a $140 million floor price. This put right is exercisable by Cristalerías until April 13, 2015. Upon the exercise of this put right by Cristalerías, we have the option to use cash or shares of LGI common stock to acquire Cristalerías' interest in VTR. We have reflected the $5.9 million fair value of this put obligation at December 31, 2006 in other current liabilities in our consolidated balance sheet.

The minority owner of Sport1, one of our European programming subsidiaries, has the right to put all (but not part) of its interest in Sport1 to one of our subsidiaries each year between January 1 and January 31, commencing 2009. This put option lapses if not exercised by February 1, 2011. Chellomedia has a corresponding call right. The price payable upon exercise of the put or call right will be the then fair value of the minority owner's interest in Sport1. In the event the then fair value of Sport 1 on exercise of the put right exceeds a multiple of ten times EBITDA, calculated as the average annualized EBITDA for the six full calendar months immediately prior to the date of the relevant put exercise, Chellomedia may in its sole discretion elect not to acquire the minority interest and the put right lapses for that year, with the minority shareholder being instead entitled to sell its minority interest to a third party within 3 months of such date, subject to Chellomedia's right of first refusal. After such three month period elapses, the minority shareholder cannot sell its shares without Chellomedia's consent. The put and call rights are to be settled in cash.

As described in note 15, four individuals own an 18.8% common stock interest in Liberty Jupiter, which owned an approximate 4.3% indirect interest in J:COM at December 31, 2006. Under the amended and restated shareholders agreement, the individuals can require us to purchase all of their Liberty Jupiter common stock interest, and we can require them to sell us all or part of their Liberty Jupiter common stock interest, in exchange for LGI common stock with an aggregate market value equal to the fair market value of the Liberty Jupiter shares so exchanged, as determined by agreement of the parties or independent appraisal.

Guarantees and Other Credit Enhancements

At December 31, 2006, J:COM guaranteed ¥8.8 billion ($73.9 million) of the debt of certain of its non-consolidated investees. The maturities of the guaranteed debt range from 2007 to 2017.

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

Legal Proceedings and Other Contingencies

Cignal — On April 26, 2002, Liberty Global Europe received a notice that certain former shareholders of Cignal Global Communications (Cignal) filed a lawsuit against Liberty Global Europe in the District Court of Amsterdam, The Netherlands, claiming $200 million on the basis that Liberty Global Europe failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. Liberty Global Europe believes that it has complied in full with its obligations to these shareholders through the successful completion of the IPO of Priority Telecom on September 27, 2001. Accordingly, Liberty Global Europe believes that the Cignal shareholders' claims are without merit and intends to defend this suit vigorously. On May 4, 2005, the court rendered its decision, dismissing all claims of the former Cignal shareholders. On August 2, 2005, an appeal against the district court decision was filed. Subsequently, when the grounds of appeal were filed in November 2005, only damages suffered by nine individual plaintiffs, rather than all former Cignal shareholders, continued to be claimed. Based on the share ownership information provided by the plaintiffs, the damage claims remaining subject to the litigation are approximately $28 million in the aggregate before statutory interest. A hearing on the appeal is scheduled for May 22, 2007.

On June 13, 2006, Liberty Global Europe, Priority Telecom, Euronext NV and Euronext Amsterdam NV were each served with a summons for a new action purportedly on behalf of all former Cignal shareholders. The new action claims, among other things, that the listing of Priority Telecom on Euronext Amsterdam in September 2001 did not meet the requirements of the applicable listing rules and, accordingly, the IPO was not valid and did not satisfy Liberty Global Europe's obligations to the Cignal shareholders. Damages of $200 million, plus statutory interest, are claimed in this new action. The nine individual plaintiffs involved in the appeal proceedings referred to above, conditionally claim compensation from Liberty Global Europe in this new action in the event that the court of appeals determines their claims inadmissible in the appeal proceedings.

We cannot estimate the amount of loss, if any, that we will incur upon the ultimate resolution of this matter. However, we do not anticipate that the outcome of this case will result in a material adverse effect on our financial position or results of operations.

Class Action Lawsuits Relating to the LGI Combination — Since January 18, 2005, 21 lawsuits have been filed in the Delaware Court of Chancery, and one lawsuit in the Denver District Court, State of Colorado, all purportedly on behalf of UGC's public stockholders, regarding the announcement on January 18, 2005 of the execution by UGC and LMI of the agreement and plan of merger for the combination of the two companies under LGI. The defendants named in these actions include UGC, former directors of UGC, and LMI. The allegations in each of the complaints, which are substantially similar, assert that the defendants have breached their fiduciary duties of loyalty, care, good faith and candor and that various defendants have engaged in self-dealing and unjust enrichment, approved an unfair price, and impeded or discouraged other offers for UGC or its assets in bad faith and for improper motives. The complaints seek various remedies, including damages for the public holders of UGC's stock and an award of attorney's fees to plaintiffs' counsel. On February 11, 2005, the Delaware Court of Chancery consolidated all 21 Delaware lawsuits into a single action. Also, on April 20, 2005, the Denver District Court, State of Colorado, issued an order granting a joint stipulation for stay of the action filed in this court pending the final resolution of the consolidated action in Delaware. On May 5, 2005, the plaintiffs in the Delaware action filed a consolidated amended complaint containing allegations substantially similar to those found in and naming the same defendants named in the original complaints. The defendants filed their answers to the consolidated amended complaint on September 30, 2005. The parties are proceeding with pre-trial discovery activity. The defendants believe that a fair process was followed and a fair price was paid in connection with the LGI Combination and intend to vigorously defend this action. We cannot estimate the amount of loss, if any, that we will incur upon the ultimate resolution of this matter. However, we do not anticipate that the outcome of this case will result in a material adverse effect on our financial position or results of operations.

The Netherlands Regulatory Developments — On September 28, 2005, the Dutch competition authority, NMA, informed UPC Nederland BV (UPC NL), our Dutch subsidiary, that it had closed its investigation with respect to the price increases for UPC NL's analog video services in 2003-2005. The NMA concluded that the price increases were not excessive and therefore UPC NL did not abuse what NMA views as UPC NL's dominant position in the analog video services market. KPN, the incumbent telecommunications operator in The Netherlands, submitted an appeal of the NMA decision. The NMA rejected the appeal of KPN by declaring the appeal inadmissible on April 7, 2006. On May 3, 2006, UPC NL was informed that KPN had filed an appeal against the NMA decision with the Administrative Court (of Rotterdam). On February 6, 2007, the Administrative Court declared KPN's appeal of the NMA decision of September 2005 admissible. If the NMA determines to appeal the Administrative Court's decision, it has six weeks from the date of the decision to do so.

As part of the process of implementing certain directives promulgated by the European Union in 2003, the Dutch national regulatory authority (OPTA) analyzed eighteen markets predefined in the directives to determine if any operator or service provider has "significant market power" within the meaning of the EU directives. In relation to video services, OPTA analyzed market 18 (wholesale market for video services) and an additional nineteenth market relating to the retail delivery of radio and television packages (retail market). On March 17, 2006 OPTA announced that UPC NL has significant market power in the distribution of both free-to-air and pay television programming on a wholesale and retail level. The OPTA decision in relation to market 18 (wholesale market for video services) includes the obligation to provide access to content providers and packagers that seek to distribute content over UPC NL's network using their own conditional access platforms. This access must be offered on a non-discriminatory and transparent basis at cost oriented prices regulated by OPTA. Further, the decision requires UPC NL to grant program providers access to its basic tier offering in certain circumstances in line with current laws and regulations. UPC NL will have to reply within 15 days after a request for access. OPTA has stated that requests for access must be reasonable and has given some broad guidelines filling in this concept. Examples of requests that will not be deemed to be reasonable are: requests by third parties who have an alternative infrastructure; requests that would hamper the development of innovative services; or requests that would result in disproportionate use of available network capacity due to the duplication of already existing offerings of UPC NL. It is expected that the concept of reasonableness will be further developed by the creation of guidelines by OPTA and/or by the development of case law.

The OPTA decision with respect to market 19 (retail delivery of radio and television packages) imposed retail price regulation on a cost oriented basis for UPC NL's analog cable television offerings. The decision is limited to one year and OPTA will not intervene in UPC NL's retail prices as long as UPC NL does not increase its basic analog subscription fee by more than the CPI increase (which UPC NL did not do). Furthermore, the decision includes two additional obligations: (i) to continue to offer the analog video services on a standalone basis without requiring customers to buy other services and (ii) to publish on the website of UPC NL which part of the monthly subscription fees relates to programming costs.

UPC NL appealed both decisions on April 28, 2006 with the highest administrative court and substantiated its grounds of appeal on July 28, 2006. A court hearing took place on February 1, 2007. The court is expected to render its opinion during the second quarter of 2007.

We do not anticipate that the outcome of these proceedings will result in a material adverse effect on our financial position or results of operations.

Income Taxes — We operate in numerous countries around the world and accordingly we are subject to, and pay annual income taxes under, the various income tax regimes in the countries in which we operate. The tax rules and regulations in many countries are highly complex and subject to interpretation. In the normal course of business, we may be subject to a review of our income tax filings by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest assessments by these taxing authorities. We have recorded an estimated liability in our consolidated tax provision for any such amount that we do not have a probable position of sustaining upon review of the taxing authorities. We adjust our estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations, interpretations, and precedent. We believe that adequate accruals have been made for contingencies related to income taxes, and have classified these in long-term liabilities based upon our estimate of when the ultimate resolution of the contingent liability will occur. The ultimate resolution of the contingent liabilities will take place upon the earlier of (i) the settlement date with the applicable taxing authorities or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations. Any difference between the amount accrued and the ultimate settlement amount, if any, will be released to income or recorded as a reduction of goodwill depending upon whether the liability was initially recorded in purchase accounting.

Regulatory Issues — Video distribution, broadband Internet, telephony and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in European markets is harmonized under the regulatory structure of the European Union. Adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties. As discussed in note 5, we have received an inquiry from regulatory authorities in Chile as to whether Liberty Media's proposed acquisition of a 39% interest in DirecTV would violate or otherwise conflict with one of the regulatory conditions imposed on VTR's combination with Metrópolis.

In addition to the foregoing items, we have contingent liabilities related to (i) legal proceedings, (ii) wage, property and sales tax issues, (iii) disputes over interconnection fees and (iv) 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. However, it is expected that the amounts, if any, which may be required to satisfy such contingencies will not be material in relation to our financial position or results of operations.

(22) Information about Operating Segments

We own a variety of international subsidiaries and investments that provide broadband communications services, and to a lesser extent, video programming services. We identify our reportable segments as (i) those consolidated subsidiaries that represent 10% or more of our revenue, operating cash flow (as defined below), or total assets, and (ii) those equity method affiliates where our investment or share of operating cash flow represents 10% or more of our total assets or operating cash flow, respectively. In certain cases, we may elect to include an operating segment in our segment disclosure that does not meet the above-described criteria for a reportable segment. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and operating cash flow. In addition, we review non-financial measures such as subscriber growth and penetration, as appropriate.

Operating cash flow is the primary measure used by our chief operating decision 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 stock-based compensation, depreciation and amortization, and impairment, restructuring and other operating charges or credits). 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 would distort 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. However, our definition of operating cash flow may differ from cash flow measurements provided by other public companies. A reconciliation of total segment operating cash flow to our consolidated loss before income taxes, minority interests and discontinued operations is presented below. Operating cash flow should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net earnings, cash flow from operating activities and other GAAP measures of income.

We have identified the following consolidated operating segments as our reportable segments:

- UPC Broadband Division
  - The Netherlands
  - Switzerland (Cablecom)
  - Austria
  - Other Western Europe
  - Hungary
  - Other Central and Eastern Europe
- J:COM (Japan)
- VTR (Chile)

All of the reportable segments set forth above provide broadband communications services, including video, voice and broadband Internet access services. Certain segments also provide CLEC and other business-to-business communications services. At December 31, 2006, our operating segments in the UPC Broadband Division provided services in 10 European countries (excluding Belgium). Other Western Europe includes our operating segments in Ireland and, through December 30, 2006, Belgium. Other Central and Eastern Europe includes our operating segments in Poland, Czech Republic, Slovak Republic, Romania and Slovenia. J:COM provides broadband communications services in Japan. VTR is an 80%-owned subsidiary that provides broadband communications services in Chile. Our corporate and other category includes (i) certain less significant consolidated operating segments that provide DTH satellite services in Australia, broadband communications services in Puerto Rico, Brazil and Peru and video programming and other services in Europe and Argentina, and (ii) our corporate category. Intersegment eliminations primarily represent the elimination of intercompany transactions between our UPC Broadband Division and Chellomedia.

During the second quarter of 2006, we changed our reporting such that we no longer allocate the central and corporate costs of the UPC Broadband Division to the individual operating segments within the UPC Broadband Division. Instead, we present these costs as a separate category within the UPC Broadband Division. The UPC Broadband Division's central and corporate costs include billing systems, network operations, technology, marketing, facilities, finance, legal and other administrative costs. During 2005 and 2004, the UPC Broadband Division's central and corporate costs also included certain programming costs that were considered to be in excess of market rates. Prior to July 1, 2006, our CLEC operations in The Netherlands and Austria were owned and managed by our indirect subsidiary, Priority Telecom and were included in our corporate and other category for purposes of segment reporting. Effective July 1, 2006, we integrated the Priority Telecom CLEC operations in The Netherlands and Austria with our existing operations in each country and began reporting these CLEC operations as components of our reportable segments in The Netherlands and Austria, respectively. Segment information for all periods presented has been restated to reflect the above-described changes and to present UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations. Previously, UPC Norway and UPC Sweden were included in our Other Western Europe reportable segment, UPC France was presented as a separate reportable segment, and PT Norway was included in our corporate and other category. We present only the reportable segments of our continuing operations in the following tables. See notes 5 and 6.

Both Cablecom and UPC Holding have separate financial reporting requirements in connection with their separate financing arrangements. For purposes of these separate reporting requirements, certain of UPC Holding's central and corporate costs are charged to Cablecom. Consistent with how we present Cablecom's performance measures to our chief operating decision maker, the segment information presented for Cablecom in the following tables does not reflect intersegment charges made for separate reporting purposes.

Performance Measures of Our Reportable Segments

The amounts presented below represent 100% of each business's revenue and operating cash flow. These amounts are combined and are then adjusted to remove the amounts related to Super Media/J:COM for 2004 to arrive at the reported consolidated amounts. As we control Super Media/J:COM, VTR and Austar (which we report in our corporate and other category), GAAP requires that we consolidate 100% of the revenue and expenses of these entities in our consolidated statements of operations. The minority owners' interests in the operating results of J:COM, VTR, Austar and other less significant majority owned subsidiaries are reflected in minority interests in (losses) earnings of subsidiaries, net in our consolidated statements of operations. Our ability to consolidate J:COM is dependent on our ability to continue to control Super Media, which will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. If Super Media is dissolved and we do not otherwise control J:COM at the time of any such dissolution, we will no longer be in a position to consolidate J:COM. When reviewing and analyzing our operating results, it is important to keep in mind that other third party entities own significant interests in J:COM, VTR, and Austar and that Sumitomo effectively has the ability to prevent our company from consolidating J:COM after February 2010.

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(See note 1)

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	Year ended December 31, 2006 Revenue	2006 Operating cash flow	2005 Revenue	2005 Operating cash flow	2004 Revenue	2004 Operating cash flow
	amounts in millions					
Performance Measures						
UPC Broadband Division:						
The Netherlands(a)	$ 923.9	$ 451.9	$ 857.3	$ 446.9	$ 793.7	$ 455.0
Switzerland	771.8	353.7	122.1	43.6	—	—
Austria(b)	420.0	195.7	329.0	165.7	313.2	152.6
Other Western Europe	306.4	104.0	228.2	80.4	86.1	31.9
Total Western Europe	2,422.1	1,105.3	1,536.6	736.6	1,193.0	639.5
Hungary	307.1	145.3	281.4	123.4	217.4	96.7
Other Central and Eastern Europe	578.1	266.5	370.3	168.2	252.3	110.3
Total Central and Eastern Europe	885.2	411.8	651.7	291.6	469.7	207.0
Central and corporate operations	17.9	(206.2)	3.3	(203.6)	1.2	(207.9)
Total UPC Broadband Division	3,325.2	1,310.9	2,191.6	824.6	1,663.9	638.6
J:COM (Japan)	1,906.3	738.6	1,662.1	636.3	1,504.7	589.6
VTR (Chile)	558.9	198.5	444.2	151.5	300.0	108.8
Corporate and other	768.3	88.2	264.2	(24.8)	165.7	(19.7)
Intersegment eliminations	(71.2)	—	(44.8)	—	(16.8)	—
Total LGI before elimination of equity affiliates	6,487.5	2,336.2	4,517.3	1,587.6	3,617.5	1,317.3
Elimination of equity affiliate	—	—	—	—	(1,504.7)	(589.6)
Total consolidated LGI	$ 6,487.5	$ 2,336.2	$ 4,517.3	$ 1,587.6	$ 2,112.8	$ 727.7

(a) Revenue includes $91.0 million, $77.2 million and $69.4 million, respectively, after giving effect to adjustments to related intercompany eliminations, from Priority Telecom's CLEC operations. Operating cash flow includes $18.6 million, $18.6 million and $15.6 million, respectively from Priority Telecom's CLEC operations.

(b) Revenue includes $7.6 million, $7.0 million and $7.2 million, respectively, after giving effect to adjustments to related intercompany eliminations, from Priority Telecom's CLEC operations. Operating cash flow includes $3.1 million, $2.2 million and $2.9 million, respectively from Priority Telecom's CLEC operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

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

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
Total segment operating cash flow	$ 2,336.2	$ 1,587.6	$ 727.7
Stock-based compensation expense	(70.0)	(59.0)	(142.6)
Depreciation and amortization	(1,884.7)	(1,274.0)	(783.8)
Impairment of long-lived assets	(15.5)	(8.3)	(50.8)
Restructuring and other operating credits (charges), net	(13.7)	3.8	(26.3)
Operating income (loss)	352.3	250.1	(275.8)
Interest expense	(673.4)	(396.1)	(264.6)
Interest and dividend income	85.4	76.8	65.3
Share of results of affiliates, net	13.0	(23.0)	38.7
Realized and unrealized gains (losses) on financial and derivative instruments, net	(347.6)	310.0	(35.8)
Foreign currency transaction gains (losses), net	236.1	(209.2)	117.4
Other-than-temporary declines in fair values of investments	(13.8)	(3.4)	(18.5)
Gains (losses) on extinguishment of debt	(40.8)	(33.7)	24.1
Gains on disposition of assets, net	206.4	115.2	43.7
Gain on exchange of investment securities	—	—	178.8
Other income (expense), net	12.2	(0.6)	(9.7)
Earnings (loss) before income taxes, minority interests and discontinued operations	$ (170.2)	$ 86.1	$ (136.4)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

Balance Sheet Data of our Reportable Segments

Selected balance sheet data of our reportable segments is set forth below:

	Investments in affiliates December 31,		Long-lived assets December 31,		Total assets December 31,	
	2006	2005	2006	2005	2006	2005
	amounts in millions					
UPC Broadband Division:						
The Netherlands	$ 0.1	$ 0.3	$ 3,013.5	$ 2,775.6	$ 3,105.5	$ 2,801.6
Switzerland	30.8	5.6	3,907.6	3,754.0	4,867.6	4,125.3
Austria	—	—	1,232.4	1,017.3	1,273.6	1,052.5
Other Western Europe	—	—	651.9	688.0	691.0	725.1
Total Western Europe	30.9	5.9	8,805.4	8,234.9	9,937.7	8,704.5
Hungary	—	—	812.0	699.0	851.9	754.7
Other Central and Eastern Europe	0.6	2.7	2,055.9	1,365.4	2,188.8	1,449.3
Total Central and Eastern Europe	0.6	2.7	2,867.9	2,064.4	3,040.7	2,204.0
Central and corporate operations	21.6	—	276.4	238.8	1,750.6	759.6
Total UPC Broadband Division	53.1	8.6	11,949.7	10,538.1	14,729.0	11,668.1
J:COM (Japan)	20.7	43.7	5,347.2	4,448.8	5,912.6	5,112.9
VTR (Chile)	—	0.5	1,059.5	1,158.3	1,347.4	1,362.8
Corporate and other	988.9	736.2	1,478.5	1,331.8	3,580.3	3,408.7
Total consolidated LGI — continuing operations	1,062.7	789.0	19,834.9	17,477.0	25,569.3	21,552.5
Discontinued operations	—	—	—	1,679.9	—	1,826.0
Total consolidated LGI	$ 1,062.7	$ 789.0	$ 19,834.9	$ 19,156.9	$ 25,569.3	$ 23,378.5

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Capital Expenditures of our Reportable Segments

The capital expenditures of our reportable segments are set forth below:

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
UPC Broadband Division:			
The Netherlands	$ 197.1	$ 166.1	$ 97.5
Switzerland	178.8	27.0	—
Austria	52.0	50.4	55.9
Other Western Europe	83.9	52.5	29.1
Total Western Europe	511.8	296.0	182.5
Hungary	73.5	70.8	39.8
Other Central and Eastern Europe	145.4	84.6	39.8
Total Central and Eastern Europe	218.9	155.4	79.6
Central and corporate operations	96.3	87.5	61.8
Total UPC Broadband Division	827.0	538.9	323.9
J:COM (Japan)	416.7	358.8	295.9
VTR (Chile)	138.2	98.6	41.7
Corporate and other	126.0	49.9	31.5
Total LGI before elimination of equity affiliate	1,507.9	1,046.2	693.0
Elimination of equity affiliate	—	—	(295.9)
Total consolidated LGI	$ 1,507.9	$ 1,046.2	$ 397.1

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Geographic Segments

Revenue

The revenue of our geographic segments is set forth below:

	Year ended December 31,		
	2006	2005	2004
		amounts in millions	
Europe:			
UPC Broadband Division:			
The Netherlands	$ 923.9	$ 857.3	$ 793.7
Switzerland	771.8	122.1	—
Austria	420.0	329.0	313.2
Ireland	262.6	188.1	48.7
Belgium	43.8	40.1	37.4
Hungary	307.1	281.4	217.4
Romania	187.4	67.2	26.9
Poland	173.8	137.6	110.5
Czech Republic	137.9	101.4	82.2
Slovak Republic	48.8	39.5	32.7
Slovenia	30.2	24.6	—
Central and corporate operations(a)	17.9	3.3	1.2
Total UPC Broadband Division	3,325.2	2,191.6	1,663.9
Chellomedia(b)	250.8	128.4	36.0
Total Europe	3,576.0	2,320.0	1,699.9
Japan	1,906.3	1,662.1	1,504.7
The Americas:			
Chile	558.9	444.2	300.0
Other(c)	140.9	135.8	129.7
Total — The Americas	699.8	580.0	429.7
Australia	376.6	—	—
Intersegment eliminations	(71.2)	(44.8)	(16.8)
Total LGI before elimination of equity affiliates	6,487.5	4,517.3	3,617.5
Elimination of equity affiliate	—	—	(1,504.7)
Total consolidated LGI	$ 6,487.5	$ 4,517.3	$ 2,112.8

(a) The UPC Broadband Division's central and corporate operations are located primarily in The Netherlands. The revenue reported by the UPC Broadband Division's central and corporate operations during 2006 primarily relates to transitional services provided to the buyers of certain of our discontinued operations pursuant to agreements that expire at various dates in 2007.

(b) Chellomedia's geographic segments are located primarily in the United Kingdom, The Netherlands, Spain and other European countries.

(c) Includes certain less significant operating segments that provide broadband services in Puerto Rico, Brazil and Peru and video programming services in Argentina.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

Long-lived Assets

The long-lived assets of our geographic segments are set forth below:

	December 31, 2006	December 31, 2005
	amounts in millions	
Europe:		
UPC Broadband Division:		
The Netherlands	$ 3,013.5	$ 2,775.6
Switzerland	3,907.6	3,754.0
Austria	1,232.4	1,017.3
Ireland	651.9	565.5
Belgium	—	122.5
Hungary	812.0	699.0
Romania	632.2	501.5
Poland	370.3	339.0
Czech Republic	819.4	327.5
Slovak Republic	125.7	105.3
Slovenia	108.3	92.1
Central and corporate operations(a)	276.4	238.8
Total UPC Broadband Division	11,949.7	10,538.1
Chellomedia(b)	371.5	271.8
Total Europe	12,321.2	10,809.9
Japan	5,474.2	4,575.8
The Americas:		
U.S.(c)	70.2	63.3
Chile	1,059.5	1,158.3
Other(d)	394.8	394.1
Total — The Americas	1,524.5	1,615.7
Australia	515.0	475.6
Total consolidated LGI — continuing operations	19,834.9	17,477.0
Discontinued operations	—	1,679.9
Total consolidated LGI	$ 19,834.9	$ 19,156.9

(a) The UPC Broadband Division's central and corporate operations are located primarily in The Netherlands.

(b) Chellomedia's geographic segments are located primarily in the United Kingdom, The Netherlands, Spain and other European countries.

(c) Primarily represents the assets of our corporate category.

(d) Includes certain less significant operating segments that provide broadband services in Puerto Rico, Brazil and Peru and video programming services in Argentina.

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(23) Accounting Changes

SFAS No. 155

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (SFAS 155). Among other matters, SFAS 155 allows financial instruments that have embedded derivatives that otherwise would require bifurcation from the host to be accounted for as a whole, if the holder irrevocably elects to account for the whole instrument on a fair value basis. If elected, subsequent changes in the fair value of the instrument are recognized in earnings. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year.

Effective January 1, 2006, we adopted SFAS 155 and elected to account for the UGC Convertible Notes (see note 11) on a fair value basis. In accordance with the provisions of SFAS 155, we have accounted for the $9.3 million cumulative impact of this change, before deducting applicable deferred income taxes of $3.3 million, as a $6.0 million net decrease to our January 1, 2006 accumulated deficit. This adjustment represents the difference between the total carrying value of the individual components of the UGC Convertible Notes under our former method of accounting and the fair value of the UGC Convertible Notes as of January 1, 2006. Pursuant to the provisions of SFAS 155, we have not restated our results for periods prior to January 1, 2006 to reflect this accounting change.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158).* SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status as other comprehensive earnings (losses) in the year in which the changes occur. SFAS 158 also requires that the defined benefit plan assets and obligations be measured as of the date of the employer's fiscal year-end balance sheet. We adopted SFAS 158 effective December 31, 2006. See note 19.

SFAS No. 123(R)

Effective January 1, 2006, we adopted SFAS No. 123(R) (revised 2004). SFAS 123(R) is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. See notes 3 and 15.

LIBERTY GLOBAL, INC.
(See note 1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

(24) Quarterly Financial Information (Unaudited)

	2006			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	amounts in millions, except per share amounts			
Revenue:				
As previously reported	$ 1,625.9	$ 1,586.1	$ 1,622.4	$ 1,790.1
Effect of discontinued operations (note 6)	(137.0)	—	—	—
As adjusted	$ 1,488.9	$ 1,586.1	$ 1,622.4	$ 1,790.1
Operating income:				
As previously reported	$ 87.2	$ 93.5	$ 115.0	$ 53.3
Effect of discontinued operations (note 6)	3.3	—	—	—
As adjusted	$ 90.5	$ 93.5	$ 115.0	$ 53.3
Earnings (loss) from continuing operations:				
As previously reported	$ 43.4	$ (184.3)	$ (172.9)	$ (31.2)
Effect of discontinued operations (note 6)	11.0	—	—	—
As adjusted	54.4	$ (184.3)	$ (172.9)	$ (31.2)
Net earnings (loss)	$ 268.2	$ 24.2	$ 445.0	$ (31.2)
Earnings (loss) from continuing operations per common share (note 3) — basic:				
As previously reported	$ 0.09	$ (0.40)	$ (0.40)	$ (0.08)
Effect of discontinued operations (note 6)	0.03	—	—	—
As adjusted	$ 0.12	$ (0.40)	$ (0.40)	$ (0.08)
Earnings (loss) from continuing operations per common share (note 3) — diluted:				
As previously reported	$ 0.07	$ (0.40)	$ (0.40)	$ (0.08)
Effect of discontinued operations (note 6)	0.02	—	—	—
As adjusted	$ 0.09	$ (0.40)	$ (0.40)	$ (0.08)
Earnings (loss) per common share (note 3) — basic	$ 0.57	$ 0.05	$ 1.04	$ (0.08)
Earnings (loss) per common share (note 3) — diluted	$ 0.52	$ 0.05	$ 1.04	$ (0.08)

LIBERTY GLOBAL, INC.
(See note 1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004 — (Continued)

	2005			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	amounts in millions, except per share amounts			
Revenue:				
As previously reported	$ 1,179.0	$ 1,084.0	$ 1,105.1	$ 1,443.1
Effect of discontinued operations (note 6)	(137.0)	—	—	(156.9)
As adjusted	$ 1,042.0	$ 1,084.0	$ 1,105.1	$ 1,286.2
Operating income:				
As previously reported	$ 88.3	$ 39.7	$ 29.1	$ 84.7
Effect of discontinued operations (note 6)	9.7	—	—	(1.4)
As adjusted	$ 98.0	$ 39.7	$ 29.1	$ 83.3
Earnings (loss) from continuing operations:				
As previously reported	$ 17.2	$ (109.3)	$ (123.0)	$ 141.2
Effect of discontinued operations (note 6)	5.3	—	—	9.0
As adjusted	$ 22.5	$ (109.3)	$ (123.0)	$ 150.2
Net earnings (loss)	$ 16.5	$ (114.0)	$ (127.9)	$ 145.3
Earnings (loss) from continuing operations per common share (note 3) — basic and diluted:				
As previously reported	$ 0.05	$ (0.30)	$ (0.26)	$ 0.29
Effect of discontinued operations (note 6)	0.02	—	—	0.02
As adjusted	$ 0.07	$ (0.30)	$ (0.26)	$ 0.31
Earnings (loss) per common share (note 3) — basic and diluted	$ 0.05	$ (0.31)	$ (0.27)	$ 0.30

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) FINANCIAL STATEMENTS

The financial statements required under this Item begin on page II-50 of this Annual Report.

(a)(2) FINANCIAL STATEMENT SCHEDULES

The financial statement schedules required under this Item are as follows:

(a) (3) EXHIBITS

Listed below are the exhibits filed as part of this Annual Report (according to the number assigned to them in Item 601 of Regulation S-K):

3 — Articles of Incorporation and Bylaws:

3.1 Restated Certificate of Incorporation of the Registrant, dated June 15, 2005 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed June 16, 2005 (File No. 000-51360) (the Merger 8-K)).

3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Merger 8-K).

4 — Instruments Defining the Rights of Securities Holders, including Indentures:

4.1 Specimen certificate for shares of the Registrant's Series A common stock, par value $.01 per share (incorporated by reference to Exhibit 4.1 to the Merger 8-K).

4.2 Specimen certificate for shares of the Registrant's Series B common stock, par value $.01 per share (incorporated by reference to Exhibit 4.2 to the Merger 8-K).

4.3 Specimen certificate for shares of the Registrant's Series C Common Stock, par value $.01 per share (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A, filed August 24, 2005 (File No. 000-51360)).

4.4 Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding BV (UPC Broadband Holding) and UPC Financing Partnership (UPC Financing), as Borrowers, the guarantors listed therein, the banks and financial institutions listed therein as Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and certain others, amending and restating the €1,072,000,000 Credit Agreement originally dated January 16, 2004 (the First Amended and Restated Senior Credit Facility) (incorporated by reference to Exhibit 10.32 to the UnitedGlobalCom, Inc. (UGC) Annual Report on Form 10-K, filed March 14, 2005 (File No. 000-49658) (UGC 2004 10-K)).

4.5 Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband Holding, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the First Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K).

4.6 Amendment, dated December 15, 2005, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and Toronto-Dominion (Texas) LLC, as Facility Agent, to the First Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed December 19, 2005 (File No. 000-51360)).

4.7 Deed of Amendment and Restatement, dated May 10, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and the Senior Hedging Banks listed therein, with Toronto Dominion (Texas) LLC, as Facility Agent, and TD Bank Europe Limited, as Existing Security Agent, including as Schedule 2 thereto the Amended and Restated Senior Secured Credit Facility Agreement, amending and restating the First Amended and Restated Senior Credit Facility (the Second Amended and Restated Senior Credit Facility) (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q, filed May 10, 2006 (the March 31, 2006 10-Q)).

4.8 Additional Facility Accession Agreement, dated May 10, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Existing Security Agent, and the Additional Facility J Lenders listed therein, under the Second Amended and Restated Senior Credit Facility.*

4.9 Additional Facility Accession Agreement, dated May 10, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Existing Security Agent, and the Additional Facility K Lenders listed therein, under the Second Amended and Restated Senior Credit Facility.*

4.10 Additional Facility Accession Agreement, dated July 3, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility L Lenders listed therein, under the Second Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed July 7, 2006 (File No. 000-51360)).

4.11 Amendment Letter, dated December 11, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein and Toronto Dominion (Texas) LLC, as Facility Agent, to the Second Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed December 12, 2006 (File No. 000-5160)).

4.12 The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.

10 — Material Contracts:

10.1 Liberty Global, Inc. 2005 Incentive Plan (As Amended and Restated Effective October 31, 2006) (the Incentive Plan) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed November 6, 2006 (File No. 000-51360) (the November 2006 8-K)).

10.2 Form of the Non-Qualified Stock Option Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed August 19, 2005 (File No. 000-51360) (the Incentive Plan 8-K)).

10.3 Form of Stock Appreciation Rights Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.2 to the Incentive Plan 8-K).

10.4 Form of Restricted Shares Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.3 to the Incentive Plan 8-K).

10.5 Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (as assignee of Liberty Media International, Inc., the predecessor issuer to the Registrant (LMI)) under the Incentive Plan (the Malone Award Agreement) (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/A (Amendment No. 1) with respect to LMI's common stock, filed July 14, 2004 (File No. 005-79904)).

10.6 Form of Amendment to the Malone Award Agreement (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed December 27, 2005 (File No. 000-51360) (the 409A 8-K)).

10.7 Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan (as Amended and Restated Effective November 1, 2006) (the Director Plan) (incorporated by reference to Exhibit 99.2 to the November 2006 8-K).

10.8 Form of Restricted Shares Agreement under the Director Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (Amendment No. 1), filed August 11, 2006 (File No. 000-51360), amending the June 2006 8-K (as defined below)).

10.9 Form of Non-Qualified Stock Option Agreement under the Director Plan (incorporated by reference to Exhibit 10.3 to the Merger 8-K).

10.10 Liberty Global, Inc. Compensation Policy for Nonemployee Directors (As Amended and Restated Effective June 7, 2006) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed June 12, 2006 (File No. 000-51360) (the June 2006 8-K)).

10.11 Liberty Global, Inc. Senior Executive Performance Incentive Plan effective November 1, 2006 (the SEP Incentive Plan).*

10.12	Form of Participation Certificate under the SEP Incentive Plan.*
10.13	Liberty Global, Inc. 2006 Annual Bonus Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 1.01 of the Registrant's Current Report on Form 8-K, filed March 14, 2006 (File No. 000-51360)).
10.14	Liberty Media International, Inc. Transitional Stock Adjustment Plan (the Transitional Plan) (incorporated by reference to Exhibit 4.5 to LMI's Registration Statement on Form S-8, filed June 23, 2004 (File No. 333-116790)).
10.15	Form of Non-Qualified Stock Option Exercise Price Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.1 to the 409A 8-K).
10.16	Form of Non-Qualified Stock Option Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.2 to the 409A 8-K).
10.17	UnitedGlobalCom, Inc. Equity Incentive Plan (amended and restated effective October 17, 2003).*
10.18	UnitedGlobalCom, Inc. 1993 Stock Option Plan (amended and restated effective January 22, 2004) (incorporated by reference to Exhibit 10.6 to the UGC 2003 10-K).
10.19	Form of Amendment to Stock Appreciation Rights Agreement under the UnitedGlobalCom, Inc. 2003 Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 6, 2005 (File No. 000-51360)).
10.20	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to the UGC 2003 10-K).
10.21	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K).
10.22	Form of Letter Agreement dated December 22, 2006, between United Chile LLC and certain employees of the Registrant, including three executive officers and a director.*
10.23	Form of Indemnification Agreement between the Registrant and its Directors (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K, filed March 14, 2006 (File No. 000-51360) (the 2005 10-K)).
10.24	Form of Indemnification Agreement between the Registrant and its Executive Officers (incorporated by reference to Exhibit 10.20 of the 2005 10-K).
10.25	Personal Usage of Aircraft Policy (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed November 21, 2005 (File No. 000-51360) (the Aircraft 8-K)).
10.26	Form of Aircraft Time Sharing Agreement (incorporated by reference to Exhibit 99.2 to the Aircraft 8-K).
10.27	Executive Service Agreement, dated December 15, 2004, between UPC Services Limited and Charles Bracken (incorporated by reference to Exhibit 10.15 to the UGC 2004 10-K).
10.28	Employment Agreement, effective April 19, 2000, among UGC, United Pan-Europe Communications NV, now known as Liberty Global Europe NV (Liberty Global Europe), and Gene Musselman (incorporated by reference to Exhibit 10.27 to the UGC 2003 10-K).
10.29	Addendum to Employment Agreement, dated as of September 3, 2003, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.28 to the UGC 2003 10-K).
10.30	Contract Extension Letter, dated November 2, 2005, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.26 to the 2005 10-K).

10.31	Executive Service Agreement, dated January 10, 2005, between UPC Services Limited and Shane O'Neill (incorporated by reference to Exhibit 10.16 to the UGC 2004 10-K).
10.32	Executive Service Agreement, dated November 30, 2006, between Liberty Global Europe Ltd. and Miranda Curtis (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 4, 2006 (File No. 000-51360)).
10.33	Employment Agreement, dated January 5, 2004, between the Registrant (as assignee of UGC) and Gene W. Schneider (incorporated by reference to Exhibit 10.5 to UGC's Current Report on Form 8-K, filed January 6, 2004 (File No. 000-49658)).
10.34	Letter from UGC to Gene W. Schneider, dated April 17, 2003 regarding the Split Dollar Life Insurance Agreement included as Exhibit 10.35 below (incorporated by reference to Exhibit 10.87 to UGC's Amendment No. 10 to its Registration Statement on Form S-1, filed December 11, 2003 (File No. 333-82776) (the UGC Form S-1)).
10.35	Split Dollar Life Insurance Agreement, dated February 15, 2001, between UGC and Mark L. Schneider, Tina M. Wildes and Carla Shankle, as trustees under The Gene W. Schneider 2001 Trust, dated February 12, 2001 (incorporated by reference to Exhibit 10.88 to the UGC Form S-1).
10.36	Amended and Restated Stockholders' Agreement, dated as of May 21, 2004, among the Registrant (as successor to LMI), Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty Media Corporation (incorporated by reference to Exhibit 10.23 to Amendment No. 1 to LMI's Registration Statement on Form 10, filed May 25, 2004 (File No. 000-50671)).
10.37	Form of Tax Sharing Agreement between Liberty Media Corporation and the Registrant (as successor to LMI) (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to LMI's Registration Statement on Form 10, filed May 25, 2004 (File No. 000-50671)).
10.38	Amended and Restated Operating Agreement, dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant (as successor to LMI) (incorporated by reference to Exhibit 10.27 of LMI's Annual Report on Form 10-K, filed March 14, 2005 (File No. 000-50671)).
10.39	Share Purchase Agreement, dated September 30, 2005, between Glacier Holdings S.C.A. and United ACM Holdings, Inc. (the Cablecom Agreement) (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed October 5, 2005 (File No. 000-51360) (the Cablecom 8-K)).
10.40	Excerpts from Schedule 4.6 to the Cablecom Agreement (incorporated by reference to Exhibit 2.2 to the Cablecom 8-K).
10.41	Deed, dated September 30, 2005, between LMI and Glacier Holdings S.C.A. (incorporated by reference to Exhibit 99.1 to the Cablecom 8-K).
10.42	Agreement for the Sale and Purchase of the Share Capital of UPC France SA, dated June 6, 2006, among UPC Broadband France SAS, UPC Broadband Holding, Altice France EST SAS and ENO France SAS (incorporated by reference to Exhibit 2.1 to the June 2006 8-K).
10.43	Agreement for the Sale and Purchase of the Share Capital of NBS Nordic Broadband Services AB (publ), dated April 4, 2006, among UPC Scandinavia Holding BV, UPC Holdco VI BV, UPC Broadband Holding and Nordic Cable Acquisition Company II AB (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 23, 2006 (File No. 000-51360)).

21 — List of Subsidiaries*
23 — Consent of Experts and Counsel:
- 23.1 Consent of KPMG LLP**
- 23.2 Consent of KPMG AZSA & Co.**
- 23.3 Consent of KPMG AZSA & Co.**
- 23.4 Consent of Sibille (Formerly Finsterbusch Pickenhayn Sibille)**
- 23.5 Consent of Ernst & Young LTDA.**
- 23.6 Consent of KPMG LLP**
- 23.7 Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba**

31 — Rule 13a-14(a)/15d-14(a) Certification:
- 31.1 Certification of President and Chief Executive Officer**
- 31.2 Certification of Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)**
- 31.3 Certification of Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)**

32 — Section 1350 Certification **

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* Filed with the Registrant's Form 10-K dated March 1, 2007

** Filed with the Registrant's Form 10-K/A (Amendment No. 1) dated June 18, 2007

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Liberty Global, Inc.

Dated: June 18, 2007

By /s/ Elizabeth M. Markowski
Elizabeth M. Markowski
Senior Vice President, Secretary and General Counsel

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ John C. Malone John C. Malone	Chairman of the Board	June 18, 2007
/s/ Michael T. Fries Michael T. Fries	Chief Executive Officer, President and Director	June 18, 2007
/s/ John P. Cole John P. Cole	Director	June 18, 2007
/s/ John W. Dick John W. Dick	Director	June 18, 2007
/s/ Paul A. Gould Paul A. Gould	Director	June 18, 2007
/s/ David E. Rapley David E. Rapley	Director	June 18, 2007
/s/ Larry E. Romrell Larry E. Romrell	Director	June 18, 2007
/s/ Gene W. Schneider Gene W. Schneider	Director	June 18, 2007
/s/ J. C. Sparkman J. C. Sparkman	Director	June 18, 2007
/s/ J. David Wargo J. David Wargo	Director	June 18, 2007
/s/ Charles H.R. Bracken Charles H.R. Bracken	Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)	June 18, 2007
/s/ Bernard G. Dvorak Bernard G. Dvorak	Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)	June 18, 2007

LIBERTY GLOBAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED BALANCE SHEETS
(Parent Company Only)

	December 31, 2006	December 31, 2005
	amounts in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20.3	$ 3.9
Other current assets	3.1	1.0
Total current assets	23.4	4.9
Investments in consolidated subsidiaries, including intercompany balances	7,201.7	7,824.8
Property and equipment, at cost	1.2	0.3
Accumulated depreciation	(0.2)	(0.1)
Property and equipment, net	1.0	0.2
Deferred tax asset	36.0	17.4
Other non-current assets	0.2	—
Total assets	$ 7,262.3	$ 7,847.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	2.1	$ 26.0
Accrued liabilities and other	12.5	4.9
Total current liabilities	14.6	30.9
Other long-term liabilities	0.6	—
Total liabilities	15.2	30.9
Commitments and contingencies		
Stockholders' Equity:		
Series A common stock, $.01 par value. Authorized 500,000,000 shares; 196,898,880 and 232,334,708 shares issued at December 31, 2006 and 2005, respectively	2.0	2.3
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,284,799 and 7,323,570 shares at December 31, 2006 and 2005, respectively	0.1	0.1
Series C common stock, $.01 par value. Authorized 500,000,000 shares; 197,256,404 and 239,820,997 shares issued at December 31, 2006 and 2005, respectively	2.0	2.4
Additional paid-in capital	8,093.5	9,992.2
Accumulated deficit	(1,020.3)	(1,732.5)
Accumulated other comprehensive earnings (loss), net of taxes	169.8	(262.9)
Deferred compensation	—	(15.6)
Treasury stock, at cost	—	(169.6)
Total stockholders' equity	7,247.1	7,816.4
Total liabilities and stockholders' equity	$ 7,262.3	$ 7,847.3

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LIBERTY GLOBAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENTS OF OPERATIONS
(Parent Company Only)

	Year ended December 31, 2006	Six months ended December 31, 2005
	amounts in millions	
Operating costs and expenses:		
Selling, general and administrative (including stock-based compensation charges (credits) of $27.6 million and ($11.9 million), respectively)	$ 66.4	$ 4.0
Depreciation and amortization	0.2	—
Operating loss	(66.6)	(4.0)
Other income (expense):		
Interest and dividend income	14.6	1.1
Related party interest expense, net	(21.0)	(10.9)
Foreign currency transaction losses, net	—	(8.5)
Other income, net	0.1	0.2
	(6.3)	(18.1)
Loss before income taxes and equity in earnings of consolidated subsidiaries, net	(72.9)	(22.1)
Equity in earnings of consolidated subsidiaries, net	756.7	31.4
Income tax benefit	22.4	8.1
Net earnings	$ 706.2	$ 17.4

LIBERTY GLOBAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENT OF CASH FLOWS
(Parent Company Only)

	Year ended December 31, 2006	Six months ended December 31, 2005
	amounts in millions	
Cash flows from operating activities:		
Net earnings	$ 706.2	$ 17.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in earnings of consolidated subsidiaries, net	(756.7)	(31.4)
Stock-based compensation	27.6	(11.9)
Depreciation and amortization	0.2	—
Deferred income tax expense (benefit)	3.6	(8.1)
Changes in operating assets and liabilities:		
Receivables and other operating assets	(2.4)	3.2
Payables and accruals	(15.6)	34.9
Net cash provided (used) by operating activities	(37.1)	4.1
Cash flows from investing activities:		
Net distributions and advances received from subsidiaries and affiliates	1,793.7	77.0
Capital expended for property and equipment	(0.8)	(0.2)
Net cash provided by investing activities	1,792.9	76.8
Cash flows from financing activities:		
Repurchase of common stock	(1,756.9)	(78.9)
Proceeds from issuance of stock	17.5	5.7
Other financing activities, net	—	0.6
Net cash used by financing activities	(1,739.4)	(72.6)
Effect of exchange rates on cash	—	(8.5)
Net increase (decrease) in cash and cash equivalents	16.4	(0.2)
Cash and cash equivalents:		
Beginning of period	3.9	4.1
End of period	$ 20.3	$ 3.9

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENTS OF OPERATIONS
(Parent Company Only)

	Pre-LGI Combination	
	Six months ended June 30, 2005	Seven months ended December 31, 2004
	amounts in millions	
Operating costs and expenses:		
Selling, general and administrative (including stock-based compensation of $5.2 million and $20.4 million, respectively)	$ 12.4	$ 28.9
Depreciation and amortization	0.4	0.4
Operating loss	(12.8)	(29.3)
Other income (expense):		
Interest and dividend income	14.9	8.7
Realized and unrealized gains (losses) on derivative instruments, net	8.0	(4.1)
Other, net	(0.6)	1.4
	22.3	6.0
Earnings (loss) before income taxes and equity in earnings (loss) of consolidated subsidiaries, net	9.5	(23.3)
Equity in earnings (loss) of consolidated subsidiaries, net	(109.8)	97.4
Income tax benefit	2.8	5.8
Net earnings (loss)	$ (97.5)	$ 79.9

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENTS OF CASH FLOWS
(Parent Company Only)

	Pre-LGI Combination	
	Six months ended June 30, 2005	Seven months ended December 31, 2004
	amounts in millions	
Cash flows from operating activities:		
Net earnings (loss)	$ (97.5)	$ 79.9
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Equity in earnings (loss) of consolidated subsidiaries, net	109.8	(97.4)
Stock-based compensation	5.2	20.4
Realized and unrealized losses on derivative instruments, net	(8.0)	4.1
Depreciation and amortization	0.4	0.4
Deferred income tax expense	(2.8)	(4.4)
Other non-cash items, net	(10.4)	30.1
Changes in operating assets and liabilities:		
Receivables, pre-paids and other	—	(0.3)
Payables and accruals	(1.3)	2.2
Net cash provided (used) by operating activities	(4.6)	35.0
Cash flows (used) provided by investing activities:		
Investments in and loans to subsidiaries and affiliates	(554.3)	—
Net distributions and advances received from subsidiaries and affiliates	—	400.3
Net cash received (paid) to purchase or settle derivative instruments	57.1	(35.7)
Other investing activities, net	(0.1)	—
Net cash provided (used) by investing activities	(497.3)	364.6
Cash flows from financing activities:		
Net proceeds received from rights offering	—	735.7
Treasury stock purchase	—	(127.9)
Proceeds from stock option exercises	5.2	12.0
Net cash provided by financing activities	5.2	619.8
Net increase (decrease) in cash and cash equivalents	(496.7)	1,019.4
Cash and cash equivalents:		
Beginning of period	1,070.0	50.6
End of period	$ 573.3	$ 1,070.0

LIBERTY GLOBAL, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

	Allowance for doubtful accounts					
	Balance at beginning of period	Additions to costs and expenses	Acquisition	Deductions or write-offs	Foreign currency translation adjustments	Balance at end of period
	amounts in millions					
Year ended December 31:						
2004	$ 14.0	22.7	51.4	(30.3)	3.6	$ 61.4
2005	$ 61.4	39.9	31.9	(54.6)	(5.0)	$ 73.6
2006	$ 73.6	46.0	2.4	(50.4)	4.9	$ 76.5

Report of Independent Registered Public Accounting Firm

The Board of Directors
Jupiter TV Co., Ltd.

We have audited the accompanying consolidated balance sheets of Jupiter TV Co., Ltd. (formerly, Jupiter Programming Co., Ltd.) and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jupiter TV Co., Ltd. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

KPMG AZSA & Co.

Tokyo, Japan
February 23, 2007, except as to Note 23, which is as of June 8, 2007

JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
	(Yen in Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents:		
Related party	¥ 14,850,000	¥ 7,210,000
Other	8,368,450	7,807,758
Accounts receivable (less allowance for doubtful accounts of ¥7,986 thousand in 2006 and ¥6,885 thousand in 2005):		
Related party	235,832	247,412
Other	7,560,107	5,820,921
Retail inventories	3,516,137	3,271,723
Program rights and language versioning, net (Note 4)	695,410	776,225
Deferred income taxes (Note 14)	2,267,201	1,920,446
Prepaid and other current assets	704,309	944,943
Total current assets	38,197,446	27,999,428
Investments (Note 5)	8,396,505	8,323,586
Property and equipment, net (Note 6)	7,577,906	5,558,196
Software development costs, net (Note 7)	4,443,317	4,125,115
Program rights and language versioning, excluding current portion, net (Note 4)	284,071	346,059
Goodwill (Note 9)	286,263	294,244
Other intangible assets, net (Note 8)	192,143	218,624
Deferred income taxes (Note 14)	841,607	811,465
Other assets, net	951,909	1,187,959
Total assets	¥ 61,171,167	¥ 48,864,676

JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)
December 31, 2006 and 2005

	2006	2005
	(Yen in Thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (related party) (Note 13):	¥ 290,000	¥ 275,000
Current portion of long-term debt (Note 13):	1,600,000	1,600,000
Obligations under capital leases, current installments (related party) (Note 12)	467,289	418,757
Accounts payable:		
Related party	412,072	199,768
Other	7,894,053	8,175,159
Accrued liabilities:		
Related party	1,291,395	1,199,511
Other	1,789,467	1,601,439
Income taxes payable	5,573,428	5,035,948
Advances from affiliate	2,180,000	1,700,000
Deferred income taxes (Note 14)	1,797	7,195
Other current liabilities	1,566,732	914,454
Total current liabilities	23,066,233	21,127,231
Long-term debt, excluding current portion (Note 13):	800,000	2,400,000
Obligations under capital leases, excluding current installments (related party) (Note 12)	1,265,684	1,271,550
Accrued pension and severance cost (Note 16)	507,648	394,404
Deferred income taxes (Note 14)	379,227	347,427
Other liabilities	331,103	—
Total liabilities	26,349,895	25,540,612
Minority interests	9,270,294	5,740,286
Shareholders' equity (Note 18):		
Common stock, no par value;	11,434,000	11,434,000
Authorized 460,000 shares; issued and outstanding 360,680 shares		
Additional paid-in capital	7,266,129	7,266,129
Retained earnings (deficit)	6,850,849	(1,154,532)
Accumulated other comprehensive income	—	38,181
Total shareholders' equity	25,550,978	17,583,778
Total liabilities and shareholders' equity	¥ 61,171,167	¥ 48,864,676

See accompanying notes to consolidated financial statements.

JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(Yen in Thousands)	
Revenues:			
Retail sales, net	¥ 98,581,185	¥ 75,676,822	¥ 50,010,854
Television programming revenue:			
Related party	2,068,552	1,894,734	1,662,786
Other	8,796,869	7,550,155	6,764,580
Services and other revenue:			
Related party	1,127,181	957,801	866,157
Other	1,269,414	1,564,716	1,176,418
Total revenues	111,843,201	87,644,228	60,480,795
Operating costs and expenses:			
Cost of retail sales:			
Related party	3,586,299	2,870,371	2,212,430
Other	54,629,263	41,227,980	28,038,763
Cost of programming and distribution:			
Related party	2,961,635	2,770,766	2,742,401
Other	8,841,068	8,732,559	7,482,238
Selling, general and administrative expenses:			
Related party	1,345,305	1,052,691	1,234,015
Other	16,167,992	13,234,077	9,736,571
Depreciation and amortization	2,467,685	1,783,999	1,380,432
Total operating expenses	89,999,247	71,672,443	52,826,850
Operating income	21,843,954	15,971,785	7,653,945
Other income (expense):			
Interest expense:			
Related party	(50,297)	(41,390)	(45,258)
Other	(36,021)	(72,215)	(77,245)
Foreign exchange gain	174,408	477,351	126,482
Equity in income of equity-method affiliates (Note 5)	72,919	53,925	22,888
Gain on sale of investment in affiliate (Note 5)	—	116,441	—
Impairment loss on investment (Note 5)	—	(30,000)	—
Other income (expense), net	53,129	16,487	(9,241)
Total other income (expense)	214,138	520,599	17,626
Income from continuing operations before income taxes and minority interests	22,058,092	16,492,384	7,671,571
Income tax expense (Note 14)	(9,317,087)	(6,397,810)	(3,126,897)
Minority interests in earnings, net of tax	(3,475,008)	(2,594,393)	(1,077,972)
Net income from continuing operations	9,265,997	7,500,181	3,466,702
Net loss from discontinued operation (Note 3)	(1,260,616)	(1,446,996)	(256,644)
Net income	¥ 8,005,381	¥ 6,053,185	¥ 3,210,058

See accompanying notes to consolidated financial statements.

JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(Yen in Thousands)	
Common stock (Note 18):			
Balance at beginning of year	¥ 11,434,000	¥ 11,434,000	¥ 16,834,000
Transfer from common stock	—	—	(8,400,000)
Issuance of common stock	—	—	3,000,000
Balance at end of year	11,434,000	11,434,000	11,434,000
Additional paid-in capital (Note 18):			
Balance at beginning of year	7,266,129	6,788,054	—
Gain on issuance of common stock by equity- method investee, net of income tax of ¥282,787 thousand (Note 5)	—	478,075	—
Transfer from common stock	—	—	6,587,064
Issuance of common stock	—	—	3,000,000
Carryover basis adjustment related to LJS acquisition (Note 2)	—	—	(2,799,010)
Balance at end of year	7,266,129	7,266,129	6,788,054
Retained earnings (deficit):			
Balance at beginning of year	(1,154,532)	(7,207,717)	(12,230,711)
Transfer from common stock	—	—	1,812,936
Net income	8,005,381	6,053,185	3,210,058
Balance at end of year	6,850,849	(1,154,532)	(7,207,717)
Accumulated other comprehensive income:			
Balance at beginning of year	38,181	(16,705)	—
Net change in unrecognized gains (losses) on derivative instruments, net of income tax benefit of ¥26,194 thousand in 2006, income tax expense of ¥37,653 thousand in 2005 and income tax benefit of ¥11,460 thousand in 2004 (Note 10):	(38,181)	54,886	(16,705)
Balance at end of year	—	38,181	(16,705)
Treasury stock at cost:			
Balance at beginning of year	—	—	—
Redemption of common stock, held as treasury stock (Note 18)	—	—	(6,000,000)
Issuance of treasury stock related to LJS acquisition (Note 2)	—	—	6,000,000
Balance at end of year	—	—	—
Total shareholders' equity	¥ 25,550,978	¥ 17,583,778	¥ 10,997,632
Comprehensive income:			
Net income for the year	¥ 8,005,381	¥ 6,053,185	¥ 3,210,058
Net unrealized gain (loss) on derivative instruments, net of income tax expense of ¥30,252 thousand in 2005 and income tax benefit of ¥11,460 thousand in 2004	—	44,096	(16,705)
Reclassification adjustment for gain (loss) included in net income, net of income tax benefit of ¥26,194 thousand in 2006 and income tax expense of ¥7,401 thousand in 2005	(38,181)	10,790	—
Total comprehensive income	¥ 7,967,200	¥ 6,108,071	¥ 3,193,353

See accompanying notes to consolidated financial statements.

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JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(Yen in Thousands)	
Cash flows from operating activities:			
Net income	¥ 8,005,381	¥ 6,053,185	¥ 3,210,058
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operation, net of income taxes	1,260,616	1,446,996	256,644
Depreciation and amortization	2,467,685	1,783,999	1,380,432
Amortization of program rights and language versioning	2,149,491	1,810,630	1,732,435
Provision for doubtful accounts	1,101	(838)	(3,519)
Equity in income of equity-method affiliates	(72,919)	(53,925)	(22,888)
Deferred income taxes	586,788	(121,381)	(102,730)
Minority interest in earnings	3,475,008	2,594,393	1,077,972
Gain on sale of investment in affiliate	—	(116,441)	—
Impairment loss on investment	—	30,000	—
Changes in assets and liabilities, net of effects of acquisitions:			
Purchase of program rights and language versioning	(2,006,688)	(2,247,145)	(1,631,074)
Increase in accounts receivable	(1,728,707)	(1,387,858)	(1,307,561)
Increase in retail inventories	(245,298)	(270,074)	(763,453)
Increase in accounts payable	372,611	2,436,146	863,382
(Decrease) increase in accrued liabilities	(4,833)	961,950	217,633
Increase in income taxes payable	537,490	2,844,746	674,288
Other, net	920,011	(162,895)	(17,795)
Net cash provided by operating activities of continuing operations	15,717,737	15,601,488	5,563,824
Net cash used in operating activities of discontinued operation	(1,825,767)	(1,515,993)	(371,235)
Net cash provided by operating activities	13,891,970	14,085,495	5,192,589

JUPITER TV CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(Yen in Thousands)	
Cash flows from investing activities:			
Capital expenditures	(3,750,927)	(3,257,335)	(3,886,668)
Acquisition of subsidiary, net of cash acquired	—	(46,365)	(391,887)
Proceeds from sale of investment in affiliate	—	275,102	—
Investments in affiliates	—	(767,500)	(748,500)
Net cash used in investing activities of continuing operations	(3,750,927)	(3,796,098)	(5,027,055)
Net cash used in investing activities of discontinued operation	(34,954)	(527,352)	—
Net cash used in investing activities	(3,785,881)	(4,323,450)	(5,027,055)
Cash flows from financing activities:			
Proceeds (repayments) on short-term debt	—	—	(46,000)
Proceeds from advances from affiliate	480,000	762,000	938,000
Proceeds from issuance of short-term debt (related party)	15,000	275,000	—
Principal payments on external loan	(1,600,000)	—	—
Principal payments on shareholders loan	—	(1,000,000)	(176,000)
Principal payments on obligations under capital leases	(365,974)	(319,060)	(429,014)
Proceeds from issuance of common stock	—	—	6,000,000
Proceeds from minority shareholder	55,000	90,000	—
Payments to acquire treasury stock	—	—	(6,000,000)
Net cash (used in) provided by financing activities of continuing operations	(1,415,974)	(192,060)	286,986
Net cash used in financing activities of discontinued operation	(532,527)	(35,455)	—
Net cash (used in) provided by financing activities	(1,948,501)	(227,515)	286,986
Net effect of exchange rate changes on cash and cash equivalents	43,104	130,617	(4,677)
Net increase in cash and cash equivalents	8,200,692	9,665,147	447,843
Cash and cash equivalents at beginning of year	15,017,758	5,352,611	4,904,768
Cash and cash equivalents at end of year	¥ 23,218,450	¥ 15,017,758	¥ 5,352,611
Supplemental information:			
Cash paid during the year for:			
Income taxes	¥ 8,192,819	¥ 3,674,446	¥ 2,551,301
Interest	134,977	91,860	90,711
Acquisition of BBF (Note 2)			
Fair value of assets acquired (including cash acquired of ¥158,113 thousand)	—	—	705,657
Fair value of liabilities assumed	—	—	(87,657)
Accrued estimated additional purchase consideration	—	—	(68,000)
Non-cash activities:			
Assets acquired under capital leases	941,168	931,620	1,037,505
Asset retirement costs incurred	299,691	—	—
Accrual for purchase of property and equipment	732,677	532,023	241,622
Acquisition of LJS through issuance of treasury stock (Note 2)	—	—	3,200,990
Elimination of long-term loan from LJS	—	—	840,000

See accompanying notes to consolidated financial statements.

JUPITER TV CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

Jupiter TV Co., Ltd. (the "Company"), formerly Jupiter Programming Co., Ltd., and its subsidiaries (hereafter collectively referred to as "JTV") invest in, develop, manage and distribute television programming through cable, satellite and broadband platforms systems in Japan. Jupiter Shop Channel Co., Ltd ("Shop Channel"), through which JTV markets and sells a wide variety of consumer products and accessories, is JTV's largest channel in terms of revenue, comprising approximately 89%, 86%, and 83%, of total revenues for the years ended December 31, 2006, 2005 and 2004, respectively. JTV's business activities are conducted in Japan and serve the Japanese market.

The Company is owned 50% by Liberty Global, Inc ("LGI"), formerly Liberty Media International, Inc., through its wholly owned subsidiaries Liberty Programming Japan, Inc. (43%) and Liberty Programming Japan II, LLC (7%), and 50% by Sumitomo Corporation. The Company was incorporated in 1996 in Japan under the name Kabushiki Kaisha Jupiter Programming, Jupiter Programming Co., Ltd. in English, and changed its name to Kabushiki Kaisha Jupiter TV Co., Ltd., Jupiter TV Co., Ltd. in English, effective from January 1, 2006.

(b) Basis of Consolidated Financial Statements

The Company and its subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform them to U.S. generally accepted accounting principles. The major areas requiring such adjustment are accounting for derivative instruments and hedging activities, assets held under finance lease arrangements, goodwill and other intangible assets, employers' accounting for pensions, compensated absence, deferred taxes, cooperative marketing arrangements and certain customer discounts, asset retirement obligations, merger transactions by equity affiliates, and non-cash contribution of Liberty J Sports, Inc. ("LJS"), from Liberty Media International, Inc. in 2004.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

JTV accounts for investments in variable interest entities in accordance with the provisions of the Revised Interpretation of the FASB Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities", issued in December 2003. The Revised Interpretation of FIN No. 46 provides guidance on how to identify a variable interest entity ("VIE"), and determines when the assets, liabilities, non-controlling interests, and results of operations of a VIE must be included in a company's consolidated financial statements. A company that holds variable interests in an entity is required to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if any. VIEs created after December 31, 2003 must be accounted for under the Revised Interpretation of FIN No. 46. JTV consolidates Reality TV Japan, which was incorporated in January 2005, and in which JTV owns a 50% interest, in accordance with the provisions of the Revised Interpretation of FIN No. 46. Reality TV Japan is a television channel specializing in the reality genre, distributed through cable, satellite and broadband platforms, which complements JTV's other channel businesses.

(d) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with an initial maturity of three months or less from the date of purchase.

(e) Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on an analysis of certain individual accounts, including claims in bankruptcy.

(f) Retail Inventories

Retail Inventories, consisting primarily of products held for sale on Shop Channel, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

(g) Program Rights and Language Versioning

Rights to programming acquired for broadcast on the programming channels and language versioning are stated at the lower of cost and net realizable value. Program right licenses generally state a fixed time period within which a program can be aired, and generally limit the number of times a program can be aired. The licensor retains ownership of the program upon expiration of the license. Programming rights and language versioning costs are amortized over the license period for the program rights based on the nature of the contract or program. Where airing runs are limited, amortization is generally based on runs usage, where usage is unlimited, a straight line basis is used as an estimate of actual usage for amortization purposes. Certain sports programs are amortized fully upon first airing. Such amortization is included in programming and distribution expense in the accompanying consolidated statements of operations.

The portion of unamortized program rights and language versioning costs expected to be amortized within one year is classified as a current asset in the accompanying consolidated balance sheets.

(h) Investments

For those investments in affiliates in which JTV's voting interest is 20% to 50% or JTV otherwise has the ability to exercise significant influence over the affiliates' operations and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and is adjusted to recognize JTV's share of the net earnings or losses of its affiliates. JTV recognizes its share of losses of an equity method affiliate until its investment and net advances, if any, are reduced to zero and only provides for additional losses in the event that it has guaranteed obligations of the equity method affiliate or is otherwise committed to provide further financial support.

The difference between the carrying value of JTV's investment in the affiliate and the underlying equity in the net assets of the affiliate is recorded as equity method intangible assets where appropriate and amortized over a relevant period of time, or as residual goodwill. Equity method goodwill is not amortized but is reviewed for impairment in accordance with Accounting Principles Board ("APB") Opinion No. 18, "The Equity-Method Accounting for Investments in Common Stock" which requires that an other-than-temporary decline in value of an investment be recognized as an impairment loss.

Investments in other securities carried at cost represent non-marketable equity securities in which JTV's ownership is less than 20% and JTV does not have the ability to exercise significant influence over the entities' operation and financial policies.

JTV evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other-than-temporary. In performing its evaluations, JTV utilizes various sources of information, as available, including cash flow projections, independent valuations and, as applicable, stock price analysis. In the event of a determination that a decline in value is other-than-temporary, a charge to income is recorded for the loss, and a new cost basis in the investment is established.

(i) Derivative Financial Instruments

Under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in income in the period of change.

JTV uses foreign exchange forward contracts to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JTV enters into these contracts to hedge its U.S. dollar denominated net monetary exposures. Hedges relating to purchase commitments for contracted programming rights and other contract costs may have qualified for hedge accounting under the hedging criteria specified by SFAS No. 133. However prior to January 1, 2004, JTV elected not to designate any qualifying transactions as hedges. For certain qualifying transactions entered into since January 1, 2004, JTV has designated the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss). For JTV's foreign exchange forward contracts that do not qualify for hedge accounting under the hedging criteria specified by SFAS No. 133, changes in the fair value of derivatives are recorded in the consolidated statements of operations in the period of the change.

JTV does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

(j) Property and Equipment

Property and equipment are stated at cost.

Depreciation and amortization is generally computed using the straight line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	2-20 years
Leasehold and building improvements	3-18 years
Equipment and vehicles	2-15 years
Buildings	37-50 years

Equipment under capital leases is initially stated at the present value of minimum lease payments. Equipment under capital leases is amortized using the straight line method over the shorter of the lease term and the estimated useful lives of the respective assets, which generally range from three to nine years.

(k) Software Development Costs

JTV capitalizes certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal use are expensed as incurred during the preliminary project stage, including costs associated with making strategic decisions and determining performance and system requirements regarding the project, and vendor demonstration costs. Labor costs incurred subsequent to the preliminary project stage through implementation are capitalized. JTV also expenses costs incurred for internal-use software projects in the post implementation stage such as costs for training and maintenance. The capitalized cost of software is amortized on a straight-line basis over the estimated useful life, which is generally two to five years.

(l) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired, and is accounted for under the provisions of SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

JTV performs its annual impairment test for goodwill and indefinite-life intangible assets at the end of each year. JTV completed its annual impairment tests at December 31, 2006, 2005 and 2004, respectively, with no indication of impairment identified.

(m) Long-Lived Assets and Long-Lived Assets to be Disposed Of

JTV accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined by independent third party appraisals, projected discounted cash flows, or other valuation techniques as appropriate.

JTV accounts for its obligations associated with the retirement of tangible long-lived assets in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations". Pursuant to SFAS No. 143, obligations associated with the retirement of tangible long-lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

JTV accounts for the conditional asset retirement obligations in accordance with FIN No. 47, "Accounting for Conditional Asset Retirement Obligations" which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation can be made. FIN No. 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

(n) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries provide a Retirement Allowance Plan ("RAP") for eligible employees. The RAP is an unfunded retirement allowance program in which benefits are based on years of service which in turn determine a multiple of final monthly compensation. JTV accounts for the RAP in accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions". Effective December 31, 2006, JTV adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)" which requires an employer to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The adoption of this statement did not have any effect on the consolidated financial statements.

In addition, JTV employees participate in an Employees' Pension Fund ("EPF") Plan. The EPF Plan is a multi-employer plan consisting of approximately 120 participating companies, mainly affiliates of Sumitomo Corporation. The plan is composed of substitutional portions based on the pay-related part of the old age pension benefits prescribed by the Welfare Pension Insurance Law in Japan, and corporate portions based on contributory defined benefit pension arrangements established at the discretion of the Company and its subsidiaries. Benefits under the EPF Plan are based on years of service and the employee's compensation during the five years before retirement.

The assets of the EPF Plan are co-mingled and no assets are separately identifiable for any one participating company. JTV accounts for the EPF Plan in accordance with the provisions of SFAS No. 87, governing multi-employer plans. Under these provisions, JTV recognizes a net pension expense for the required contribution for each period and recognizes a liability for any contributions due but unpaid at the end of each period. Any shortfalls in plan funding are charged to participating companies on a 'share-of-contribution' basis through 'special contributions' spread over a period of years determined by the EPF Plan as being appropriate.

(o) Revenue Recognition

Retail Sales

Revenue from sales of products by Shop Channel is recognized when the products are delivered to customers, which is when title and risk of loss transfers. Shop Channel's retail sales policy allows merchandise to be returned at the customers' discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

Television Programming Revenue

Television programming revenue includes subscription and advertising revenue.

Subscription revenue is recognized in the periods in which programming services are provided to cable, satellite and broadband subscribers. JTV's channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual satellite subscribers pay a monthly fee for programming channels under the terms of rolling one-month subscription contracts. Cable and broadband service providers generally pay a per-subscriber fee for the right to distribute JTV's programming on their systems under the terms of generally annual distribution contracts. Subscription revenue is recognized net of satellite platform commissions and certain cooperative marketing and advertising funds paid to cable system operators. Satellite platform commissions for the years ended December 31, 2006, 2005 and 2004 were ¥1,985,917 thousand, ¥1,833,329 thousand, and ¥1,639,055 thousand, respectively. Cooperative marketing and advertising funds paid to cable system operators for the years ended December 31, 2006, 2005 and 2004 were ¥311,282 thousand, ¥264,794 thousand, and ¥225,572 thousand, respectively.

The Company generates advertising revenue on all of its programming channels except Shop Channel. Advertising revenue is recognized, net of agency commissions, when advertisements are broadcast on JTV's programming channels.

Services and Other Revenue

Services and other revenue mainly comprises cable and advertising sales fees and commissions, and technical broadcast facility and production services provided by the Company and certain subsidiaries, and is recognized in the periods in which such services are provided to customers.

(p) Cost of Retail Sales

Cost of retail sales consists of the cost of products marketed to customers by Shop Channel, including write-downs for inventory obsolescence, shipping and handling costs and warehouse costs. Product costs are recognized as cost of retail sales in the accompanying consolidated statements of operations when the products are delivered to customers and the corresponding revenue is recognized.

(q) Cost of Programming and Distribution

Cost of programming consists of costs incurred to acquire or produce programs airing on the channels distributed to cable, satellite and broadband subscribers. Distribution costs include the costs of delivering the programming channels via satellite, including the costs incurred for uplink services and use of satellite transponders, costs of distribution of certain channels over optical fiber to cable platforms, and payments made to cable and satellite platforms for carriage of Shop Channel.

(r) Advertising Expense

Advertising expense is recognized as incurred and is included in selling, general and administrative expenses or, if appropriate, as a reduction of subscription revenue. Cooperative marketing costs are recognized as an expense to the extent that an identifiable benefit is received and the fair value of the benefit can be reasonably measured, otherwise as a reduction of subscription revenue. Advertising expense included in selling, general and administrative expenses for the years ended December 31, 2006, 2005 and 2004 was ¥2,180,782 thousand, ¥1,676,707 thousand, and ¥1,333,596 thousand, respectively.

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(t) Issuance of Stock by Subsidiaries and Investee Affiliates

The change in the Company’s proportionate share in the underlying net equity of a consolidated subsidiary and equity-method investee from the issuance of their common stock is recorded in additional paid-in capital in the consolidated financial statements.

(u) Foreign Currency Transactions

Financial assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet dates. All revenue and expenses denominated in foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of operations.

(v) Use of Estimates

Management of JTV has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, retail inventories, long-lived assets, investments, deferred tax assets, retail sales returns, contingencies, and obligations related to employees' retirement plans. Actual results could differ from estimates.

(w) New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and enhances disclosures about fair value measurements. This statement applies when other accounting pronouncements require fair value measurements; it does not require new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years, with early application permitted provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. JTV does not expect the adoption of this statement will have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, which requires an employer to recognize in its statement of financial position, the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation. The statement also requires fiscal year-end measurements of plan assets and benefit obligations, eliminating the use of earlier measurement dates currently permissible. This measurement date provision will be effective for fiscal years ending after December 15, 2008. JTV does not expect the adoption of this measurement date provision will have a material effect on its consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109". The interpretation of SFAS No. 109 "Accounting for Income Taxes", prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement, under SFAS No. 109, of a tax position taken or expected to be taken in a tax return. This Interpretation provides guidance on de-recognition, classification, interest and penalties, and accounting in interim periods. It also requires additional financial statement disclosures about uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. JTV does not expect the adoption of this statement will have a material effect on its consolidated financial statements.

(x) Reclassifications

Certain prior year amounts have been reclassified for comparability with the current year presentation.

2. Acquisitions

In April 2004, JTV acquired all of the issued and outstanding common stock of LJS from LGI, in exchange for 24,000 shares of JTV's common stock held in treasury having a fair value, as determined by independent appraisal, of ¥250,000 per share. The aggregate purchase price amounted to ¥6,000,000 thousand. Immediately prior to the acquisition, LJS held 33.3% of the issued and outstanding shares of voting common stock of Jupiter Sports, Inc., with JTV holding the remaining 66.7%. Jupiter Sports Inc. is a holding company with its only principal asset being an investment representing, at that time, approximately 42.8% of the issued and outstanding voting common stock in JSports Broadcasting Corporation ("JSB"). As a result of the acquisition of LJS, JTV increased its indirect ownership in JSB from 28.5% to 42.8%. JSB is a sports channel broadcasting company that operated three channels of various sports related contents. Jupiter Sports Inc. accounts for its investment in JSB using the equity method of accounting as it is able to exercise significant influence over the operations of JSB. Upon consummation of the acquisition, LJS was converted to a limited liability company with the Certificate of Conversion filed with the Secretary of State of Delaware, and renamed J Sports LLC.

The acquisition was consummated in concert with a series of capital transactions as described in Note 18 to the consolidated financial statements.

The Company accounted for the acquisition to the extent of the ¥3,000,000 thousand cash paid to LGI in an earlier redemption of shares of common stock (Note 18) in a manner similar to a partial step acquisition. Accordingly, the excess of ¥3,000,000 thousand over 50% of the fair value of the assets acquired and liabilities assumed with respect to the underlying investment in JSB was recorded as a component of JTV's investment in JSB and accordingly was classified as equity method goodwill. Management determined that the fair value of the assets acquired and liabilities assumed approximated their respective carrying values at the date of acquisition, and that there were no material intangible assets applicable to the underlying investment in JSB. The balance of the underlying investment acquired in JSB has been accounted for at historical cost using carryover basis with the difference of ¥3,000,000 thousand over such historical cost amount being reflected as a deduction from additional paid in capital. Goodwill from the acquisition is not deductible for tax purposes.

The following table summarizes the allocation of the acquisition consideration:

	(Yen in Thousands)
Purchase accounting:	
50% of acquisition consideration	¥ 3,000,000
Fair value of 50% of underlying net assets acquired	200,990
Equity method goodwill	2,799,010
Carryover basis:	
50% of acquisition consideration	3,000,000
Historical cost of 50% of underlying net assets acquired	200,990
Carryover basis reduction of additional paid in capital	2,799,010

On December 28, 2004, JTV acquired 100% of the outstanding shares of BB Factory Corporation Ltd. ("BBF"), a television programming company. The acquisition was accounted for as a purchase. The aggregate purchase price was ¥596,365 thousand, of which ¥550,000 thousand was paid in cash on December 28, 2004. The balance of ¥46,365 thousand was paid in cash on April 28, 2005. At December 31, 2004, the estimated additional purchase consideration at that time of ¥68,000, which was determined with reference to the net asset value of BBF at January 31, 2005, pending final approval by both parties to the transaction, was accrued. The difference between the estimated purchase price and the final purchase price amounted to ¥21,635 thousand and reduced goodwill in 2005 (Note 9). JTV has recognized subscriber-related intangible assets in the amount of ¥200,000 thousand representing estimated financial benefits from taking over Channel BB's position in direct-to-home channel packaging alliances, which is being amortized over a ten year period commencing in 2005. The results of operations of BBF were included in JTV's consolidated statements of operations from January 1, 2005. Goodwill from the acquisition of BBF is not deductible for tax purposes.

During 2005, previously unrecognized tax benefits in the form of net operating loss carryforwards acquired in connection with the acquisition of BBF amounting to ¥154,252 thousand were realized during the year. Accordingly, the Company reduced the carrying value of goodwill by a similar amount (Note 9).

JUPITER TV CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed, as recorded at the date of acquisition of BBF:

	(Yen in Thousands)
Current assets	¥ 224,471
Intangible assets	200,000
Goodwill	281,186
Total assets acquired	705,657
Current liabilities assumed	(6,277)
Deferred tax liabilities	(81,380)
Net assets acquired	¥ 618,000

3. Discontinued Operation

In December 2005, a decision was made to place the launch of a new television channel business, PartiTV, on hold while JTV reconsidered the feasibility and social appropriateness of the content and business model based on new information obtained during the developmental period. At that point, the business had been developed to a stage such that management recognized it as a component of the JTV business. JTV then proceeded to evaluate the feasibility of re-deploying PartiTV infrastructure assets and commitments, including in connection with the potential launch of an auction channel that was being studied. Auction was planned to be one programming genre in the original PartiTV business model.

In July 2006 the Company's Board concluded that the bulk of the PartiTV assets and infrastructure was not suitable for the auction channel plan being developed, and approval was given to sell or terminate all PartiTV infrastructure assets and commitments. At that point JTV classified the PartiTV business component as a discontinued operation in accordance with the provisions of SFAS No. 144. Certain employees of PartiTV were advised in December 2005 and the bulk of employees were advised in 2006 that they would retire from the Company, and that their contracts and/or employment status within the PartiTV division would expire or would be terminated on the basis of certain compensation packages.

At December 31, 2006, substantially all of the PartiTV business component assets had been disposed of or re-deployed within the group, and commitments settled. There were no significant assets and liabilities, except for employee severance costs payable of ¥259,185 thousand, of the PartiTV component at December 31, 2006.

The Company has incurred certain employee severance costs and contract termination costs directly related to the disposal of the PartiTV business. These costs are included as a component of the discontinued operations, and a summary of the activities related to these costs is as follows:

	Balance as of December 31, 2005	Costs Incurred	Cash Payments	Balance as of December 31, 2006
		(Yen in Thousands)		
Employee severance costs	¥ —	¥ 393,139	¥ 133,954	¥ 259,185
Contract termination costs	—	350,923	350,923	
Total	¥ —	¥ 744,062	¥ 484,877	¥ 259,185

The results for the PartiTV business component for the years ended December 31, 2006, 2005 and 2004, recognized in the consolidated statements of operations as net loss from discontinued operation, were as follows:

	2006	2005	2004
		(Yen in Thousands)	
Revenue from discontinued operation	¥ —	¥ —	¥ —
Operating loss from discontinued operation	(717,659)	(2,386,900)	(432,095)
Loss on disposal of discontinued operation	(1,407,147)	—	—
Income tax benefit from discontinued operation	864,190	939,904	175,451
Net loss from discontinued operation	¥ (1,260,616)	¥ (1,446,996)	¥ (256,644)

4. Program Rights and Language Versioning

Program rights and language versioning as of December 31, 2006 and 2005 were composed of the following:

	2006	2005
	(Yen in Thousands)	
Program rights	¥ 1,795,575	¥ 1,326,661
Language versioning	333,952	130,389
	2,129,527	1,457,050
Less accumulated amortization	(1,150,046)	(334,766)
	979,481	1,122,284
Less current portion	(695,410)	(776,225)
	¥ 284,071	¥ 346,059

Amortization expense related to program rights and language versioning for the years ended December 31, 2006, 2005 and 2004, was ¥2,149,491 thousand, ¥1,810,630 thousand, and ¥1,732,435 thousand, respectively, which is included in cost of programming and distribution in the consolidated statements of operations in respective years.

5. Investments

Investments, including advances, as of December 31, 2006 and 2005, were composed of the following:

	2006		2005	
	Percentage ownership	Carrying amount	Percentage ownership	Carrying amount
		(Yen in Thousands)		
Investments accounted for under the equity method:				
Discovery Japan, Inc.	50.0%	¥ 1,107,064	50.0%	¥ 894,321
Animal Planet Japan, Co. Ltd.	33.3%	197,449	33.3%	197,928
InteracTV Co., Ltd.	42.5%	36,439	42.5%	38,399
JSports Broadcasting Corporation	33.4%	4,834,792	33.4%	4,783,458
AXN Japan, Inc.	35.0%	940,149	35.0%	909,480
Jupiter VOD Co., Inc.	50.0%	549,512	50.0%	768,900
Total equity method investments		7,665,405		7,592,486
Investments accounted for at cost:				
NikkeiCNBC Japan, Inc.	9.8%	100,000	9.8%	100,000
Kids Station, Inc.	15.0%	304,500	15.0%	304,500
AT-X, Inc.	12.3%	236,000	12.3%	236,000
Nihon Eiga Satellite Broadcasting Corporation	10.0%	66,600	10.0%	66,600
Satellite Service Co. Ltd.	12.0%	24,000	12.0%	24,000
Total cost method investments		731,100		731,100
		¥ 8,396,505		¥ 8,323,586

The following investments represent participation in programming businesses:

Discovery Japan, Inc., a general documentary channel business currently operating two channels;
Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
JSports Broadcasting Corporation, a sports channel business currently operating four channels;
AXN Japan, Inc., a general entertainment channel;
NikkeiCNBC Japan, Inc., a news service channel;
Kids Station, Inc., a children's entertainment channel;
AT-X, Inc., an animation genre channel;
Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels; and
Jupiter VOD Co., Inc. a multi-genre video on demand programming service

The following investments represent participation in broadcast license-holding companies through which channels are consigned to subscribers to the 'CS110 degree East' Direct-to-home satellite service:

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;
Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

JUPITER TV CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following reflects JTV's share of earnings (losses) of investments accounted for under the equity method for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
		(Yen in Thousands)	
Discovery Japan, Inc.	¥ 212,743	¥ 313,865	¥ 298,763
Animal Planet Japan, Co. Ltd.	(479)	(125,581)	(283,913)
InteracTV Co., Ltd.	(1,960)	(188)	(219)
JSports Broadcasting Corporation	51,334	135,845	135,973
AXN Japan, Inc.	30,669	12,351	(43,982)
Jupiter VOD Co., Inc.	(219,388)	(282,367)	(83,734)
	¥ 72,919	¥ 53,925	¥ 22,888

On November, 1, 2005, JSports Broadcasting Corporation ("JSB") acquired Sports-iESPN, another sports channel business. The acquisition was accounted for as a purchase by JSB. Common stock representing approximately 19.5% of the combined business was issued to the shareholders of Sports-iESPN in consideration for the purchase. The stock issuance resulted in JTV's equity share of JSB diluting from 42.8% to 34.5%.

The difference between JTV's share of the underlying net equity of JSB immediately prior to the acquisition of Sports-iESPN and subsequent thereto has been accounted for by the Company as an increase in the carrying value of its investment with a corresponding increase in additional paid-in capital in the amount of ¥478,075 (net of income tax of ¥282,787) in a manner analogous to Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary". Immediately following the acquisition of Sports-iESPN by JSB, JTV sold 770 shares of its investment in common stock of JSB to other unrelated shareholders pursuant to a shareholding adjustment arrangement in exchange for cash proceeds, further diluting its investment in JSB from a 34.5% owned equity-method investment to a 33.4% owned equity-method investment. JTV recognized a ¥116,441 thousand gain on sale of those shares in earnings.

In December 2004, the Company invested ¥485,000 thousand and acquired a 50% voting interest in Jupiter VOD Co., Ltd. ("JVOD"). In December 2005, a further equity investment was made in the amount of ¥650,000 thousand, maintaining a 50% voting interest in JVOD. JVOD is a video on demand programming service providing on-demand video services primarily to digitized cable systems capable of receiving its service.

The carrying amount of investments in affiliates as of December 31, 2006 and 2005 included ¥751,940 thousand for AXN Japan, Inc. ("AXN") and ¥2,180,084 thousand for JSB of excess cost of the investments over the Company's equity in the net assets. The amount of that excess costs represents "equity method goodwill".

JTV holds 33.3% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company entered into an Amendment To Funding Agreement with effect from March 31, 2005, under which it has funding obligations in accordance with its ordinary shareholding ratio up to a maximum of ¥1,500,000 thousand. During the years ended December 31, 2006 and 2005, the Company invested ¥0 and ¥100,000 thousand, respectively, and had made an aggregate investment of ¥1,395,000 thousand as of December 31, 2006, in Animal Planet Japan, Co. Ltd.

The aggregate cost of JTV's cost method investments totaled ¥731,100 thousand at December 31, 2006 and 2005. JTV performs an impairment test for cost method investments whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. At December 31, 2006, JTV estimated that the fair value of each of the investments exceeded the cost of the investment, and therefore concluded that no impairment had occurred. At December 31, 2005, the fair value of the investment in AT-X, Inc, based on a discounted cash flow analysis of available business plans, indicated that an other-than-temporary decline in value had occurred. The amount of the associated impairment write-down for the year ended December 31, 2005 was ¥30,000 thousand and is included in other income (expense) in the accompanying statements of operations.

Financial information for the companies in which the Company has an investment accounted for under the equity method is presented as combined as the companies are similar in nature and operate in the same business area. Condensed combined financial information is as follows:

	2006	2005
	(Yen in Thousands)	
Combined financial position at December 31,		
Current assets	¥ 11,591,623	¥ 10,546,734
Other assets	7,191,268	5,464,831
Total assets	18,782,891	16,011,565
Current liabilities	4,658,638	3,620,947
Other liabilities	3,395,045	1,676,786
Shareholders' equity	10,729,208	10,713,832
Total liabilities and shareholders' equity	¥ 18,782,891	¥ 16,011,565

	2006	2005	2004
		(Yen in Thousands)	
Combined operations for the year ended December 31,			
Revenues	¥ 28,166,813	¥ 22,852,521	¥ 21,682,192
Operating expenses	27,511,715	22,648,732	21,998,685
Operating income (loss)	655,098	203,789	(316,493)
Other (expense) income, net, including income taxes	(562,015)	(1,027)	783,921
Net income	¥ 93,083	¥ 202,762	¥ 467,428

6. Property and Equipment

Property and equipment as of December 31, 2006 and 2005, were comprised of the following:

	2006	2005
	(Yen in Thousands)	
Furniture and fixtures	¥ 286,972	¥ 267,031
Leasehold and building improvements	2,112,082	1,463,370
Equipment and vehicles	6,598,613	4,924,584
Buildings	1,001,485	851,485
Land	437,147	437,147
Construction in progress	932,788	14,188
	11,369,087	7,957,805
Less accumulated depreciation and amortization	(3,791,181)	(2,399,609)
	¥ 7,577,906	¥ 5,558,196

Property and equipment include assets held under capitalized lease arrangements (Note 12). Depreciation and amortization expense related to property and equipment for the years ended December 31, 2006, 2005 and 2004 was ¥1,497,830 thousand, ¥1,070,502 thousand, and ¥772,907 thousand, respectively.

At December 31, 2005 JTV reviewed its long-lived assets, including capitalized leases, developed for the PartiTV business for impairment, due to a decision that the channel would not be launched (Note 3). A determination of impairment was made with respect to the PartiTV long-lived assets to be held and used based on a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the assets in accordance with the provisions of SFAS No. 144. At that time the PartiTV assets were written down to their estimated fair market value. The fair value was determined by estimating the market value in a current transaction between willing parties, that is, other than in a forced or liquidation sale, in reference to prices for assets or asset groups with similar functionality, having similar remaining useful lives. The amount of the associated impairment write-down for the year ended December 31, 2005 was ¥524,140 thousand, and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

At December 31, 2006 JTV had disposed of, or re-deployed within the group, substantially all of the long-lived assets, including capitalized leases, developed for the PartiTV business. Remaining assets were reviewed for impairment and were written down to their estimated fair market value which was determined with reference to the experience from selling the bulk of the PartiTV assets during the year. The amount of the associated impairment write-down for the year ended December 31, 2006 was ¥54,508 thousand and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

7. Software Development Costs

Capitalized software development costs for internal-use as of December 31, 2006 and 2005, were as follows:

	2006	2005
	(Yen in Thousands)	
Software development costs	¥ 8,021,193	¥ 6,686,711
Less accumulated amortization	(3,577,876)	(2,561,596)
	¥ 4,443,317	¥ 4,125,115

Significant software development additions during 2006 and 2005 included development of Shop Channel core systems, e-commerce, and new call center infrastructure, all of which are for internal use.

Aggregate amortization expense for the years ended December 31, 2006, 2005 and 2004 was ¥1,017,224 thousand, ¥728,573 thousand, and ¥584,340 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Year ending December 31,	(Yen in Thousands)
2007	¥ 1,101,866
2008	1,079,195
2009	1,054,985
2010	959,031
2011	173,713

JTV reviewed its software development costs related to the PartiTV business for impairment using the same methodology as for long-lived assets review (Note 6). The amount of the associated impairment write-down for the years ended December 31, 2006 and 2005 was ¥18,000 thousand and ¥211,209 thousand, respectively, and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

8. Intangibles

Intangible assets acquired during the years ended December 31, 2006, 2005 and 2004, were ¥2,407 thousand, ¥15,029 thousand, and ¥214,936 thousand, respectively. The weighted average amortization period is six years.

The details of intangible assets other than software and goodwill as of December 31, 2006 and 2005, were as follows:

	2006	2005
	(Yen in Thousands)	
Intangible assets subject to amortization, net of accumulated amortization of ¥131,232 thousand in 2006 and ¥54,264 thousand in 2005:		
Channel packaging arrangements	¥ 160,000	¥ 180,000
Other	27,070	33,551
	187,070	213,551
Other intangible assets not subject to amortization:	5,073	5,073
Total other intangible assets	¥ 192,143	¥ 218,624

Channel packaging arrangements represent estimated value to be derived from existing channel position in packaging alliances on the direct-to-home satellite distribution platform, and are being amortized over their estimated useful life of ten years. The aggregate amortization expense of other intangible assets subject to amortization for the years ended December 31, 2006, 2005 and 2004 was ¥28,888 thousand, ¥48,258 thousand, and ¥22,257 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Year ending December 31,	(Yen in Thousands)
2007	¥ 23,150
2008	23,109
2009	23,109
2010	23,044
2011	22,838

9. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2006, 2005 and 2004, were as follows:

	2006	2005	2004
		(Yen in Thousands)	
Balance at beginning of year	¥ 294,244	¥ 470,131	¥ 188,945
Acquisitions	—	—	281,186
Adjustment	(7,981)	(175,887)	—
Balance at end of year	¥ 286,263	¥ 294,244	¥ 470,131

Goodwill of ¥281,186 thousand recorded during 2004 was related to the purchase of BBF (Note 2). The adjustments to the carrying value of goodwill of ¥175,887 thousand recorded in 2005 included ¥154,252 thousand of previously unrecognized tax benefits, and ¥21,635 thousand attributable to the finalization of the purchase price, of BBF (Note 2). The adjustment to the carrying value of goodwill of ¥7,981 thousand recorded in 2006 represents previously unrecognized tax benefits in another subsidiary.

10. Derivative Instruments and Hedging Activities

JTV uses foreign exchange forward contracts that extend 10 to 12 months to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JTV enters into these contracts to hedge its U.S. dollar denominated monetary exposures.

JTV does not enter into derivative financial transactions for trading or speculative purposes.

JTV is exposed to credit-related losses in the event of non-performance by the counterparties to derivative financial instruments, but they do not expect the counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

For certain qualifying transactions entered into from January 1, 2004, JTV designates the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income. The amount of hedge ineffectiveness recognized currently in foreign exchange gain was not material for the years ended December 31, 2006, 2005 and 2004. These amounts are reclassified into earnings through gain (loss) on forward exchange contracts when the hedged items impact earnings. The balance of accumulated other comprehensive income at December 31, 2006 is ¥0. Accumulated gains, net of taxes, of ¥38,181 thousand, were included in accumulated other comprehensive income at December 31, 2005.

No cash flow hedges were discontinued during the years ended December 31, 2006, 2005 and 2004 as a result of forecasted transactions that are no longer probable to occur.

JTV has entered into foreign exchange forward contracts designated but not qualified as hedging instruments under SFAS No. 133 as a means of hedging certain foreign currency exposures. JTV records these contracts on the balance sheet at fair value. The changes in fair value of such instruments are recognized currently in earnings and are included in foreign exchange gain.

At December 31, 2006 and 2005, the fair value of forward exchange contracts recognized in the consolidated balance sheets was an asset of ¥84,852 thousand and ¥249,725, respectively.

11. Fair Value of Financial Instruments

The carrying amounts for financial instruments in JTV's consolidated financial statements at December 31, 2006 and 2005 approximate their estimated fair values. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, income taxes payable, and other current liabilities (non-derivatives): The carrying amounts approximate fair value because of the short duration of these instruments.

Foreign exchange forward contracts: The carrying amount is reflective of fair value. The fair value of currency forward contracts is estimated based on quotes obtained from financial institutions. At December 31, 2006 and 2005, fair value of foreign exchange forward contracts of ¥84,852 thousand and ¥249,725 thousand was included in other current assets in the accompanying consolidated balance sheets.

Long-term debt, including current maturities and short-term debt: The fair value of JTV's long-term debt is estimated by discounting the future cash flows of each instrument by a proxy for rates expected to be incurred on similar borrowings at current rates. Borrowings bear interest based on certain financial ratios that determine a margin over Euroyen TIBOR, and are therefore variable. JTV believes the carrying amount approximates fair value based on the variable rates and currently available terms and conditions for similar debt.

Obligations under capital leases, including current installments: The carrying amount is reflective of fair value. The fair value of JTV's capital lease obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to JTV by leasing companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Leases

JTV is obligated under various capital leases for certain equipment and other assets that expire at various dates, generally during the next five years. At December 31, 2006 and 2005, the gross amount of equipment and the related accumulated amortization recorded under capital leases were as follows:

	2006	2005
	(Yen in Thousands)	
Equipment and vehicles	¥ 2,206,592	¥ 2,115,924
Others	303,799	155,775
Less accumulated amortization	(920,631)	(960,409)
	¥ 1,589,760	¥ 1,311,290

Amortization of assets held under capital leases is included with depreciation and amortization expense. Leased equipment is included in property and equipment (Note 6).

Future minimum capital lease payments as of December 31, 2006, were as follows:

Year ending December 31,	(Yen in Thousands)
2007	¥512,039
2008	476,316
2009	463,558
2010	213,188
2011	134,813
Thereafter	5,908
Total minimum lease payments	1,805,822
Less amount representing interest (at rates ranging from 1.43% to 6.33%)	(72,849)
Present value of minimum capital lease payments	1,732,973
Less current installments	(467,289)
	¥1,265,684

The Company leases four principal office and operational premises. JTV headquarters has a three-year lease agreement from August 2004, with a rolling two-year right of renewal, that provides for annual rental costs of ¥289,669 thousand. Shop Channel has a 15-year office lease agreement expiring in October 2013 with an annual rental cost of ¥180,924 thousand, a two-year call center lease agreement from March 2006, with a rolling two-year right of renewal, that provides for annual rental costs of ¥181,992 thousand, and a five-year logistics center lease agreement from June 2006, with a rolling two-year right of renewal, that provides for annual rental costs of ¥732,384 thousand.

These and other leases for office and studio space are mainly cancelable upon six months notice. Accordingly, the schedule below detailing future minimum lease payments under non-cancelable operating leases includes the lease costs for the Company's premises for only a six-month period.

JTV contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. JTV's historical transponder service contracts were generally ten years in duration, were entered into prior to 2004, and were disclosed by JTV as commitments other than leases (Note 21). In September 2006, one of the transponder providers significantly revised the terms under which they provide transponder capacity. Following a six-month transitional contract period to March 2007, new contracts will be one year in duration and service fees are based on fixed rates. Under the provisions of EITF 01-8 "Determining Whether an Arrangement Contains a Lease", the contracts renewed under the revised terms are treated as operating leases.

Future minimum lease payments for the noncancelable portion of operating leases as of December 31, 2006, were as follows:

Year ending December 31,		(Yen in Thousands)
2007	¥	1,328,540
2008		4,980
2009		4,980
2010		4,980
2011		4,980
Thereafter		101,675
Total minimum lease payments	¥	1,450,135

JTV also has several operating leases, primarily for office space, that expire over the next 10 years, and a 30-year lease for land that expires in 27 years. Rent expense for the years ended December 31, 2006, 2005 and 2004 was ¥1,187,904 thousand, ¥445,094 thousand, and ¥332,530 thousand, respectively.

13. Debt

Short-term debt as of December 31, 2006 and 2005, consisted of the following:

	2006	2005
	(Yen in Thousands)	
Loans from minority shareholder	¥ 290,000	¥ 275,000

As of December 31, 2006 and 2005, JTV had outstanding short-term borrowings of ¥290,000 thousand and ¥275,000 thousand, respectively, from Zonemedia Limited ("Zonemedia"), formerly Zone Vision Enterprises Limited, a 50% shareholder in Reality TV Japan. The borrowings comprise a series of loans pursuant to a shareholder finance agreement entered into between JTV and Zonemedia for the specified purpose of financing Reality TV Japan, a consolidated joint venture (Note 1(c)). Each of the series of loans bears interest at a rate of 3.5% per annum.

Long-term debt as of December 31, 2006 and 2005, consisted of the following:

	2006	2005
	(Yen in Thousands)	
Term loan borrowings from banks	¥ 2,400,000	¥ 4,000,000
Less: current portion	(1,600,000)	(1,600,000)
Long-term debt, excluding current portion	¥ 800,000	¥ 2,400,000

As of December 31, 2004, the Company had a ¥10,000,000 thousand credit facility (the "Facility") available for immediate and full borrowing with a group of banks, to be drawn upon until December 25, 2005. That Facility, which is guaranteed by certain of the Company's subsidiaries, comprised an ¥8,000,000 thousand five-year term loan, and a ¥2,000,000 thousand 364-day revolving facility renewable in June of each year. The Company decided in December 2005 not to draw down the remaining ¥4,000,000 thousand available term loan amount. Outstanding borrowings under the five-year term loan at December 31, 2006 and 2005 were ¥2,400,000 thousand and ¥4,000,000 thousand, respectively. Repayment of the term loan principal began on March 31, 2006, by quarterly installments of ¥400,000 thousand, until fully repaid on June 25, 2008.

The Company decided in June 2006 not to renew the 364-day revolving facility. There were no borrowings outstanding under the 364-day revolving facility as of December 31, 2005.

Interest on outstanding borrowings is based on certain financial ratios and can range from Euroyen TIBOR + 0.75% to TIBOR + 2.00% for the five-year term loan and from TIBOR + 0.70% to TIBOR + 1.00% for the 364-day revolving facility. The interest rates charged at December 31, 2006 and 2005 for the five-year term loan were 1.163% and 0.84%, respectively.

The Facility contains certain financial and other restrictive covenants. The financial covenants consist of: (i) EBITDA, as defined by the Facility agreement and reported on a Japanese Corporate Law, formerly Commercial Code of Japan, basis, shall be equal to or exceed, for year 2005, ¥3,500,000 thousand; for year 2006, ¥4,000,000 thousand; for year 2007, ¥5,000,000 thousand; and (ii) 'Actual Amount of Investment', as defined by the Facility agreement, shall not exceed 'Maximum Amount of Investment' as defined, provided that, in respect of a year, an amount equal to the excess of Maximum over Actual amount of investment shall be added to the Maximum Amount of Investment of the next following year. Maximum amounts of investment are defined relative to prior year EBITDA and other specified amounts.

Restrictive covenants contained in the Facility agreement include certain restrictions on: (i) creation of contractual security interests over the Company's assets; (ii) sale of assets that would result in material adverse effect, or would comprise over 10% of total assets; (iii) corporate reorganization that would result in material adverse effect; (iv) sale of shares in principal subsidiaries; (v) distribution of dividends, repurchase of own shares, and repayment of subordinated loans; (vi) amendment of subordinated loan agreements; (vii) transactions with related parties other than in normal course of business, (viii) changes in fundamental nature of business; (ix) incursion of interest-bearing debt not contemplated in the Facility agreement; (x) transfer, creation of security interests on, or otherwise disposal of the Company's shares; (xi) changes in control of the Company management by parent companies; (xii) purchase of shares in companies in unrelated business areas; and (xiii) changes in scope of the business of a particular subsidiary. JTV was in compliance with these covenants at December 31, 2006.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2006, were as follows:

Year ending December 31,	2006 (Yen in Thousands)
2007	¥ 1,600,000
2008	800,000
2009	—
2010	—
2011	—
Total debt	¥ 2,400,000

14. Income Taxes

The components of the provision for income taxes from continuing operations for the years ended December 31, 2006, 2005 and 2004, recognized in the consolidated statements of operations were as follows:

	2006	2005	2004
		(Yen in Thousands)	
Current taxes	¥ 8,730,299	¥ 6,519,191	¥ 3,229,627
Deferred taxes	586,788	(121,381)	(102,730)
Income tax expense	¥ 9,317,087	¥ 6,397,810	¥ 3,126,897

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Amounts provided for income taxes for the years ended December 31, 2006, 2005 and 2004 were allocated as follows:

	2006	2005	2004
		(Yen in Thousands)	
Income taxes on income from continuing operations	¥ 9,317,087	¥ 6,397,810	¥ 3,126,897
Income tax on loss from discontinued operation	(864,190)	(939,904)	(175,451)
Other comprehensive (income) loss	(26,194)	37,653	(11,460)
Additional paid-in capital by issuance of common stock by equity-method investee	—	282,787	—
Total	¥ 8,426,703	¥ 5,778,346	¥ 2,939,986

All pre-tax income and income tax expense is related to operations in Japan. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2006 and 2005, are presented below:

	2006	2005
	(Yen in Thousands)	
Deferred tax assets:		
Retail inventories	¥ 972,366	¥ 981,641
Property and equipment	331,936	447,081
Accrued liabilities	603,939	737,945
Enterprise tax payable	414,286	414,534
Return provision	335,701	89,201
Equity-method investments	617,746	631,242
Net operating loss carryforwards	1,039,333	584,009
Net assets discontinued operation	336,498	318,190
Others	523,918	349,515
	5,175,723	4,553,358
Less valuation allowance	(2,029,740)	(1,712,785)
Total deferred tax assets	3,145,983	2,840,573
Deferred tax liabilities:		
Equity-method investment	(315,916)	(282,787)
Intangibles	(65,104)	(73,242)
Unrealized foreign exchange	(35,384)	(97,060)
Others	(1,795)	(10,195)
Total deferred tax liabilities	(418,199)	(463,284)
Net deferred tax assets	¥ 2,727,784	¥ 2,377,289

The valuation allowance for deferred tax assets as of January 1, 2004 was ¥2,901,655 thousand. The net changes in the total valuation allowance for the years ended December 31, 2006, 2005 and 2004, were an increase of ¥316,955 thousand, a decrease of ¥452,587 thousand, and a decrease of ¥736,283 thousand, respectively.

The valuation allowance for deferred tax assets that will be treated as a reduction of goodwill upon subsequent recognition of related tax benefits as of December 31, 2006 amounted to ¥7,237 thousand.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which the operating losses are available for use. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this

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assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deferred tax assets, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

As of December 31, 2006, JTV and its subsidiaries had total net operating loss carryforwards attributable to continuing operations for income tax purposes of approximately ¥3,098,740 thousand, which are available to offset future taxable income, if any. JTV and its subsidiaries have elected to be subject to taxation on a stand-alone basis and net operating loss carryforwards may not be utilized against other group company profits. Aggregated net operating loss carryforwards, if not utilized, expire as follows:

Year ending December 31,	(Yen in Thousands)
2007	—
2008	11,155
2009	285,806
2010	229,092
2011	216,213
2012	532,635
2013	1,823,839
	¥3,098,740

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 7.2%, which in aggregate result in a statutory tax rate of 40.7%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates became effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate was lowered from 42.1% to 40.7% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005. As a result of the decrease in the statutory tax rate, when compared with the amounts based on the tax rate applied before this revision, the net deferred tax assets decreased by approximately ¥47,119 thousand at December 31, 2004. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes for continuing operations for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Statutory tax rate	40.7%	40.7%	42.1%
Non-deductible expenses	0.6	0.6	1.3
Change in valuation allowance	1.7	0.8	(1.1)
Income tax credits	(0.5)	(2.9)	(0.8)
Additional tax deduction due to intercompany transfer of assets	(0.4)	(0.5)	(1.1)
Effect of tax rate change	—	—	0.5
Others	0.1	0.1	(0.1)
Effective income tax rate for continuing operations	42.2%	38.8%	40.8%

15. Asset Retirement Obligations

JTV has asset retirement obligations primarily associated with restoration activities to be carried out at the time JTV vacates certain leased premises, accounted for in accordance with SFAS No. 143 and FIN No. 47 (Note 1(m)), which are included in other liabilities in the accompanying consolidated balance sheets. The following table

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presents the activity for the asset retirement obligations for the years ended December 31, 2006, while there were no comparable activity during 2005:

	2006 (Yen in Thousands)
Balance at beginning of year	¥ —
Incurred during the year	299,691
Accretion expenses	1,362
Balance at end of year	¥ 301,053

16. Accrued Pension and Severance Cost

Net periodic cost of the Company and its subsidiaries' unfunded RAP accounted for in accordance with SFAS No. 87 for the years ended December 31, 2006, 2005 and 2004, and SFAS No. 158, effective December 31, 2006, included the following components:

	2006	2005	2004
		(Yen in Thousands)	
Service cost — benefits earned during the year	¥ 92,297	¥ 65,013	¥ 49,768
Interest cost on projected benefit obligation	5,916	5,696	4,332
Recognized actuarial loss	40,139	44,420	24,317
Net periodic cost	¥ 138,352	¥ 115,129	¥ 78,417

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 and SFAS No. 158 are as follows:

	2006	2005
	(Yen in Thousands)	
Change in projected benefit obligations:		
Benefit obligations, beginning of year	¥ 394,403	¥ 284,796
Service cost	92,297	65,013
Interest cost	5,916	5,696
Actuarial loss	40,139	44,420
Benefits paid	(25,107)	(5,521)
Projected benefit obligations, end of year	¥ 507,648	¥ 394,404
Accumulated benefit obligations, end of year	¥ 374,752	¥ 290,871

Actuarial gains and losses are recognized fully in the year in which they occur. The weighted-average discount rate used in determining net periodic cost of the Company and its subsidiaries' plans was 1.50%, 2.00% and 2.00% for the years ended December 31, 2006, 2005 and 2004, respectively. The weighted-average discount rate used in determining benefit obligations as of December 31, 2006 and 2005 was 1.50% and 1.50%, respectively. Assumed salary increases ranged from 1.00% to 3.99% depending on employees' age for the years ended December 31, 2006, 2005 and 2004.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31,	(Yen in Thousands)
2007	¥ 30,590
2008	36,851
2009	45,252
2010	41,259
2011	47,040
Years 2012-2016	303,285

JTV uses a measurement date of December 31 for all of its unfunded RAP.

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit EPF plan. The Company contributions to this plan amounted to ¥105,747 thousand, ¥87,408 thousand, and ¥44,510 thousand for the years ended December 31, 2006, 2005 and 2004, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. During 2005, JTV approved the start of a process to withdraw from the EPF plan. At December 31, 2005 the planned withdrawal was considered probable, and therefore the estimated obligation to fund JTV's share of shortfalls in the EPF plan funding, calculated by the EPF and amounting to ¥170,920 thousand, was accrued an exit liability at December 31, 2005, in accordance with SFAS No. 5, "Accounting for Contingencies", and was included in selling, general and administrative expenses in the accompanying consolidated statements of operations. At December 31, 2006, JTV has decided not to proceed with a withdrawal from the EPF plan in the near future. Therefore the exit liability accrued at December 31, 2005 has been reversed during 2006, with the resulting credit amounting to ¥170,920 thousand also included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

17. Contingencies

In December 2006, the Company's subsidiary Shop Channel learned from the Japan Fair Trade Commission ("FTC") of a preliminary decision regarding a product that had been under investigation during 2006 due to their concern that Shop Channel was not able to adequately substantiate certain representations made about the product on the channel. The FTC subsequently finalised a 'Cease and Desist Order' on February 1, 2007, which required Shop Channel to make a public announcement stating claims made about the product had given customers the impression that the efficacy of the product was better than it was. JTV determined that the appropriate further action to take following such an order is to offer every customer who purchased the product the opportunity to return the item for a full refund if they are not satisfied with the product. JTV has made an estimate of the expenses related to taking such action including the refund value and the external administrative and logistics processing costs. The total cost estimate was determined by estimating the expected returns percentage based on previous experience of product returns and recalls. At December 31, 2006 the full estimated refund amount of ¥393,600 thousand and associated processing costs amounting to ¥172,200 thousand, were accrued at December 31, 2006 in accordance with SFAS No. 5, and were included in cost of retail sales, and selling, general and administrative expenses, respectively, in the accompanying consolidated statements of operations.

18. Shareholders' Equity

The Commercial Code of Japan was revised as Japanese Corporate Law during 2006 and certain restrictions on the amount that can be paid as a cash dividend have been removed. Dividends can be issued to the extent of retained earnings available at the end of the previous year, and upon preparation of extraordinary financial statements, dividends can be issued from current year retained earnings at extraordinary balance date, subject to retained earnings at year end being positive. There is no longer a requirement to maintain a legal reserve up to 25% of the issued capital.

The Company paid no cash dividends for the years ended December 31, 2006, 2005 and 2004. The amount immediately available for dividends under the Japanese Corporate Law is based on the unappropriated retained earnings recorded in the Company's books of account and amounted to ¥0 at December 31, 2006.

On January 30, 2004, the total number of the Company's ordinary shares authorized to be issued was increased from 450,000 to 460,000 shares.

On March 5, 2004, the Company transferred ¥8,400,000 thousand of common stock to additional paid in capital (¥6,587,064 thousand) and accumulated deficit (¥1,812,936 thousand). The transfer was approved by the Company's shareholders in accordance with the Commercial Code of Japan, which allows a company to make a purchase of its own shares, as contemplated in the further transaction noted below, only from specified additional paid in capital or retained earnings reserves. JTV purchased its own shares using the resulting additional paid in capital, and elected at the same time to eliminate its accumulated deficit and generate positive retained earnings on a single entity basis. On a consolidated basis, JTV continued to show an accumulated deficit immediately after that transfer. Such transfer did not impact JTV's total equity, cash position or liquidity. Had the Company been subject to corporate law generally applicable to United States companies for similar transactions, the retained earnings (deficit) at December 31, 2006 and 2005 would be ¥1,812,936 thousand less (more) than the amount included in the accompanying consolidated financial statements.

During March and April 2004 the following capital transactions occurred and were based on an independent third party valuation of the common stock of the Company:

1) Issuance of 24,000 newly issued shares of common stock to Sumitomo Corporation at a rate of ¥250,000 per common share (¥6,000,000 thousand), ¥3,000,000 thousand of which was allocated to common stock with the remaining ¥3,000,000 thousand allocated to additional paid-in capital;

2) Redemption of 12,000 shares of common stock from Sumitomo Corporation at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

3) Redemption of 12,000 shares of common stock from Liberty Programming Japan, Inc. at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

4) Issuance of 24,000 shares of common stock held in treasury shares to Liberty Programming Japan II, LLC in return for 1,000 shares of common stock in LJS. LJS was then converted to a limited liability company with Certificate of Conversion filed with the Delaware Secretary of State, and was subsequently renamed J Sports LLC. J Sports LLC is a wholly owned subsidiary of the Company (Note 2).

19. Related Party Transactions

JTV engages in a variety of transactions in the normal course of business. Significant related party balances, income and expenditures have been separately identified in the consolidated balance sheets and statements of operations. A list of related parties and a description of main types of transactions with each party follows:

Sumitomo Corporation, shareholder, and its subsidiaries and affiliates: television programming advertising revenues, cost of retail sales, costs of programming and distribution, selling, general and administrative expenses for equipment operating leases and staff secondment fees, property and equipment capital leases, cash deposits and interest thereon;

Liberty Global Inc., shareholder, and its subsidiaries: selling, general and administrative expenses for staff secondment fees and recharge of project development costs;

Discovery Japan, Inc., and Animal Planet Japan, Co. Ltd, affiliate companies: services and other revenues from cable and advertising sales activities and broadcasting, marketing and office support services; costs of programming, distribution relating to direct-to-home subscription revenue and receipt of cash advances;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

JSports Broadcasting Corporation, affiliate company: services and other revenues from cable and advertising sales activities and recovery of staff costs for seconded staff and advertising revenues thereon.

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to JTV, costs of programming and distribution payments for transponder services;

Jupiter Telecommunications Co., Ltd, an affiliated company of LGI and Sumitomo Corporation at December 31, 2004, and an indirect consolidated subsidiary of LGI effective January 1, 2005: television programming cable subscription and advertising revenues, costs of programming and distribution for carriage of Shop Channel by cable systems;

Jupiter VOD Co., Inc., affiliate company: services and other revenues from office support services and advertising revenues.

Zonemedia Limited, formerly Zone Vision Enterprises Limited, 50% shareholder in Reality TV Japan and subsidiary of LGI: costs of programming, distribution relating to management and royalty fees, purchases of programming, and shareholder loans and interest thereon.

20. Concentration of Credit Risk

As of December 31, 2006 and 2005, SkyPerfecTV, an unrelated party, and Jupiter Telecommunications Co., Ltd (“J:Com”), a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company.

For the years ended December 31, 2006, 2005 and 2004, subscription revenues of ¥3,833,171 thousand, ¥3,501,730 thousand, and ¥3,095,526 thousand, respectively, received through SkyPerfecTV, accounted for approximately 44%, 44% and 44%, respectively, of subscription revenues, and 3%, 4% and 5%, respectively, of total revenues. As of December 31, 2006, 2005 and 2004, SkyPerfecTV accounted for approximately 5%, 5% and 6%, respectively, of accounts receivable.

For the years ended December 31, 2006, 2005 and 2004, subscription revenues of ¥1,751,627 thousand, ¥1,543,063 thousand, and ¥1,464,167 thousand, respectively, received through J:Com, accounted for approximately 20%, 20% and 21%, respectively, of subscription revenues, and 2%, 2% and 2%, respectively, of total revenues. As of December 31, 2006, 2005 and 2004, J:Com accounted for approximately 2%, 2% and 3%, respectively, of accounts receivable.

21. Commitments, Other Than Leases

As of December 31, 2006, JTV has commitments to purchase various program rights as follows:

Year ending December 31,	(Yen in Thousands)
2007	¥ 1,584,086
2008	923,601
2009	978,961
2010	919,401
2011	—
Total program rights purchase commitments	¥ 4,406,049

JTV contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. The satellites generally have a fifteen year usable life. JTV channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Those licensed broadcasting companies also contract for uplink services from a third company in order to transmit each channel’s signal to the satellite.

JUPITER TV CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Transponder service contracts have historically been generally ten years in duration. In September 2006, one of the transponder providers significantly revised the terms under which they provide transponder capacity. Following a six-month transitional contract period to March 2007, new contracts will be one year in duration with service fees based on fixed rates. Under the provisions of EITF 01-8, the contracts renewed under the revised terms are treated as operating leases (Note 12).

Under the historical transponder service contracts that were entered into prior to 2004, service fees are based on a fixed portion plus a variable portion based on platform subscriber numbers, and termination is possible subject to payment of a penalty fee calculated in part on future variable contract obligations. Uplink service fees are based on fixed rates and termination is possible subject to payment of a penalty fee upon cease of use. Practically, other regulatory requirements make immediate termination of the service contracts not possible, and due to the unclear nature the actual commitment as of balance date, commitments are disclosed for the full amounts under the service contracts.

As of December 31, 2006, JTV has commitments for uplink services and transponder services under historical service contracts as follows:

Year ending December 31,		(Yen in Thousands)
2007	¥	533,200
2008		321,572
2009		263,317
2010		280,054
2011		280,054
Thereafter		137,884
Total transponder and uplink services commitments	¥	1,816,081

22. Subsequent Event

In January 2007, the Company's subsidiary Shop Channel was notified that a small number of customers had been injured as a consequence of their misuse of a combination of two products sold to them by Shop Channel. One item, powered by a disposable battery, was sold throughout 2006 without reported incident, and in January 2007 a battery charger unit including two rechargeable batteries was sold complimentary to, but separately from, the original item. Contrary to handbook instructions, the customers re-charged the disposable batteries in the battery charger and used them in the original item, causing the battery to combust. JTV management believes that neither product contained any design fault or inherent risk to customer safety.

JTV has requested every customer who purchased either product to return the items for a full refund in order to demonstrate the importance Shop Channel places on their customers' safety. JTV has estimated the associated expenses as approximately ¥200,000 thousand (comprising the refund of the sales price of all units sold and external administrative costs). As sales of the combination of the two products began on January 22, 2007, Shop Channel does not consider that a liability had been incurred at the date of the accompanying consolidated financial statements, and in accordance with SFAS No. 5, the cost will be recorded in 2007 when the liability is incurred.

At the date of issuance of the accompanying consolidated financial statements there had been no indication of any litigation against JTV in respect of this matter. In the event that any claim for product liability is received, it will be directed to the product importer who is responsible for product liability matters under Japanese law. In the event that any claim for negligence is received and upheld, it will be covered by Shop Channel's insurance policy. No estimate of loss or possible loss can be made regarding possible claims or litigation with respect to this matter.

JUPITER TV CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

23. Group Reorganization

On May 22, 2007, the Company executed a comprehensive business restructuring agreement with its shareholders, which included the following matters.

On May 22, 2007, the Company's shareholders' meeting resolved to issue one new share of the Company's common stock to Sumitomo Corporation ("SC") on May 23, 2007, resulting in SC and LGI owning 50.00014% and 49.99986% of the Company, respectively.

On May 24, 2007, the Company's Board resolved that it would split into two separate companies with a planned effective date of July 2, 2007. The split plan was subsequently approved by the Company's shareholders on June 8, 2007. The split is mainly conditional upon receipt by the tax advisors of LGI of certain representations relating to treatment of the reorganization for tax purposes in the United States. The business of the newly incorporated Jupiter TV Co., Ltd, ("New Jupiter TV") will consist of the operations that invest in, develop, manage and distribute fee-based television programming through cable, satellite and broadband platforms systems in Japan, while the existing Jupiter TV Co. Ltd. will be renamed SC Media & Commerce Inc., ("SCMC") effective as of July 2, 2007 and its business will center around the operation of Shop Channel, and On-line TV Co. Ltd., a broadband broadcasting business in Japan.

On May 22, 2007, the Company's Board resolved to enter into a share-for-share exchange agreement with SC whereby all of LGI's shares in SCMC will be exchanged with SC's common stock resulting in SCMC becoming a wholly owned subsidiary of SC on July 3, 2007. Such agreement was subsequently approved by the Company's shareholders on June 8, 2007.

On May 22, 2007, the Company, Jupiter Telecommunication Co., Ltd ("J:Com") which is a subsidiary of LGI, SC and LGI agreed that New Jupiter TV and J:Com enter into a merger agreement on July 17, 2007, under which New Jupiter TV is scheduled to merge with J:Com on September 1, 2007.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Jupiter Telecommunications Co., Ltd. (a Japanese corporation) and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

KPMG AZSA & Co.

Tokyo, Japan
February 14, 2005

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2004
	(Yen in thousands)	
Current assets:		
Cash and cash equivalents	¥ 7,785,978	¥ 10,420,109
Restricted cash	1,773,060	—
Accounts receivable, less allowance for doubtful accounts of ¥229,793 thousand in 2003 and ¥245,504 thousand in 2004	7,907,324	8,823,311
Loans to related party (Note 5)	—	4,030,000
Prepaid expenses and other current assets (Note 8)	1,596,150	4,099,032
Total current assets	19,062,512	27,372,452
Investments:		
Investments in affiliates (Notes 3 and 5)	2,794,533	3,773,360
Investments in other securities, at cost	2,891,973	2,901,566
	5,686,506	6,674,926
Property and equipment, at cost (Notes 5 and 7):		
Land	1,826,787	1,796,217
Distribution system and equipment	312,330,187	344,207,670
Support equipment and buildings	11,593,849	12,612,896
	325,750,823	358,616,783
Less accumulated depreciation	(81,523,580)	(108,613,916)
	244,227,243	250,002,867
Other assets:		
Goodwill, net (Notes 2 and 4)	139,853,596	140,658,718
Other (Note 4 and 8)	13,047,229	14,582,383
	152,900,825	155,241,101
	¥ 421,877,086	¥ 439,291,346

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

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2004
	(Yen in thousands)	
Current liabilities:		
Short-term loans	¥ —	¥ 250,000
Long-term debt — current portion (Notes 6 and 12)	2,438,480	5,385,980
Capital lease obligations — current portion (Notes 5, 7 and 12):		
Related parties	7,673,978	8,237,323
Other	1,800,456	1,291,918
Accounts payable	17,293,932	17,164,463
Accrued expenses and other liabilities	3,576,708	6,155,380
Total current liabilities	32,783,554	38,485,064
Long-term debt, less current portion (Notes 6 and 12):		
Related parties	149,739,250	—
Other	72,092,465	194,088,485
Capital lease obligations, less current portion (Notes 5, 7 and 12):		
Related parties	17,704,295	19,714,799
Other	3,951,900	2,560,511
Deferred revenue	41,635,426	41,699,497
Severance and retirement allowance (Note 9)	2,023,706	2,718,792
Redeemable preferred stock of consolidated subsidiary (Note 10)	500,000	500,000
Other liabilities	3,411,564	180,098
Total liabilities	323,842,160	299,947,246
Minority interest	1,266,287	974,227
Commitments and contingencies (Note 14)		
Shareholders' equity (Note 11):		
Ordinary shares no par value	63,132,998	78,133,015
Authorized 15,000,000 shares; issued and outstanding 4,684,535.74 shares at December 31, 2003 and 5,146,074.74 shares at December 31, 2004		
Additional paid-in capital	122,837,273	137,930,774
Accumulated deficit	(88,506,887)	(77,685,712)
Accumulated other comprehensive loss	(694,745)	(8,204)
Total shareholders' equity	96,768,639	138,369,873
	¥ 421,877,086	¥ 439,291,346

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

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2003	Year ended December 31, 2004
	(Yen in thousands, except share and per share amounts)	
Revenue (Note 5):		
Subscription fees	¥ 123,214,958	¥ 140,826,446
Other	19,944,074	20,519,825
	143,159,032	161,346,271
Operating costs and expenses:		
Operating and programming costs (Note 5)	62,961,783	66,569,614
Selling, general and administrative (inclusive of stock compensation expense of ¥120,214 thousand in 2003 and ¥84,267 thousand in 2004) (Notes 5 and 11)	30,584,236	31,611,717
Depreciation and amortization	36,410,894	40,573,166
	129,956,913	138,754,497
Operating income (loss)	13,202,119	22,591,774
Other income (expense):		
Interest expense, net:		
Related parties (Note 5)	(4,562,594)	(4,055,343)
Other	(3,360,674)	(6,045,939)
Other income, net	316,116	37,574
Income (loss) before income taxes and other items	5,594,967	12,528,066
Equity in earnings of affiliates (inclusive of stock compensation expense of ¥(2,855) thousand in 2003 and ¥9,217 thousand in 2004) (Note 11)	414,756	610,110
Minority interest in net (income) losses of consolidated subsidiaries	(448,668)	(458,624)
Income (loss) before income taxes	5,561,055	12,679,552
Income taxes (Note 8)	(209,805)	(1,858,377)
Net income (loss)	¥ 5,351,250	¥ 10,821,175
Per share data:		
Net income (loss) per share — basic and diluted	¥ 1,214	¥ 2,221
Weighted average number of ordinary shares outstanding — basic and diluted	4,407,046	4,871,169

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

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Ordinary Shares	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(Yen in thousands, except per share amounts)					
Balance at January 1, 2003	¥ 47,002,623	¥ 106,589,539		¥ (93,858,137)	¥ —	¥ 59,734,025
Net income	—	—	¥ 5,351,250	5,351,250	—	5,351,250
Other comprehensive loss:						
Unrealized loss on cash flow hedge			(694,745)		(694,745)	(694,745)
Comprehensive income			¥ 4,656,505			
Stock compensation (Notes 1 and 11)	—	117,359		—	—	117,359
Ordinary shares issued upon conversion of long-term debt; 750,250 shares at ¥43,000 per share (Note 6)	16,130,375	16,130,375		—	—	32,260,750
Balance at December 31, 2003	¥ 63,132,998	¥ 122,837,273		¥ (88,506,887)	¥ (694,745)	¥ 96,768,639
Net income	—	—	¥ 10,821,175	10,821,175	—	10,821,175
Other comprehensive gain:						
Unrealized gain on cash flow hedge			686,541		686,541	686,541
Comprehensive income			¥ 11,507,716			
Stock compensation (Notes 1 and 11)	—	93,484		—	—	93,484
Ordinary shares issued; 461,539 shares at ¥65,000 per share (Note 1)	15,000,017	15,000,017		—	—	30,000,034
Balance at December 31, 2004	¥ 78,133,015	¥ 137,930,774		¥ (77,685,712)	¥ (8,204)	¥ 138,369,873

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

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2003	Year ended December 31, 2004
	(Yen in thousands)	
Cash flows from operating activities:		
Net income	¥ 5,351,250	¥ 10,821,175
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on forgiveness of subsidiary debt	(400,000)	—
Depreciation and amortization	36,410,894	40,573,166
Equity in earnings of affiliates	(414,756)	(610,110)
Minority interest in net income of consolidated subsidiaries	448,668	458,624
Stock compensation expense	120,214	84,267
Deferred income taxes	—	45,591
Provision for retirement allowance	417,335	647,592
Changes in operating assets and liabilities, excluding effects of business combinations:		
Decrease/(increase) in accounts receivable, net	1,712,904	(431,162)
Decrease in prepaid expenses and other current assets	349,147	4,866
(Increase)/decrease in other assets	(325,769)	2,443,960
(Decrease)/increase in accounts payable	171,705	(1,184,539)
Increase in accrued expenses and other liabilities	2,665,162	39,279
Increase/(decrease) in deferred revenue	458,315	(380,578)
Net cash provided by operating activities	46,965,069	52,512,131
Cash flows from investing activities:		
Capital expenditures	(32,478,389)	(31,792,956)
Acquisition of new subsidiaries, net of cash acquired	—	(442,910)
Investments in and advances to affiliates	(172,500)	(359,500)
(Increase)/decrease in restricted cash	(1,773,060)	1,773,060
Loans to related party	—	(4,030,000)
Acquisition of minority interest in consolidated subsidiaries	(25,565)	(4,960,484)
Other investing activities	(76,891)	(69,427)
Net cash used in investing activities	(34,526,405)	(39,882,217)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	30,000,034
Net increase/(decrease) in short-term loans	(228,785,000)	250,000
Proceeds from long-term debt	239,078,000	185,302,000
Principal payments of long-term debt	(8,184,980)	(210,097,730)
Principal payments under capital lease obligations	(10,843,024)	(11,887,363)
Other financing activities	(3,464,440)	(3,562,724)
Net cash provided by (used in) financing activities	(12,199,444)	(9,995,783)
Net increase in cash and cash equivalents	239,220	2,634,131
Cash and cash equivalents at beginning of year	7,546,758	7,785,978
Cash and cash equivalents at end of year	¥ 7,785,978	¥ 10,420,109

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

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Business and Organization

Jupiter Telecommunications Co., Ltd. (“Jupiter”) and its subsidiaries (the “Company”) own and operate cable telecommunication systems throughout Japan and provide cable television services, telephony and high-speed Internet access services (collectively, “Broadband services”). The telecommunications industry in Japan is highly regulated by the Ministry of Internal Affairs and Communications (“MIC”). In general, franchise rights granted by the MIC to the Company’s subsidiaries for operation of cable telecommunications systems in their respective localities are not exclusive. Currently, cable television services account for a majority of the Company’s revenue. Telephony operations accounted for approximately 13% and 15% of total revenue for the years ended December 31, 2003 and 2004, respectively. Internet operations accounted for approximately 24% and 25% of total revenue for the years ended December 31, 2003 and 2004, respectively.

The Company’s beneficial ownership at December 31, 2004 was as follows:

LMI/Sumisho Super Media, LLC (“SM”)	65.23%
Microsoft Corporation (“Microsoft”)	19.46%
Sumitomo Corporation (“SC”)	12.25%
Mitsui & Co., Ltd.	1.53%
Matsushita Electric Industrial Co., Ltd.	1.53%

In August 2004, Liberty Media International, Inc. (“LMI”), SC and Microsoft made capital contributions to the Company in the following amounts: LMI: ¥14,065 million for 216,382 shares: SC: ¥9,913 million for 152,505 shares; and Microsoft ¥6,022 million for 92,652 shares. The shares of common stock issued in exchange for the capital contributions were based on fair value at the date of the transaction. As a result of the transaction, their beneficial ownership in the Company increased to 45.45%, 32.03% and 19.46%, respectively. The proceeds from the capital contributions were used to repay subordinated debt owed to each of LMI, SC and Microsoft in the same amounts as contributed by each shareholder respectively (see Note 6).

On December 28, 2004, LMI contributed all of its then 45.45% beneficial ownership interest and SC contributed 19.78% of its then ownership interest in the Company to SM, a company owned 69.7% by LMI and 30.3% by SC. As a result, SM became a 65.23% shareholder of the Company while SC’s direct ownership interest was reduced to 12.25%. SC is obligated to contribute its remaining 12.25% direct ownership interest in the Company to SM within six months of an initial public offering (“IPO”) in Japan by the Company.

The Company has historically relied on financing from its principle shareholders to meet liquidity requirements. However, in December 2004, the Company entered into a new syndicated facility and repaid all outstanding debt with its principal shareholders. For additional information concerning the 2004 refinancing, see Note 6.

Basis of Financial Statements

The Company maintains its books of account in conformity with financial accounting standards of Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). These adjustments include those related to the scope of consolidation, accounting for business combinations, accounting for income taxes, accounting for leases, accounting for stock-based compensation, revenue recognition of certain revenues, post-retirement benefits, depreciation and amortization and accruals for certain expenses.

Summary of Significant Accounting Policies

(a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries which are primarily cable system operators ("SOs"). All significant intercompany balances and transactions have been eliminated. For the consolidated subsidiaries with a negative equity position, the Company has recognized the entire amount of cumulative losses of such subsidiaries regardless of its ownership percentage.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an initial maturity of three months or less.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on analysis of certain individual accounts, including claims in bankruptcy.

(d) Investments

For those investments in affiliates in which the Company's voting interest is 20% to 50% and the Company has the ability to exercise significant influence over the affiliates' operation and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and adjusted to recognize the Company's share of the net earnings or losses of its affiliates. Prior to the adoption on January 1, 2002 of Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets,* the excess of the Company's cost over its percentage interest in the net assets of each affiliate was amortized, primarily over a period of 20 years. Subsequent to the adoption of SFAS No. 142, such excess is no longer amortized. All significant intercompany profits from these affiliates have been eliminated.

Investments in other securities carried at cost represent non-marketable equity securities in which the Company's ownership is less than 20% and the Company does not have the ability to exercise significant influence over the entities' operation and financial policies.

The Company evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, the Company utilizes various information, as available, including cash flow projections, independent valuations, industry multiples and, as applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

(e) Property and Equipment

Property and equipment, including construction materials, are carried at cost, which includes all direct costs and certain indirect costs associated with the construction of cable television transmission and distribution systems, and the costs of new subscriber installations. Depreciation is computed on a straight-line method using estimated useful lives ranging from 10 to 15 years for distribution systems and equipment, from 15 to 60 years for buildings and structures and from 8 to 15 years for support equipment. Equipment under capital leases is stated at the present value of minimum lease payments. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which ranges from 2 to 21 years.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥2,041,347 thousand and ¥2,558,513 thousand for the years ended December 31, 2003 and 2004, respectively.

(f) Goodwill

Goodwill represents the difference between the cost of the acquired cable television companies and amounts allocated to the estimated fair value of their net assets. The Company performs an assessment of goodwill for impairment at least annually, and more frequently if an indicator of impairment has occurred, using a two-step process. The first step requires identification of reporting units and determination of the fair value for each individual reporting unit. The fair value of each reporting unit is then compared to the reporting unit's carrying amount including assigned goodwill. To the extent a reporting unit's carrying amount exceeds its fair value, the second step of the impairment test is performed by comparing the implied fair value of the reporting unit's goodwill to its carrying amount. If the implied fair value of a reporting unit's goodwill is less than its carrying amount, an impairment loss is recorded. The Company performs its annual impairment test on the first day of October in each year. The Company has determined its reporting units to be the same as its reportable segments. The Company had no impairment charges of goodwill for the years ended December 31, 2003 and 2004.

(g) Long-Lived Assets

The Company and its subsidiaries' long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. The standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company and its subsidiaries adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(h) Other Assets

Other assets include certain development costs associated with internal-use software capitalized, including external costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred. Other assets also include deferred financing costs, primarily legal fees and bank facility fees, incurred to negotiate and secure the facility. These costs are amortized to interest expense using the effective interest method over the term of the facility. For additional information concerning the Company's debt facilities, see Note 6.

(i) Derivative Financial Instruments

The Company uses certain derivative financial instruments to manage its foreign currency and interest rate exposure. The Company may enter into forward contracts to reduce its exposure to short-term (generally no more than one year) movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen. The Company uses interest rate risk management derivative instruments, such as interest rate swap and interest cap agreements, to manage interest costs to achieve an overall desired mix of fixed and variable rate debt. As a matter of policy, the Company does not enter into derivative contracts for trading or speculative purposes.

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133*. SFAS No. 133, as amended, requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in other comprehensive income until it is recognized in earnings in the same period in which the hedged item affects earnings. The ineffective portion of all hedges will be recognized in current earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge will be recorded each period in current earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment, or (5) management determines that the designation of the derivative as a hedge instrument is no longer appropriate. Ongoing assessments of effectiveness are being made every three months.

The Company had several outstanding forward contracts with a commercial bank to hedge foreign currency exposures related to U.S. dollar-denominated equipment purchases and other firm commitments. As of December 31, 2003 and 2004, such forward contracts had an aggregate notional amount of ¥3,134,242 thousand and ¥5,658,147 thousand, respectively, and expire on various dates through December 2005. The forward contracts have not been designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such forward contracts are closely related with the firm commitments designated in U.S. dollars, thus managing associated currency risk. Forward contracts not designated as hedges are marked to market each period. Included in other income, net, in the accompanying consolidated statements of operations are losses on forward contracts not designated as hedges of ¥65,195 thousand and ¥72,223 thousand for the years ended December 31, 2003 and 2004, respectively.

In May 2003, the Company entered into several interest rate swap agreements and an interest rate cap agreement to manage variable rate debt as required under the terms of its facility agreement (see Note 6). These interest rate exchange agreements effectively convert ¥60 billion of variable rate debt based on TIBOR into fixed rate debt and mature on June 30, 2009. These interest rate exchange agreements are considered cash flow hedging instruments as they are expected to effectively convert variable interest payments on certain debt instruments into fixed payments. Changes in fair value of these interest rate agreements designated as cash flow hedges are reported in accumulated other comprehensive loss. The amounts will be subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the variable rate debt affects earnings. The counterparties to the interest rate exchange agreements are banks participating in the facility agreement, therefore the Company does not anticipate nonperformance by any of them on the interest rate exchange agreements. In December 2004, the Company entered into a new debt facility, which replaced its former facility (see Note 6). Under the terms of the new facility, the Company was required to cancel certain interest rate swap agreements and an interest rate cap agreement with an aggregate notional amount of ¥24 billion, as the counterparties elected not to participate in the new facility. Such agreements were canceled in January 2005. As a result, these agreements are no longer considered cash flow hedging instruments and their respective fair value changes were reclassified into interest expense, net in the accompanying consolidated statements of operations for the year ended December 31, 2004. The remaining aggregate notional amount of ¥36 billion of interest rate swap agreements have been permitted to be carried over to the new facility as the counterparties are participants in the new facility. The Company has re-designated such interest swap agreements as cash flow hedging instruments.

(j) Severance and Retirement Plans

The Company and its subsidiaries have unfunded noncontributory defined benefit severance and retirement plans which are accounted for in accordance with SFAS No. 87, *Employers' Accounting for Pensions*.

(k) Income Taxes

The Company and its subsidiaries account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Cable Television System Costs, Expenses and Revenues

The Company and its subsidiaries account for costs, expenses and revenues applicable to the construction and operation of cable television systems in accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies*. Currently, there is no significant system that falls in a prematurity period as defined by SFAS No. 51. Operating and programming costs in the Company's consolidated statements of operations include, among other things, cable service related expenses, billing costs, technical and maintenance personnel and utility expenses related to the cable television network.

(m) Revenue Recognition

The Company and its subsidiaries recognize cable television, high-speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed.

The Company and its subsidiaries provide poor reception rebroadcasting services to noncable television viewers suffering from poor reception of television waves caused by artificial obstacles. The Company and its subsidiaries enter into agreements with parties that have built obstacles causing poor reception for construction and maintenance of cable facilities to provide such services to the affected viewers at no cost to them during the agreement period. Under these agreements, the Company and its subsidiaries receive up-front, lump-sum compensation payments for construction and maintenance. Revenues from these agreements have been deferred and are being recognized in income on a straight-line basis over the agreement periods which are generally 20 years. Such revenues are included in revenue — other in the accompanying consolidated statements of operations.

See Note 5 for a description of revenue from affiliates related to construction-related sales and programming fees which are recorded in revenue — other in the accompanying consolidated statements of operations.

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(n) Advertising Expense

Advertising expense is charged to income as incurred. Advertising expense amounted to ¥3,921,229 thousand and ¥2,915,403 thousand and for the years ended December 31, 2003 and 2004, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(o) Stock-Based Compensation

The Company and its subsidiaries account for stock-based compensation plans to employees using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*("APB No. 25") and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB No. 25*. ("FIN No. 44"). As such, compensation expense is measured on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company accounts for its stock-based compensation plans to nonemployees and employees of unconsolidated affiliated companies using the fair market value based method prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force Issue 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee* ("EITF 00-12"). Under SFAS No. 123, the fair value of the stock based award is determined using the Black-Scholes option pricing method, which is remeasured each period end until a commitment date is reached, which is generally the vesting date. The fair value of the subscription rights and stock purchase warrants granted each year was calculated using the Black-Scholes option-pricing model with the following assumptions: no dividends, volatility of 40%, risk-free rate of 3.0% and an expected life of three years. Expense associated with stock-based compensation for certain management employees is amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Otherwise, compensation expense is generally amortized evenly over the vesting period. Compensation expense is recorded in operating costs and expenses for the Company's employees and nonemployees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

SFAS No. 123 allows companies to continue to apply the provisions of APB No. 25, where applicable, and provide pro forma disclosure for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 for stock-based compensation plans to its employees and provide the pro forma disclosure required by SFAS No. 123. The following table illustrates the effect on net income and net income per share for the years ended December 31, 2003 and 2004, if the Company had applied the fair value recognition provisions of SFAS No. 123 (Yen in thousands, except share and per share amounts):

	2003	2004
Net income (loss), as reported	¥ 5,351,250	¥10,821,175
Add stock-based compensation expense included in reported net income (loss)	—	—
Deduct stock-based compensation expense determined under fair value based method for all awards, net of applicable taxes	(454,172)	(607,655)
Pro forma net income (loss)	¥ 4,897,078	¥10,213,520
Basic and diluted per share data:		
Net income (loss) per share, as reported (Yen)	1,214	2,221
Net income (loss) per share, pro forma (Yen)	1,111	2,097

(p) Earnings Per Share

Earnings per share ("EPS") is presented in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. Under SFAS No. 128, basic EPS excludes dilution for potential ordinary shares and is computed by dividing net income (loss) by the weighted average number of ordinary shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Basic and diluted EPS are the same in 2003 and 2004, as all potential ordinary share equivalents, consisting of stock options, are anti-dilutive.

(q) Segments

The Company reports operating segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 defined operating segments as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision-maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company has determined that each individual consolidated subsidiary and unconsolidated managed equity affiliate SO is an operating segment because each SO represents a legal entity and serves a separate geographic area. The Company has evaluated the criteria for aggregation of the operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of its respective criteria. Accordingly, management has determined that the Company has one reportable segment, Broadband services.

(r) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant judgments and estimates include derivative financial instruments, depreciation and amortization costs, impairments of property and equipment and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

(s) Recent Accounting Pronouncements

The FASB issued SFAS No. 123 (Revised 2004) (SFAS No. 123R) in December 2004. SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We have not yet determined the impact SFAS No. 123R will have on our results of operations.

2. Acquisitions

The Company acquired varying interests in cable television companies during the periods presented. The Company utilized the purchase method of accounting for all such acquisitions and, accordingly, has allocated the purchase price based on the estimated fair value of the assets and liabilities of the acquired companies. The assets, liabilities and operations of such companies have been included in the accompanying consolidated financial statements since the dates of their respective acquisitions.

In March 2004, the Company purchased a controlling interest in Izumi Otsu from certain of its shareholders. The total purchase price of such Izumi Otsu shares was ¥160,000 thousand and gave the Company a 66.7% interest. The results of Izumi Otsu have been included as a consolidated subsidiary from April 1, 2004. In August 2004, the Company and certain shareholders entered into an agreement and merged Izumi Otsu into the Company's 84.2% consolidated subsidiary, J-COM Kansai. After the merger, the Company has an 84.0% equity interest in J-COM Kansai.

In July 2004, the Company purchased a 100% controlling interest in Cable System Engineering Corporation (“CSE”), whose business is cable network construction and installation. The total purchase price of CSE was ¥577,210 thousand. No goodwill was recognized in connection with this acquisition. The result of operations for CSE have been included from August 1, 2004.

The impact to revenue, net income (loss) and net income (loss) per share for the years ended December 31, 2003 and 2004, as if the transactions were completed as of the beginning of those years, is not significant.

The aggregate purchase price of the business combinations during the year ended December 31, 2004 was allocated based upon fair values as follows (Yen in thousands):

	2004
Cash, receivables and other assets	¥ 2,073,191
Property and equipment	791,856
Goodwill	4,228,117
Debt and capital lease obligations	—
Other liabilities	(1,395,471)
	¥ 5,697,693

3. Investments in Affiliates

The Company’s affiliates are engaged primarily in the Broadband services business in Japan. At December 31, 2004, the Company held investments in J-COM Shimonoseki (50.0%), J-COM Fukuoka (45.0%), Jupiter VOD Co. Ltd. (50.0%), Kansai Multimedia Service Co., Ltd. (“Kansai Multimedia”) (25.8%), CATV Kobe (20.4%) and Green City Cable TV Corporation (20.0%).

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥730,910 thousand and ¥761,053 thousand of unamortized excess cost of investments over the Company’s equity in the net assets of the affiliates. All significant intercompany profits from these affiliates have been eliminated according to the equity method of accounting.

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥2,019,000 thousand and ¥1,945,000 thousand of short-term loans the Company made to certain managed affiliates. The interest rate on these loans was 3.23% and 2.48% as of December 31, 2003 and 2004.

Condensed financial information of the Company’s unconsolidated affiliates at December 31, 2003, and 2004 and for each of the two years ended December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Combined Financial Position:		
Property and equipment, net	¥ 29,696,602	¥ 29,578,096
Other assets, net	6,201,251	7,545,469
Total assets	¥ 35,897,853	¥ 37,123,565
Debt	¥ 17,998,825	¥ 15,577,345
Other liabilities	16,030,950	17,224,152
Shareholders’ equity	1,868,078	4,322,068
Total liabilities and equity	¥ 35,897,853	¥ 37,123,565

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2003	2004
Combined Operations:		
Total revenue	¥ 19,776,603	¥ 21,784,795
Operating, selling, general and administrative expenses	(13,430,881)	(15,080,471)
Depreciation and amortization	(3,682,641)	(4,164,827)
Operating income	2,663,081	2,539,497
Interest expense, net	(478,609)	(427,400)
Other expense, net	(1,013,158)	(428,107)
Net income	¥ 1,171,314	¥ 1,683,990

4. Goodwill and Other Assets

The changes in the carrying amount of goodwill, net, for the years ended December 31, 2003 and 2004 consisted of the following (Yen in thousands):

	2003	2004
Goodwill, net, beginning of year	¥ 139,827,277	¥ 139,853,596
Goodwill acquired during the year	26,319	4,228,117
Initial recognition of acquired tax benefits allocated to reduce goodwill of acquired entities (Note 8)	—	(3,422,995)
Goodwill, net, end of year	¥ 139,853,596	¥ 140,658,718

Other assets, excluding goodwill, at December 31, 2003 and 2004, consisted of the following (Yen in thousands):

	2003	2004
Lease and other deposits	¥ 4,295,947	¥ 4,313,742
Deferred financing costs	3,763,785	3,540,302
Capitalized computer software, net	3,022,557	3,351,115
Long-term loans receivable, net	300,380	270,885
Deferred tax assets	—	1,308,582
Other	1,664,560	1,797,757
Total other assets	¥ 13,047,229	¥ 14,582,383

5. Related Party Transactions

The Company purchases cable system materials and supplies from third-party suppliers and resells them to its subsidiaries and affiliates. The sales to unconsolidated affiliates amounted to ¥2,888,046 thousand and ¥2,385,495 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

The Company provides programming services to its subsidiaries and affiliates. The revenue from unconsolidated affiliates for such services provided and the related products sold amounted to ¥1,092,724 thousand and ¥1,379,744 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

The Company provides management services to its subsidiaries and managed affiliates. Fees for such services related to managed affiliates amounted to ¥468,219 thousand and ¥521,670 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

In July 2002, the Company began providing management services to Chofu Cable Inc. ("J-COM Chofu"), an affiliated company that is 92% jointly owned by LMI, Microsoft and SC. Fees for such services amounted to ¥60,882 thousand and ¥87,446 thousand for the years ended December 31, 2003 and 2004 respectively, and are included in revenue — other in the accompanying consolidated statements of operations. As part of the 2004 refinancing, J-COM Chofu became party to the Company's new debt facility (see Note 6). At December 31, 2004, the Company had advanced ¥4,030 million of short term loans to J-COM Chofu and the interest rate on these loans were 2.48%.

The Company purchases certain cable television programs from Jupiter Programming Co., Ltd. ("JPC"), an affiliated company jointly owned by SC and a wholly owned subsidiary of LMI. Such purchases, including purchases from JPC's affiliates, amounted to ¥3,155,139 thousand and ¥3,915,345 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in operating and programming costs in the accompanying consolidated statements of operations. Additionally, the Company receives a distribution fee to carry the Shop Channel, a majority owned subsidiary of JPC, for the greater of a fixed rate per subscriber or a percentage of revenue generated through sales in the Company's territory. Such fees amounted to ¥939,438 thousand and ¥1,063,678 thousand for the years ended December 31, 2003 and 2004, respectively, and are included as revenue — other in the accompanying consolidated statements of operations.

The Company purchased stock of affiliated companies from SC in the amounts of ¥0 thousand, and ¥5,091,864 thousand in the years ended December 31, 2003 and 2004, respectively.

AJCC K.K. ("AJCC") is a subsidiary of SC and its primary business is the sale of home terminals and related goods to cable television companies. Sumisho Lease Co., Ltd. and Sumisho Auto Leasing Co., Ltd. (collectively "Sumisho leasing") are a subsidiary and affiliate, respectively, of SC and provide to the Company various office equipment and vehicles. The Company and its subsidiaries' purchases of such goods, primarily as capital leases, from both AJCC and Sumisho leasing, amounted to ¥6,087,645 thousand and ¥12,621,284 thousand for the years ended December 31, 2003 and 2004, respectively.

The Company pays monthly fees to its affiliates, @NetHome and Kansai Multimedia, based on an agreed-upon percentage of subscription revenue collected by the Company from its customers for the @NetHome and Kansai Multimedia services. Payments made to Kansai Multimedia under these arrangements amounted to ¥3,226,764 thousand and ¥3,380,148 thousand for the years ended December 31, 2003 and 2004, respectively. Such payments are included in operating and programming costs in the accompanying consolidated statements of operations. In March 2002, @Net Home became a consolidated subsidiary of the Company (see Note 2). Therefore, since April 1, 2002, through @NetHome, the Company receives the monthly fee from its unconsolidated affiliates. Such service fees amounted to ¥1,071,891 thousand and ¥1,242,550 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in revenue-subscription fees in the accompanying consolidated statements of operations.

The Company has management service agreements with SC and LMI under which officers and management level employees are seconded from SC and LMI to the Company, whose services are charged as service fees to the Company based on their payroll costs. The service fees paid to SC amounted to ¥706,303 thousand and ¥784,122 thousand for the years ended December 31, 2003 and 2004, respectively. The service fees paid to LMI amounted to ¥714,986 thousand and ¥665,354 thousand for the years ended December 31, 2003 and 2004, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

SC, LMI and Microsoft had long-term subordinated loans to the Company of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. In December 2004, the Company refinanced and replaced these subordinated shareholder loans under a new facility. See Note 6.

The Company pays fees on debt guaranteed by SC, LMI and Microsoft. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMI and ¥51,890 thousand to Microsoft for the year ended

December 31, 2003. The guarantee fees incurred were ¥41,071 thousand to SC, ¥41,071 thousand to LMI and ¥16,332 thousand to Microsoft for the year ended December 31, 2004. Such fees are included in interest expense, net-related parties in the accompanying consolidated statements of operations. In December 2004 these guarantees were replaced by a guarantee facility with a syndicate of lenders. See Note 6.

6. Long-term Debt

A summary of long-term debt as of December 31, 2003 and 2004 is as follows (Yen in thousands):

	2003	2004
¥140 billion Facility term loans, due fiscal 2005 — 2009	¥ 53,000,000	¥ —
¥175 billion Facility term loans, due fiscal 2005 — 2011	—	130,000,000
Mezzanine Facility Subordinated loan due fiscal 2012	—	50,000,000
8 yr Shareholder Subordinated loans, due fiscal 2011	117,739,250	—
8 yr Shareholder Tranche B Subordinated loans, due fiscal 2011	32,000,000	—
0% unsecured loans from Development Bank of Japan, due fiscal 2005 — 2019	12,223,720	—
Unsecured loans from Development Bank of Japan, due fiscal 2005 — 2019, interest from 0.65% to 6.8%	3,895,400	—
0% secured loans from Development Bank of Japan, due fiscal 2005 — 2019	5,354,735	15,810,095
Secured loans from Development Bank of Japan, due fiscal 2005 — 2019, interest at 0.95% to 6.8%	—	3,614,200
0% unsecured loans from others, due fiscal 2012	57,090	50,170
Total	224,270,195	199,474,465
Less: current portion	(2,438,480)	(5,385,980)
Long-term debt, less current portion	¥ 221,831,715	¥ 194,088,485

2003 Financing

On January 31, 2003, the Company entered into a ¥140 billion bank syndicated facility for certain of its managed subsidiaries and affiliates (“¥140 billion Facility”). In connection with the ¥140 billion Facility, on February 6, 2003, the Company entered into eight-year subordinated loans with each of SC, LMI and Microsoft (“Principal Shareholders”), which initially aggregated ¥182 billion (“Shareholder Subordinated Loans”).

The ¥140 billion Facility was for the financing of Jupiter, sixteen of its consolidated managed affiliates and one managed affiliate accounted for under the equity method of accounting. The financing was used for permitted general corporate purposes, capital expenditures, financing costs and limited purchase of minority shares and capital calls of the affiliates participating in the ¥140 billion Facility.

The ¥140 billion Facility provided for term loans of up to ¥120 billion and a revolving loan facility up to ¥20 billion with the final maturity of June 30, 2009. ¥32 billion of the total term loan portion of the ¥140 billion Facility was considered provided by the shareholders under the Tranche B Subordinated Loans.

Interest was based on TIBOR, as defined in the ¥140 billion Facility, plus margin which changed based upon a leverage ratio of Total Debt to EBITDA as set forth in the ¥140 billion Facility agreement. At December 31, 2003, the interest rate was 2.83%. The Shareholder Subordinated Loans, which were subordinated to the ¥140 billion Facility, consisted of eight-year subordinated loans and eight-year Tranche B Subordinated Loans. The ¥140 billion Facility had requirements to make mandatory prepayments under specific circumstances as defined in the agreements. Such prepayments are designated as restricted cash on the consolidated balance sheets.

In May 2003, LMI and SC converted ¥32 billion of Shareholder Subordinated Loans for 750,250 shares of common stock of the company. At December 31, 2003, the interest rate was 2.08%.

In December 2003, a consolidated subsidiary of the Company became party to the ¥140 billion Facility. Immediately prior to this transaction, the consolidated subsidiary had outstanding ¥3,686,090 thousand to third-party creditors. In connection with this transaction, a third-party debt holder forgave ¥400,000 thousand of debt owed to it. As a result, the Company recorded a gain of ¥400,000 thousand in other non-operating income in the accompanying consolidated statement of operations for the year ended December 31, 2003. Additionally, the third-party debt holder was issued ¥500,000 thousand of preferred stock of the consolidated subsidiary in exchange for ¥500,000 thousand of debt owed to it (see Note 10). The remaining ¥2,686,090 thousand of third-party debt was repaid from proceeds of the ¥140 billion Facility.

In March 2004, the Company entered into additional shareholder subordinated loans of ¥2,431,000 thousand each with SC and LMI. The aggregate ¥4,862,000 thousand of loan proceeds were used for the purchase of the remaining shares of @NetHome (see Note 2). These additional shareholder subordinated loans had identical terms to the Shareholder Subordinated Loans discussed above.

In August 2004, LMI, SC and Microsoft made a capital contribution to the Company in the aggregate amount of ¥30,000 million. The proceeds of this contribution were used to repay an aggregate of ¥30,000 million of Shareholder Subordinated Loans owed respectively in the same amounts as contributed by LMI, SC and Microsoft (see Note 1).

2004 Refinancing

On December 15, 2004, for the purpose of the refinancing the ¥140 billion Facility, the Company entered into a ¥175 billion senior syndicated facility (“¥175 billion Facility”) which consists of a ¥130 billion term loan facility (“Term Loan Facility”), a ¥20 billion revolving facility (“Revolving Facility”) and a ¥25 billion guarantee facility (“Guarantee Facility”). Concurrently the Company entered into a ¥50 billion subordinated syndicated loan facility (“Mezzanine Facility”). Consistent with the ¥140 billion Facility, the ¥175 billion Facility will be utilized for the financing of Jupiter, sixteen of its consolidated managed affiliates, one managed affiliate under the equity method accounting and one managed affiliate, which the Company has no equity investment (“Jupiter Combined Group”). On December 21, 2004, the Company made full drawdowns from each of the ¥130 billion Term Loan Facility and the ¥50 billion Mezzanine Facility. The proceeds from the December 2004 drawdown were used to repay all outstanding loans under the ¥140 billion Facility and all outstanding Shareholder Subordinated Loans.

The ¥130 billion Term Loan Facility consists of a five year ¥90 billion Tranche A Term Loan Facility (“Tranche A Facility”) and a seven year ¥40 billion Tranche B Term Loan Facility (“Tranche B Facility”). Final maturity dates of the Tranche A Facility and Tranche B Facility are December 31, 2009 and December 31, 2011, respectively. Loan repayment of the Tranche A Facility and the Tranche B Facility commence on September 30, 2005 and March 31, 2009, respectively, each based on a defined rate reduction each quarter thereafter until maturity.

The ¥20 billion Revolving Facility will be available for drawdown until one month prior to its final maturity of December 31, 2009. A commitment fee of 0.50% per annum is payable on the unused available Revolving Facility during its availability period.

The ¥25 billion Guarantee Facility provides for seven years of bank guarantees on loans from the Development Bank of Japan owed by affiliates of the Jupiter Combined Group. The Guarantee Facility commitment reduces gradually according to the amount and schedule as defined in the ¥175 billion Facility agreement until final maturity at December 31, 2011. As of December 31, 2004 the guarantee commitment is ¥25 billion. Such guarantee commitment will be reduced to ¥23.1 billion by December 2005; ¥21.6 billion by December 2006; ¥20.0 billion by December 2007; ¥18.6 billion by December 2008; ¥17.2 billion by December 2009; ¥15.8 billion by December 2010; and to ¥13.2 billion by December 2011. A commitment fee of 0.50% per annum is payable on the unused available Guarantee Facility during its availability period.

Interest on the Tranche A Facility, Tranche B Facility and the Revolving Facility is based on TIBOR, as defined in the agreement, plus the applicable margin. Each facility’s applicable margin is reducing based upon a leverage ratio of Senior Debt to EBITDA as such terms are defined in the ¥175 billion Facility agreement. When the leverage ratio is greater than or equal to 4.0:1, the margin on the Tranche A Facility and the Revolving Facility is 1.50% per annum and the margin of the Tranche B Facility ranges from 1.80% to 2.00% per annum; when less than 4.0:1 but greater than or equal to 2.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.38% per annum and the margin of the Tranche B Facility ranges from 1.69% to 1.88% per annum; when less than 2.5:1 but greater than or equal to 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.25% per annum and the margin of the Tranche B Facility ranges from 1.58% to 1.75% per annum; and when less than 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.00% per annum and the margin of the Tranche B Facility ranges from 1.35% to 1.50% per annum. In regards to the fees due on the Guarantee Facility, when the leverage ratio is greater than 4.00:1, the interest rate is 3.00% per annum; when less than 4.00:1 but greater than or equal to 3.75:1 the interest rate is 2.00%; when less than 3.75:1 but greater than or equal to 3.50:1 the interest rate is 1.50%; when less than 3.50:1 but greater than or equal to 3.00:1 the interest rate is 1.00%; when less than 3.00:1 but greater than or equal to 2.00:1 the interest rate is 0.75%; and when less than 2.00:1, the interest rate is 0.50% per annum. As of December 31, 2004 the interest rates for the outstanding Tranche A Facility, Tranche B Facility, and Guarantee Facility, were 1.6%, 1.9%, and 1.0% respectively.

The ¥175 billion Facility has requirements to make mandatory prepayments in the amount equal to (1) 50% of the Group Free Cash Flow, as defined in the agreement, until the later of (a) March 31, 2007 and (b) the first quarter for which the ratio of Senior Debt to EBITDA, as defined in the agreement, is less than 2.50:1.00; (2) 50% of third party contributions received when the ratio of Senior Debt to EBITDA is greater than 4.00:1.00; (3) proceeds from the sale of assets exceeding ¥500 million that are not reinvested within six months; (4) insurance proceeds exceeding ¥500 million that are not used to repair or replace the damaged assets within twelve months; and (5) proceeds of any take-out securities as defined in the ¥175 billion Facility agreement. The ¥175 billion Facility requires the Jupiter Combined Group to comply with various financial covenants, such as Maximum Senior Debt to EBITDA Ratio, Maximum Senior Debt to Combined Total Capital Ratio, Minimum Debt Service Coverage Ratio and Minimum Interest Coverage Ratio as such terms are defined in the ¥175 billion Facility agreement. In addition, the ¥175 billion Facility contains certain limitations or prohibitions on additional indebtedness. Additionally, the ¥175 billion Facility requires the Company to maintain interest hedging agreements on at least 50% of the outstanding amounts under the Tranche A Facility. Due to the ¥175 billion Facility closing on December 15, 2004, the Company was not required to calculate financial covenants for the fiscal year 2004.

The Mezzanine Facility contains a bullet repayment upon final maturity at June 30, 2012. However, in the event of an IPO by the Company, there is a mandatory prepayment of the Mezzanine Facility of 100% from the proceeds of such IPO. Interest on the Mezzanine Facility is based on TIBOR, as defined in the agreement, plus an increasing margin. The initial margin is 3.25% per annum and increases 0.25% each successive three month period from closing up to a maximum margin of 9.00% per annum. The Mezzanine Facility has identical financial covenants as the ¥175 billion Facility.

As of December 31, 2004 the Company had ¥20 billion revolving loans available for immediate borrowing under the ¥175 billion Facility.

Development Bank of Japan Loans

The loans represent institutional loans from the Development Bank of Japan, which have been made available to telecommunication companies operating in specific local areas designated as “Teletopia” by the MIC to facilitate development of local telecommunication network. Requirements to qualify for such financing include use of optical fiber cables, equity participation by local/municipal government and guarantee by third parties, among other things. These loans are obtained by the Company’s subsidiaries and were primarily guaranteed, directly or indirectly, by SC, LMI and Microsoft. In connection with the 2004 refinancing described above, the guarantees by SC, LMI and Microsoft have been cancelled and replaced with guarantees pursuant to the Guarantee Facility.

Securities on Long-term Debt

At December 31, 2004, subsidiaries' shares owned by the Company, trademark and franchise rights held by the Company and substantially all equipment held by the Company's subsidiaries were pledged to secure the loans from the Development Bank of Japan and the Company's bank facilities. The aggregate annual maturities of long-term debt outstanding at December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,		
2005	¥	5,385,980
2006		11,648,720
2007		20,461,660
2008		31,474,610
2009		42,981,060
Thereafter		87,522,435
	¥	199,474,465

7. Leases

The Company and its subsidiaries are obligated under various capital leases, primarily for home terminals, and other noncancelable operating leases, which expire at various dates during the next seven years. See Note 5 for further discussion of capital leases from subsidiaries and affiliates of SC.

At December 31, 2003 and 2004, the amount of equipment and related accumulated depreciation recorded under capital leases were as follows (Yen in thousands):

		2003		2004
Distribution system and equipment	¥	45,170,512	¥	48,061,224
Support equipment and buildings		6,656,913		6,594,499
Less: accumulated depreciation		(22,111,664)		(24,129,460)
Other assets, at cost, net of depreciation		292,511		209,669
	¥	30,008,272	¥	30,735,932

Depreciation of assets under capital leases is included in depreciation and amortization in the accompanying consolidated statements of operations.

Future minimum lease payments under capital leases and noncancelable operating leases as of December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,		Capital Leases		Operating Leases
2005	¥	10,479,258	¥	901,131
2006		8,298,826		750,754
2007		5,997,212		626,332
2008		4,102,122		399,496
2009		2,810,622		383,100
More than five years		2,686,635		703,288
Total minimum lease payments		34,374,675	¥	3,764,101
Less: amount representing interest (rates ranging from 1.10% to 5.99%)		(2,570,124)		
Present value of net minimum payments		31,804,551		
Less: current portion		(9,529,241)		
Noncurrent portion	¥	22,275,310		

The Company and its subsidiaries occupy certain offices under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2003 and 2004, totaled ¥4,134,249 thousand and ¥3,970,228 thousand, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Also, the Company and its subsidiaries occupy certain transmission facilities and use poles and other equipment under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2003 and 2004, totaled ¥8,542,845 thousand and ¥8,943,602 thousand, respectively, and are included in operating costs and programming costs in the accompanying consolidated statements of operations.

8. Income Taxes

The Company and its subsidiaries are subject to Japanese national corporate tax of 30%, an inhabitant tax of 6% and a deductible enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the enterprise tax from 10.08% to 7.2%. The amendments to the tax rates will be effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate will be lowered to approximately 40% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005 for the Company.

All pretax income/loss and related tax expense/benefit are derived solely from Japanese operations. Income tax expense for the years ended December 31, 2003 and 2004 is as follows (Yen in thousand):

	2003	2004
Current	¥ 209,805	¥ 1,812,786
Deferred	—	45,591
Income tax expense	¥ 209,805	¥ 1,858,377

The effective rates of income tax (benefit) expense relating to losses (income) incurred differs from the rate that would result from applying the normal statutory tax rates for the years ended December 31, 2003 and 2004 is as follows:

	2003	2004
Normal effective statutory tax rate	42.0%	42.0%
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	0.1
Increase/(decrease) in valuation allowance	(41.2)	(27.4)
Other	3.0	—
Effective tax rate	3.8%	14.7%

The effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Deferred tax assets:		
Operating loss carryforwards	¥ 29,921,448	¥ 21,649,833
Deferred revenue	14,165,581	14,455,010
Lease obligation	12,452,252	12,721,820
Retirement and other allowances	1,390,741	1,459,068
Investment in affiliates	794,896	567,766
Accrued expenses and other	2,485,228	3,978,505
Total gross deferred tax assets	61,210,146	54,832,002
Less: valuation allowance	(45,846,086)	(35,240,909)
Deferred tax assets	15,364,060	19,591,093
Deferred tax liabilities:		
Property and equipment	12,680,631	13,796,923
Tax deductible goodwill	633,155	—
Other	2,050,274	2,416,766
Total gross deferred tax liabilities	15,364,060	16,213,689
Net deferred tax assets	¥ —	¥ 3,377,404

The net changes in the total valuation allowance for the years ended December 31, 2003 and 2004 were decreases of ¥6,543,162 thousand and ¥10,605,177 thousand, respectively.

Current deferred tax assets in the amount of ¥2,068,822 thousand are included in prepaid expenses and non-current deferred tax assets in the amount of ¥1,308,582 thousand are included in other in non-current assets in the accompanied consolidated balance sheet at December 31, 2004.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management expects to realize its deferred tax assets net of existing valuation allowance. The Company had ¥343,918 thousand of tax deductible goodwill as of December 31, 2004.

The amount of unrecognized tax benefits at December 31, 2003 and 2004 acquired in connection with business combinations were ¥12,000 million and ¥7,267 million (net of ¥3,423 million recognized during 2004), respectively. If the deferred tax assets are realized or the valuation allowance is reversed, the tax benefit realized is first applied to i) reduce to zero any goodwill related to acquisition, ii) second to reduce to zero other non-current intangible assets related to the acquisition and iii) third to reduce income tax expense. See Note 4.

At December 31, 2004, the Company and its subsidiaries had net operating loss carryforwards for income tax purposes of ¥54,124,581 thousand which were available to offset future taxable income. Net operating loss carryforwards, if not utilized, will expire in each of the next five years as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 17,501,242
2006	20,094,037
2007	—
2008	55,494
2009	10,751,591
2010-2011	5,722,217
	¥ 54,124,581

9. Severance and Retirement Plans

Under unfunded severance and retirement plans, substantially all full-time employees terminating their employment after the three year vesting period are entitled, under most circumstances, to lump-sum severance payments determined by reference to their rate of pay at the time of termination, years of service and certain other factors. No assumptions are made for future compensation levels as the plans have flat-benefit formulas. As a result, the accumulated benefit obligation and projected benefit obligation are the same. December 31, 2004 was used as the measurement date.

Net periodic cost of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 for the years ended December 31, 2003 and 2004, included the following components (Yen in thousands):

	2003	2004
Service cost — benefits earned during the year	¥ 257,230	¥ 265,608
Interest cost on projected benefit obligation	40,159	40,120
Recognized actuarial loss	158,371	463,216
Net periodic cost	¥ 455,760	¥ 768,944

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 are as follows (Yen in thousands):

	2003	2004
Change in benefit obligation:		
Benefit obligation, beginning of year	¥ 1,606,371	¥ 2,006,011
Service cost	257,230	265,608
Interest cost	40,159	40,120
Acquisitions (Note 2)	—	30,630
Actuarial loss	158,371	432,586
Benefits paid	(56,120)	(93,288)
Benefit obligation, end of year	¥ 2,006,011	¥ 2,681,667

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted-average discount rate used in the determination of projected benefit obligation and net pension cost of the Company and its subsidiaries' plans as of and for the year ended December 31, 2003, and 2004 is as follows:

Projected benefit obligation	2003	2004
Discount rate	2.0%	2.0%
Net pension cost		
Discount rate	2.0%	2.0%

The estimated future benefit payments are (Yen in thousands):

Estimated Future Benefit Payments		
2005	¥	105,753
2006		116,145
2007		172,494
2008		138,000
2009		167,641
2010 to 2014		996,298
	¥	1,696,331

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit plan. The Company contributions to this plan amounted to ¥342,521 thousand and ¥292,546 thousand for the years ended December 31, 2003 and 2004, respectively, and are included in provision for retirement allowance in selling, general and administrative expenses in the accompanying consolidated statements of operations.

10. Redeemable Preferred Stock

On December 29, 2003, in connection with being included as a party to the ¥140 billion Facility, a consolidated subsidiary of the Company issued ¥500,000 thousand of preferred stock to a third-party in exchange for debt owed to that third party. All or a part of the preferred stock can be redeemed after 2010, up to a half of the preceding year's net income, at the holder's demand. The holder of the preferred stock has a priority to receive dividends, however, the amount of such dividends will be decided by the subsidiary's board of directors and such dividend will not exceed ¥1,000 per preferred stock for any fiscal year and will not accumulate.

11. Shareholders' Equity

Dividends

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings as recorded on the books of the Company maintained in conformity with financial accounting standards of Japan. Certain adjustments not recorded on the Company's books are reflected in the consolidated financial statements for reasons described in Note 1. At December 31, 2004, the accumulated deficit recorded on the Company's books of account was ¥16,024,828 thousand. Therefore, no dividends may be paid at the present time.

The Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve and the additional paid-in capital equal 25% of the issued capital. The Code also provides that neither additional paid-in capital nor the legal reserve are to be used for cash dividends, but may be either (i) used to reduce a capital deficit, by resolution of the shareholders; (ii) capitalized, by resolution of the Board of Directors; or (iii) used for purposes other than those provided in (i) and (ii), such as refund made to shareholders or acquisition of treasury stocks, but only up to an amount equal to the additional paid-in capital and the legal reserve less 25% of the issued capital, by resolution of the shareholders. The Code provides that at least one-half of the issue price of new shares be included in capital.

Stock-Based Compensation Plans

The Company maintains subscription-rights option plans and stock purchase warrant plans for certain directors, corporate auditors and employees of the Company's consolidated managed franchises and to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other non-employees (collectively the "Jupiter Option Plans"). The Company's board of directors and shareholders approved the grant of the Company's ordinary shares at an initial exercise price of ¥92,000 per share. The exercise price is subject to adjustment upon an effective IPO to the lower of ¥92,000 per share or the IPO offering price.

Under Jupiter Option Plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations and the subscription rights will not be exercisable until the Company's ordinary shares are registered with the Japan Securities Dealers Association or listed on a stock exchange. Non-management employees will, unless the grant agreement provides otherwise, vest in two years from date of grant. Management employees will, unless the grant agreement provides otherwise, vest in four equal installments from date of grant. Options under the Jupiter Option Plans generally expire 10 years from date of grant, currently ranging from August 23, 2010 to August 23, 2012.

The Company has accounted for awards granted to the Company's and its consolidated managed franchises' directors, corporate auditors and employees under APB No. 25 and FIN No. 44. Based on the Company's estimated fair value per ordinary share, there was no intrinsic value at the date of grant under the Jupiter Option Plans. As the exercise price at the date of grant is uncertain, the Jupiter Option Plans are considered variable awards. Under APB No. 25 and FIN 44, variable awards will have stock compensation recognized each period to the extent the market value of the ordinary shares granted exceeds the exercise price. The Company will be subject to variable accounting for grants to employees under the Jupiter Option Plans until all options granted are exercised, forfeited, or expired. At December 31, 2003 and 2004, the market value of the Company's ordinary shares did not exceed the exercise price and no compensation expense was recognized.

The Company has accounted for awards granted to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and to other non-employees, in accordance with SFAS No. 123 and EITF 00-12. As a result of cancellations, options outstanding to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and to other non-employees were 21,916 ordinary shares and 11,476 ordinary shares at December 31, 2003 and 2004, respectively. The Company recorded compensation expense related to the directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other non-employees of ¥117,359 thousand and ¥93,484 thousand for the years ended December 31, 2003 and 2004, respectively, which has been included in selling, general and administrative expense for the Company's non-employees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

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The following table summarizes activity under the Jupiter Option Plans:

	2003	2004
Outstanding at beginning of the year	159,004	191,764
Granted	41,958	29,730
Canceled	(9,198)	(8,418)
Outstanding at end of the year	191,764	213,076
Weighted average exercise price	¥ 92,000	¥ 92,000
Weighted average remaining contractual life	7.4 years	6.6 years
Options exercisable, end of period	—	—
Weighted average fair value of options granted	¥ 18,340	¥ 24,545

12. Fair Value of Financial Instruments

For financial instruments other than long-term loans, lease obligations and interest rate swap agreements, the carrying amount approximates fair value because of the short maturity of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt and capital lease obligations at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	¥ 224,270,195	¥ 220,114,532	¥199,474,465	¥199,127,222
Lease obligation	31,130,629	32,328,048	31,804,551	30,125,734
Interest rate swap agreements	694,745	694,745	8,204	8,204

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

	2003	2004
	(Yen in thousands)	
Cash paid during the year for:		
Interest	¥ 4,408,426	¥ 8,588,285
Income tax	¥ 378,116	¥ 323,144
Cash acquisitions of new subsidiaries:		
Fair value of assets acquired	¥ —	¥ 1,688,442
Liabilities assumed	—	1,245,532
Cash paid, net of cash acquired	¥ —	¥ 442,910
Property acquired under capital leases during the year	¥ 6,057,250	¥ 12,561,285
Conversion of long-term debt into equity	¥ 32,260,750	¥ —

14. Commitments

In connection with the September 1, 2000 acquisition of Titus Communications Corporation (“Titus”), Microsoft and the Company entered into a gain recognition agreement with respect to the Titus shares and assets acquired. The Company agreed not to sell during any 18-month period, without Microsoft consent, any shares of Titus, or sell any of Titus’ assets, valued at $35 million or more, in a transaction that would result in taxable income to Microsoft. Microsoft will retain this consent right until the earlier of June 30, 2006 or the date Microsoft owns less than 5% of the Company's ordinary shares and Microsoft has sold, in taxable transactions, 80% of the Company's ordinary shares issued to it in connection with the Titus acquisition.

The Company has guaranteed payment of certain bank loans for its equity method affiliate investee, CATV Kobe, and its cost method investee Bay Communications Inc. The guarantees are based on an agreed-upon proportionate share of the bank loans among certain of the entities' shareholders, considering each of their respective equity interest. The term of the guarantee ranges from 5 to 12 years and the aggregate guaranteed amounts were ¥722,531 thousand and ¥179,072 thousand as of December 31, 2003 and 2004, respectively. Management believes that the likelihood the Company would be required to perform or otherwise incur any significant losses associated with any of these guarantees is remote.

15. Subsequent Events

On February 9, 2005, the Company entered into a share purchase agreement to purchase from Microsoft, LMI, and SC all of their interest in J-COM Chofu, as well as all of the equity interest owned by Microsoft in Tu-Ka Cellular Tokyo, Inc. and Tu-Ka Cellular Tokai, Inc. ("Tu-Ka") on or about February 25, 2005. The Company will pay approximately $24 million (approximately ¥2,500 million) to Microsoft, approximately ¥972 million to LMI and approximately ¥940 million to SC for their respective Chofu or Tu-Ka shares. Consideration for J-COM Chofu shares will be in cash at closing, and the Tu-Ka shares will be transferred in exchange for a non-interest-bearing promissory note to Microsoft that is payable 5 business days after a successful IPO in Japan by the Company.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Torneos y Competencias S.A.:

We have audited the accompanying consolidated balance sheets of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the consolidated financial statements, the Company is in default with respect to two bank loans and certain loans are past due. In addition, at December 31, 2004, the Company has a net working capital deficiency. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regards to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Finsterbusch Pickenhayn Sibille(*)

Buenos Aires, Argentina
March 11, 2005

(*) Finsterbusch Pickenhayn Sibille is the Argentine member firm of KPMG International, a Swiss cooperative.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	December 31, 2003
	(In thousands of Argentine pesos)	
ASSETS		
Current Assets		
Cash	A$ 2,641	A$ 2,224
Accounts receivable, net	19,007	15,116
Related party receivables (Note 6)	15,426	9,087
Programming rights, net	3,210	7,268
Advances to soccer clubs	1,180	2,216
Tax receivables	2,805	5,877
Building held for sale (Notes 6.d and 11.a)	2,940	—
Prepaid expenses and other current assets	3,466	2,375
Total current assets	50,675	44,163
Related party receivables (Note 6)	2,885	774
Programming rights, net	19,050	9,291
Advances to soccer clubs	2,421	4,660
Deferred income taxes (Note 9)	1,360	2,054
Investments in affiliates accounted for under the equity method (Note 4)	21,132	19,185
Property and equipment, net (Note 5)	15,690	15,914
Other assets	1,214	1,165
Assets associated with discontinued operations (Note 6.d)	—	5,909
TOTAL ASSETS	A$ 114,427	A$ 103,115
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	A$ 28,532	A$ 11,743
Related party liabilities (Note 6)	6,216	15,880
Debt (Note 7)		
Related party debt	8,419	8,306
Third party debt	8,333	9,024
Taxes payable	6,588	5,331
Deferred income	6,906	16,133
Other liabilities	4,816	4,203
Total current liabilities	69,810	70,620
Investments in affiliates accounted for under the equity method (Note 4)	—	3,715
Other liabilities	2,076	3,476
Liabilities associated with discontinued operations (Note 6.d)	3,700	3,208
TOTAL LIABILITIES	A$ 75,586	A$ 81,019
Commitments and contingencies (Note 10)		
Minority interest in subsidiaries	(31)	8
Stockholders' equity:		
Common stock, A$1 par value. 50,160,000 shares authorized, issued and outstanding	50,160	50,160
Additional paid-in capital	—	107,812
Accumulated other comprehensive losses, net of taxes	(6,768)	(6,717)
Legal reserve	—	1,597
Accumulated deficit	(4,520)	(130,764)
Total stockholders' equity	A$ 38,872	A$ 22,088
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	A$ 114,427	A$ 103,115

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
	2004	2003	2002
	(In thousands of Argentine pesos, except number of shares and per share amounts)		
Revenue			
Related party (Note 6)	A$ 74,941	A$ 76,977	A$ 69,974
Third party	28,126	18,553	10,729
Operating costs and expenses			
Operating (other than depreciation)			
Related party (Note 6)	(814)	(1,676)	(1,253)
Third party	(58,948)	(44,970)	(36,490)
Selling, general and administrative			
Related party (Note 6)	(70)	(143)	(400)
Third party	(25,565)	(23,360)	(20,003)
Provision for doubtful accounts and other receivables	(3,798)	(709)	(7,293)
Depreciation	(1,404)	(1,424)	(1,719)
Impairment of goodwill (Note 2)	—	—	(95,663)
Operating income (loss)	12,468	23,248	(82,118)
Share of earnings (losses) from equity affiliates (Note 4)	12,901	9,427	(10,589)
Interest expense	(7,215)	(10,042)	(18,321)
Foreign currency transaction gains (losses)	4,167	5,365	(9,236)
Other income (expenses), net	(709)	459	(2,082)
Income (loss) from continuing operations before income tax and minority interest	21,612	28,457	(122,346)
Income tax expense (Note 9)	(5,027)	(7,886)	(1,698)
Minority interest in losses (earnings) of subsidiaries	11	(16)	116
Income (loss) from continuing operations	16,596	20,555	(123,928)
Discontinued operations, net of tax (including gain on disposal of A$239 during 2004 and impairment of goodwill of A$6,074 during 2002) (Note 6.d)	239	(604)	(9,658)
Net income (loss)	A$ 16,835	A$ 19,951	A$ (133,586)
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustment	(51)	1,136	(6,222)
Comprehensive income (loss)	A$ 16,784	A$ 21,087	A$ (139,808)
Income (loss) per share from continuing operations	0.33	0.41	(2.47)
Income (loss) per share from discontinued operations	0.01	(0.01)	(0.19)
Net income (loss) per share	0.34	0.40	(2.66)
Weighted average number of common shares outstanding	50,160,000	50,160,000	50,160,000

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Accumulated other comprehensive losses, net of taxes	Legal reserve	Accumulated deficit	Total stockholders' equity
	(In thousands of Argentine pesos)					
Balance as of January 1, 2002	A$ 50,160	A$ 107,812	A$ (1,631)	A$ 1,597	A$ (17,129)	A$ 140,809
Foreign currency translation adjustment	—	—	(6,222)	—	—	(6,222)
Net loss	—	—	—	—	(133,586)	(133,586)
Balance as of December 31, 2002	50,160	107,812	(7,853)	1,597	(150,715)	1,001
Foreign currency translation adjustment	—	—	1,136	—	—	1,136
Net income	—	—	—	—	19,951	19,951
Balance as of December 31, 2003	50,160	107,812	(6,717)	1,597	(130,764)	22,088
Foreign currency translation adjustment	—	—	(51)	—	—	(51)
Absorption of accumulated deficit as required under Argentine law (Note 8)	—	(107,812)	—	(1,597)	109,409	—
Net income	—	—	—	—	16,835	16,835
Balance as of December 31, 2004	A$ 50,160	A$ —	A$ (6,768)	A$ —	A$ (4,520)	A$ 38,872

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2004	2003	2002
	(In thousands of Argentine pesos)		
Cash flows from operating activities:			
Income (loss) from continuing operations	A$ 16,596	A$ 20,555	A$ (123,928)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Provision for doubtful accounts and other receivables	3,798	709	7,293
Depreciation	1,404	1,424	1,719
Share of (earnings) losses from equity affiliates	(12,901)	(9,427)	10,589
Impairment of goodwill	—	—	95,663
Minority interest in losses (earnings) of subsidiaries	(11)	16	(116)
Deferred tax expense	694	4,170	1,698
Changes in operating assets and liabilities, net of the effect of dispositions:			
Receivables, programming rights and others	(17,098)	13,847	3,775
Payable and other current liabilities	2,194	(24,639)	30,019
Net cash provided by (used in) operating activities	(5,324)	6,655	26,712
Cash flows from investing activities:			
Capital expenditures	(1,430)	(1,162)	—
Cash distribution from equity affiliates	7,500	—	2,718
Proceeds from the sale of property and equipment	250	—	732
Net cash provided by (used in) investing activities	6,320	(1,162)	3,450
Cash flows from financing activities:			
Debt proceeds	4,338	1,213	10,537
Repayment of debt	(4,917)	(5,063)	(43,649)
Net cash used in financing activities	(579)	(3,850)	(33,112)
Net cash provided by (used in) discontinued operations	—	(26)	172
Net increase (decrease) in cash	417	1,617	(2,778)
Cash at beginning of year	2,224	607	3,385
Cash at end of year	A$ 2,641	A$ 2,224	A$ 607

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.
December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos, except as otherwise mentioned)

1. Description of business, liquidity and basis of presentation

Description of business

Torneos y Competencias S.A. ("TyC" or the "Company") is an independent producer of Argentine sports and entertainment programming that, through various affiliates, operates a sports programming cable channel; commercializes rights to televise sporting events via cable, satellite and broadcast television; and manages two sports magazines and several thematic soccer bars. TyC's emphasis is on soccer, and it has an exclusive agreement (except for certain cable broadcast rights held by an affiliate) with the *Asociación de Fútbol Argentino,* or "AFA", to produce and distribute programs related to matches between clubs in the Argentine professional soccer leagues. This agreement expires in 2010 unless extended to 2014 at TyC's request. TyC produces or co-produces, with its three television studios and the production facilities of its production partners, a number of soccer-based programs, such as *Fútbol de Primera, El clásico del Domingo and Fútbol de Verano.*

TyC has interests in two magazines: El Grafico, which covers Argentine and international sports, with special emphasis on soccer; and Golf Digest, the Argentine and Chilean editions of the American golf magazine.

TyC also has the rights to broadcast friendly summer season tournaments in different Argentine cities through 2007.

The Company's principal shareholders are:

Shareholders	Ownership percentage
ACH Acquisitions Co.	20%
Telefónica de Contenidos S.A. Unipersonal	20%
A y N Argentina LLC	20%
Liberty Argentina, Inc, a subsidiary of Liberty Media International, Inc ("LMI")	40%

TyC's 50% — owned affiliate, *Televisión Satelital Codificada S.A.,* or "TSC" holds the commercial rights in Argentina, with certain exceptions, to televise selected official soccer matches of AFA's Premier Ligue. TSC sells the rights to televise specific matches to cable operators, to an over-the-air broadcast television channel in and around Buenos Aires and, in certain cases, exclusively to the TyC Sports Channel.

Another 50% — owned affiliate of TyC, *TELE-RED Imagen S.A.*, or "TRISA" owns the TyC Sports Channel, the first dedicated sports cable channel in Argentina, which packages soccer programming co produced by Torneos and other sporting events to which TRISA holds commercial rights. TRISA also holds commercial rights to produce and distribute certain motor car racing, basketball and boxing events.

T&T Sports Marketing Inc. ("T&T"), a 50% — owned affiliate of the Company, has entered into agreements with the *"Confederación Sudamericana de Fútbol ("Conmebol")* for the acquisition of the *"Copa Libertadores"* and *"Copa Sudamericana"* broadcasting rights up to 2010. See Notes 4 and 6.

Liquidity

The Company is in default with respect to two bank loans. In addition, the Company's loans from LMI are past due. Principal and interest under these bank and LMI loans of A$13,346 and A$4,088, respectively, have been classified as current liabilities at December 31, 2004. See Note 7. In addition, at December 31, 2004, current liabilities exceed current assets by A$19,135. The Company plans to renegotiate these loans to extend the repayment terms. Although the Company expects that it will be able to successfully renegotiate the bank loans that are in default and the past due loans from LMI, no assurance can be given that the Company will be successful. In the event that the Company's efforts in this regard are not successful, the Company's ability to continue as a going

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

concern could be adversely affected in that the Company may not have sufficient funds available to meet its current liabilities as they become due and payable, particularly if payment is demanded under the aforementioned bank or LMI loans.

Basis of presentation

The accompanying consolidated financial statements include the accounts of TyC and all voting interest entities where TyC exercises a controlling interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which TyC is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. TyC management concluded that the Company holds no interest in entities that meet the definition of variable interest entities pursuant to Financial Accounting Standards Board Interpretation No. 46(R).

TyC's operating subsidiaries and TyC's most significant equity affiliates as of December 31, 2004 are set forth below:

Operating subsidiaries as of December 31, 2004
Avilacab S.A. ("Avilacab")
South American Sports S.A. ("SAS")
TyC Minor S.A. ("TyC Minor")

Significant equity affiliates as of December 31, 2004
TSC
TRISA
T&T

For additional information concerning TyC's equity affiliates, see Note 4.

In the following notes, references to the Company refer to TyC and its consolidated subsidiaries.

2. Summary of significant accounting policies

The Company maintains its books of account in conformity with financial accounting standards of the City of Buenos Aires, Argentina. The accompanying consolidated statements have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America ("US GAAP").

Use of estimates

The preparation of these consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values and useful lives of long-lived assets and any related impairment. Actual results could differ from those estimates.

The Company does not control the decision making process or business management practices of TyC's equity affiliates. Accordingly, the Company relies on management of these affiliates and their independent auditors to provide us with accurate financial information prepared in accordance with US GAAP that we use in the application of the equity method. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by TyC's equity affiliates that would have a material effect on Company's financial statements. For information concerning TyC's equity method investments, see Note 4.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inflation adjustment

Argentine generally accepted accounting principles require the restatement of assets and liabilities into constant Argentine pesos.

Under US GAAP, account balances and transactions are stated in the units of currency of the period when the transactions originated. This accounting model is commonly known as the historical cost basis of accounting. The Company has excluded the effect of the general price level restatement for the preparation of these financial statements in accordance with US GAAP.

Accounts receivable, net

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance amounted to A$6,810 and A$4,521 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon the Company's assessment of probable loss related to uncollectible accounts receivable. A number of factors are used in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued.

The Company has five clients whose balances aggregate approximately 40% and 79% of the total balances of accounts receivable, net, as of December 31, 2004 and 2003, respectively, and approximately 75%, 80% and 87% of the revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

Programming rights, net

The Company and certain equity investees have multi-year contracts for telecast rights of sporting events and rights to the image and sound archives related to all of the country's national soccer teams. Pursuant to these contracts, an asset is recorded for the rights acquired and a liability is recorded for the obligation incurred when the programs or sporting events are available for telecast. Program rights for sporting events which are for a specified number of games are amortized on an event-by-event basis, and those which are for a specified season or period are amortized over the term of such period on a straight-line basis.

Non-current programming rights represent telecast and production rights of sporting events available for telecast beyond one year from the balance sheet date.

Investments in affiliates accounted for under the equity method

Investments in affiliates in which TyC has the ability to exercise significant influence are accounted for using the equity method. Under this method, the investment, originally recorded at cost, is adjusted to recognize TyC's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of TyC's investment in, and advances and commitments to, the investee. If the investment in the common stock of an affiliate is reduced to zero as a result of the prior recognition of the affiliate's net losses, TyC would continue to record losses from the affiliate to the extent of its commitments to the affiliate and would include the negative investment in other liabilities.

Impairment of investments

The Company continually reviews its investments in affiliates to determine whether a decline in fair value below the cost basis is other than non-temporary. The primary factors that the Company considers in its determination are the length of time that the fair value of the investment is below Company's carrying value and the financial condition, operating performance and near term prospects of the investee, industry specific or investee specific changes in stock price or valuation subsequent to the balance sheet date, and Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery in fair value. In situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. Writedowns for equity method investments are included in Share of earning (losses) from equity affiliates, and a new cost basis in the investment is established.

Property and equipment, net

Property and equipment is recorded at cost, net of the respective accumulated depreciation.

Depreciation has been calculated on the straight-line method over the assets' estimated useful lives as follows:

	Estimated useful life (years)
Buildings	50
Furniture and fixtures	10
Technical equipment, vehicles and TV studio	5
Computer hardware	2 to 3

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

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144") requires the Company to periodically review the carrying amount of property and equipment, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the assets is greater than the expected undiscounted cash flow to be generated by such assets, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sales prices for similar assets or discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of the carrying amount or fair value less costs to sell.

Building held for sale

Represents a building received in connection with the transaction related to the sale of Red Celeste y Blanca S.A. ("La Red"), which is available for sale. It is recorded at its fair value at the date of the disposition of La Red, which does not exceed its fair value as of December 31, 2004. See Note 6.d.

Goodwill

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired, in acquisitions of equity interests in subsidiaries and affiliates.

Impairment of Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Equity method goodwill is also no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement 144.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires the Company to consider equity method affiliates as separate reporting units.

The Company determined the fair value of its reporting units using discounted cash flows. The Company then compared the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeded its fair value, the Company performed the second step of the transitional impairment test. In the second step, the Company compared the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Based on this analysis, the Company recorded an impairment loss of A$101,737 for the year ended December 31, 2002 to write-off all of its then existing goodwill, including A$6,074 related to La Red that has been included in Discontinued operations, net of tax in the accompanying consolidated financial statements. Since this analysis used projections made during the time of unfavorable economic events in Argentina in early 2002, the adjustment was recognized as a component of operating costs and expenses and not as a transition adjustment.

As noted above, the Company's enterprise-level goodwill is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. The following table summarizes the allocation of the impairment loss recorded for the year ended December 31, 2002, corresponding to continuing operations.

Entity		Impairment loss
SAS	A$	7,132
Sobre Golf S.A.		420
TSC		50,317
TRISA and Tele Net Image Corp.		37,794
Total enterprise-level goodwill	A$	95,663

Income Taxes

The Company accounts for income taxes in accordance with the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Net deferred tax assets are reduced by a valuation allowance calculated based on the estimation of future results prepared by the Company's management. Deferred tax liabilities related to investments in equity investees that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future. See Note 9.

Minority interest

Recognition of the minority interest's share of losses of subsidiaries is generally limited to the amount of such minority interest's allocable portion of the common equity of those subsidiaries.

Foreign currency translation

The functional currency of the Company is the Argentine Peso. The functional currency of the Company's foreign equity affiliate T&T is the United States dollar. The Company's share of the assets and liabilities of T&T is translated at the spot rate in effect at the applicable reporting date and the Company's share of the results of operations of T&T is determined based on results translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of Accumulated other comprehensive losses, net of taxes, in the Company's statements of stockholders' equity.

Transactions denominated in currencies other than the Company's functional currency are recorded at the exchange rates prevailing at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations.

Revenue recognition

The Company's principal sources of revenue are:

Broadcasting Program rights: Broadcast program rights revenue are recognized when the matches are broadcasted.

Sport TV programs production: Revenue from sports TV programs production services are recognized when the services are rendered.

Others: Other revenue includes, among others, advertising and sports event organization. Advertising revenue, including the stadium based advertising, are recognized in the period during which underlying advertisements are broadcast. Sports events organization revenue are recognized when services are rendered.

Deferred income: corresponds to revenue collected by TyC in advance, whose recognition is deferred until matches or related advertising are available for telecast.

Earnings per share

The Company computes net income (loss) per share by dividing net income (loss) for the year by the weighted average number of common shares outstanding. There were no potential common shares outstanding during any of the periods presented.

3. Supplemental consolidated statements of cash flows disclosures

a) Income tax, minimum presumed income tax and interests

During the years ended December 31, 2004, 2003 and 2002, the Company paid A$4,352, A$3,716 and A$0 for income tax and minimum presumed income tax, respectively. Additionally, during the years ended December 31, 2004, 2003 and 2002 the Company paid A$732, A$498 and A$13,891, respectively, in interest related to operating activities.

b) Noncash investing and financing activities

The Company sold all of its interest in La Red to Avila Inversora S.A. ("AISA") and Carlos Avila Enterprise S.A. ("CAE") (related companies, see Note 6) for consideration of A$6,640. In conjunction with the sale, receivables were originated and a building was received as follows:

Related party receivable	A$	3,700(1)
Building		2,940(2)
	A$	6,640

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) The accounts receivable will be settled by AISA by effectively assuming the obligation to repay up to A$3,700 of principal and interest of a financial debt payable by TyC, currently in default. See Notes 6.d and 7. If as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V. S.A. ("América TV"), a related company of the purchasers.

(2) Fair value was determined based on an option held by TyC to return the building to CAE for an amount of US$1 million as per the related sales agreement signed between the parties. See note 6.d.

4. Investments in affiliates accounted for under the equity method

The following table includes TyC's carrying value and percentage ownership of its investments in affiliates:

	December 31, 2004		December 31, 2003
	Percentage ownership	Carrying amount	Carrying amount
TSC	50%	A$ 10,062	A$ 7,196
TRISA	50%	9,162	11,983
T&T	50%	1,902	(3,715)(1)
Others	—	6	6
Total		A$ 21,132	A$ 15,470

(1) As the Company's investment in T&T was negative as of December 31, 2003, it has been classified in Non-current liabilities-Investments in affiliates accounted for under the equity method because the Company is ready to provide financial support, as may be necessary, to allow T&T to continue operating as going concern.

The following table reflects TyC's share of earnings (losses) from equity affiliates:

	Year ended December 31,		
	2004	2003	2002
TSC	A$ 2,868	A$ 3,502	A$ (193)
TRISA	4,678	8,539	(10,084)
T&T	5,668	4,055	2,492
Sale of Pro Entertainment S.A.(1)	—	(5,706)	—
Others	(313)	(963)	(2,804)
Total	A$ 12,901	A$ 9,427	A$ (10,589)

(1) Relates to TyC forgiveness in 2003 of an accounts receivable maintained with Pro Entertainment S.A., as a result of the sale of such company by T&T in fiscal year 2002.

For the years ended December, 31, 2004, 2003 and 2002, the Company's share of earnings (losses) from equity affiliates includes losses related to other-than-temporary declines in the fair value of equity method investments of A$0, A$0 and A$2,493, respectively.

During the years ended December 31, 2004, 2003 and 2002, TRISA distributed cash dividends, of which the Company collected A$7,500, A$0 and A$2,718, respectively.

TSC

Summarized financial information for TSC follows:

	December 31, 2004		December 31, 2003	
Financial Position				
Current assets(1)	A$	50,111	A$	45,716
Non-current assets		10,487		8,661
Total assets	A$	60,598	A$	54,377
Current portion of long term debt	A$	11,500	A$	5,728
Other current liabilities(2)		24,863		30,905
Non current liabilities		4,111		3,352
Stockholders' equity		20,124		14,392
Total liabilities and stockholders' equity	A$	60,598	A$	54,377

(1) Includes outstanding amounts receivable from Cablevisión S.A. ("Cablevisión"), a related party, of A$2,497 and A$2,497 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,893 and A$5,466 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31, 2004		2003		2002	
Results of Operations						
Revenue(1)	A$	127,023	A$	128,762	A$	117,833
Operating, selling, general and administrative expense(2)		(118,149)		(113,599)		(104,423)
Operating income		8,874		15,163		13,410
Interest expense		(2,459)		(4,638)		(14,773)
Interest income		56		984		680
Foreign exchange gain (loss)		35		(671)		2,370
Other, net		(123)		91		(1,701)
Income tax expense		(647)		(3,925)		(372)
Net income (loss)	A$	5,736	A$	7,004	A$	(386)

(1) Includes revenue from Cablevisión, a related party, for an amount of A$39,172, A$39,899 and A$29,052 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$10,468, A$10,205 and A$8,456 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

TRISA

Summarized financial information for TRISA follows:

	December 31, 2004	December 31, 2003
Financial Position		
Current assets(1)	A$ 68,196	A$ 80,357
Property and equipment, net	11,813	9,812
Investments	853	794
Other non-current assets	28,621	17,827
Total assets	A$ 109,483	A$ 108,790
Current portion of long term debt	A$ 4,348	A$ 4,272
Other current liabilities(2)	43,721	43,384
Non-current debt	25,986	29,808
Other non-current liabilities	17,105	7,359
Stockholders' equity	18,323	23,967
Total liabilities and stockholders' equity	A$ 109,483	A$ 108,790

(1) Includes outstanding amounts receivable from Cablevisión, a related party, of A$3,136 and A$3,036 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,202 and A$2,173 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31, 2004	2003	2002
Results of Operations			
Revenue(1)	A$ 125,011	A$ 109,598	A$ 98,041
Operating, selling, general and administrative expenses(2)	(115,732)	(97,707)	(81,911)
Operating income	9,279	11,891	16,130
Interest expense	(5,490)	(3,451)	(2,291)
Interest income	2,367	4,487	4,379
Foreign exchange gain (loss)	(636)	5,379	(31,575)
Share of earnings (losses) from equity affiliates	61	(356)	(1,462)
Other, net	926	509	4,234
Income tax benefit (expense)	2,849	(1,381)	(9,583)
Net income (loss)	A$ 9,356	A$ 17,078	A$ (20,168)

(1) Includes revenues from Cablevisión, a related party, for an amount of A$32,938, A$34,126 and A$25,902 and from TyC for an amount of A$532, A$184 and A$149 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$14,272, A$10,119 and A$5,713 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

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T&T

In December 2004, the Company sold its ownership interest (50%) in T&T to an unrelated third party for cash proceeds of US$270 thousand. In connection with this sale, the Company retained a call right to repurchase the 50% interest in T&T for a price of US$285 thousand during the one-year period ended December 29, 2005. Due to the Company's unilateral ability to repurchase this interest and the favorable call price relative to the fair value of the interest, the Company did not meet the criteria for treating this transaction as a sale, and accordingly, has recorded the cash received as a current liability in the accompanying balance sheet as of December 31, 2004.

Summarized financial information for T&T follows:

	December 31,			
	2004		2003	
Financial Position				
Current assets(1)	A$	10,441	A$	11,987
Non-current assets		60		1,411
Total assets	A$	10,501	A$	13,398
Current portion of long term debt	A$	—		288
Other current liabilities(2)		6,697		19,806
Non-current liabilities		—		735
Stockholders' equity		3,804		(7,431)
Total liabilities and stockholders' equity	A$	10,501	A$	13,398

(1) Includes outstanding amounts receivable from Fox Sports Latin America S.A. ("Fox Sports"), a related party, of A$0 and A$374 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to Fox Sports, a related party, of A$3,675 and A$5,438 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,					
	2004		2003		2002	
Results of Operations						
Revenue(1)	A$	117,713	A$	110,962	A$	127,827
Operating, selling, general and administrative expenses(2)		(106,351)		(103,556)		(126,113)
Operating income	A$	11,362	A$	7,406	A$	1,714
Share of earnings from equity affiliates		—		—		3,312
Other, net		(26)		705		(42)
Net income	A$	11,336	A$	8,111	A$	4,984

(1) Includes revenues from Fox Sports, a related party, for an amount of A$93,933, A$85,689 and A$115,254 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$9,239, A$2,938 and A$3,227, for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Property and Equipment

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

	December 31, 2004	December 31, 2003
Buildings	A$ 14,544	A$ 14,794
Furniture and fixtures	7,267	5,311
Technical equipment, vehicles and TV studio	7,339	6,109
Computer hardware	1,367	1,429
Total property and equipment	30,517	27,643
Less: Accumulated depreciation	(14,827)	(11,729)
Net property and equipment	A$ 15,690	A$ 15,914

Loans amounting to A$2,856 are secured by certain of the Company's premises. See Note 7.

6. Related Party Transactions

(a) Company's affiliated entities:

Detailed information about Company's affiliated entities is provided in Note 4.

(b) Balances and transactions with related parties

Entities in which TyC has significant influence: TSC, TRISA, T&T and Theme Bar Management S.A.

Companies with common shareholders or directors: Cablevisión, Pramer S.C.A. and the following companies pertaining to the Fox Group: Fox Pan American Sports LLC, Fox Sports, International Sports Programming LLC and Fox Sports International Distribution Ltd. (hereinafter referred to individually or together as "FPAS").

Companies with equity interests in TyC, either direct or indirect: LMI.

Companies where TyC's chairman has an equity interest, either direct or indirect: CAE, AISA and América TV.

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The Company entered into transactions in the normal course of business with related parties. The following is a summary of the balances and transactions with related parties:

	December 31, 2004	December 31, 2003
Receivables — Current:		
América TV	A$ 1,458	A$ 1,091
TRISA	3,202	2,173
TSC	3,893	5,466
FPAS	5,047	—
AISA	1,550(1)	357
Others	276	—
	A$ 15,426	**A$ 9,087**
Receivables — Non Current:		
América TV	A$ 735	A$ 774
AISA	2,150(1)	—
	A$ 2,885	A$ 774
Payables — Current:		
América TV	A$ 1,297	A$ 312
FPAS	4,207	14,921
Others	712	647
	A$ 6,216	**A$ 15,880**

(1) Accounts receivable related to the sale of La Red — See item (d) below in this note.

See Note 7 regarding Related Party Loans.

Revenue	Transaction description	Year ended December 31, 2004	2003	2002
TRISA	Advertising, Production, Rights and Others	A$ 14,272	10,119	5,713
TSC	Production and Rights	10,468	10,205	8,456
T&T	Production and Rights	9,239	2,938	3,227
América TV	Production	1	855	343
FPAS	Advertising, Production, Rights and Others	40,918	52,679	51,783
Others		43	181	452
		A$ 74,941	A$ 76,977	A$ 69,974

Services received	Transaction Description	Year ended December 31, 2004	2003	2002
Operating (other than depreciation) expenses				
América TV		A$ (282)	(1,477)	(849)
TRISA	Production and rights	(532)	(184)	(149)
Pramer S.C.A.	Production	—	(15)	(255)
	Total operating (other than depreciation) expenses	A$ (814)	(1,676)	(1,253)
Selling, general and administrative expenses				
CAE	Other	A$ (39)	(100)	(296)
Others	Rights and others	(31)	(43)	(104)
	Total selling, general and administrative expenses	A$ (70)	A$ (143)	A$ (400)

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

(c) Agreement with FPAS

In April 2003, TyC agreed with FPAS to forgive four monthly payments that were due from April to July 2004 pursuant to a contract that expired in July 2004. TyC has recognized the forgiven payments as a reduction of revenue from the date of the agreement through July 2004 on a straight-line basis.

(d) Discontinued operations — Sale of La Red

On January 7, 2004, TyC sold its interest in La Red to CAE and AISA.

As stated in the sales agreement, the sales price was A$8.7 million, comprised of: a) A$5.0 million through the transfer of a building (see Building held for sale — Note 2), and b) A$3.7 million, which will be paid by AISA through the assumption of a financial debt held by TyC, currently in default (see Note 7). As provided in such agreement, if as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V., a related company of the purchasers, as determined based on fair market value. As collateral for payment, all transferred shares were pledged in favor of the seller.

Additionally, as per the agreement, TyC had the option to return the building to CAE for consideration of US$1 million, equivalent to A$2,940 as of the date of the transaction, in the event that during the one-year period ending January 7, 2005, TyC was not able to sell such building. TyC considered this amount to be the fair value of the building as of the date of the transaction.

The difference between the book value of the Company's equity interest in La Red as of the date of disposition and the fair value of the total consideration received amounts to A$3,939. The Company considered the earnings process was not substantially complete with respect to the uncollected A$3.7 million related party receivable. Consequently, the Company recognized a gain of A$239, which is included in Discontinued operations, net of tax; and deferred a gain of A$3,700, which is included in Liabilities associated with discontinued operations, in the accompanying consolidated balance sheet as of December 31, 2004.

As mentioned in Note 11, in January 2005, the building was sold for cash consideration of A$6.0 million.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As a result of this transaction, the Company has disposed of its entire radio broadcasting business. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of La Red have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operation and statements of cash flows and have been reported separately in such consolidated financial statements. In addition, unless specifically noted, amounts disclosed in the notes to the accompanying consolidated financial statements are for continuing operations.

The following table summarizes certain information related to discontinued operations:

	December 31, 2003	
Current assets	A$	4,357
Non-current assets		1,552
Total assets	A$	5,909
Current liabilities	A$	2,790
Non-current liabilities		418
Total liabilities	A$	3,208
Stockholders' equity	A$	2,701

	Year ended December 31,			
	2003		2002	
Revenue	A$	5,672	A$	3,820
Pre-tax loss (including impairment of goodwill of A$6,074 in 2002)	A$	(253)	A$	(9,658)
Loss from discontinued operations, net of tax	A$	(604)	A$	(9,658)

7. Debt

The Company's debt as of December 31, 2004 and 2003 is summarized below:

	2004		2003	
Bank loans	A$	8,333	A$	9,024
Related Party		8,419		8,306
Total	A$	16,752	A$	17,330

Bank Loans:

The bank debt is denominated in Argentine pesos with interest rates ranging from 9% to 11% and maturities as follows:

Past due	A$	4,927
2005	A$	3,406
Total debt	A$	8,333(1)

(1) Includes A$2,635 for which one of the purchasers of La Red has effectively assumed the obligation to repay up to A$3,700 of principal and interest. See Note 6.

The total amount of loans denominated in Argentine pesos at December 31, 2004 includes A$4,927 corresponding to loans that are in default and are being renegotiated. Such loans are classified as current liabilities.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Loans amounting to A$2,856 are secured by certain of the Company's premises.

Related Party Loans:

Represents loans primarily from LMI. The loans from LMI, which bear interest at 9% and are denominated in US dollars, are past due. Such loans are classified as current liabilities.

TyC believes that the carrying amount of debt approximates fair value at December 31, 2004, with the exception of related party loans and bank loans in default, for which TyC considers that it is not practical to estimate fair value.

8. Stockholders' equity

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock accounts, and additional Paid-in Capital). This legal reserve may be used only to absorb accumulated deficits.

Additionally, under Argentine Commercial Law, in the event that accumulated deficit is higher than 50% of common stock, plus 100% of additional paid-in-capital and legal reserve, the Company is required to absorb the related accumulated deficit against such equity accounts. Consequently on July 8, 2004, TyC stockholders approved the absorption of accumulated deficit in the amount of A$109,409, by offsetting such balance against additional paid-in-capital and legal reserve outstanding as of that date.

9. Income tax

Income tax expense for the years ended December 31, 2004, 2003 and 2002 consists of the following:

	Year ended December 31, 2004	2003	2002
Current tax expense	A$ (4,231)	A$ (3,611)	A$ —
Deferred tax expense	(694)	(4,170)	(1,698)
Sub-total	(4,925)	(7,781)	(1,698)
Minimum presumed income tax	(102)	(105)	—
Income tax expense	A$ (5,027)	A$ (7,886)	A$ (1,698)

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the Company's deferred tax assets and liabilities are presented below:

	December 31, 2004	December 31, 2003
Allowance for doubtful accounts	A$ 2,506	A$ 1,467
Directors' fees	—	660
Accumulated tax losses	499	567
Accumulated tax losses from the sale of controlled subsidiaries	5,754	—
Items accrued not yet deducted	597	884
Deferred income	—	1,202
Programming rights	(2,133)	(1,623)
Unpaid interest on foreign loans from related parties	1,290	—
Others	48	91
Sub-total	8,561	3,248
Less: Valuation allowance on deferred tax asset	(7,201)	(1,194)
Net deferred tax asset at tax rate (35%)	A$ 1,360	A$ 2,054

Income tax expense (benefit) for the years ended December 31, 2004, 2003 and 2002 differ from the amounts computed by applying the Company's statutory income tax rate to pre-tax income (loss) as a result of the following:

	2004	2003	2002
Income (loss) before taxes and discontinued operations	A$ 21,623	A$ 28,441	A$ (122,230)
Prevailing tax rate	35%	35%	35%
Expected tax benefit (expense) from continuing operations	(7,568)	(9,954)	42,781
Impairment of intangible assets	—	—	(33,482)
Increase in accumulated tax losses from the sale of controlled subsidiaries	5,754	—	—
Imputed interest	—	(246)	(1,075)
Directors' fees	—	—	(1,268)
Share of earnings (losses) from equity affiliates	4,515	3,299	(3,706)
Non-recoverable receivables	(236)	(363)	(1,824)
Non-deductible expenses	(1,485)	(467)	(2,747)
Change in valuation allowance on deferred tax assets	(6,007)	(155)	(377)
Income tax expense from continuing operations	A$ (5,027)	A$ (7,886)	A$ (1,698)

As of December 31, 2004, the Company has accumulated tax loss carryforwards of A$17.9 million (equivalent to A$6.3 million at prevailing tax rate), which expire through year 2009.

The Company is subject to a minimum presumed income tax. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on certain production assets valued according to the tax regulations in effect as of the end of each year. The Company's tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the minimum presumed income tax exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the minimum presumed income tax that may arise in the next ten fiscal years. Each of TyC and its controlled companies file separate tax returns. The minimum presumed income tax charge for the years ended December 31, 2004 and 2003 correspond to controlled companies that generate tax losses.

10. Commitments and contingencies

(a) Long-term Rights Contracts

The Company has long-term rights contracts which require payments through 2010. Future minimum payments, including unrecorded amounts, by year are as follows at December 31, 2004:

Year ending December 31:

2005	A$	8,625
2006	A$	16,755
2007	A$	5,589
2008	A$	1,589
2009	A$	1,589
Thereafter	A$	723

Additionally, TyC has long-term rights contracts which require, for the period from 2007 to 2014, payments of 50% of the revenue derived form the related rights.

(b) Litigation

The Company has contingent liabilities related to legal and other matters arising in the ordinary course of business. A liability of A$2,664 has been included in the Company's consolidated balance sheet as of December 31, 2004 to provide for probable and estimable potential losses under these claims.

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company's management based upon the information available at this time and consultation with external legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company's financial position or results of operations. Accordingly, no additional liabilities have been established for the outcome of these matters.

11. Subsequent Events

(a) Sale of building held for sale

On January 6, 2005 the Company sold to a third party the building held for sale included in current assets in the accompanying consolidated financial statements, for cash consideration of A$6 million.

(b) Agreement with FPAS

The Company's contracts with FPAS for the provision of production of content, advertising sales and operating and administrative service to the signal Fox Sports expired on December 31, 2004. On January 1, 2005, the

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company signed new service agreements with FPAS that expire in December 2010. The annual payments due to the Company under these contracts are as follows:

Amounts in thousands of US$

	2004	2005
Administrative services	658	658
Production of content	4,344	5,544
Advertising commission (range)	From 17.5% to 20%	From 17.5% to 20%

Regarding production of content, the amount of the payments increases to US$5,844 thousand and US$6,244 thousand for years 2006 and 2007, respectively, and to US$6,744 thousand for years 2008 to 2010.

The value of administrative services will not change throughout the period from 2005 to 2010.

In the case of certain changes in the direct or indirect TyC ownership, FPAS has the right to terminate any or all service agreements by delivering written notice 60 days prior to such termination.

On January 1, 2005 the Company also extended from 2007 to 2010 the revenue agreements related to *Clásico del Domingo* and *Futbol de Primera* rights for América (except Argentina) and the Summer Soccer rights for América in the same terms and conditions prevailing in the former agreements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Cordillera Comunicaciones Holding Limitada:

We have audited the accompanying consolidated balance sheets of Cordillera Comunicaciones Holding Limitada and subsidiaries (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cordillera Comunicaciones Holding Limitada and Subsidiaries at December 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Chile, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 27 to the consolidated financial statements).

Ernst + Young

ERNST & YOUNG LTDA.
Santiago, February 25, 2005

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Consolidated Balance Sheets
for the years ended December 31
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004 except as stated)

	As of December 31,		
	2003	2004	2004
	ThCh$	ThCh$	ThUS$ Note 2(e)
ASSETS			
CURRENT ASSETS			
Cash	210,523	211,672	380
Time deposits (Note 3)	6,936,432	4,033,512	7,236
Trade receivables, net (Note 4)	2,580,504	2,022,823	3,629
Notes receivable (Note 4)	92,652	114,250	205
Miscellaneous receivables (Note 4)	2,673,926	1,426,134	2,559
Notes and accounts receivable from related companies (Note 5)	232,509	228,921	411
Recoverable income taxes, net (Note 6)	76,634	79,553	143
Prepaid expenses (Note 7)	988,849	631,278	1,133
Deferred income taxes net (Note 6)	1,375,702	1,505,421	2,701
Total current assets	15,167,731	10,253,564	18,397
PROPERTY, PLANT AND EQUIPMENT (Note 8)			
Land	500,019	500,019	897
Buildings and other infrastructure	118,466,606	120,942,228	216,976
Machinery and equipment	12,044,082	13,453,463	24,136
Furniture and fixtures	4,126,938	4,380,580	7,859
Other property, plant and equipment	15,092,271	14,424,263	25,878
Less: Accumulated depreciation	(34,686,655)	(44,929,770)	(80,602)
Property, plant and equipment, net	115,543,261	108,770,783	195,144
OTHER ASSETS			
Investment in other companies, net (Note 9)	233,512	225,341	403
Goodwill, net (Note 10)	62,349,750	58,057,299	104,156
Intangibles, net	1,711,696	1,539,410	2,761
Deferred income taxes, net (Note 6)	8,349,411	9,536,666	17,109
Other assets (Note 11)	11,585,426	10,682,574	19,164
Total other assets	84,229,795	80,041,290	143,593
TOTAL ASSETS	214,940,787	199,065,637	357,134

	2003 ThCh$	2004 ThCh$	2004 ThUS$
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Banks and financial institutions, short-term (Note 12)	—	59,325	106
Banks and financial institutions, current portion (Note 12)	7,631,787	7,587,230	13,612
Accounts payable (Note 13)	9,258,399	7,289,371	13,077
Notes payable (Note 14)	12,133	12,193	22
Miscellaneous payables (Note 15)	1,041,968	14,508,434	26,029
Notes and accounts payable to related companies (Note 5)	753,025	11,893,748	21,338
Provisions and withholdings (Note 16)	1,297,142	1,432,338	2,570
Unearned revenues (Note 17)	736,997	680,687	1,221
Deferred taxes (Note 6)	161,459	—	—
Other current liabilities (Note 18)	4,292,744	842,019	1,511
Total current liabilities	25,185,654	44,305,345	79,486
LONG-TERM LIABILITIES			
Banks and financial institutions, non-current portion (Note 12)	30,246,442	22,650,889	40,637
Long-term notes payables (Note 15)	14,761,670	—	—
Notes and accounts payable to related companies (Note 5)	—	872,688	1,566
Deferred taxes (Note 6)	3,204,918	3,015,508	5,410
Other long-term liabilities	375,491	314,247	564
Deferred gains (Note 19)	1,474,427	1,400,705	2,513
Total long-term liabilities	50,062,948	28,254,037	50,690
Minority interest	4,131,190	3,670,536	6,585
Commitments and contingencies (Note 24)	—	—	—
SHAREHOLDERS' EQUITY (Note 20)			
Paid-in capital	205,865,408	205,865,408	369,332
Price-level restatement	1,852,790	1,852,790	3,324
Accumulated deficit	(58,374,521)	(72,157,203)	(129,451)
Net loss for the year	(13,782,682)	(12,725,276)	(22,832)
Total Shareholders' equity	135,560,995	122,835,719	220,373
Total Liabilities and Shareholders' equity	214,940,787	199,065,637	357,134

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

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Consolidated Income Statements
for the years ended December 31
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004 except as stated)

	For the Years Ended December 31,			
	2002 ThCh$	2003 ThCh$	2004 ThCh$	2004 ThUS$ Note 2(e)
OPERATING INCOME				
Operating revenue	47,911,196	46,100,072	45,547,636	81,714
Operating costs	(43,594,223)	(39,034,899)	(39,864,637)	(71,519)
Operating margin	4,316,973	7,065,173	5,682,999	10,195
Administrative and selling expenses	(15,958,113)	(14,279,993)	(14,328,858)	(25,707)
Operating loss	(11,641,140)	(7,214,820)	(8,645,859)	(15,512)
NON-OPERATING INCOME				
Financial revenue	372,907	218,122	59,530	107
Other non-operating income	58,583	306,224	416,010	746
Financial expenses	(2,431,445)	(2,708,735)	(2,335,803)	(4,191)
Other non-operating expenses (Note 21)	(1,567,912)	(1,129,243)	(410,524)	(736)
Goodwill amortization (Note 10)	(4,207,744)	(4,289,132)	(4,225,945)	(7,582)
Price-level restatement, net (Note 22)	294,056	75,810	349,259	627
Foreign currency translation (Note 22)	(974,908)	(1,296,437)	(213,322)	(383)
Non-operating loss	(8,456,463)	(8,823,391)	(6,360,795)	(11,412)
Loss before taxes and minority interest	(20,097,603)	(16,038,211)	(15,006,654)	(26,924)
Tax benefit (Note 6)	2,449,618	2,088,982	1,820,722	3,267
Minority interest	88,679	166,547	460,656	825
Net loss for the year	(17,559,306)	(13,782,682)	(12,725,276)	(22,832)

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

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Consolidated Statements of Cash Flows
for the years ended December 31
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of December 31, 2004 except as stated)

	For the Years Ended December 31,			
	2002 ThCh$	2003 ThCh$	2004 ThCh$	2004 ThUS$ Note 2(e)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	(17,559,306)	(13,782,682)	(12,725,276)	(22,832)
Charges (credits) to income that do not represent cash flows				
Depreciation	8,764,859	9,748,814	10,296,535	18,471
Software and other amortization	321,353	448,062	686,750	1,232
Amortization of residential cable TV installations	2,833,638	3,621,253	4,252,345	7,629
Other current amortization	—	(14,227)	(71,300)	(128)
Loss on sale of fixed assets	—	32,309	25,036	46
Deferred taxes	(2,622,653)	(2,056,674)	(1,810,281)	(3,247)
Write-offs	675,653	290,492	276,638	496
Allowance for doubtful accounts	3,113,675	1,263,257	1,005,935	1,805
Vacation accrual	169,081	157,742	139,771	251
Valuation and obsolescence provision	130,627	144,568	—	—
Goodwill amortization	4,207,744	4,289,132	4,225,945	7,582
Price-level restatement	(294,056)	(75,810)	(349,259)	(627)
Foreign Currency Translation	974,908	1,296,437	213,322	383
Accrued interest	915,808	856,174	—	—
Investment price level restatement	320,720	(198,421)	39,646	71
Unrealised gain (loss) on forward operations	859,354	300,314	(3,587,789)	(6,437)
Other	(106,523)	(101,597)	(74,159)	(133)
Decrease (increase) in Assets				
Trade receivables, net	(3,725,551)	(10,629)	(448,254)	(804)
Miscellaneous receivables	(707,723)	(943,853)	1,222,435	2,193
Notes and accounts receivable from related parties	116,186	113,671	(1,058)	—
Income taxes recoverable, net	842,846	10,498	(2,919)	(5)
Prepaid expenses	1,522,124	(109,591)	66,394	119
Other current assets, net	409,755	—	—	—
(Decrease) increase in Liabilities				
Accounts and notes payable	(3,925,898)	(3,871,445)	(2,083,614)	(3,738)
Miscellaneous payables	(9,918)	725,923	(1,092,492)	(1,960)
Accrued liabilities and withholdings	270,724	(55,487)	150,899	271
Notes and accounts payable to related parties	816,683	(647,855)	124,655	224
Unearned revenues	475,007	(112,226)	(56,310)	(101)
Other current liabilities	—	313,475	137,064	246
Short-term bank obligations	—	—	59,325	106
Minority interest	(88,678)	(166,547)	(396,710)	(712)

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Consolidated Statements of Cash Flows — (Continued)
for the years ended December 31
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004 except as stated)

	For the Years Ended December 31,			
	2002	2003	2004	2004
	ThCh$	ThCh$	ThCh$	ThUS$ Note 2(e)
Total cash flows provided from (used in) operating activities	(1,299,561)	1,465,077	223,274	401
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of subsidiary shares	—	5,047,718	—	—
Loan proceeds	18,365,974	—	11,900,000	21,349
Related company proceeds	—	2,612	—	—
Other payments to related companies	—	(7,289)	—	—
Payments for bank obligations	—	(63,068)	(7,421,738)	(13,315)
Total cash flows from financing activities	18,365,974	4,979,973	4,478,262	8,034
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of property, plant and equipment	—	206,299	33,663	60
Purchase of property, plant and equipment	(3,687,334)	(8,420,557)	(4,039,429)	(7,247)
Purchase of software and licenses	(381,386)	(453,475)	(508,737)	(913)
Additions to residential Cable TV installations	(4,533,873)	(3,505,310)	(2,915,939)	(5,231)
Total cash flows used in investing activities	(8,602,593)	(12,173,043)	(7,430,442)	(13,331)
Total net cash flow for the year	8,463,820	(5,727,993)	(2,728,906)	(4,896)
Effect of inflation on cash and cash equivalents	(445,612)	(129,719)	(172,865)	(310)
Increase (decrease) of cash and cash equivalents during the year	8,018,208	(5,857,712)	(2,901,771)	(5,206)
Cash and cash equivalents at the beginning of the year	4,986,459	13,004,667	7,146,955	12,822
Cash and cash equivalents at the end of the year	13,004,667	7,146,955	4,245,184	7,616

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

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Cordillera Comunicaciones Holding Limitada and Subsidiaries

Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of December 31, 2004 except as stated)

Note 1. The Company:

Cordillera Comunicaciones Holding Limitada (the "Company") was incorporated on December 31, 1994. On that date, the founders of the Company contributed 100% of the shares of cable television systems serving the communities of Santiago, Temuco, Viña del Mar, Valdivia, Puerto Montt, Puerto Varas and Los Angeles, Chile. This contribution resulted in dissolution of the underlying companies, with the Company assuming all of the assets and liabilities of the predecessor companies. Included in the assets of the predecessor companies are cash, property, plant and equipment and certain organizational costs contributed by the founders to the various companies prior to their dissolution.

Note 2. Significant Accounting Policies:

(a) General:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Chile and the regulations established by the SVS (collectively "Chilean GAAP"). Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Chile do not conform with generally accepted accounting principles in the United States ("U.S. GAAP"). A reconciliation of Chilean GAAP to U.S. GAAP is provided in Note 27. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In certain cases generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be bought or sold or the amount at which a liability could be incurred or settled in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, quoted market prices in active markets have been used as the basis for the measurement; however, where quoted market prices in active markets are not available, the Company has estimated such values based on the best information available, including using modeling and other valuation techniques.

The accompanying financial statements reflect the consolidated operations of Cordillera Comunicaciones Holding Limitada and subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The Company consolidates the financial statements of companies in which it controls over 50% of the voting shares.

The Company consolidates the following subsidiaries:

	2002	2003	2004
	%	%	%
Pacific Televisión Limitada	99.5	99.5	99.5
Metrópolis Intercom S.A.	99.5	95.1	95.1
Cordillera Comunicaciones Limitada	99.5	99.5	99.5

(b) Periods covered:

These financial statements reflect the Company's financial position of its balance sheet as of December 31, 2003 and 2004 and its operating results and its cash flows for the years ended December 31, 2002, 2003 and 2004.

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Notes to the Consolidated Financial Statements — (Continued)
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of December 31, 2004 except as stated)

(c) Price-level restatement:

The Company's financial statements have been restated to reflect the effects of variations in the purchasing power of Chilean pesos during the year. For this purpose non-monetary assets and liabilities, equity and income statement accounts have been restated in terms of year-end constant pesos based on the change in the Chilean consumer price index during the years ended December 31, 2002, 2003 and 2004 at 3.0%, 1.0% and 2.5%, respectively.

(d) Assets and liabilities denominated in foreign currency:

Balances in foreign currencies have been translated into Chilean Pesos at the Observed Exchange Rate as reported by the Central Bank of Chile as follows:

	As of December 31		
	2002	2003	2004
	Ch$	Ch$	Ch$
U.S. Dollar	718.61	593.8	557.4
Unidad de Fomento	16,744.12	16,920.00	17,317.05

Transactions in foreign currencies are recorded at the exchange rate prevailing when the transactions occur. Foreign currency balances are translated at the exchange rate prevailing at the month end.

(e) Convenience translation to U.S. Dollars:

The Company maintains its accounting records and prepares its financial statements in Chilean pesos. The United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader and have been translated at the closing exchange rate of Ch$557.40 per US$1 as of December 31, 2004. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into United States dollars at that exchange rate or at any other rate of exchange.

(f) Time deposits:

This account corresponds to fixed term deposits in Chilean pesos, which are recorded at cost, plus inflation-indexation and accrued interest at year end.

(g) Marketable securities:

This account corresponds to investments in mutual funds, which are presented at their redemption value at the end of each accounting period.

(h) Trade receivables:

Trade receivables include sales of advertising and rendering of monthly cable television service. This balance is stated net of an allowance for uncollectible receivables. The allowance was determined by considering 100% of the receivables from subscribers who are connected to the Company's network and are over three months past due, and specifically identified debtors who have been disconnected from the Company's network or are in the process of being disconnected.

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(i) Prepaid expenses:

Program costs, movies, series and documentaries, are capitalized and charged to expense when broadcasted or are amortized over the term of the contract, whichever is greater.

(j) Property, plant and equipment:

Property, plant and equipment are stated at their acquisition value and are price-level restated. Depreciation is computed using the straight-line method over the estimated remaining useful lives of the assets, which are as follows:

	Years
Buildings and other infrastructure	20 - 38
Machinery and equipment	7 - 10
Furniture and equipment	5 - 10
Other	5 - 7

The Company depreciates its fiber optic external network using a progressive method based on the projected number of subscribers per product line.

(k) Leased assets:

The Company has entered into financing lease agreements for property, plant and equipment, which include options to purchase at the end of the term of the agreement. These assets are not legally owned by the Company and cannot be freely disposed of until the purchase option is exercised. These assets are shown at the present value of the contract, determined by discounting the value of the installments and the purchase option at the interest rate established in the respective agreement.

(l) Software:

The cost of the computer applications purchased from external vendors needed for managing the Company's business is amortized using the straight-line method over an estimated useful life of four years. For the years ended December 31, 2002, 2003 and 2004 amortization charged to income amounted to ThCh$321,353, ThCh$448,062 and ThCh$686,750, respectively.

(m) Investment in other companies:

Investments in other companies are recorded at the lower of cost adjusted by price–level restatement or market value.

(n) Goodwill:

Goodwill is calculated as the excess of the purchase price of cable television operations acquired over their net book value and is amortized on a straight-line basis over 20 years.

(o) Other assets:

Other assets primarily consist of deferred costs of Cable TV residence installations or drops, which are amortized over their remaining estimated useful life which is estimated as 5 years. For the years ended December 31,

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2002, 2003 and 2004 the amount amortized was ThCh$2,833,638, ThCh$3,621,253 and ThCh$4,252,345 respectively.

(p) Accrued vacation expense:

In accordance with Technical Bulletin No. 47 issued by the Chilean Association of Accountants, employee vacation expenses are recorded on the accrual basis.

(q) Revenue recognition and unearned revenues:

Revenues from cable subscriptions are recognized during the month that the services are to be performed and revenues from advertising are recognized when the advertising is broadcast. Unearned revenues relate to advance billing on advertising contracts, which have not yet been broadcast. As of December 31, 2003 and 2004, deferred revenues were ThCh$736,997 and ThCh$680,687, respectively.

(r) Current and deferred income taxes:

Deferred income taxes are recorded based on timing differences between accounting and taxable income. As a transitional provision, a contra asset or liability has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such contra asset or liability amounts must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates calculated using the tax rates to be in effect at the time of reversal.

(s) Financial derivatives:

As of December 31, 2003, the Company maintained investments in forward contracts in order to hedge future payments related to liabilities denominated in U.S. dollars. Gains and losses on forward contracts were recorded at the closing spot exchange rate. Furthermore, gains or losses related to anticipated transactions were deferred and recorded net in other current assets or liabilities, until the sale date of the contracts.

The contracts held by the Company as of December 31, 2004 are investment contracts which are recorded at their fair values using the year-end spot exchange rate while the results are recognized in the Income Statement.

(t) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash, time deposits, repurchase agreements and marketable securities with a remaining maturity of 90 days or less as of each year-end. The detail of cash and cash equivalents as of December 31, 2003 and 2004 is as follows:

	2003 ThCh$	2004 ThCh$
Cash	210,523	211,672
Time deposits	6,936,432	4,033,512
Total	7,146,955	4,245,184

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Note 3. Time Deposits:

The detail of Time Deposits as of December 31, 2003 and 2004 is as follows:

2003:

Financial Institution	Currency	Interest Rate	Capital balance ThCh$	Final Balance ThCh$
Banco BCI	Chilean Pesos	0.20%	1,064,668	1,064,738
Banco Santander-Santiago	Chilean Pesos	0.27%	928,240	931,165
Banco Santander-Santiago	Chilean Pesos	0.25%	2,050,000	2,054,783
Banco Santander-Santiago	Chilean Pesos	0.25%	1,121,760	1,124,378
Banco Santander-Santiago	Chilean Pesos	0.22%	824,100	825,308
Banco Corpbanca-Santiago	Chilean Pesos	0.23%	935,415	936,060
Total			6,924,183	6,936,432

2004:

Financial Institution	Currency	Interest Rate	Capital balance ThCh$	Final Balance ThCh$
Banco BCI	Chilean Pesos	0.20%	1,450,000	1,450,097
Banco Santander-Santiago	Chilean Pesos	0.18%	704,500	705,092
Banco Santander-Santiago	Chilean Pesos	0.27%	817,093	817,460
Banco Santander-Santiago	Chilean Pesos	0.18%	1,060,800	1,060,863
Total			4,032,393	4,033,512

Note 4. Trade, Notes, and Miscellaneous Receivables:

The detail of Trade receivables as of December 31, 2003 and 2004 is as follows:

	2003 ThCh$	2004 ThCh$
Cable Services	7,111,253	7,637,629
Invoiced advertising receivable	1,767,767	1,525,687
Sub-total	8,879,020	9,163,316
Allowance for doubtful accounts-cable services monthly services	(6,165,459)	(7,019,201)
Allowance for doubtful accounts on advertisement	(133,057)	(121,292)
Total allowance for doubtful accounts	(6,298,516)	(7,140,493)
Total	2,580,504	2,022,823

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	Short-term Receivables								Long-term Receivables	
	Up to 90 days		More than 90 days and up to 1 Year		Subtotal		Total Short-term Receivables (net)		Total Long-term Receivables	
	62003	2004	2003	2004	2003	2004	2003	2004	2003	2004
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Trade receivable	2,580,504	2,022,823	6,298,516	7,140,493	8,879,020	9,163,316	2,580,504	2,022,823	—	—
Allowances for doubtful accounts	—	—	(6,298,516)	(7,140,493)	(6,298,516)	(7,140,493)	—	—		
Notes receivable	92,652	114,250	190,395	197,923	283,047	312,173	92,652	114,250	—	—
Allowances for doubtful accounts	—	—	(190,395)	(197,923)	(190,395)	(197,923)	—	—	—	—
Miscellaneous Receivables	2,673,926	1,426,134	90,842	102,346	2,764,768	1,528,480	2,673,926	1,426,134	—	—
Allowances for doubtful accounts	—	—	(90,842)	(102,346)	(90,842)	(102,346)	—	—	—	—
Total	5,347,082	3,563,207	—	—	5,347,082	3,563,207	5,347,082	3,563,207	—	—

Changes in allowances for doubtful accounts for the years ended December 31, 2002, 2003 and 2004 are as follows:

	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Beginning balance	2,149,165	5,262,840	6,579,753
Charged to expense	3,007,655	1,232,446	1,005,935
Other	106,020	84,467	(144,926)
Ending balance	5,262,840	6,579,753	7,440,762

Miscellaneous receivables as of December 31, 2003 and 2004 are as follows:

	2003	2004
	ThCh$	ThCh$
Raw materials	294,580	94,147
Advances to suppliers	412,515	120,254
Advances to employees	4,782	23,494
Receivables from cable services	1,070,971	733,776
Receivables from advertising rights	206,661	—
Network receivables	512,093	199,331
Receivables from Intercom communications	34,672	—
Other receivables	137,652	255,132
Total	2,673,926	1,426,134

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Note 5. Balances and Transactions with Related Companies:

(a) Short-term notes and accounts receivable from related companies as of December 31, 2003 and 2004 are as follows:

Identification Number	Company	Short-term 2003 ThCh$	Short-term 2004 ThCh$
86.547.900-K	S.A. Viña Santa Rita	14,797	1,568
79.952.350-7	Red Televisiva Megavisión S.A.	1,245	185
96.539.380-3	Ediciones Financieras S.A.	—	225
Foreign Entity	Crown Media	25,983	41,105
Foreign Entity	Bresnan Communications de Chile S.A.	190,484	185,838
Total		232,509	228,921

(b) Notes and accounts payable to related companies as of December 31, 2003 and 2004 are as follows:

Identification Number	Company	Short-term 2003 ThCh$	Short-term 2004 ThCh$	Long-term 2003 ThCh$	Long-term 2004 ThCh$
83.032.100-4	S.y C. Hendaya S.A.	—	2	—	—
Foreign Entity	Bresnan Communications Company Ltd partnership	173,051	158,481	—	—
86.547.900-K	S.A. Viña Santa Rita	24,654	1,140	—	—
79.952.350-7	Red Televisiva Megavisión S.A.	64,769	182,566	—	—
Foreign Entity	Pramer	30,432	66,311	—	—
Foreign Entity	Crown Media	69,994	2,669	—	—
Foreign Entity	Discovery	356,059	300,790	—	—
Foreign Entity	DMX	8,746	10,101	—	—
Foreign Entity	USA Network	25,320	6,750	—	—
Foreign Entity	Liberty Media International, Inc.	—	6,018,813	—	—
90.331.006-6	Cristal Chile S.A.	—	5,146,125	—	872,688
Total		753,025	11,893,748	—	872,688

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(c) Transaction with related companies during the years ended December 31, 2002, 2003 and 2004 are as follows:

Company	RUT	Relationship		Transactions 2002 ThCh$	Transactions 2003 ThCh$	Transactions 2004 ThCh$	Net Effect in Income Statement Gain (Loss) 2002 ThCh$	Net Effect in Income Statement Gain (Loss) 2003 ThCh$	Net Effect in Income Statement Gain (Loss) 2004 ThCh$
S.A. Viña Santa Rita	86.547.900-K	Indirect	Advertising Contract	15,848	19,739	9,447	15,461	19,739	9,447
			Sale of Products	—	28,088	958	—	(7,809)	(958)
Red Televisiva Megavisión S.A.	79.952.350-7	Indirect	Advertising Contract	—	1,543	25,500	—	1,543	25,500
Red Televisiva Megavisión S.A.	79.952.350-7	Indirect	Advertising Contract	330,831	208,126	508,456	322,762	(208,126)	(508,456)
	79.952.350-8	Indirect	Loans receivable	—	—	—	1,009	—	
Ediciones Financieras	96.539.380-3	Indirect	Advertising Contract	—	83,279	26,035	—	(83,279)	(26,035)
			Advertising Contract	—	64,877	—	—	64,877	—
			Advertising Contract	—	—	128	—	—	128
Pramer	Foreign entity	Indirect	Programming Signals	—	84,488	230,673	—	(84,488)	(230,673)
Discovery	Foreign entity	Indirect	Programming Signals	1,705,076	1,490,038	1,374,604	1,705,076	(1,490,383)	(1,374,604)
DMX	Foreign entity	Indirect	Programming Signals	11,151	44,385	1,532	11,151	(44,385)	(1,532)
CROWN MEDIA	Foreign entity	Indirect	Programming Signals	215,016	211,219	40,713	(318,541)	(211,219)	(40,713)
Liberty Media International, Inc.	Foreign entity	Stockholder	Short-term loans	—	—	6,018,813	—	—	—
Cristal Chile S.A.		Stockholder	Short-term loans	—	—	6,018,813	—	—	—

Note 6. Income Taxes and Deferred Taxes:

a) Income taxes recoverable

As of December 31, 2003 and 2004, the Company had the following income taxes recoverable:

	2003 ThCh$	2004 ThCh$
Current income taxes and Article 21	(4,777)	(2,213)
Monthly income tax installments	11,565	11,283
Credit for training expenses	67,821	68,459
Credit value-added tax	2,025	2,024
Total	76,634	79,553

b) Income taxes

Income tax benefits for the years ended December 31, 2002, 2003, and 2004 are as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
Credit for absorbed earnings	(167,509)	—	—
Deferred income taxes	2,622,653	2,093,759	1,822,935
First category tax provision	(5,526)	(4,777)	(2,213)
Total	2,449,618	2,088,982	1,820,722

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c) Deferred Income Taxes:

In accordance with Technical Bulletin No. 60 issued by the Chilean Association of Accountants on deferred income taxes, the Company has recorded deferred taxes for temporary differences as follows:

	As of December 31, 2003				As of December 31, 2004			
	Assets		Liabilities		Assets		Liabilities	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Allowance for doubtful accounts	1,105,571	—	—	—	1,247,088	—	—	—
Goods and services provision	16,665	—	—	—	35,240	—	—	—
Assets provision	—	308,839	—	—	—	348,334	—	—
Unearned revenues	182,172	—	—	—	146,889	—	—	—
Vacation provision	71,294	—	—	—	76,204	—	—	—
Accumulated depreciation	—	3,630	—	—	—	4,174	—	—
Forward contracts	—	—	(161,459)	—	—	—	—	—
Tax loss carry forwards(1)	—	14,755,016	—	—	—	15,898,544	—	—
Trademarks	—	—	—	—	—	—	—	—
Leasing	—	58,022	—	(65,889)	—	61,298	—	(71,751)
Goodwill	—	—	—	(3,052,475)	—	—	—	(2,780,206)
Trademark rights		2,424	—	—	—	2,836	—	—
Software	—	—	—	(289,160)	—	—	—	(260,283)
Leased installations	—	—	—	(128,829)	—	—	—	(124,575)
Difference of accelerated depreciation	—	—	—	(2,294,439)	—	—	—	(2,141,979)
Other	—	—	—	—	—	—	—	—
Complementary account	—	(6,778,520)	—	2,625,874	—	(6,778,520)	—	2,363,286
Total	1,375,702	8,349,411	(161,459)	(3,204,918)	1,505,421	9,536,666	—	(3,015,508)

In accordance with Law No. 19,753, the corporate income tax rate increased to 16.5% for the year 2003 and increased to 17% for the year 2004 and thereafter.

(1) In accordance with the current enacted tax law in Chile, accumulated tax losses can be carried-forward indefinitely.

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Note 7. Prepaid Expenses:

Prepaid expenses as of December 31, 2003 and 2004 are follows:

	2003 ThCh$	2004 ThCh$
Programming rights	24,874	20,926
Advertising rights	180,839	173,657
Prepaid transmission post usage rights	378,272	13,544
Prepaid rent	15,922	9,789
System maintenance services	—	60,509
Rental space for fiber optics	196,800	192,000
Other	192,142	160,853
Total	988,849	631,278

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Note 8. Property, Plant and Equipment:

Property, Plant and Equipment as of December 31, 2003 and 2004 are as follows:

	December 31, 2003			December 31, 2004		
	Gross Value ThCh$	Accumulated Depreciation ThCh$	Depreciation ThCh$	Gross Value ThCh$	Accumulated Depreciation ThCh$	Depreciation ThCh$
Land	500,019	—	—	500,019	—	—
Total Land	500,019	—	—	500,019	—	—
Buildings and construction:						
Buildings	129,330	(25,150)	(3,317)	129,331	(43,311)	(4,490)
External Networks	115,016,029	(18,826,777)	(6,092,788)	117,426,344	(25,122,856)	(6,296,079)
Head Installations	1,611,503	(784,885)	(102,687)	1,629,638	(897,113)	(112,229)
Equipment Hub	1,709,744	(98,553)	(44,585)	1,756,915	(184,391)	(85,837)
Total buildings and construction	118,466,606	(19,735,365)	(6,243,377)	120,942,228	(26,247,671)	(6,498,635)
Machinery and Equipment	12,044,082	(7,284,298)	(1,488,070)	13,453,463	(9,011,896)	(1,727,597)
Total machinery and equipment	12,044,082	(7,284,298)	(1,488,070)	13,453,463	(9,011,896)	(1,727,597)
Office furniture and fixtures	4,126,938	(2,825,005)	(502,389)	4,380,580	(3,281,016)	(469,760)
Total office furniture and fixtures	4,126,938	(2,825,005)	(502,389)	4,380,580	(3,281,016)	(469,760)
Other property, plant and equipment:						
Vehicles	650,300	(451,829)	(118,173)	601,342	(492,286)	(93,794)
Tools and instruments	156,390	(64,252)	(27,247)	170,301	(95,478)	(31,226)
Fixed assets in transit	59,838	—	—	—	—	—
Rented office installations	1,225,051	(467,233)	(72,610)	1,288,550	(555,756)	(88,523)
Cable TV materials	4,255,507	—	—	1,764,499	—	—
Work in progress	1,464,705	—	—	588,888	—	—
Decoding equipment	6,938,997	(3,844,929)	(1,292,481)	9,523,417	(5,180,464)	(1,335,543)
Leased assets	341,483	(13,744)	(4,467)	487,266	(65,203)	(51,457)
Total other property, plant and equipment	15,092,271	(4,841,987)	(1,514,978)	14,424,263	(6,389,187)	(1,600,543)
Total property, plant and equipment	150,229,916	(34,686,655)	(9,748,814)	153,700,553	(44,929,770)	(10,296,535)

Note 9. Investment in Other Companies:

The Company has investments in other companies valued at their cost of acquisition plus price level restatement.

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Investments in other companies as of December 31, 2003 and 2004 are as follows:

	2003	2004
	ThCh$	ThCh$
Bazuca.Com Chile S.A.	157,041	143,819
Internet Holding S.A.	283,560	283,560
Provision	(207,089)	(202,038)
Total	233,512	225,341

Note 10. Goodwill, net:

2003:

	December 31, 2003		
	Gross Value	Accumulated Amortization	Net Value
	ThCh$	ThCh$	ThCh$
Metropolis	50,137,914	(30,773,552)	19,364,362
Goodwill generated from the purchase of CTC stocks	53,086,511	(6,635,814)	46,450,697
Price-level restatement	1,032,245	(377,274)	654,971
Amortization	—	(4,279,614)	(4,279,614)
Total	104,256,670	(42,066,254)	62,190,416
Goodwill generated from the purchase of CTC Plataforma Técnica Red Multimedia S.A.	193,133	(24,281)	168,852
Amortization of CTC	—	(9,518)	(9,518)
	193,133	(33,799)	159,334
Balance as of December 31, 2003	104,449,803	(42,100,053)	62,349,750

2004:

	December 31, 2004		
	Gross Value	Accumulated Amortization	Net Value
	ThCh$	ThCh$	ThCh$
Metropolis	49,404,189	(41,040,248)	8,363,941
Goodwill generated from the purchase of CTC stocks	52,309,635	—	52,309,635
Price-level restatement	2,542,846	(1,092,511)	1,450,335
Amortization	—	(4,216,289)	(4,216,289)
Total	104,256,670	(46,349,048)	57,907,622
Goodwill generated from the purchase of CTC Plataforma Técnica Red Multimedia S.A.	193,133	(33,799)	159,334
Amortization of CTC	—	(9,657)	(9,657)
	193,133	(43,456)	149,677
Balance as of December 31, 2004	104,449,803	(46,392,504)	58,057,299

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Goodwill amortization charge to income for the years ended December 31, 2002, 2003 and 2004 amounted to ThCh$4,207,744, ThCh$4,289,132 and ThCh$4,225,945, respectively.

Note 11. Other Assets:

Other assets as of December 31, 2003 and 2004 are as follows:

	2003 ThCh$	2004 ThCh$
Other investments	2,104	2,084
Rental guarantees	118,168	114,453
Residential cable TV installations	20,390,501	23,352,776
Accumulated amortization of Residential Cable TV installations	(9,830,394)	(14,082,739)
Rental hubs, external net	422,779	931,205
Administrative projects-in-progress	34,837	41,520
Other assets	447,431	322,275
Total	11,585,426	10,682,574

The amortization charge to income for residential cable TV installations for the years ended December 31, 2002, 2003 and 2004 amounted to ThCh$2,833,638, ThCh$3,621,253, and ThCh$4,252,345, respectively.

Note 12. Banks and Financial Institutions:

(a) Short term obligations with banks and financial institutions as of December 31, 2003 and 2004 are as follows:

	Types of currency and readjustment					
	U.S. Dollars		UF		TOTAL	
Bank or Institution	2003 ThCh$	2004 ThCh$	2003 ThCh$	2004 ThCh$	2003 ThCh$	2004 ThCh$
Short-term						
Banco BCI	—	59,325	—	—	—	59,325
Total	—	59,325	—	—	—	59,325
Total capital owed		59,296				59,296
Annual Average Interest Rate		3.46%				3.46%
Current portion of long-term						
Banco Santander-Santiago	—	—	3,077,651	3,061,244	3,077,651	3,061,244
Banco BCI	—	—	1,470,568	1,461,600	1,470,568	1,461,600
Banco Estado	—	—	1,541,565	1,532,298	1,541,565	1,532,298
Banco Corpbanca	—	—	1,542,003	1,532,088	1,542,003	1,532,088
Total	—	—	7,631,787	7,587,230	7,631,787	7,587,230
Total Capital owed			7,561,611	7,550,296		
Annual Average Interest Rate				3.14%		

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	December 31, 2003	December 31, 2004
Total short-term liabilities denominated in foreign currency	0.0%	0.8%
Total short-term liabilities denominated in local currency	100.0%	99.2%

(b) Long-term obligations with banks and financial institutions:

On July 8, 2001, the Company entered into a syndicated loan agreement led by Banco Santander-Santiago of up to UF2,823,800 with interest rates fixed at the date of issuance based on the current 180 day Chilean Active Banking Rate (TAB) plus 1.4% due semi-annually, maturing in December 15, 2008.

Scheduled maturities of long-term bank obligations as of December 31, 2003 and 2004 are as follows:

			December 31, 2003	December 31, 2004					
Financial institution	Currency	Interest rate %	Total Long-term Obligations ThCh$	Due in 1-2 Years ThCh$	Due in 2-3 Years ThCh$	Due in 3-5 Years ThCh$	More than 5 Years ThCh$	Maturity	Total Long-term Obligations ThCh$
Banco Santander-Santiago	U.F.	3.00%	12,206,882	3,047,154	3,047,154	3,047,155	—	Dec-2008	9,141,463
Banco BCI	U.F.	3.13%	5,825,926	1,454,302	1,454,302	1,454,302	—	Dec-2008	4,362,906
Banco Corpbanca	U.F.	3.13%	6,106,824	1,524,422	1,524,422	1,524,422	—	Dec-2008	4,573,266
Banco Estado	U.F.	3.00%	6,106,810	1,524,418	1,524,418	1,524,418	—	Dec-2008	4,573,254
Total			30,246,442	7,550,296	7,550,296	7,550,297	—		22,650,889

	December 31, 2003	December 31, 2004
Total liabilities denominated in foreign currency	0.0%	0.0%
Total liabilities denominated in local currency	100.0%	100.0%

Note 13. Accounts Payable:

The detail of Accounts payable as of December 31, 2003 and 2004 are as follows:

	2003 ThCh$	2004 ThCh$
Suppliers	5,501,600	4,778,425
Programming	2,804,636	1,959,010
Fees	5,416	5,920
Other accounts payable	946,747	546,016
Total	9,258,399	7,289,371

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Note 14. Notes Payable:

Notes payable as of December 31, 2003 and 2004 are as follows:

	2003 ThCh$	2004 ThCh$
Uncollected stale dated checks	12,133	12,193
Total	12,133	12,193

Note 15. Miscellaneous Payables:

Balance of short-term miscellaneous payable as of December 31, 2003 and 2004 are as follows:

	2003 ThCh$	2004 ThCh$
Telefónica CTC Chile S.A.(1)	219,227	14,496,161
Comunicaciones Intercom S.A.	85,531	—
San Felipe-Los Andes network	724,217	—
Others	12,993	12,273
Total	1,041,968	14,508,434

(1) On July 30, 2001, in connection with the purchase transaction involving Companía de Telecomunicaciones de Chile S.A. (CTC), the Company entered into a loan agreement with CTC for a total of ThUS$20,000 payable over 5 years with an annual interest rate of 6%. The accounts payable balance resulting from this transaction as of December 31, 2003 was classified as long-term debt and amounted to ThCh$14,761,670. In 2004, the long-term debt was reclassified to short-term and as of December 31, 2004 amounted to ThCh$14,496,161.

The balance of long-term notes payable as of December 31, 2003 and 2004 are as follows:

		Long-term	
Principal ThUS$	Principal ThUS$	2003 ThUS$	2004 ThUS$
20,000	11,146,000	14,761,670	—

Note 16. Provisions and withholdings:

The balance of provisions and withholdings as of December 31, 2003 and 2004 is as follows:

	2003 ThUS$	2004 ThUS$
Vacations	487,092	520,943
Audit fees	3,467	3,463
Withholdings	686,627	799,376
Suppliers	89,644	73,945
Others	30,312	34,611
Total	1,297,142	1,432,338

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Note 17. Unearned Revenues:

Unearned revenues correspond to advertising contracts which have not yet been realized. As of December 31, 2003 and 2004 unearned revenue amounted to ThCh$736,997 and ThCh$680,687, respectively.

Note 18. Other Current Liabilities:

Other current liabilities as of December 31, 2003 and 2004 are as follows:

	2003	2004
	ThCh$	ThCh$
Forward contract rights	(24,573,611)	(7,246,200)
Forward contract obligations	29,927,432	8,108,271
Deferred loss from forward contract	(949,758)	—
Deferred interest from forward contract	(484,948)	(47,803)
Deferred interest amortization from forward contract	373,629	27,751
Total	4,292,744	842,019

The forward contracts held by the Company as of December 31, 2004 are investments contracts and the results have been recognized in the Income Statement.

As of December 31, 2003, the Company maintained investments in hedge contracts in order to minimize US$ currency exchange differences (cash-flow and fair value hedges).

In accordance with Technical Bulletin No. 57 ("BT No. 57") issued by Colegio de Contadores de Chile A.G. any income (loss) generated on these forward contracts to cover exchange rate fluctuations in US dollar obligations must be recognized simultaneously with the payment terms of the US dollar obligation.

In addition in according with BT No. 57 forward contracts undertaken and timed to cover future cash payments of foreign programming suppliers are deferred and recognized in income at the date contract of maturity.

Forward contracts as of December 31, 2003 are detailed as follows:

Financial Institution	Amount in US$	Maturity	Rate	Deferred Income (loss)	Net income
				Th$	Th$
BCI	250,000	01-06-04	2.13%	—	(33,683)
SECURITY	1,000,000	01-02-04	1.61%	—	(139,949)
SECURITY	500,000	01-02-04	1.26%	—	(68,700)
SECURITY	500,000	01-02-04	1.17%	—	(68,344)
SECURITY	1,000,000	01-05-04	0.97%	—	(132,126)
SECURITY	250,000	01-05-04	1.41%	—	(33,840)
SECURITY	250,000	01-06-04	2.27%	—	(33,935)
SECURITY	250,000	01-06-04	2.04%	—	(33,251)
CORPBANCA	500,000	01-06-04	1.07%	—	(66,406)
CORPBANCA	250,000	01-06-04	1.45%	—	(33,909)
CORPBANCA	250,000	01-06-04	2.10%	—	(33,620)
BCI	500,000	01-30-04	1.50%	—	(78,147)
SECURITY	500,000	01-31-04	0.00%	—	(83,896)
SECURITY	500,000	02-01-04	3.10%	—	(82,045)
SECURITY	500,000	02-02-04	1.76%	—	(83,447)
SECURITY	500,000	02-03-04	1.75%	—	(83,401)

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Financial Institution	Amount in US$	Maturity	Rate	Deferred Income (loss) Th$	Net income Th$
SECURITY	500,000	02-04-04	1.71%	—	(83,262)
SECURITY	500,000	02-05-04	1.78%	—	(83,494)
SECURITY	500,000	02-06-04	1.68%	—	(83,170)
SECURITY	1,000,000	02-07-04	2.33%	—	(168,878)
SECURITY	500,000	02-08-04	1.48%	—	(86,718)
CORPBANCA	500,000	02-09-04	2.48%	—	(82,931)
CORPBANCA	500,000	02-10-04	2.30%	—	(82,282)
CORPBANCA	500,000	02-11-04	2.81%	—	(84,066)
BCI	500,000	02-12-04	2.52%	—	(87,201)
BCI	500,000	02-13-04	2.67%	—	(87,669)
BCI	500,000	02-14-04	2.55%	—	(87,286)
BCI	250,000	02-15-04	2.64%	—	(43,792)
SECURITY	500,000	02-16-04	2.32%	—	(86,720)
SECURITY	500,000	02-17-04	0.87%	(81,781)	—
SECURITY	500,000	02-18-04	0.75%	—	(78,310)
SECURITY	500,000	02-19-04	1.08%	(74,423)	—
BCI	550,000	02-20-04	1.53%	—	(76,646)
BCI	500,000	02-21-04	1.49%	—	(69,565)
BCI	500,000	02-22-04	1.47%	—	(69,527)
BCI	250,000	02-23-04	2.43%	—	(35,358)
BCI	250,000	02-24-04	2.23%	—	(35,084)
BCI	500,000	02-25-04	2.43%	—	(70,716)
BCI	1,000,000	02-26-04	2.23%	—	(140,316)
BCI	1,000,000	02-27-04	2.09%	—	(139,550)
BCI	500,000	02-28-04	2.05%	—	(69,660)
BCI	500,000	02-29-04	2.20%	—	(70,082)
SECURITY	600,000	03-01-04	0.72%	—	(86,075)
SECURITY	2,500,000	03-02-04	1.74%	—	(351,342)
SECURITY	750,000	03-03-04	1.53%	(102,090)	—
SECURITY	750,000	03-04-04	1.12%	(98,624)	—
CORPBANCA	450,000	03-05-04	1.52%	—	(62,693)
SECURITY	3,000,000	03-06-04	1.76%	—	(354,082)
SECURITY	1,000,000	03-07-04	2.48%	—	(120,464)
SECURITY	500,000	03-08-04	2.48%	—	(60,232)
SECURITY	500,000	03-09-04	2.43%	—	(60,122)
SECURITY	1,000,000	03-10-04	1.69%	—	(118,089)
CORPBANCA	750,000	03-11-04	2.13%	(94,050)	—
ESTADO	750,000	03-12-04	2.00%	(90,699)	—
ESTADO	750,000	03-13-04	1.98%	(90,632)	—
ESTADO	300,000	03-14-04	1.76%	(38,305)	—
ESTADO	200,000	03-15-04	1.69%	(25,500)	—
ESTADO	250,000	03-16-04	1.53%	(31,748)	—
ESTADO	500,000	03-17-04	1.38%	(62,029)	—
ESTADO	500,000	03-18-04	1.23%	(61,805)	—
ESTADO	500,000	03-19-04	0.75%	(51,336)	—
ESTADO	500,000	03-20-04	0.69%	(46,736)	—
Subtotal	37,350,000			(949,758)	(4,304,081)

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Financial Institution	Amount in US$	Maturity	Rate	Deferred Income (loss) Th$	Net income Th$
ESTADO	500,000	01-30-04	2.49%	—	1,491
ESTADO	1,500,000	02-27-04	1.58%	—	4,124
ESTADO	1,000,000	01-30-04	0.94%	—	5,722
Subtotal	3,000,000			—	11,337
Total	40,350,000			(949,758)	(4,292,744)

Forward contracts as of December 31, 2004 are detailed as follows:

Financial Institution	Amount in US$	Maturity	Rate	Deferred Income (loss) ThCh$	Net income ThCh$
ESTADO	1,125,000	07-01-05	0.70%	—	(38,369)
ESTADO	2,250,000	07-01-05	1.11%	—	(148,894)
SECURITY	250,000	07-01-05	0.08%	—	(13,086)
SECURITY	250,000	07-01-05	(0.11)%	—	(12,862)
SECURITY	250,000	07-01-05	0.04%	—	(12,120)
SECURITY	375,000	07-01-05	0.43%	—	(25,970)
ESTADO	300,000	07-01-05	(0.40)%	—	(17,142)
ESTADO	500,000	07-01-05	(0.14)%	—	(25,657)
ESTADO	1,000,000	07-01-05	0.13%	—	(48,896)
ESTADO	375,000	07-01-05	0.20%	—	(25,604)
ESTADO	1,125,000	07-01-05	0.24%	—	(77,164)
SECURITY	1,125,000	07-01-05	0.27%	—	(77,325)
ESTADO	500,000	07-01-05	1.10%	—	(39,535)
ESTADO	1,000,000	07-01-05	1.45%	—	(80,367)
ESTADO	750,000	07-01-05	0.11%	—	(59,660)
ESTADO	825,000	07-01-05	1.00%	—	(69,043)
SECURITY	1,000,000	07-01-05	(0.57)%	—	(70,325)
Total	13,000,000			—	(842,019)

Note 19. Deferred Gains:

During the year ended December 31, 2003, the Company's subsidiary Metropolis Intercom S.A. issued an additional 3,923,834 shares raising ThCh$4,924,603 in cash. The Company did not subscribe to any of the shares. As the cash received was greater than the related increase in minority interest, the Company recorded a deferred gain of ThCh$1,493,092 which will be amortized to income over future periods and as of December 31, 2003 and 2004 was ThCh$1,474,427 and ThCh$1,400,705, respectively. The amortization recognized as of December 31, 2003 and 2004 was ThCh$18,665 and ThCh$73,721, respectively.

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Note 20. Shareholders' Equity:

The changes in shareholders equity in the years ended December 31, 2002, 2003 and 2004 are as follows:

	Paid-in Capital ThCh$	Price-level restatement ThCh$	Accumulated Deficit ThCh$	Net loss for the year ThCh$	Total ThCh$
Balance as of January 1, 2002	193,063,828	1,737,575	(24,279,630)	(13,997,522)	156,524,251
Reclassification of prior year net loss	—	—	(13,997,522)	13,997,522	—
Price-level restatement	5,791,915	52,126	(1,148,315)	—	4,695,726
Net loss for the year	—	—	—	(16,961,416)	(16,961,416)
Balance as of December 31, 2002	198,855,743	1,789,701	(39,425,467)	(16,961,416)	144,258,561
Price-level restatement for comparison purposes	200,844,300	1,807,600	(39,819,722)	(17,131,030)	145,701,148
Balance as of January 1, 2003	198,855,743	1,789,701	(39,425,467)	(16,961,416)	144,258,561
Reclassification of prior year net loss	—	—	(16,961,416)	16,961,416	—
Price-level restatement	1,988,557	17,899	(563,869)	—	1,442,587
Net loss for the year	—	—	—	(13,446,519)	(13,446,519)
Balance as of December 31, 2003	200,844,300	1,807,600	(56,950,752)	(13,446,519)	132,254,629
Price-level restatement for comparison purposes	205,865,408	1,852,790	(58,374,521)	(13,782,682)	135,560,995
Balance as of January 1, 2004	200,844,300	1,807,600	(56,950,752)	(13,446,519)	132,254,629
Reclassification of prior year net loss	—	—	(13,446,519)	13,446,519	—
Price-level restatement	5,021,108	45,190	(1,759,932)	—	3,306,366
Net loss for the year	—	—	—	(12,725,276)	(12,725,276)
Balance as of December 31, 2004	205,865,408	1,852,790	(72,157,203)	(12,725,276)	122,835,719

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Note 21. Other non-operating expenses:

The composition of other non-operating expenses for the years ended December 31, 2002, 2003 and 2004 is as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
Disposal of equipment	(811,091)	(290,492)	(280,536)
Write-off of investments	(209,155)	—	—
Provision for obsolescence	(121,037)	(144,568)	—
Other	(426,629)	(694,183)	(129,988)
Total	(1,567,912)	(1,129,243)	(410,524)

Note 22. Price-Level Restatement and Foreign Currency Translation:

(a) Price Level Restatement

The detail of price-level restatement credited (charged) to income for the year ended December 31 is as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
Shareholders' equity	(4,885,680)	(1,486,080)	(3,322,980)
Non-monetary assets	6,190,388	1,982,111	4,574,684
Liabilities denominated in foreign currencies	(1,045,644)	(405,590)	(832,510)
Revenue accounts	34,992	(14,631)	(69,935)
Price-level restatement, net	294,056	75,810	349,259

(b) Foreign Currency Translation

The detail of foreign currency translation charged to income for the year ended December 31 is as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
Non-monetary assets	1,594,773	(5,566,768)	(1,336,350)
Non-monetary liabilities	(2,569,681)	4,270,331	1,123,028
Net loss for foreign currency translation	(974,908)	(1,296,437)	(213,322)

Note 23. Board of Directors Compensation:

During the years ended December 31, 2002, 2003 and 2004 the Board of Directors did not receive compensation for their services.

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Note 24. Contingencies and Commitments:

(a) Commitments

On June 8, 2001, the Company obtained a syndicated loan with Banco Santiago, Banco del Estado de Chile, Banco Crédito Inversiones and CorpBanca, for UF 2,823,800. To guarantee the loans, Metrópolis Intercom S.A. pledged the following assets in favor of the aforementioned banks: Hybrid Fiber optic Coaxial Network (“HFC”), its equipment and other real estate.

The Company’s syndicated loan has certain restrictive covenants, the most significant of which are summarized below:

a) The Company must have a financial expense coverage ratio equal to or greater than 4 times.

b) Debt to asset ratio must be less than or equal to 0.85.

The Company has received bank waivers which releases them from the obligation to meet the financial coverage ratio and permits the Company not to consider liabilities to shareholders in the calculation of the debt to asset ratio. In accordance with the above, the Company as of December 31, 2004, is in compliance with these covenants or has received the appropriate bank waivers.

(b) Contingencies

1) The Company is party to various lawsuits arising in the ordinary course of its business. Management considers it unlikely that any losses associated with the pending lawsuits will significantly affect the Company or its subsidiaries’ results of operations, financial position and cash flows, although no assurance can be given to such effect. Accordingly, the Company has not established a provision for these lawsuits.

2) Complaint filed by TVN y Corporación de Televisión UCTV against the Company, before the 26th Civil Court of Santiago. Claim against alleged infractions of intellectual property rights, in which the complainant solicits retroactive termination of the use of the intellectual property, starting from the notification date of the lawsuit. The amounts involved in the case have not been disclosed.

3) Counter claim filed by Metrópolis Intercom S.A. against channels 7 and 13 for fees to which Metrópolis Intercom S.A. claims it has rights because it incurs significant increases in advertising investments related to carrying signals for these channels. The Company is suing for 20% of the total amount related to advertising investments received by channels 7 and 13 since 1996.

4) On December 9, 2004, the Chilean Subsecretary of Telecomunications (“Subtel”) notified the Company that the regulatory agency considered Metropolis’s Intercom Voice Over Internet Protocol (“MI’s VOIP”) services were in violation of Article No. 8 of the General Telecomunications Law. Subtel alleged that the Company was exploiting a public utility (telephone service) without the express consent of the appropriate regulatory agency and ordered that the Company cease commercial operations related to that service until the issue was resolved.

As the matter is not yet resolved by the relevant authority, the Minister of Telecommunications, the Company has requested that the order be suspended. This suspension was subsequently granted for a period of 60 days.

Furthermore, on December 19, 2004, the Company filed its defense to the allegations made by Subtel, and is currently awaiting the next step of this legal matter.

Currently, the Company is awaiting Subtel’s decision with respect to the Company’s observations. Most likely, Subtel will decide to accept evidence from the Company that supports its position.

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The eventual decision of the Minister of Transportation and Telecommunications can be appealed before the Court of Appeals. If the resolution if confirmed by the Court, determining that the service does not meet current regulations, the Company will be obligated to suspend or modify its services, as determined by Subtel.

Note 25. Relevant Events:

On January 9, 2004, Cristal Chile Comunicaciones S.A., 50% owner of the Company, reached an agreement of understanding with Liberty Media International, indirect owner of the remaining 50% of the Company and majority shareholder of VTR S.A. in order to merge Metropolis and VTR. The agreement is subject to numerous conditions, among them, drafting of a final agreement, approval by the board of directors of related parties of Liberty Media including UnitedGlobalCom, Inc., approval by the Chilean Anti-Monopoly Commission, and approval by the board of directors of CristalChile Comunicaciones S.A.

Note 26. Subsequent Events (Unaudited):

On March 11, 2005 the Supreme Court gave its permission for the merger of Metropolis-Intercom S.A. and VTR S.A. to proceed, thereby overcoming the last legal obstacle for the merger to be approved. As a result Cordillera Comunicaciones Holding Limitada was liquidated as of March 29, 2005 and its investment in Metropolis was transferred to VTR S.A. Metropolis will continue its operation as a separate legal entity. Other assets and liabilities were assumed by the shareholders of Cordillera Comunicaciones Holding Limitada.

Note 27. Differences between Chilean and United States Generally Accepted Accounting Principles:

Accounting principles generally accepted in Chile vary in certain important aspects from those generally accepted in the United States of America. Such differences involve certain methods for measuring the amounts included in the financial statements as well as additional disclosures required by U.S. GAAP.

The principal differences between Chilean GAAP and U.S. GAAP are described below together with explanations, where appropriate, of the method used in the determination of the adjustments that affect net income and total shareholders' equity. References made below to the United States Statements of Financial Accounting Standards are abbreviated as "SFAS".

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

I. Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts that differ from those that would have otherwise been determined under U.S. GAAP, are as follows:

(a) Inflation accounting:

The cumulative inflation rate in Chile as measured by the Consumer Price Index for the three years ended December 31, 2004 was 6.6%.

Chilean GAAP requires that the financial statements be restated to reflect the full effects of the loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities.

Cordillera Comunicaciones Holding Limitada and Subsidiaries

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The method, described in Note 2(c), is based on a model which enables calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of local currency, by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end, but requires that latest cost values be used for the restatement of inventories. Under U.S. GAAP, financial statement amounts must be reported in historical currency.

The inclusion of price-level adjustments in the accompanying financial statements is considered appropriate under the prolonged inflationary conditions affecting the Chilean economy even though the cumulative inflation rate for the last three years does not exceed 100%. The reconciliation included herein of consolidated net income and Shareholders' equity, as determined with U.S. GAAP, does not include adjustments to eliminate the effect of inflation accounting under Chilean GAAP.

(b) Deferred income taxes:

Starting January 1, 2000, the Company recorded income taxes in accordance with Technical Bulletin No. 60 (BT No. 60) of the Chilean Association of Accountants, recognizing, using the liability method, the deferred tax effects of temporary differences between the financial and tax values of assets and liabilities. As a transitional provision, a contra asset or liability ("complementary account") has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such contra asset or liability must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

Under U.S. GAAP, companies must account for deferred taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes", which requires an asset and liability approach for financial accounting and reporting of income taxes, under the following basic principles:

(i) A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss carry-forwards.

(ii) The measurement of deferred tax liabilities and assets is based on the provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

(iii) The measurement of deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

Temporary differences are defined as any difference between the financial reporting basis and the tax basis of an asset and liability that at some future date will reverse, thereby resulting in taxable income or expense. Temporary differences ordinarily become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the amount of taxes payable or refundable in future years as a result of temporary differences at the end of the current year.

As of December 31, 2003 and 2004, a valuation allowance was recorded under U.S. GAAP to reduce the deferred tax asset resulting from tax loss carry-forwards to the amount that is more likely than not to be realized.

The effect of the differences mentioned above and the effects of deferred taxes over the adjustments to U.S. GAAP on the net loss and shareholders' equity of the Company are included in paragraph (j) below.

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(c) Goodwill:

Under Chilean GAAP at the time of related acquisitions, assets acquired and liabilities assumed were recorded based on their carrying value in the records of the acquired company, and the excess of the purchase price over the carrying value was recorded as goodwill. Such amounts are currently being amortized over a maximum period of 20 years.

Under U.S. GAAP, assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired is recorded as goodwill, unless the transaction is between entities under common control, in which case the related party transaction would be recorded using book values and no goodwill would be recorded. Prior to July 1, 2002 under U.S. GAAP, the Company amortized goodwill on a straight-line basis over the estimated useful lives of the assets, ranging from 20 to 40 years.

Under Chilean GAAP, the Company has evaluated the carrying amount of goodwill for impairment. The evaluation of impairment was based on the fair value of the investment which the Company determined using a discounted cash flow approach, stock valuations and recent comparable transactions in the market. In order to estimate fair value, the Company made assumptions about future events that are highly uncertain at the time of estimation. The results of this analysis showed that the Company’s goodwill was not impaired.

In accordance with U.S. GAAP, the Company adopted SFAS No. 142 “Goodwill and Other Intangible Assets”, (“SFAS 142”) as of January 1, 2002. SFAS 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under the new standard, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not amortized, but must be tested for impairment at least annually.

Previously, the Company evaluated the carrying amount of goodwill, in relation to the operating performance and future undiscounted cash flows of the underlying business and the transitional impairment test required by the standard, which was performed during the first half of 2003, which resulted in no impairment of the Company’s recorded goodwill.

The following effects are included in the net loss and shareholders’ equity reconciliation to U.S. GAAP under paragraph (j) below:

(a) Adjustment to record differences in goodwill amortization between Chile GAAP and U.S. GAAP as of December 31, 2001, and

(b) The reversal of goodwill amortization recorded under Chilean GAAP for the years ended December 31, 2002, 2003 and 2004.

Impairment is recorded based on an estimate of future discounted cash flows, as compared to current carrying amounts. For the years ended December 31, 2002, 2003, and 2004 no additional amounts were recorded for impairment under U.S. GAAP.

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Goodwill under U.S. GAAP as of December 31 2002, 2003 and 2004 is summarized as follows:

	For the Years Ended December 31,		
	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Goodwill	104,449,801	104,449,801	104,449,801
Accumulated amortization	(25,926,695)	(25,926,695)	(25,926,695)
Goodwill, net	78,523,106	78,523,106	78,523,106

The effect of these differences on the net loss and shareholders' equity of the Company is included in paragraph (j) below.

(d) Derivative instruments:

For the years ended December 31, 2002, 2003 and 2004, the Company continued to have foreign currency forward exchange contracts for the purpose of transferring risk from exposure in U.S. dollars to an exposure in Chilean peso. Under Chilean GAAP, the Company deferred forward contract gains and losses when the contracts are hedges for future program payments and other cash out flows to be made in U.S. dollars. The hedging criteria and documentation requirements under Chilean GAAP are less onerous than U.S. GAAP. The Company recorded a net liability of ThCh$4,292,744 as of December 31, 2003 and a net liability of ThCh$842,019 as of December 31, 2004. Fair values under Chilean GAAP have been estimated using the closing spot exchange rate at year end, under US GAAP the fair value is calculated using a forward rate as of year-end.

Beginning January 1, 2002, under U.S. GAAP, the accounting for derivative instruments is described in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and other complementary rules and amendments. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains or losses to offset against related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, in part, allows special hedge accounting for "fair value" and "cash flow" hedges. SFAS No. 133 provides that the gain or loss on a derivative instrument designated and qualifying as a "fair value" hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk be recognized currently in earnings in the same accounting period. While the Company enters into derivatives for the purpose of mitigating its global financial and commodity risks, these operations do not meet the documentation requirements to qualify for hedge accounting under U.S. GAAP. Therefore changes in the respective fair values of all derivatives are reported in earnings when they occur.

The effect of the adjustment between the current market values and the fair value for the years ended December 31, 2002, 2003 and 2004 is included in paragraph (j) below

(e) Depreciation:

Under Chilean GAAP, the Company depreciates the external network using a progressive method based on the projected number of subscribers per product line. Under U.S. GAAP, the method of depreciation used has continued to be the straight-line method.

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The effect of accounting for this difference in accordance with U.S. GAAP is included in the reconciliation of net loss and shareholders' equity in paragraph (j) below.

(f) Revenue recognition:

The Company recognizes cable television, high speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of direct selling cost. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed.

(g) Investments in marketable securities:

Under Chilean GAAP, investments in debt and equity securities are accounted for at the lower of cost or market value. Under U.S. GAAP investments in debt and equity securities are accounted for according to the purpose for which these investments are held. U.S. GAAP defines three distinct purposes for holding investments:

- Investments held for trading purposes
- Investments available-for-sale
- Investments held to maturity

The Company considers that all of its investments are available-for-sale.

The effect of recording the marketable securities at fair value is not material and is not included in the effects on shareholders' equity under paragraph (j) below.

(h) Issuance of shares in subsidiary:

During the year ended December 31, 2003 Metropolis Intercom S.A. issued an additional 3,923,834 shares representing 4.4% of Metropolis Intercom S.A. to related parties. The Company did not subscribe to any of these shares.

Under Chilean GAAP, as the cash received was greater than the related increase in minority interest the Company recorded a deferred gain of ThCh$1,455,918 (historic value), which will be amortized into income in future periods.

Under U.S. GAAP, the transfer would be recorded at the lower of carrying value or fair value, since the cash received was less than the carrying value of Metropolis Intercom S.A. under U.S. GAAP. Consequently under U.S. GAAP, the difference between the cash proceeds and the carrying value has been recorded as a distribution to shareholders. The effect of eliminating the income statement impact of this transaction from net loss as determined under Chilean GAAP and recording this transaction under U.S. GAAP is included in paragraph (j) below.

(i) Effect of minority interests on U.S. GAAP adjustments:

The effects of recording minority interests on U.S. GAAP adjustments are included in the reconciliation to U.S. GAAP in paragraph (j) below.

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(j) Effect of conforming net loss and shareholders' equity to U.S. GAAP:

The adjustments required to conform reported net loss to U.S. GAAP are as follows:

	For the Year Ended December 31,		
	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Net loss in accordance with Chilean GAAP	(17,559,306)	(13,782,682)	(12,725,276)
Deferred taxes (paragraph b)	(2,023,771)	(1,042,069)	(1,124,442)
Amortization of goodwill (paragraph c)	4,269,791	4,289,132	4,225,945
Derivative instruments (paragraph d)	153,218	(1,155,215)	1,039,953
Depreciation (paragraph e)	(1,254,758)	(1,531,846)	(742,030)
Issuance of subsidiaries shares (paragraph h)	—	(18,665)	(73,721)
Effect of minority interests on U.S. GAAP adjustments (paragraph i)	—	309,040	82,970
Net loss and comprehensive loss in accordance with U.S. GAAP	(16,414,826)	(12,932,305)	(9,316,601)

The adjustments required to conform reported shareholders' equity to U.S. GAAP are as follows:

	As of December 31,	
	2003	2004
	ThCh$	ThCh$
Shareholders' equity, in accordance with Chilean GAAP	135,560,995	122,835,719
Deferred income taxes (paragraph b)	(3,225,187)	(4,349,629)
Effect in amortization of goodwill (paragraph c)	16,239,862	20,465,806
Derivative instruments (paragraph d)	(998,224)	41,729
Depreciation (paragraph e)	(4,320,097)	(5,062,127)
Issuance of subsidiary shares (paragraph h)	(972,327)	(1,046,048)
Effect of minority interests on U.S. GAAP adjustments (paragraph i)	309,039	392,010
Shareholders' equity, in accordance with U.S. GAAP	142,594,061	133,277,460

The following summarizes the changes in shareholders' equity under U.S. GAAP during the years ended December 31, 2002, 2003 and 2004:

	For the Year Ended December 31,		
	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Balance as of January 1	172,894,854	156,480,028	142,594,061
Issuance of subsidiary shares (paragraph h)	—	(953,662)	—
Net loss and comprehensive loss in accordance with U.S. GAAP	(16,414,826)	(12,932,305)	(9,316,601)
Balance as of December 31	156,480,028	142,594,061	133,277,460

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II. Additional disclosure requirements

The following additional disclosures are required under U.S. GAAP:

(a) Income taxes:

Deferred tax assets (liabilities) are summarized as follows as of December 31 under U.S. GAAP:

	2003 ThCh$	2004 ThCh$
Deferred Tax Assets		
Allowance for doubtful debts	1,105,571	1,247,088
Goods and services provision	16,665	35,240
Assets provision	—	—
Unearned revenues	182,172	146,889
Vacation provision	71,294	76,204
Forward contract	169,698	(7,094)
Tax loss carry-forwards	14,755,016	15,898,544
Trademarks	—	—
Assets provision	308,839	348,334
Leasing	58,022	61,298
Trademark rights	2,424	2,836
Accumulated depreciation	738,046	864,735
Total deferred tax assets	17,407,747	18,674,074
Deferred Tax Liabilities		
Forward contracts	(161,459)	—
Leasing operations	(65,889)	(71,751)
Accumulated depreciation	(2,294,439)	(2,141,979)
Goodwill	(4,972,368)	(4,933,213)
Software	(289,160)	(260,283)
Rented installations	(128,829)	(124,575)
Total deferred tax liabilities	(7,912,144)	(7,531,801)
Net deferred tax asset (liability) before valuation allowance	9,495,603	11,142,273
Valuation allowance	(6,362,054)	(7,465,323)
Net deferred tax asset (liability)	3,133,549	3,676,950

The classification of the net deferred tax asset before valuation allowance detailed above is as follows:

	2003 ThCh$	2004 ThCh$
Short-term	1,383,942	1,498,327
Long-term	8,111,661	9,643,946
Net deferred tax liabilities	9,495,603	11,142,273

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The deferred income tax benefit in accordance with U.S. GAAP is as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
Deferred income tax benefit, Chile GAAP — Note 6	2,449,618	2,088,982	1,820,722
Additional deferred tax adjustment, U.S. GAAP, net	(2,023,771)	(1,042,069)	(1,124,442)
Deferred income tax benefit under U.S. GAAP	425,847	1,046,913	696,280

Permanent differences

Amortization of goodwill is the only permanent income tax difference.

(b) Foreign currency forward contract capacity:

The Company's Board of Directors approves policies on risk-management of forward currency risk through the use of U.F. to U.S. dollar forward contracts. The Company petitions several Chilean and foreign banks to approve forward contract limits on a yearly basis, which in the aggregate, total US$73 million, US$50 million and US$50 million as of December 31, 2002, 2003 and 2004, respectively. There was US$24.8 million, US$9.7 million and US$39.9 million available as of December 31, 2002, 2003 and 2004, respectively.

(c) Lease agreements:

The Company leases computer equipment and office space by way of capital lease payable in installments through 2016, with a bargain purchase option at the end of the lease.

Minimum lease payments under capital leases are as follows:

	Capital ThCh$
2005	51,070
2006	32,518
2007	29,808
2008	32,518
Thereafter	230,354
Total future minimum lease payments	376,268
Interest	(99,603)
Present value of net minimum lease payments	276,665

Lease obligations for the years ended December 31, 2003 and 2004 are as follows:

	2003	2004
Short-term	38,625	94,313
Long-term	278,357	275,519

(d) Advertising costs:

Advertising costs are expensed as incurred and amounted to ThCh$2,096,739, ThCh$2,473,895 and ThCh$2,138,229 for the years ended December 31, 2002, 2003 and 2004, respectively.

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(e) Reclassification differences between Chilean GAAP and U.S. GAAP:

The following reclassifications are required to conform the presentation of Chilean GAAP income statement information to that required under U.S. GAAP for the years ended December 31, 2002, 2003 and 2004. The reclassification amounts are determined in accordance with Chilean GAAP.

	Year Ended December 31, 2002		
	Chilean GAAP	Reclassification	U.S. GAAP Presentation
	ThCh$	ThCh$	ThCh$
Operating loss	(11,641,140)	(5,286,981)	(16,928,121)
Non-operating expenses	(8,456,463)	5,286,981	(3,169,482)

	Year Ended December 31, 2003		
	Chilean GAAP	Reclassification	U.S. GAAP Presentation
	ThCh$	ThCh$	ThCh$
Operating loss	(7,214,820)	(4,894,029)	(12,108,849)
Non-operating expenses	(8,823,391)	4,894,029	(3,929,362)

	Year Ended December 31, 2004		
	Chilean GAAP	Reclassification	U.S. GAAP Presentation
	ThCh$	ThCh$	ThCh$
Operating loss	(8,645,859)	(4,220,459)	(12,866,318)
Non-operating expenses	(6,360,795)	4,220,459	(2,140,336)

The following reclassifications are required to conform the presentation of Chilean GAAP balance sheet information to that required under U.S. GAAP for the years ended December 31, 2003 and 2004. The reclassification amounts are determined in accordance with Chilean GAAP.

	Year Ended December 31, 2003		
	Chilean GAAP	Reclassification	U.S. GAAP Presentation
	ThCh$	ThCh$	ThCh$
Total current assets	15,167,731	949,757	16,117,488
Total current liabilities	25,185,654	949,757	24,235,897

	Year Ended December 31, 2004		
	Chilean GAAP	Reclassification	U.S. GAAP Presentation
	ThCh$	ThCh$	ThCh$
Total current liabilities	44,305,345	22,650,889	66,956,234
Total long-term liabilities	28,254,037	(22,650,889)	5,603,148

For US GAAP purposes, as of December 31, 2004 long-term obligation has been reclassified to short-term in accordance with EITF 86-30, “Classification of obligation when a violation is waived by the creditor”.

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(f) Condensed balance sheet and income statement in accordance to US GAAP:

The condensed consolidated balance sheet for the years ended December 31 under US GAAP and classified in accordance with US GAAP is presented as follows:

	2003 ThCh$	2004 ThCh$
ASSETS		
Current Assets		
Cash and equivalents	7,146,955	4,245,184
Receivables	5,579,591	3,792,128
Other current assets	3,390,942	2,216,252
Total current assets	16,117,488	10,253,564
PROPERTY, PLANT AND EQUIPMENT		
PP&E	150,229,916	153,700,553
Accumulated depreciation	(39,006,752)	(49,991,897)
Property, plant and equipment, net	111,223,164	103,708,656
OTHER ASSETS		
Goodwill	78,523,106	78,523,106
Other long-term assets	18,551,666	17,641,457
Total other assets	97,074,772	96,164,563
Total assets	224,415,424	210,126,783

	2003 ThCh$	2004 ThCh$
LIABILITIES		
CURRENT-TERM LIABILITIES		
Banks and financial inst.	7,631,787	30,297,444
Payables	11,065,525	33,703,746
Other	8,266,625	2,920,409
Total current-term liabilities	26,963,937	66,921,599
LONG-TERM LIABILITIES		
Banks and financial inst	30,246,442	—
Other	18,342,079	4,202,444
Total long-term liabilities	48,588,521	4,202,444
Minority interest	6,268,905	5,725,280
SHAREHOLDERS' EQUITY		
Shareholders' equity	155,526,366	142,594,061
Net loss	(12,932,305)	(9,316,601)
Total shareholders' equity	142,594,061	133,277,460
Total Liabilities and shareholders' equity	224,415,424	210,126,783

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The condensed consolidated statements of income for the years ended December 31 under US GAAP and classified in accordance with US GAAP are presented as follows:

	2002 ThCh$	2003 ThCh$	2004 ThCh$
OPERATING INCOME			
Operating revenues	47,911,196	46,100,072	45,547,636
Operating costs	(46,358,310)	(41,389,764)	(40,601,181)
Operating margin	1,552,886	4,710,308	4,946,455
Administrative and selling expenses	(15,958,113)	(14,279,993)	(14,328,858)
Operating loss	(14,405,227)	(9,569,685)	(9,382,403)
NON-OPERATING INCOME			
Financial income (expenses)	(2,058,538)	(2,490,613)	(2,276,273)
Other non-operating income	153,218	—	1,039,953
Other non-operating expense	—	(1,173,880)	(73,721)
Goodwill amortization	62,047	—	—
Price-level restatement and Foreign currency translation	(680,852)	(1,220,627)	135,937
Non-operating loss	(2,524,125)	(4,885,120)	(1,174,104)
Loss before taxes and minority interest	(16,929,352)	(14,454,805)	(10,556,507)
Tax benefit	425,847	1,046,913	696,280
Minority interest	88,679	475,587	543,626
Net loss for the year	(16,414,826)	(12,932,305)	(9,316,601)

(g) Estimated fair value of financial instruments and derivative financial instruments:

The accompanying tables provide disclosure of the estimated fair value of financial instruments owned by the Company. Various limitations are inherent in the presentation, including the following:

- The data excludes non-financial assets and liabilities, such as property, plant and equipment, and goodwill.
- While the data represents management's best estimates, the data is subjective and involves significant estimates regarding current economic and market conditions and risk characteristics.

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

- Cash and cash equivalents approximate fair value because of the short-term maturity of these instruments.
- For current liabilities that are contracted at variable interest rates, the book value is considered to be equivalent to their fair value.
- For interest-bearing liabilities with an original contractual maturity of greater than one year, the fair values are calculated by discounting contractual cash flows at current market origination rates with similar terms.

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The following is a detail of the Company's financial instruments' Chilean GAAP carrying amount and estimated fair value:

	December 31, 2003 Chilean GAAP Carrying Amount	December 31, 2003 Estimated Fair Value	December 31, 2004 Chilean GAAP Carrying Amount	December 31, 2004 Estimated Fair Value
	ThCh$		ThCh$	
Assets				
Cash and cash equivalents	7,146,726	7,146,726	4,245,184	4,245,184
Short-term accounts receivable	2,580,504	2,580,504	2,022,823	2,022,823
Notes receivable	92,652	92,652	114,250	114,250
Miscellaneous receivables	2,673,926	2,673,926	1,426,134	1,426,134
Notes and accounts receivable from related companies	232,509	232,509	228,921	228,921
Liabilities				
Short-term bank debt	—	—	(59,325)	(59,325)
Current portion of long-term bank debt	(7,631,787)	(7,631,787)	(7,587,230)	(7,587,230)
Accounts payable	9,258,399	9,258,399	7,289,371	7,289,371
Current notes and accounts payable to related companies	753,025	753,025	11,893,748	11,893,748
Forward contracts	(4,292,744)	(5,290,969)	(842,019)	(800,290)
Notes payable	(12,133)	(12,133)	(12,193)	(12,193)
Miscellaneous payables	1,041,968	1,041,968	14,508,434	14,508,434
Long-term bank debt	(30,246,442)	(30,246,442)	(22,650,889)	(22,650,889)
Long-term notes payable	(14,761,670)	(14,761,670)	—	—
Long-term notes and accounts payable to related companies	—	—	872,688	872,688

(h) Cash and cash equivalents:

Under Chilean GAAP cash and cash equivalents are considered to be all highly liquid investments with a remaining maturity of less than 90 days as of the closing date of the financial statements, whereas, U.S. GAAP considers cash and cash equivalents to be all highly liquid investments with an original maturity date of less than 90 days. The difference between the balance under U.S. GAAP and Chilean GAAP of cash and cash equivalents is not material for the periods presented.

Supplementary Cash flow information:

	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Assets acquired under capital leases	—	—	85,440
Interest paid during the year	(1,500,630)	(1,852,560)	(1,268,197)

Cordillera Comunicaciones Holding Limitada and Subsidiaries

Notes to the Consolidated Financial Statements — (Continued)
(Translation of financial statements originally issued in Spanish — see Note 2)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of December 31, 2004 except as stated)

Revenues and expenses recognized from barter transactions for the years ended December 31 2002, 2003 and 2004 is as follows:

	2002	2003	2004
	ThCh$	ThCh$	ThCh$
Revenues recognized from barter transactions	774,333	725,574	518,338
Expenses recognized from barter transactions	31,593	62,601	24,957

(i) Defaults:

On June 8, 2001, the Company obtained a syndicated loan with Banco Santiago, Banco del Estado de Chile, Banco Crédito Inversiones and CorpBanca, for UF 2,823,800. To guarantee the loans, Metrópolis Intercom S.A. pledged the following assets in favor of the aforementioned banks: Hybrid Fiber optic Coaxial Network (“HFC”), its equipment and other real estate.

The Company’s syndicated loan has certain restrictive covenants.

The Company has received bank waivers which releases them from the obligation to meet the financial coverage ratio and permits the Company not to consider liabilities to shareholders in the calculation of the debt to asset ratio.

The amount of the obligation as of December 31, 2004 is ThCh$20,650,889, and the period of the waiver is 180 days.

For US GAAP purposes, the long-term obligation has been reclassified to the short-term in accordance to EITF 86-30, “Classification of obligation when a violation is waived by the creditor”.

(j) Recently issued accounting pronouncement:

Amendment of Statement 133 on Derivative Instruments and Hedging Activities

In May 2004 the FASB issued Statement No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133 “Accounting for Derivative Instruments and Hedging Activities”. This Statement is effective for contracts entered into or modified after June 30, 2003, except for hedging relationships designated after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively with exceptions. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a) of that Statement, which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The implementation of SFAS No. 149 had no material impact on the results of operations or financial position of the Company.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Fox Pan American Sports, LLC and its Subsidiary:

We have audited the accompanying consolidated balance sheet as of December 31, 2004 and the related consolidated statements of operations, changes in members' (deficit) equity and cash flows for the year then ended of Fox Pan American Sports, LLC and its subsidiary (the Company). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Fox Pan American Sports, LLC, and its subsidiary as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Miami, Florida
April 16, 2005

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	December 31 2004	December 31 2003 Unaudited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,947,650	$ 12,370,241
Accounts receivable, net of allowance of doubtful accounts of $2,622,128 and $4,574,337, respectively	25,418,844	22,680,843
Due from affiliates	747,187	906,469
Broadcast rights, net	3,405,589	9,837,575
Prepaid expenses and other current assets	1,796,695	626,730
Total current assets	38,315,965	46,421,858
Property and equipment, net	631,762	393,835
Other assets	2,180,686	748,268
Total assets	$ 41,128,413	$ 47,563,961

	2004	2003
LIABILITIES AND MEMBERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 5,581,428	$ 8,306,630
Accrued expenses	5,220,339	5,291,422
Broadcast rights payable	3,383,745	8,180,097
Current portion notes payable to members	7,500,000	—
Due to affiliates	2,280,231	3,183,068
Income taxes payable	600,000	—
Deferred revenue	2,990,444	966,669
Total current liabilities	27,556,187	25,927,886
Notes payable to members	19,700,000	22,745,424
Accrued interest to members	4,768,169	1,684,109
Total liabilities	52,024,356	50,357,419
Commitments		
Members' deficit	(10,895,943)	(2,793,458)
	$ 41,128,413	$ 47,563,961

See accompanying notes to consolidated financial statements.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

**Years ended December 31, 2004 and 2003, and
period from February 5, 2002 (date of merger) through December 31, 2002**

	2004	2003 Unaudited	2002 Unaudited
Net advertising and subscriber revenue	$ 90,804,007	$ 80,507,973	$ 57,034,958
Sale of broadcast rights	6,772,714	6,001,730	9,427,462
Total revenue	97,576,721	86,509,703	66,462,420
Cost of revenue	77,724,516	85,118,256	93,859,489
Gross margin (loss)	19,852,205	1,391,447	(27,397,069)
Selling, general, and administrative expenses	19,306,028	19,610,630	20,358,515
Operating income (loss)	546,177	(18,219,183)	(47,755,584)
Other income (expense):			
Interest expense	(3,084,060)	(1,684,109)	—
Other income (expense), net	(411,340)	1,207,027	(487,654)
Net loss before income taxes	(2,949,223)	(18,696,265)	(48,243,238)
Income tax expense	(5,121,238)	(4,173,940)	(2,870,825)
Net loss	$ (8,070,461)	$ (22,870,205)	$ (51,114,063)

See accompanying notes to consolidated financial statements.

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FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' (DEFICIT) EQUITY

Years ended December 31, 2004 and 2003, and period from February 5, 2002 (date of merger) through December 31, 2002

	Members' capital contributions	Accumulated other comprehensive income	Accumulated deficit	Total members' (deficit) equity
Balance at February 5, 2002 (date of merger) (unaudited)	$ 31,776,237	$ —	$ —	$ 31,776,237
Capital contributions (unaudited)	33,541,416	—	—	33,541,416
Net loss (unaudited)	—	—	(51,114,063)	(51,114,063)
Foreign currency translation adjustment (unaudited)	—	3,908,958	—	3,908,958
Comprehensive loss (unaudited)				(47,205,105)
Balance at December 31, 2002 (unaudited)	65,317,653	3,908,958	(51,114,063)	18,112,548
Capital contributions (unaudited)	4,791,461	—	—	4,791,461
Net loss (unaudited)	—	—	(22,870,205)	(22,870,205)
Foreign currency translation adjustment (unaudited)	—	(2,827,262)	—	(2,827,262)
Comprehensive loss (unaudited)				(25,697,467)
Balance at December 31, 2003 (unaudited)	70,109,114	1,081,696	(73,984,268)	(2,793,458)
Net loss	—	—	(8,070,461)	(8,070,461)
Foreign currency translation adjustment	—	(32,024)	—	(32,024)
Comprehensive loss				(8,102,485)
Balance at December 31, 2004	$ 70,109,114	$ 1,049,672	$ (82,054,729)	$ (10,895,943)

See accompanying notes to consolidated financial statements.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003, and period from February 5, 2002 (date of merger) through December 31, 2002

	2004	2003 Unaudited	2002 Unaudited
Net loss	$ (8,070,461)	$ (22,870,205)	$ (51,114,063)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad-debt expense	1,868,463	1,687,504	4,790,420
Equity in earnings of investment, net of amortization	(1,056,361)	(533,710)	105,967
Depreciation and amortization	106,280	19,779	18,483
Deferred income taxes	—	200,940	(200,940)
Changes in operating assets and liabilities:			
Accounts receivable	(5,208,686)	(2,648,885)	(16,435,972)
Prepaid expense and other assets	(1,352,179)	(1,057,510)	4,326,198
Accounts payable	1,374,325	3,233,976	1,783,825
Accrued expenses	(1,889,614)	3,957,291	123,008
Due from/to affiliates	287,270	(243,651)	12,120,987
Accrued interest	3,084,060	1,684,109	—
Deferred revenue	2,023,775	959,624	(245,037)
Broadcast rights	1,632,589	(943,080)	1,289,674
Income taxes payable	414,123	71,233	28,987
Net cash used in operating activities	(6,786,416)	(16,482,585)	(43,372,463)
Cash flows from investing activities:			
Purchases of property and equipment	(581,562)	(127,330)	(308,970)
Net cash used in investing activities	(581,562)	(127,330)	(308,970)
Cash flows from financing activities:			
Members capital contributions	—	4,791,461	36,957,840
Proceeds from notes payable from affiliates and members	1,954,576	15,245,424	—
Net cash provided by financing activities	1,954,576	20,036,885	36,957,840
Net decrease (increase) in cash and cash equivalents	(5,413,402)	3,426,970	(6,723,593)
Cash and cash equivalents, beginning of period	12,370,241	9,283,174	15,495,751
Effect of foreign currency on cash flow	(9,189)	(339,903)	511,016
Cash and cash equivalents, end of period	$ 6,947,650	$ 12,370,241	$ 9,283,174
Supplemental information:			
Cash paid for taxes	$ 4,644,046	$ 4,512,817	$ 2,862,867
Non-cash transactions	$ 2,500,000	$ 7,500,000	$ —

See accompanying notes to consolidated financial statements.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003, and period from February 5, 2002 (date of merger) through December 31, 2002

(1) Organization and Nature of Business

(a) Description of Business

Fox Pan American Sports, LLC (FPAS) was formed on January 29, 2002 as a limited liability company in the State of Delaware. FPAS was formed to provide spanish language television sports programming service to key markets and sale of broadcast rights within North, Central and South America and the Caribbean through pay television sports networks owned by its subsidiary FSLA Holdings, Inc. (FSLAH) and FSLAH's subsidiaries, Fox Sports Latin America, Ltd. (FSLA), Fox Sports World Espanol, LLC (FSE), Fox Sports Mexico Distribution, LLC (FSMD), Fox Sports Chile Ltda. (FS Chile), Fox Sports Latin America S.A. (FS Argentina) and Fox Pan American Sports Brazil, Ltd.

On February 5, 2002, FPAS entered into an agreement with Fox Sports International SPV, Inc. (FSI SPV), a wholly owned subsidiary of International Sports Programming, LLC, doing business as Fox Sports International (FSI), a division of News Corporation, Pan American Sports Enterprises (PASE) Company, a wholly owned subsidiary of PSE Holdings, LLC, a partnership controlled by Hicks, Muse, Tate, and Furst, Inc. and Liberty Finance, LLC (LFC) a wholly owned subsidiary of Liberty Media Corporation (collectively known as the Contributing Members) whereby FSI SPV contributed 100% of FSLA Holdings, Inc., which included 100% of Fox Sports Latin America, Ltd., 100% of Fox Sports World Espanol, LLC and 100% of Fox Sports Mexico Distribution, LLC, the sports business of its operations in Argentina and Chile, and cash of $7,500,000; PASE contributed a 50% interest in T&T Sports Marketing Limited (T&T) and cash of $5,833,328; and LFC contributed cash of $5,833,438 for certain equity interests in FPAS (the Contribution Agreement).

The above transaction has been deemed to be a roll up transaction with PASE being the acquiring entity and as such accounted for pursuant to the provisions of Statement of Financial Accounting Standard (SFAS) No. 141 *Business Combinations.* Accordingly all contributions by PASE have been recorded on the historical basis and all contributions by FSI and LFC have been recorded at their fair values as of February 5, 2002. See Note 1(f).

(b) Basis of Financial Statement Presentation

The accompanying consolidated financial statements include FPAS, its subsidiary FSLAH and its subsidiaries (Company) and have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the accompanying consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and revenue and expenses for the periods presented. Actual results could differ significantly from those estimates.

(2) Liquidity and Capital Requirements

As of December 31, 2004, the Company had cash and cash equivalents of $6.9 million. The Company has had recurring losses since inception and has relied on capital contributions and other funding from its members. Although the Company believes its cash flow from operations and working capital will fund its ongoing operations, it is possible that the Company may need to seek additional funding in the future.

(3) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and money market accounts with original maturity terms of less than 90 days.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(b) Revenue Recognition

Revenues are derived from commercial advertisements, subscriber fees, and the resale of programming rights. Revenues from commercial advertisements are recognized as the commercials are aired, net of agency commissions. Subscriber fees received from cable systems and operators are recognized in the period that services are provided. Amounts received in advance of the advertisement period are reflected as deferred revenue on the consolidated opening balance sheets. Revenues generated from all other services are recognized as the services are provided. The Company sells the rights to broadcast certain sporting events. Revenue is recognized when the events occur.

Revenues from customers are generated in the United States and Latin America (Central and South America). The following table presents revenues from customers by geographic area for the years ended December 31, 2004 and 2003 and the period February 5, 2002 (date of merger) to December 31, 2002:

	2004	2003 Unaudited	2002 Unaudited
United States	$ 28,351,516	$ 24,608,432	$ 19,734,131
Latin America	69,225,205	61,901,271	46,728,289
Total Revenue	$ 97,576,721	$ 86,509,703	$ 66,462,420

(c) Allowance for Doubtful Accounts Receivable

The Company's allowance for doubtful accounts receivable is maintained for estimated losses resulting from the inability or unwillingness of its customers to make required payments. The Company looks at historical write-offs and composition of accounts receivable when determining the allowance for doubtful accounts.

(d) Property and Equipment

Property and equipment reflects contributions made by FSI and as such are stated at their fair value pursuant to the provisions of SFAS 141 (see note 1) as of February 5, 2002 (date of merger). Major additions and improvements are capitalized while maintenance and repairs which do not extend the lives of the assets are expensed as incurred. Gain or loss on the disposition of property, plant and equipment is recognized in operations when realized. The Company depreciates the cost of its property and equipment using the straight-line method over the respective estimated useful lives which range from 3 to 5 years. Amortization of leasehold improvements is provided over the shorter of their useful lives or the remaining term of the lease using the straight line method.

(e) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2004 management believes that their assets are not impaired.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(f) Investments in T&T Sports Marketing Ltd

Investment in T&T is comprised of a 50% investment in T&T Sports Marketing Ltd (T&T). T&T is responsible for and owns several broadcasting rights for sports programming matches in South America and sells these rights to open cable television channels. Although the Company owns a 50% interest in T&T, it does not have financial or operational control of the entity and accordingly accounts for its investment in T&T under the equity method. The Company initially recorded its investment based on the historical cost basis of the excess of liabilities over assets of T&T ($3.3 million) and also recorded an intangible asset related to the broadcast rights of T&T of an equal amount, which is being amortized over a five year period. As of December 31, 2004, the Company's investment and the unamortized intangible asset was $1.5 million and is included in other assets and has purchase commitments of $183.6 million through 2010 but no other funding commitments.

Condensed financial information for T&T consists of the following as of and for the years ended December 31, 2004 and 2003 and for the period from February 5, 2002 (date of merger) through December 31, 2002:

	2004 Unaudited	2003 Unaudited	2002 Unaudited
Current assets	$ 3,503,653	$ 4,077,109	$ 6,633,826
Noncurrent assets	20,000	480,000	20,000
Current liabilities	2,247,157	6,834,637	8,270,904
Noncurrent liabilities	—	250,000	3,669,174
Stockholders' equity	1,276,496	(2,527,528)	(5,286,252)
Revenue	39,500,871	37,742,137	37,930,912
Net income	3,804,024	2,758,724	1,478,955

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax asset and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

No provision for Federal income taxes is made by FPAS since the members are treated as partners for Federal income tax purposes. All Federal income tax consequences are required by such members. Provision for state taxes is made for states in which limited liability companies are liable for such taxes. The Company has certain foreign subsidiaries that are liable for income taxes in their local jurisdiction. Provision for income taxes has been made for jurisdictions in which the Company's subsidiaries are liable for such taxes.

(h) Marketing Costs

The Company incurs various marketing and promotional costs to add and maintain viewership. These costs are charged to expense in the period incurred. Marketing costs for the years ended December 31, 2004 and 2003 and the period ended December 31, 2002, were $3.9 million, $2.9 million, and $2.3 million, respectively.

(i) Foreign Currency Translation

The functional currency of the Company's operations in Argentina is the applicable local currency. The functional currency for all other international operations is the U.S. dollar. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average rates of exchange prevailing during the respective period. The unrealized gains and losses resulting from such translation are included as a separate component of members' equity in accumulated other comprehensive income.

(j) Broadcast Rights

The Company acquires broadcast rights of sports programming to broadcast on its television network. The costs incurred in acquiring sports programming is capitalized and amortized primarily on a straight-line basis, based on the license period or projected useful life of the programming. Broadcast rights and the related liabilities are recorded at the gross amount of the liabilities when the license period has begun, the cost of the program is determinable, and the program is accepted and available for airing. The Company has single and multi-year commitments to purchase broadcast rights of sports programming. (See note 8.) The Company evaluates the recoverability of broadcast rights costs associated therein against the revenues directly associated with the program material and related expenses. Where an evaluation indicates that a programming contract will result in an ultimate loss, additional amortization is provided to recognize that loss.

(k) Comprehensive Income

Comprehensive income consists of foreign currency translation adjustments.

(l) Concentration of Credit and Other Risks

The Company has no significant concentration of credit risk with respect to accounts receivable because of the large number of customers. The Company has operations in Argentina which has experienced significant political and economic changes including severe recessionary conditions and political uncertainty. The Company's operations may be negatively impacted as the conditions in Argentina remain unstable.

(m) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade accounts and notes receivables, payables, and long-term debt. The carrying values for the Company's financial instruments approximate fair value with the exception at times of long-term debt. As of December 31, 2004, and 2003, the fair value of debt obligations approximated the recorded value.

(n) Recent Accounting Pronouncements

In December 2003, the FASB issued a revised Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46R). FIN 46R requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The provisions of FIN 46R state that nonpublic entities must apply FIN 46R immediately to all entities created after December 31, 2003, and to all other entities, regardless of the date of creation, no later than the beginning of the first annual reporting period beginning after December 31, 2004.

As the Company is not a public company, thus it is not required to adopt FIN 46R until the fiscal year ended December 31, 2005. The Company owns a 50% interest in T&T, a company that owns and sells sports programming rights. T&T derived $30.1 million or 77% of its revenue from the Company during the year ended December 31, 2004.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) Property and Equipment

Property and equipment consist of the following at:

	December 31 2004	December 31 2003 Unaudited
Furniture and fixtures	$ 737,372	$ 456,727
Less accumulated depreciation	(105,610)	(62,892)
	$ 631,762	$ 393,835

(5) Related-Party Transactions

Fox Sports International

During 2004, 2003 and 2002, the Company has had several service agreements with FSI to provide programming, advertising, affiliate sales, production, technical, corporate and personnel services. The Company recorded expenses related to these services of $21.3 million, $34.8 million, and $37.3 million for 2004, 2003, and 2002, respectively. The ongoing commitments under these agreements are included in note (8).

Torneos y Competencias S.A.

During 2004, 2003, and 2002, the Company has had several services agreements with Torneos y Competencias, S. A. (TyC) an Argentine company and an affiliate of one of the Company's members to provide advertising and affiliate sales, production and technical services and corporate services. The Company recorded expenses of $2.3 million, $1.7 million and $1.5 million for 2004, 2003, and 2002, respectively. The ongoing commitments under these agreements are included in note (8).

T&T Sports Marketing Company Ltd

The Company has agreements with T&T for the purchase of broadcast rights in relation to sporting events from February 5, 2002 (date of merger) to 60 days subsequent to the last event of the 2010 season. T&T holds the rights for these sporting events in the United States of America, Canada, South America and the Caribbean. The annual license fees incurred to T&T for the sporting events are $30.6 million, $29.0 million and $36.0 million for December 31, 2004, 2003, and 2002, respectively.

In addition, the Company has entered into a month-to-month agreement for the use of T&T's banner rights and pays for those rights directly to the third party vendor.

(6) Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2004 and 2003 and the period from February 5, 2002 through December 31, 2002 are as follows:

	2004	2003 Unaudited	2002 Unaudited
Current — foreign	$ 5,121,238	$ 3,973,000	$ 3,071,765
Deferred — foreign	—	200,940	(200,940)
Total income tax expense	$ 5,121,238	$ 4,173,940	$ 2,870,825

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects based on jurisdictions in which the Company does business of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2004, and 2003 are as follows:

	2004	2003 Unaudited
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	$ 2,359,784	$ 2,157,768
Accrued liabilities	1,332,167	1,872,673
Other items	3,859	3,858
Deferred revenues	1,153,928	373,069
Net operating loss and tax credit carryforwards	17,062,146	17,908,661
Total deferred tax assets	21,911,884	22,316,029
Net deferred tax asset before valuation allowance	21,911,884	22,316,029
Less valuation allowance	(21,911,884)	(22,316,029)
Net deferred tax asset	$ —	$ —

Income tax expense on income from continuing operations differs from the amount computed by applying the U.S. Federal income tax rate of 35% for 2004, 2003, and 2002 to income from continuing operations before income tax because of the following:

	2004	2003 Unaudited	2002 Unaudited
Expected income tax benefit	$ (1,032,228)	$ (6,543,693)	$ (16,885,533)
State income taxes	(21,731)	(305,443)	(1,345,215)
Meals & entertainment	159,270	61,011	58,450
Devaluation reserve	412,300	(225,400)	1,400,000
Impact of LLC status	1,217,946	1,184,152	856,488
Changes in valuation allowance	(404,074)	6,359,093	15,956,935
Foreign income taxes	4,521,000	3,973,000	2,726,000
Differential in tax rates	350,730	348,120	(109,800)
Flow through of income/loss from deemed foreign income	(681,975)	(676,900)	213,500
Miscellaneous other	600,000	—	—
	$ 5,121,238	$ 4,173,940	$ 2,870,825

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon these factors, management has recorded a valuation allowance of $21,911,884 and $22,316,029 for December 31, 2004 and 2003, respectively, to bring the deferred tax assets to a realizable amount.

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 2004, and 2003, the Company has net operating loss and tax credit carryforwards for federal and foreign income tax purposes, which are available to offset future taxable income, if any, through 2024 and 2023, respectively.

(6) Notes Payable to Members

Notes payable to members consists of the following at December 31, 2004:

Senior promissory notes with due dates beginning on April 28, 2005, bearing interest at an annual rate of 8%	$	10,000,000
Subordinated Convertible Credit Agreement due March 1, 2009, bearing interest at an annual rate of 12%		17,200,000
	$	27,200,000
Current portion of notes payable to members		7,500,000
	$	19,700,000

On April 28, 2003, the members entered into a Subordinated Convertible Credit Agreement with the Company whereby the members agreed to lend the Company an aggregate amount of $17.2 million in the form of notes payable of which $15.2 million was funded on April 28, 2003 and $2 million on March 1, 2004. These notes bear interest at a rate of 12% per annum and all mature on March 1, 2009 and are convertible in whole or in part at the option of each member at a conversion price of $0.3179 per LLC unit. No lender may convert its loans unless all members agree to convert their respective loans. The loans will automatically convert upon a change in control. The Company has accrued interest of approximately $3.8 million and $1.4 million as of December 31, 2004 and 2003, respectively.

On April 28, 2003, one of the members entered into a Senior Promissory Note agreement whereby the member agreed to lend the Company an aggregate amount of $10.0 million in certain increments. Each loan will mature two (2) years from advance date and will bear interest at the rate of 8% per annum. The Company has accrued interest of approximately $1.0 million and $0.3 million as for December 31, 2004 and 2003, respectively.

The following is a schedule of the future debt payments as of December 31, 2004:

2005	$	7,500,000
2006		2,500,000
2007		—
2008		—
2009		17,200,000
	$	27,200,000

FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(7) Members' Equity

The Company has one class of Members' Equity. Profits and losses are shared by all members based on their respective percentage of ownership interest. No member shall be liable for any debts of the Company or be required to contribute any additional capital related to deficits incurred. The members' ownership percentages are as follows:

Member	Percentage ownership
Pan American Sports Enterprises, Co.	52%
FSI SPV, Inc.	38
Liberty Finance, LLC	10
	100%

The ownership percentages above are not reflective of the members' equity balances as stated on the accompanying consolidated balance sheets.

(8) Commitments

The Company has commitments under several agreements for varying lengths of time until 2010 to pay for certain sports related broadcasting and programming rights and service agreements. The following is a schedule of future minimum commitments for broadcast rights and programming and service agreements as of December 31, 2004:

2005	$	55,078,437
2006		53,232,500
2007		40,369,324
2008		39,002,000
2009		39,002,000
Thereafter		39,002,000
	$	265,686,261

(9) Event Subsequent to Date of Report of Independent Registered Public Accounting Firm (Unaudited)

On April 28, 2005, the Company purchased an additional 25% of the common stock of T&T for cash of $2,060,000 and a promissory note having an original principal balance of $7,940,000. The note bears interest at an annual rate of three percent above the one-year London Interbank Offered Rate and matures on December 31, 2006.

To the Board of Directors and Shareholders of Telenet Group Holding NV

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Telenet Group Holding NV (the "Company") and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the EU. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards as adopted by the EU vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 28 to the consolidated financial statements.

PricewaterhouseCoopers Bedrijfsrevisoren bcvba

Represented by

/s/ B. Gabriëls

Antwerp, Belgium

June 12, 2007

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TELENET GROUP HOLDING NV

CONSOLIDATED BALANCE SHEETS

	Notes	December 31, 2006	December 31, 2005
		(In thousands of Euro)	
ASSETS			
***Non-current Assets*:**			
Property and equipment	4	973,379	943,919
Goodwill	5	1,148,745	1,012,544
Other intangible assets	6	278,813	278,347
Other assets		2,319	860
Total non-current assets		2,403,256	2,235,670
***Current Assets*:**			
Trade receivables	7	105,589	98,677
Other current assets	8	24,399	26,668
Cash and cash equivalents	9	58,844	210,359
Total current assets		188,832	335,704
TOTAL ASSETS		2,592,088	2,571,374
EQUITY AND LIABILITIES			
***Equity*:**			
Contributed capital	10	2,543,032	2,532,504
Other reserves	10	5,115	3,860
Hedging reserves	12	(3,599)	1,078
Retained loss		(1,822,891)	(1,828,344)
Total equity		721,657	709,098
***Non-current Liabilities*:**			
Long-term debt, less current portion	11	1,330,843	1,288,785
Derivative financial instruments	12	36,485	20,364
Unearned revenue	17	14,825	11,537
Other liabilities	14	29,708	23,755
Total non-current liabilities		1,411,861	1,344,441
***Current Liabilities*:**			
Short-term borrowings	11	15,659	—
Current portion of long-term debt	11	59,767	156,129
Accounts payable		180,473	174,701
Accrued expenses and other current liabilities	16	79,492	74,129
Unearned revenue and subscriber advanced payments	17	123,179	112,876
Total current liabilities		458,570	517,835
Total liabilities		1,870,431	1,862,276
TOTAL EQUITY AND LIABILITIES		2,592,088	2,571,374

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV

CONSOLIDATED INCOME STATEMENTS

	Notes	For the Years Ended December 31, 2006	December 31, 2005
		(In thousands of Euro)	
Continuing operations			
Revenue	17	813,452	733,517
Costs of services provided	18	(510,696)	(456,717)
Gross profit		302,756	276,800
Selling, general and administrative	18	(159,022)	(145,621)
Operating profit		143,734	131,179
Finance costs, net	19	(100,963)	(193,208)
Income (loss) before income tax		42,771	(62,029)
Income tax expense	20	(34,283)	(14,938)
Net income (loss) from continuing operations		8,488	(76,967)
Discontinued operations			
Income (loss) from discontinued operations	22	(3,035)	300
Net income (loss)		5,453	(76,667)
Basic and diluted earnings (loss) per share in €:	21		
Net income (loss) from continuing operations		0.08	(0.86)
Loss from discontinued operations		(0.03)	0.00
Net income (loss)		0.05	(0.86)

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(amounts in thousands, except shares)

	Notes	Number of Shares	Share Capital	Share Premium and Other Reserves	Hedging Reserves	Retained Loss	Total
January 1, 2005		86,527,257	1,427,930	841,334	(26,627)	(1,751,677)	490,960
Unrealized net gain (loss) on derivative contracts recognized directly in equity	12	—	—	—	27,705	—	27,705
Net loss for the year		—	—	—	—	(76,667)	(76,667)
Total recognized loss for 2005		—	—	—	27,705	(76,667)	(48,962)
Recognition of share-based compensation	10	—	—	2,196	—	—	2,196
Ordinary shares issued upon exercise of the Bank Warrants	10	329,994	—	—	—	—	—
Proceeds received upon exercise of the Class B Options	10	—	—	524	—	—	524
Issuance of share capital through IPO, net of offering costs	1	13,347,602	219,435	44,945	—	—	264,380
December 31, 2005		100,204,853	1,647,365	888,999	1,078	(1,828,344)	709,098
Unrealized net gain (loss) on derivative contracts recognized directly in equity	12	—	—	—	(4,677)	—	(4,677)
Net profit for the year		—	—	—	—	5,453	5,453
Total recognized profit for 2006		—	—	—	(4,677)	5,453	776
Recognition of share-based compensation	10	—	—	559	—	—	559
Proceeds received upon exercise of the Class A and Class B Options	10	—	—	5,059	—	—	5,059
Issuance of share capital through Employee Stock Purchase Plan	10	300,033	4,917	1,248	—	—	6,165
Issuance of share capital via exchange of Class A and Class B Profit Certificates	10	580,569	4,363	(4,363)	—	—	—
December 31, 2006		101,085,455	1,656,645	891,502	(3,599)	(1,822,891)	721,657

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2006

	For the Year Ended December 31, 2006	2005
	(In thousands of Euro)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	5,453	(76,667)
Adjustments for:		
Depreciation, amortization and impairment	220,970	206,314
Income taxes	34,232	15,052
Provision for liabilities and charges	11,778	1,698
Increase in allowance for bad debt	(1,352)	3,550
Amortization of financing cost	4,930	9,165
Loss on extinguishment of debt	21,355	13,678
Interest income	(4,569)	(3,420)
Interest expense	93,958	133,511
(Gain)/loss on derivative instruments, net	8,856	(25,802)
Unrealized foreign exchange (gain)/loss, net	(23,580)	40,261
Share based compensation	1,587	2,196
(Gain)/loss on disposal of fixed assets and business	5,977	(147)
Changes in operating assets and liabilities:		
Accounts receivable	(6,239)	(17,440)
Other assets	3,351	(5,513)
Unearned revenue	5,135	2,613
Accounts payable	7,833	26,770
Accrued expenses and other current liabilities	(12,235)	10,964
Cash generated from operations	377,440	336,783
Interest paid	(67,974)	(123,984)
Income taxes paid	(69)	(177)
Net cash provided by operating activities	309,397	212,622
CASH FLOWS BY INVESTING ACTIVITIES:		
Purchases of property and equipment	(176,906)	(141,088)
Proceeds on disposal of property and equipment	156	453
Purchases of intangibles	(29,069)	(41,925)
Acquisition of subsidiaries	(183,627)	(1,444)
Proceeds from disposal of business	18	—
Net cash used in investing activities	(389,428)	(184,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term borrowings	(166,249)	(317,660)
Net proceeds from short term borrowings	5,875	—
Proceeds from long-term borrowings	100,000	105,000
Payments of redemption premiums	(11,230)	(13,341)
Repayments of finance leases	(1,748)	(853)
Proceeds from the issuance of capital, net of offering costs	5,137	264,380
Proceeds received upon exercise of Class A and Class B options	5,059	524
Payments for debt issuance costs	(8,328)	(1,497)
Net cash provided by (used in) financing activities	(71,484)	36,553
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(151,515)	65,171
CASH AND CASH EQUIVALENTS:		
Beginning of period	210,359	145,188
End of period	58,844	210,359

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2006
(in thousands of Euro, except per share amounts, unless otherwise stated)

1. GENERAL INFORMATION

The accompanying consolidated financial statements present the operations of Telenet Group Holding NV ("Telenet Group Holding") and its subsidiaries (hereafter collectively referred to as the "Company"). Through its broadband network the Company offers cable television, including premium television services, broadband internet and telephony services to residential subscribers in Flanders as well as broadband internet, data and voice services in the business market throughout Belgium. Telenet Group Holding and its principal subsidiaries are limited liability companies organized under Belgian law. The Company is managed and operates in one operating segment, broadband communications.

These consolidated financial statements have been authorized for issue by the Board of Directors on April 27, 2007.

Initial Public Offering

On October 11, 2005, shares in Telenet Group Holding commenced trading on the Brussels Euronext stock exchange pursuant to an initial public offering ("IPO") of the Company's shares by the Company (the "Primary Offering") and certain of its shareholders (the "Secondary Offering"). In addition, shares were offered to qualifying employees (the "Employee Offering") at a discounted price. The initial price of the shares was €21.00. The Company issued and sold 13,333,333 shares of its common stock pursuant to the Primary Offering and approximately 14,269 shares pursuant to the Employee Offering. Net of the underwriting discount and other expenses of the offering, the Company received €264,380 for the common stock it issued and sold under the Primary and Employee Offerings. The net proceeds from the Primary and Employee Offerings were used to partially redeem Telenet Group Holding's Senior Discount Notes and Telenet Communications' Senior Notes (Note 11). Telenet Group Holding did not receive any proceeds from the sale of shares by the selling shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the EU Regulation 1606/2002 of July 19, 2002, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs as adopted by the EU"). The financial statements have been prepared on the historical cost basis, except for certain financial instruments. The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements include the accounts of Telenet Group Holding and all of the entities that it directly or indirectly controls. All intercompany accounts and transactions among consolidated entities have been eliminated

Management's Use of Estimates

The preparation of financial statements in accordance with IFRSs as adopted by the EU requires the use of certain critical accounting estimates and management judgement in the process of applying the Company's accounting policies that affects the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and assets not yet ready for use, on a straight-line basis over their estimated useful lives. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the lease.

The following useful lives are used for the depreciation of property and equipment:

Buildings and improvements	10-33 years
Operating facilities	3-20 years
Other equipment	3-10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The costs associated with the construction of cable transmission and distribution facilities and also internet and telephony service installations are capitalized and depreciated over 3 to 20 years. Costs include all direct labor and materials as well as certain indirect costs.

Government grants related to assets are recorded as a deduction from the cost in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge. Expenditures for repairs and maintenance are charged to operating expense as incurred. Borrowing costs are recognized in profit and loss in the period in which they are incurred.

Intangible Assets

Intangible assets are measured at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Network user rights	10 or 20 years
Trade name	15 years
Customer lists and supply contracts	5 or 15 years
Broadcasting rights	Life of the contractual right
Software development costs	3 years

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Capitalized internal-use software costs include only external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Broadcasting rights are capitalized as an intangible asset when the value of the contract is measurable upon signing and are amortized on a straight-line basis over contractual life.

Impairment of Tangible and Intangible Assets Excluding Goodwill

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually, or more frequently when there is an indication that it may be impaired. The Company has identified one cash-generating unit to which all goodwill was allocated. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Foreign Currency Transactions

The Company's functional and presentation currency is Euros ("€"), which is also the functional currency of each of the Company's subsidiaries. Transactions in currencies other than Euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

Financial Instruments

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash equivalents consist principally of commercial paper and certificates of deposit with maturities of three months or less when purchased.

Trade Receivables

Trade receivables do not carry any interest and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade payables

Trade payables are not interest bearing and are stated at their fair value.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are recorded as a component of the related debt to the extent that they are not settled in the period in which they arise.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Warrants

When issued in connection with detachable warrants to purchase shares, the fair value of debt securities is determined using a market interest rate for an equivalent debt instrument. Any resulting discount or premium on the debt securities is recognized using the effective interest rate method over the contractual term of the debt. The remainder of the proceeds is allocated to the detachable warrants and is recognized and included in shareholders' equity, net of any income tax effects.

The Company assesses whether freestanding warrants are to be classified within shareholder's equity or as a liability. Warrants accounted for as permanent equity are recorded at their initial fair value and subsequent changes in fair value are not recognized unless a change in the classification of those warrants occurs. Warrants not qualifying for permanent equity accounting are recorded at fair value as a liability with subsequent changes in fair value recognized through the income statement.

Derivative financial instruments and hedge accounting

The Company's activities are exposed to changes in foreign currency exchange rates and interest rates.

The Company seeks to reduce its foreign currency exposure through the use of certain derivative financial instruments in order to manage its exposure to exchange rate and interest rate fluctuations arising from its operations and funding. The Company has identified certain agreements as cash flow hedges including foreign exchange forward contracts, interest rate swap agreements, cap options and combinations of such instruments.

The use of derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of derivatives consistent with the Company's risk management strategy described in Note 12.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Fair Values

The Company has estimated the fair value of its financial instruments in these consolidated financial statements using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amount of cash, accounts and other receivables, and accounts and other payables approximates fair value because of the short maturity of those instruments.

Revenue Recognition

Subscription fees for telephony, internet and premium cable television are prepaid by subscribers on a monthly basis and recognized in revenue as the related services are provided i.e. in the subsequent month. Subscription fees for basic cable television are prepaid by subscribers predominantly on an annual basis and recognized in revenue on a straight line basis over the following twelve months. Revenue from telephone and internet activity is recognized on usage.

Installation fees are recognized immediately only when (1) they represent a separately identifiable service that is delivered (2) for which part the related costs equivaling the installation revenue or exceeding this revenue are expensed as incurred and reliably measurable. Accordingly, telephony, digital television and internet installation fees are recognized immediately whereas analogue cable television activation fees are deferred and recognized over the estimated customer relationship period of 10 years.

Together with subscription fees, basic cable television subscribers are charged a copyright fee for the content received from public broadcasters that is broadcasted over the Company’s network. These fees contribute to the cost the Company bears in respect of copyright fees paid to copyright collecting agencies for certain content provided by the public broadcasters and other copyright holders. The Company reports copyright fees collected from cable subscribers on a gross basis as a component of revenue as the Company is acting as a principal as the arrangement with the public broadcaster and other copyright holders does not represent a passthrough arrangement. Indeed, the Company bears substantial risk in setting the level of copyright fees charged to subscribers as well as in collecting such fees.

Operating Expenses

Operating expenses consist of interconnection costs, network operating and maintenance and repair costs and cable programming costs, including employee costs and related depreciation and amortization charges. The Company capitalizes most of its installation cost, including labor cost. Copyright and license fees paid to the holders of these rights and their agents are the primary component of the Company’s cable programming costs. Other direct costs include costs that the Company incurs in connection with providing its residential and business services, such as interconnection charges as well as bad debt expense. Network costs consist of costs associated with operating, maintaining and repairing the Company's broadband network and customer care costs necessary to maintain its customer base.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the amount can be reliably measured. Provisions are measured at the Company's best estimate of the expenditure required to settle its liability and are discounted to present value where the effect is material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the Company. Property and equipment acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and any impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. All other leases are classified as operating leases and are charged to profit or loss on a straight-line basis over the lease term.

Income Taxes

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In view of the Company's history of losses, no net deferred tax assets have been recognized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Employee Benefits

Pension Obligations

The Company provides both defined benefit and defined contribution plans to its employees, directors and certain members of management. The defined benefit pension plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The schemes are generally funded by payments from the participants and the Company to insurance companies as determined by periodic actuarial calculations.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. The corridor approach is applied to actuarial gains and losses. Such gains and losses are the result of changes in actuarial assumptions on retirement and similar commitments. Accordingly, all gains and losses exceeding 10% of the greater of the present value of the defined benefit obligation and the fair value of any plan assets are recognized over the expected average remaining working life of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Other Employee Benefit Obligations

Some entities provide long term service awards, health care premiums, early retirement plans and death benefits, among others, to their employees and/or retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees.

Share-based Payments

The Company issues equity-settled share-based payments to certain employees which are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes pricing model and is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the cumulative impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

New standards, interpretations and amendments

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2006 and are categorized below as either implemented, not yet effective or not relevant to the Company's operations.

IAS 19 (Amendment), *Employee Benefits* introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Company applies this amendment from annual periods beginning January 1, 2006.

The following interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but that the Company has not early adopted:

- IFRS 7, *Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures* (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company has not yet completed its assessment of the impact of IFRS 7 and the amendment to IAS 1 to the level of disclosures currently provided. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007;
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Company's accounts.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant to the Company's operations:

- IAS 21 (Amendment), *Net Investment in a Foreign Operation*;
- IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*;
- IAS 39 (Amendment), *The Fair Value Option*;
- IAS 39 and IFRS 4 (Amendment), *Financial Guarantee Contracts*;
- IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources*;
- IFRS 6, *Exploration for and Evaluation of Mineral Resources*;
- IFRIC 4, *Determining whether an Arrangement contains a Lease*;
- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;
- IFRIC 6, *Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment*;

- IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8, *Scope of IFRS 2*; and
- IFRIC 9, *Reassessment of Embedded Derivatives.*

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Company's accounting policies

Goodwill

The Company performed its annual review for impairment during the third quarter of 2006 and 2005. Goodwill was allocated to one reporting unit. The key assumptions for the value in use calculations used to determine the recoverable amount are those regarding the discount rates and expected changes to selling prices/product offerings and direct costs during the period. Changes in selling practices and direct costs are based on past practices and expectations of future changes in the market. The calculation uses cash flow projections based on financial budgets approved by management, and a discount rate of 9.0 per cent based on current market assessments of the time value of money and the risks specific to the Company. Cash flows beyond the five-year period have been extrapolated using a steady 2 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the industry. Management believes that any reasonably possible changes in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Key sources of estimation uncertainty

Deferred Income Taxes

As of December 31, 2006, Telenet Group Holding and its subsidiaries had available combined cumulative tax loss carry-forwards of €698,877 (2005: €672,617). Under current Belgian tax laws, these loss carry-forwards have an indefinite life and may be used to offset the future taxable income of Telenet Group Holding and its subsidiaries. Two subsidiaries acquired in a previous business combination made taxable profits of €85,366 (2005: €37,135) during the year and utilized tax loss carryforwards which had not been previously recognized as deferred tax assets resulting in a deferred tax expense of €34,292 (2005: €14,917).

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In view of the Company's history of losses, no net deferred tax assets have been recognized.

4. PROPERTY AND EQUIPMENT

	Land, Buildings and Leasehold Improvements	Network	Construction in Progress	Furniture, Equipment and Vehicles	Total
Cost					
At January 1, 2005	38,242	1,325,072	32,238	26,117	1,421,669
Additions	5,547	—	119,789	17,196	142,532
Transfers	2,677	126,679	(129,356)	—	—
Disposals	—	—	—	(2,145)	(2,145)
At December 31, 2005	46,466	1,451,751	22,671	41,168	1,562,056
Acquisition of subsidiaries	534	15,388	371	129	16,422
Additions	5,805	9,372	170,071	1,327	186,575
Transfers	2,095	147,662	(147,694)	(2,063)	—
Impairment	—	(8,874)	—	—	(8,874)
Disposals	—	(5,871)	—	(1,711)	(7,582)
At December 31, 2006	54,900	1,609,428	45,419	38,850	1,748,597
Accumulated Depreciation					
At January 1, 2005	3,835	442,701	—	14,357	460,893
Depreciation charge for the year	2,020	149,986	—	7,077	159,083
Eliminated on Disposal	—	—	—	(1,839)	(1,839)
At December 31, 2005	5,855	592,687	—	19,595	618,137
Depreciation charge for the year	1,659	155,447	—	6,375	163,481
Transfers	—	432	—	(432)	—
Eliminated on Disposal	—	(4,755)	—	(1,645)	(6,400)
At December 31, 2006	7,514	743,811	—	23,893	775,218
Carrying Amount					
At December 31, 2006	47,386	865,617	45,419	14,957	973,379
At December 31, 2005	40,611	859,064	22,671	21,573	943,919
Carrying Amount of Finance Leases included in Property and Equipment					
At December 31, 2006	17,562	5,384	—	361	23,307
At December 31, 2005	18,256	5,790	—	468	24,514

An impairment of €8,874 was recorded during 2006 for non-recoverable items of equipment.

5. GOODWILL

A reconciliation of the changes in goodwill is depicted below:

	December 31, 2006	December 31, 2005
Beginning balance	1,012,544	1,027,461
Use of net operating losses acquired in business combinations (Note 13)	(34,292)	(14,917)
Acquisition of subsidiary (Note 22)	174,975	—
Derecognized on disposal of a subsidiary (Note 22)	(4,482)	—
	1,148,745	1,012,544

6. OTHER INTANGIBLE ASSETS

	Network User Rights	Trade Name	Software	Customer Lists	Other	Total
Cost						
At January 1, 2005	136,856	121,000	70,720	67,991	27,756	424,323
Additions	1,311	—	34,632	—	8,859	44,802
Disposals	—	—	—	—	(23,962)	(23,962)
At December 31, 2005	138,167	121,000	105,352	67,991	12,653	445,163
Acquisition of subsidiary	—	—	321	16,741	—	17,062
Additions	2,388	—	20,590	—	11,023	34,001
Disposals	—	—	36	—	(6,657)	(6,621)
At December 31, 2006						
Supply contracts	140,555	121,000	126,299	84,732	17,019	489,605
Accumulated Amortization						
At January 1, 2005	28,685	30,250	48,589	16,498	19,525	143,547
Charge for the year	10,343	8,067	13,720	6,532	8,569	47,231
Disposals	—	—	—	—	(23,962)	(23,962)
At December 31, 2005	39,028	38,317	62,309	23,030	4,132	166,816
Charge for the year	10,757	8,066	17,339	6,531	5,922	48,615
Disposals	—	—	37	—	(4,676)	(4,639)
At December 31, 2006	49,785	46,383	79,685	29,561	5,378	210,792
Carrying Amount						
At December 31, 2006	90,770	74,617	46,614	55,171	11,641	278,813
At December 31, 2005	99,139	82,683	43,043	44,961	8,521	278,347

The Company's intangible assets other than goodwill each have a finite life and are comprised primarily of network user rights, trade name, software development and acquisition costs, customer lists, broadcasting rights and contracts with suppliers. These intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates the estimated useful lives of its finite intangible assets each reporting period to determine whether events or circumstances warrant revised estimates of useful lives.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. TRADE RECEIVABLES

	December 31, 2006	December 31, 2005
Trade receivables	123,568	117,771
Less: provision for impairment of receivables	(17,979)	(19,094)
Trade receivables, net	105,589	98,677

The Company recognised a loss of €4,414 and €4,520 for the impairment of its trade receivables during the years ended December 31, 2006 and 2005, respectively. The loss has been included in cost of services provided in the income statement. There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers.

8. OTHER CURRENT ASSETS

	December 31, 2006	December 31, 2005
Prepaid taxes and VAT	693	1,190
Inventory	12,200	8,212
Receivable from Electrabel	—	7,965
Miscellaneous receivable	3,133	3,705
Prepaid content	3,187	2,270
Prepayments	3,038	3,111
Receivable on disposal of Phone Plus	1,175	—
Other	973	215
	24,399	26,668

9. CASH AND CASH EQUIVALENTS

	December 31, 2006	December 31, 2005
Cash at bank and on hand	37,875	11,422
Commercial paper	9,969	159,664
Certificates of deposits	11,000	39,273
Total cash and cash equivalents	58,844	210,359

The Company holds commercial paper with a weighted average interest rate of 3.59% (2005 : 2.3%) and an average maturity of 31 days (2005 : 32 days). The certificates of deposits have a weighted average interest rate of 3.58% (2005 : 2.3%) and an average maturity of 4 days (2005 : 9 days).

10. SHAREHOLDERS' EQUITY

Telenet Group Holding currently has the following shares outstanding, all of which are treated as one class in the earnings (loss) per share calculation:

- 101,085,455 ordinary Shares;
- 2,164,911 dispreference shares that are held by Interkabel and the Liberty Global Consortium, which have the same rights as the ordinary Shares except that they are subject to an €8.02 liquidation dispreference, such that in any liquidation of Telenet Group Holding the dispreference shares would only participate in the

portion of the proceeds of the liquidation that exceeded €8.02 per Share. Dispreference shares may be converted into ordinary Shares at a rate of 1.04 to 1; and

- 30 Golden Shares held by the mixed intercommunales, which have the same rights as the ordinary Shares and which also give their holders the right to appoint representatives to the Regulatory Board, which oversees the public interest guarantees related to our offering of digital television.

The share capital amounts as of December 31, 2006 were €1,656,645,249.91.

According to a transparency declaration filed with the Banking, Finance and Insurance Commission (BFIC) and the Company on November 13, 2006, Liberty Global Inc. acquired through its affiliate Belgian Cable Investors 6,750,000 shares of Telenet Group Holding through the exercise of its options (the "New Period Options") issued by the Mixed Intermunicipalities shareholders. The options have been exercised at a price of €20 per share.

Further to a new transparency declaration of November 20, 2006, Liberty Global, Inc. acquired through another affiliate, LGI Venturs BV formerly known as Chellomedia Investments B.V., all shares held by the Evercore entities which are part of the Liberty Global Consortium. Consequently, LGI holds as of December 31, 2006 a total of 28,292,474 shares or 27.99% of the Telenet Group Holding share capital, representing a majority of the Syndicate Shares. As a result thereof and following the receipt of certain regulatory approvals in February 2007, LGI has the right to exclusively nominate candidates for the majority of the positions in the Board of Directors of Telenet Group Holding.

Employee Share Based Compensation

Class A and Class B Options

In August 2004, the Company granted 1,500,000 Class A Options to certain members of management to subscribe to 1,500,000 Class A Profit Certificates ("Class A Options"). Except for 506,712 Class A Options that vested immediately upon grant, the vesting period of the Class A Options extends to a maximum to 40 months and can be exercised through June 2009. The fair value of the Class A Options was determined on the date of grant to be €8.46 using the Black-Scholes option-pricing model with the following assumptions: annual Euro swap interest rate for each respective expiration date, expected life of 4.9 years, and a dividend yield of 0.0% and volatility of 24%

In December 2004, the Company offered 1,251,000 of the 1,350,000 authorized Class B Options to certain members of management to subscribe to 1,251,000 Class B Profit Certificates ("Class B Options"). Of the 1,251,000 Class B Options offered by the Company, 1,083,000 were accepted in February 2005. The remaining 267,000 Class B Options were cancelled on September 20, 2005. Except for 105,375 Class B Options that vested immediately upon grant, the Class B Options vest over 4 years and can be exercised through December 2009. The fair value of the Class B Options was determined on the date of grant to be €5.12 using the Black-Scholes option-pricing model with the following assumptions: annual Euro swap interest rate for each respective expiration date, expected life of 4.9 years, and a dividend yield of 0.0% and volatility of 20%

The Class A and the Class B Options must be exercised in multiples of three, giving the right to acquire three Class A Profit Certificates for €20 or three Class B Profit Certificates for €25. The Class A and Class B Profit Certificates are exchangeable into shares of the Company on a one for one basis, subject to certain conditions being met. Upon exercise, these profit certificates give the holders the right to receive dividends equal to dividends distributed, if any, to the holders of the Company's shares.

In the case of an initial public offering or a change of control, the vesting for half of the remaining non-vested Class A Options would be brought forward to the date of the offering or change in control. In contemplation of the IPO, the Board of Directors decided at its September 2, 2005 meeting to accelerate the vesting of 121,968 Class B Options, contingent upon the closing of the IPO which occurred on October 11, 2005. The terms and conditions of the certificates as originally granted did not provide for such accelerated vesting but allowed the Board of Directors the possibility of accelerating vesting subsequent to grant. As a result of this modification, additional compensation expense of €576 was incurred in October 2005 based on the increase in the intrinsic value of the Class B Option at the date of grant. The remaining non vested Class B Options will vest over the remaining original vesting periods.

Upon change in control that resulted from the increase in LGI's participation on November 13, 2006, the vesting on all of the remaining unvested Class A options was accelerated in accordance with the terms of the original agreement. This resulted in an additional expense of €153 in November 2006.

The Class A and Class B options in the table below were exercised versus payments of €5,059 and €524 during the years ended December 31, 2006 and 2005, respectively. Upon exercise, the Class A and Class B options were exchanged on a one-for-one basis for Class A and Class B Profit Certificates and are accounted for as increases in Other Reserves within Equity. These reserves are transferred from Other Reserves to Share Capital when the Profit Certificates are exchanged for shares of the Company and resulted in a transfer of €4,363 between Other Reserves and Share Capital within Equity in 2006.

Class of Option	Number of Options Exercised	Exercise Date	Share Price at Exercise Date (in Euros)
Class B Options	62,877	12/12/05	16.60
Class A Options	285,000	05/12/06	18.20
Class B Options	232,692	05/12/06	18.20
Class B Options	68,533	10/02/06	19.10
Class A Options	30,000	12/22/06	21.69
Class B Options	53,844	12/22/06	21.69

All Plans

A summary of the activity of the Company's stock options for the years ended December 31, 2006 and 2005 is as follows:

	Outstanding Options	
	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2005	1,544,390	7.19
Class B Options granted	1,083,000	8.33
1998 Plan & 1999 Plan options exercised	(44,390)	24.79
Class B Options exercised	(62,877)	8.33
Balance December 31, 2005	2,520,123	7.34
Class A Options exercised	(315,000)	6.67
Class B Options exercised	(355,069)	8.33
Class B Options lapsed	(1,140)	8.33
Class B Options forefeited	(55,380)	8.33
Balance December 31, 2006	1,793,534	7.23

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2006:

	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (in Euros)
Class A Options	1,185,000	1,185,000	30 months	6.67
Class B Options	608,534	159,989	36 months	8.33

Employee Stock Purchase Plan

On October 16, 2006, Telenet launched an employee stock purchase plan (ESPP). Under the terms of the ESPP, employees were given until December 4, 2006 to purchase new shares of Telenet Group Holding NV at a discount of 16.67% to the average share price over the month of November 2006. Based on the average share price of €20.54 for November 2006, the discount under the ESPP was €3.43 per share. As the shares were fully vested at the time of the transaction, the Company recognized €1,028 as compensation expense in December 2006 for the 300,033 shares that were purchased.

Warrants

Subordinated Debt Warrants

The Company has 3,426,000 subordinated debt warrants outstanding (the "Subordinated Debt Warrants") which are held by the Liberty Global Consortium, the GIMV, the Financial Consortium and the MICs. Each Subordinated Debt Warrant entitles the holder thereof to three shares of Telenet Group Holding upon payment of an exercise price of €40. Alternatively, holders may opt for a "cashless" exercise of the Subordinated Debt Warrants. In such a case, they will be entitled to acquire a reduced number of shares of Telenet Group Holding, using the value of their warrants (measured by the market value of the shares of Telenet Group Holding at the time of exercise less the exercise price of the warrants) to acquire shares of Telenet Group Holding at their market value. The warrants can be exercised at any time during the exercise period ending on August 9, 2009.

Bank Warrants

In conjunction with the Senior Credit Facility obtained in July 2002, the Company issued a total of 100,000 detachable warrants, which vested immediately upon issuance. Until the expiration date in August 2007, these warrants gave the holders the right to purchase a number of the Company's ordinary shares for €0.01 per warrant. The number of shares would only be known at the exercise date as it was ultimately based on the number of outstanding shares at August 9, 2002 adjusted by various factors, including additions for shares issued upon the exercise of other warrants.

These warrants are no longer held by the lenders and all but 15,714 were cancelled. The remaining 15,714 warrants were transferred as part of the settlement of the subordinated shareholder debts that were repaid on December 22, 2003. On August 24, 2005, the Company's Chief Executive Officer exercised the 15,714 Bank Warrants acquired in 2004 at a price of €0.01 per 21 shares, and, as a result, acquired 329,994 shares.

11. DEBT AND OTHER FINANCING

The debt balances specified below include accrued interest as of December 31, 2006 and 2005.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2006	December 31, 2005
Senior Credit Facility:		
Tranche A	—	219,013
Tranche B	—	11,127
Tranche D	—	333
Tranche E	—	405,196
New Senior Credit Facility:		
Tranche A	600,154	—
Tranche B	100,139	—
Senior Notes	369,691	509,504
Senior Discount Notes(1)	221,239	220,954
Clientele Fee	45,860	42,379
Annuity Fee	51,057	53,822
Finance lease obligations	25,821	27,236
	1,413,961	1,489,564
Less: deferred financing fees	(23,351)	(44,650)
	1,390,610	1,444,914
Less: current portion	(59,767)	(156,129)
Total long-term debt	1,330,843	1,288,785

(1) Accreted balance of the Senior Discount Notes, converted to Euros on December 31, 2006 and 2005 at the accounting rate of $1. 317 to €1.00 and $1.1797 to €1.00, respectively.

Total debt is denominated in Euros with the exception of the Senior Discount Note which is denominated in U.S. Dollars. Fixed interest rates applied to 41.74% of the total financial debt (2005: 48.5%). The weighted average interest rates at year end was 9.94% on fixed interest rate loans (2005: 9.77%) and 4.90% on floating interest rate loans (2005: 4.83%).

Senior Notes

On December 22, 2003, Telenet Communication issued Senior Notes with a principal amount of €500,000, receiving net proceeds of €482,310. Interest on the notes is payable semi-annually at an annual rate of 9%. The notes do not have required principal repayments prior to maturity on December 15, 2013.

Telenet Communications initiated an offer for approximately €125,522 of principal and accrued interest of its Senior Notes on November 30, 2005. Under the terms of the offer, which closed in January 2006, Telenet Communications redeemed €124,773 of principal of the Senior Notes plus accrued interest of €749, and paid a 9.0% redemption premium of €11,230, resulting in a total payment to holders of the Senior Notes of €136,752. The redemption cost associated with this exercise was recorded as an increase in finance cost in the fourth quarter of 2005.

Senior Discount Notes

On December 22, 2003, the Company issued Senior Discount Notes at 57.298% of par value with a principal amount at maturity of $558,000 (or €450,654 using the exchange rate obtained upon the issuance of $1.2382 per €1.00), receiving net proceeds of €242,527. Interest on the notes started accreting from December 22, 2003 at an annual rate of 11.5%, compounded semi-annually. Commencing on June 15, 2009 until maturity on June 15, 2014, interest is payable semi-annually at an annual rate of 11.5%. There are no required principal repayments prior to maturity.

In connection with the issuance of the Senior Discount Notes, the Company entered into a registration rights agreement pursuant to which it undertook to either complete a registered exchange offer (or, if required, cause a shelf registration statement to become effective) with respect to the Senior Discount Notes by June 30, 2005, or to pay in cash liquidated damages at a rate equal to 1% per annum of the accreted value of the Senior Discount Notes until December 31, 2005. The accreted value of the Senior Discount notes as of June 30, 2005 was $379 million.

Because the Company has not completed a registered exchange offer (or caused a shelf registration statement to become effective) with respect to the Senior Discount Notes as of June 30, 2005, it paid liquidated damages of $1,150 (or €973) to holders of the Senior Discount Notes on December 15, 2005.

On October 17, 2005, Telenet Group Holding initiated an offer for up to 35% of the accreted value of its Senior Discount Notes, as calculated under the terms of the indenture governing such Notes, including an adjustment for amounts redeemed under the Change of Control Offer for the Senior Discount Notes, described below, such that not less than 65% of the Senior Discount Notes remains outstanding. Under the terms of the offer, which closed on November 23, 2005, Telenet Group Holding redeemed Senior Discount Notes with an accreted value of $136,171 (€115,233), representing 34.6% of $393,743 (€465,286), the total accreted value of the Senior Discount Notes as of such date, and paid an 11.5% redemption premium of $15,660 (€13,341). In addition, Telenet Group Holding paid $552 (€467) in accrued liquidated damages with respect to the redeemed Senior Discount Notes. The redemption cost associated with this exercise was recorded as an increase in finance cost in the fourth quarter of 2005.

Change of Control Offers for the Telenet Group Holding Senior Discount Notes and Telenet Communications Senior Notes

Certain of the Company's shareholders entered into an agreement on October 14, 2005 which, among other matters, amended certain governance terms. The Company concluded that these changes resulted in a Change of Control within the definitions of the relevant indentures. Therefore, on October 17, 2005, Telenet Group Holding and Telenet Communications initiated change of control offers for the full accreted value and outstanding principal amount of Senior Discount Notes and Senior Notes, respectively (the "Change of Control Offers"). As per the terms of the indentures governing the Senior Discount Notes and Senior Notes, the Change of Control Offers were made at 101% of accreted value and outstanding principal amount, respectively. The Change of Control Offers expired on November 18, 2005 at which time $2,523 of face value at redemption of the Senior Discount Notes and €6,825 of the Senior Notes were tendered for redemption and settled during November 2005 together with accreted or accrued interest, as appropriate, the 1% redemption premium and the accrued liquidated damages in respect of the Senior Discount Notes. Pursuant to the Change of Control Offers, the total cost of the Senior Discount Notes purchased was $2,559 and the total cost of the Senior Notes purchased was €7,165.

New Senior Credit Facility

On May 10, 2006, Telenet Bidco, Telenet NV and Telenet Vlaanderen (as Borrowers and Guarantors), entered into a new senior credit facility (the "New Senior Credit Facility"), which provided significantly improved terms compared to Telenet's previous Senior Credit Facility. The New Senior Credit Facility was closed on May 12, 2006 and has a final maturity date of March 31, 2011. In connection with the closing of the New Senior Credit Facility, the Company prepaid a net €35,000 of outstanding senior debt using excess cash on its balance sheet.

The major terms and conditions of the various tranches of the New Senior Credit Facility were as follows:

- Tranche A provides a €600,000 amortising loan facility which was drawn in full upon closing. It is repayable in quarterly instalments commencing on March 31, 2007 and calls for a final repayment of €370,000 on March 31, 2011.

- Tranche B is a €200,000 revolving credit facility of which the undrawn availability was €100,000 as of December 31, 2006.
- Tranche C is an uncommitted facility of up to €200,000 or, if utilised for the acquisition of certain Belgian cable assets, up to €350,000.

Interest is currently payable on Tranches A and B of the New Senior Credit Facility at a margin of 0.90% over EURIBOR, and can vary from 0.70% to 1.25% subject to an interest margin ratchet mechanism based on the ratio of Net Cash Pay Debt to Consolidated EBITDA. A commitment fee is payable quarterly in arrears on undrawn amounts of the Tranche B Loan at the rate of 40% of the applicable margin of the Tranche B Loan. The financial covenants, which are tested on a quarterly basis, measure performance against, among others, standards for leverage, debt service coverage, and earnings before interest, taxes, depreciation, and amortization ("EBITDA").

Senior Credit Facility

Until replaced by the New Senior Credit Facility in May 2006 (the "Refinancing"), the Company had a senior secured facility that provided up to €835,000 in committed financing from a syndicate of lenders and in various tranches and a further €150,000 in uncommitted senior secured facilities (the "Senior Credit Facility"). Since the date that the Senior Credit Facility was originally signed in July 2002, the Company amended the terms and structure and made partial prepayments of the Senior Credit Facility in line with its requirements and its evolving credit profile.

At the time the Refinancing, the major terms and conditions of the various committed tranches of the Senior Credit Facility were as follows:

- Tranche A was an amortizing term loan and guarantee facility expiring in 2009 for an amount of up to €218,880. Amounts under the facility incurred interest at Euribor plus a margin of 3%.
- Tranche B was an amortizing revolving credit facility, expiring in 2009, of up to €11,121. Amounts under the facility incurred interest at Euribor plus a margin of up to 3%.
- Tranche C2 was a nonamortizing term loan with a principal amount of €150,000 which matured in 2010. Amounts under the Tranche C2 facility incurred interest at Euribor plus a margin of up to 3.75%. The outstanding principal under this facility was fully repaid on March 31, 2005.
- Tranche D was a revolving credit facility, expiring in 2009, of €200,000. Amounts under the facility incurred interest at Euribor plus a margin of up to 3.50%.
- Tranche E was a non-amortizing term loan, expiring in 2011, of €405,000. Amounts under the facility incurred interest at Euribor plus a margin of 2.50%.

Clientele and Annuity Agreements

In 1996, the Company entered into a Clientele Agreement and an Annuity Agreement with the Pure Intercommunale Companies ("PICs"), through Interkabel Vlaanderen CVBA ("Interkabel"), which is a related party of the Company.

The clientele fee payable under the Clientele Agreement is payable by the Company in return for access to the cable network customer database owned and controlled by the PICs. The clientele fee is payable as long as the Company maintains its usage rights to the cable network, and is adjusted periodically depending on the level of inflation. Such payments allow the PICs to recover part of their historical investment to upgrade the original cable network to allow for two-way communication (the "HFC Upgrade"). Considering this, the present value of the clientele fee payments over the first 20 years (being the life of the longest lived assets that are part of the HFC Upgrade) has been accounted for as network user rights under intangible assets, and is amortized over 10 or 20 years depending on the useful life of the underlying assets that make up the HFC Upgrade.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with the terms of the Annuity Agreement, the PICs charge an annuity fee, which in substance covers the remaining 60% of the cost of the HFC Upgrade incurred by the PICs, to the Company. Payments under the Annuity Agreement are due over a period of 10 or 20 years, depending on the useful life of the underlying assets that make up the HFC Upgrade incurred by the PICs. The present value of the future payments under the Annuity Agreement has been capitalized as network user rights under intangible assets, and is amortized over 10 or 20 years depending on the useful life of the underlying assets that make up the HFC Upgrade.

Finance Lease Obligations

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Within one year	2,748	2,159	1,525	1,184
In the second to fifth years, inclusive	12,989	11,509	9,300	8,223
Thereafter	19,074	22,091	14,430	17,090
Total minimum lease payments	34,811	35,758	25,255	26,497
Less: future finance charges	(9,556)	(9,261)	—	—
Present value of lease obligations	25,255	26,497	25,255	26,497
Less: amount due for settlement within 12 months			(1,525)	(1,184)
Amount due for settlement after 12 months			23,730	25,313

The Company leases certain assets under finance leases including buildings, head-ends and certain vehicles with average lease terms of 20, 20 and 5 years, respectively. Leases of head-ends include the equipment used to receive signals of various devices, whether directly from the transmitter or from a microwave relay system. These devices are used, among other things, to transmit data and telephony and television signals. For the year ended December 31, 2006, the average effective borrowing rate was 4.69% (2005: 3.76%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

On July 20, 2006, Telenet NV entered into an arrangement to finance the construction of a new building for a maximum amount of €30,000. At the end of the construction period the company will start paying quarterly lease payments, based on fixed capital repayments, in order to repay the total amount financed plus applicable interest charges. The lease period will last for 15 years starting at the end of the construction period and the Company has a bargain purchase option at the end of the lease. On November 17, 2006 the Company entered into an agreement with the lessors pursuant to which the contractual interest margin of 1.00% will be payable over a fixed rate of 3.89% for the term of the finance arrangement.

During the construction phase, the Company will pay interest on amounts drawn under the finance arrangement based on 3-month Euribor plus a 1.00% margin. As of December 31, 2006 the total amount capitalized for construction in progress was €15,545 and an equivalent amount plus accrued interest is presented as short-term borrowings pursuant to the terms of the above mentioned finance agreement. At the end of the construction period a sale and lease back will be accounted for whereby the lease back is a finance lease.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Repayment Schedule

Aggregate future principal payments on the total borrowings under all of the Company's debt agreements other than finance leases are shown in the following table. The Senior Discount Note is included at its fully accreted value.

	December 31, 2006	December 31, 2005
On demand or within one year	52,628	12,342
In the second year	61,441	51,725
In the third year	72,298	52,166
In the fourth year	82,018	52,485
In the fifth year	480,241	52,199
After five years	740,901	1,307,492
	1,489,527	1,528,409
Less: Interest to be accreted on the Senior Discount Note	(59,791)	(85,628)
	1,429,736	1,442,782

Guarantees and Covenants

Obligations under the Senior Notes, Senior Discount Notes and the New Senior Credit Facility are guaranteed and cross-guaranteed by certain subsidiaries of Telenet Group Holding. The obligations are also secured by mortgages and by pledges of certain equity interests, material contracts, and other rights and claims held by certain of Telenet Group Holding's subsidiaries including, on a consolidated basis, property and equipment of €957,028, intangible assets of €261,752, trade receivables of €104,484 and other current assets of €24,241.

As of December 31, 2006 and 2005, the Company was in compliance with all of its financial covenants.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company seeks to reduce its foreign currency exposure through a policy of matching, to the extent possible, assets and liabilities denominated in foreign currencies. In addition, the Company uses certain derivative financial instruments in order to manage its exposure to exchange rate and interest rate fluctuations arising from its operations and funding. The Company has identified certain foreign exchange forward contracts, interest rate swaps, caps and collars as cash flow hedges and has determined that it has no significant embedded derivative instruments that are required to be bifurcated and measured at fair value. The Company is also exposed to credit risks.

Foreign Currency Cash Flow Hedges

The Company continues to apply hedge accounting in relation to its foreign exchange forwards that were purchased historically to hedge the U.S. dollar foreign exchange risk related to the U.S. dollar-denominated Senior Discount Notes.

The hedging instrument in this hedging relationship is the spot value of the foreign exchange forwards, as defined by the difference between the spot rate at inception and the closing spot rate. The hedged risk is the variability in the Euro-equivalent cash flows related to the fully accreted amount of the Senior Discount Notes.

As of December 31, 2006 and December 31, 2005 outstanding foreign exchange forward contracts that qualified as cash flow hedges were as follows:

	December 31, 2006	December 31, 2005
Forward purchase contracts		
Notional amount in U.S. dollars	362,700	362,700
Weighted average strike price (U.S. dollars per Euro)	1.1930	1.1930
Maturity	December 15, 2008	December 15, 2008

Foreign Exchange Risk Related to Operations

The Company uses forward and option contracts in order to limit its exposure to the U.S. dollar fluctuations against the Euro for transactions that are part of daily operations. These derivatives are economic hedges but have not been accounted for as cash flow hedges.

Derivative financial instruments covering operational foreign exchange risk exposure as of December 31, 2006 and December 31, 2005 were as follows:

	December 31, 2006	December 31, 2005
Option contracts		
Notional amount in U.S. dollars	17,000	17,500
Weighted average strike price (U.S. dollars per Euro)	1.29	1.17
Maturity	From January to June 2007	From January to July 2006

Interest Rate Risk

The Company has entered into interest rate swaps, caps and collars designed to hedge the interest rate exposure associated with various floating rate debts.

Interest rate swaps qualifying for cash flow hedge accounting have been designated as hedging instruments in their entirety. The time value of cap and collar contracts has been excluded from the designation. Hedge effectiveness is determined using the hypothetical derivative method. Cumulative changes in the fair value of the hedging instrument are compared to cumulative changes in the fair value of the hypothetical derivative.

When the Company determines that a derivative is not highly effective as a hedging instrument, hedge accounting is discontinued prospectively. Consequently, amounts accumulated in other comprehensive income are transferred to earnings in the same periods during which the hedged forecasted transaction affects earnings. When hedge accounting is discontinued because it is no longer expected that a forecasted transaction will occur, the Company reclassifies amounts accumulated in the hedging reserve to earnings immediately.

In conjunction with entering into the New Senior Credit Facility, during the second quarter of 2006, the Company discontinued cash flow hedge accounting for all outstanding interest rate derivatives. Consequently, cumulative losses that were previously recorded through hedging reserves were reversed into profit or loss for an amount of €2,173.

During the second semester of 2006, the Company has defined several new cash flow hedge relationships for a portion of its interest rate derivatives.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2006 and December 31, 2005, the outstanding contracts were as follows:

	December 31, 2006	December 31, 2005
Interest rate swaps		
Notional amount	171,163	180,762
Average pay interest rate	4.79%	4.78%
Average receive interest rate	2.9%	2.4%
Maturity	From 2008 to 2011	From 2008 to 2011
Caps		
Notional amount	49,046	59,504
Average cap interest rate	4.4%	4.4%
Maturity	From 2009 to 2017	From 2009 to 2017
Collars		
Notional amount	450,000	450,000
Average floor interest rate	2.5%	2.5%
Average cap interest rate	5.4%	5.4%
Maturity	From 2009 to 2011	From 2009 to 2011

Summary

The cumulative impact of the all of the derivative instruments described above has been allocated between hedging reserves and earnings as follows:

	Fair Value	Hedging Reserves	Earnings
January 1, 2005	(81,134)	(26,627)	(54,507)
Change in fair value of foreign exchange forward contracts	51,576	62,161	(15,540)
Change in fair value of foreign exchange forward contracts reclassified into earnings	—	(43,403)	43,403
Change in fair value of foreign exchange option contracts	251	—	251
Change in fair value of interest rate derivatives qualifying for hedge accounting	252	(70)	322
Change in fair value of interest rate derivatives not qualifying for hedge accounting	6,383	—	6,383
Amortization of the change in fair value of interest rate derivatives frozen upon discontinuance of hedge accounting	—	9,017	(9,017)
December 31, 2005	(22,672)	1,078	(28,705)

	Fair Value	Hedging Reserves	Earnings
December 31, 2005	(22,672)	1,078	(28,705)
Change in fair value of foreign exchange forward contracts	(20,586)	(32,052)	11,466
Change in fair value of foreign exchange forward contracts reclassified into earnings	—	24,517	(24,517)
Change in fair value of foreign exchange option contracts	(254)	—	(254)
Change in fair value of interest rate derivatives qualifying for hedge accounting	2,429	685	1,744
Change in fair value of interest rate derivatives not qualifying for hedge accounting	4,878	—	4,878
Amortization of the change in fair value of interest rate derivatives frozen upon discontinuance of hedge accounting	—	98	(98)
Immediate transfer of amounts accumulated in hedging reserve to profit or loss due to discontinuance of hedge accounting	—	2,075	(2,075)
December 31, 2006	(36,205)	(3,599)	(37,561)

The difference between the cumulative change in fair value of the derivative instruments and the cumulative amounts booked in the hedging reserve and earnings amounts to €4,955. This corresponds to the settlement of foreign exchange forward contracts in 2005.

Credit Risk

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies with regard to its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as deemed appropriate.

The largest share of the gross assets subject to credit risk is accounts receivable from residential and small commercial customers located throughout Belgium. The risk of material loss from nonperformance from these customers is not considered likely. Reserves for uncollectible accounts receivable are provided for the potential loss from nonpayment by these customers based on historical experience.

With regards to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with highly rated European and U.S. financial institutions.

Fair market value

The carrying amounts and related estimated fair values of the Company's significant financial instruments were as follows:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including short-term maturities)	(1,413,961)	(1,477,765)	(1,489,564)	(1,576,295)
Foreign exchange forward	(31,490)	(31,490)	(10,904)	(10,904)
Foreign exchange options	(227)	(227)	27	27
Interest rate swaps	(2,840)	(2,840)	(7,994)	(7,994)
Caps	(352)	(352)	(718)	(718)
Collars	(1,296)	(1,296)	(3,083)	(3,083)
Total derivative instruments	(36,205)	(36,205)	(22,672)	(22,672)
Total	(1,450,166)	(1,513,970)	(1,512,236)	(1,598,967)

The fair values of interest rate swaps and foreign exchange forwards are calculated by the Company based on swap curves flat, without extra credit spreads. Confirmations of the fair values received from the contractual counterparties, which are all commercial banks, are used to validate the internal calculations. The fair value of derivative instruments containing option-related features are determined by commercial banks and validated by management.

The fair values of our long-term debt instruments are derived as the lesser of either the call price of the relevant instrument or the market value as determined by quoted market prices at each measurement date, where available, or, where not available, at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risk to the appropriate measurement date.

The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments for which carrying amounts and fair values have not been presented are not materially different than their related carrying amounts.

Management has applied its judgment in using market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize in a current market exchange.

13. DEFERRED TAXES

Telenet Group Holding and its consolidated subsidiaries each file separate tax returns in accordance with Belgian tax laws. For financial reporting purposes, Telenet Group Holding and its subsidiaries calculate their respective tax assets and liabilities on a separate-return basis. These assets and liabilities are combined in the accompanying consolidated financial statements.

The tax effects of significant temporary differences and tax loss carry-forwards are presented below:

	December 31, 2006	December 31, 2005
Deferred income tax assets		
Financial instruments	5,700	12,251
Bad debt allowance	6,023	5,929
Tax loss carry-forwards	260,899	307,349
Total deferred tax assets	272,622	325,529
Deferred income tax liabilities		
Intangible assets	7,327	3,399
Property and equipment	664	1,448
Other	330	420
Total deferred tax liabilities	8,321	5,267
Net deferred income tax assets	264,301	320,262
Net deferred income tax recognized in the balance sheet	6,477	—

As of December 31, 2006, Telenet Group Holding and its subsidiaries had available combined cumulative tax loss carry-forwards of €698,877 (2005: €672,617). Under current Belgian tax laws, these loss carry-forwards have an indefinite life and may be used to offset the future taxable income of Telenet Group Holding and its subsidiaries. As Telenet Group Holding and virtually all of its subsidiaries have never realized any substantial taxable profits, no deferred taxes have been recognized.

Two subsidiaries acquired in a previous business combination made taxable profits of €85,366 (2005: €37,135) during the year and utilized tax loss carryforwards which had not been previously recognized as deferred tax assets. One of these two subsidiaries was liquidated in 2006. The utilization of tax losses carried forward from previous business combinations is recorded as a reduction of goodwill using the historic tax rate of 40.17% applicable at the time of the acquisition while the deferred tax asset is established using the current tax rate of 33.99%. This results in a deferred tax expense of €34,292 (2005: €14,917). Available tax loss carry-forwards were reduced by €381,689 during 2005 as a result of taxable profits being recognized on permanent tax differences and adjustments related to the mergers and disallowed expenses. Taxable profit is reduced by a notional interest deduction which can be carried forward for 7 years.

14. OTHER LIABILITIES

	December 31, 2006	December 31, 2005
Copyright fees	3,453	11,131
Employee benefit obligations	16,859	9,868
Other	9,396	2,756
	29,708	23,755

In 2004, the Company, together with other Belgian cable operators, concluded negotiations with certain of the broadcasters and copyright collection agencies in Belgium that determined the copyright fees due by cable operators that represented the significant majority of the claims previously outstanding. The Company remains in litigation with smaller copyright collection agencies and broadcasters and has reached an agreement in principle on some of the outstanding terms. The Company has accrued €18,260 (2005: €22,884) for settlement of these estimated fees of which €14,807 (2005: €11,753) is considered to be short term and is recorded under accrued expenses and other current liabilities.

15. EMPLOYEE BENEFIT PLANS

The majority of Telenet's employees participate in defined contribution plans funded through a group insurance or pension fund. By law, those plans provide an average minimum guaranteed rate of return over the employee's career equal to 3.75% on employee contributions and 3.25% on employer contributions paid as from January 1, 2004 onwards. During 2006, an amount of € 1,871 (2005: €1,430) was paid by the employer with respect to those plans.

Since the actual rates of return obtained by the pension fund have been significantly higher than the minimum guaranteed rates of return, no provisions have been accounted for. The accumulated plan assets in the pension fund amount to €15,503 at December 31, 2006 (2005: €11,759). The Company has also recognized a liability of €2,973 at December 31, 2006 (2005: €1,591) for long term service awards

The funded defined benefit pension plans are financed through insurance contracts which provide a guaranteed rate of return. The plan assets do not include any shares issued by Telenet or property occupied by Telenet.

The amounts recognized in the balance sheet are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Present value of funded obligations	7,080	4,719	—	—
Fair value of plan assets	(6,185)	(1,878)	—	—
	895	2,841	—	—
Present value of unfunded obligations	—	—	6,351	3,471
Unrecognized net actuarial loss	(1,680)	(1,440)	(1,856)	(490)
Net (asset) liability in balance sheet	(785)	1,401	4,495	2,981

The amounts recognized in the income statement are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Service cost	2,375	2,186	855	984
Interest cost	270	206	240	142
Expected return on plan assets	(163)	(74)	—	—
Losses/(gains) on curtailments	—	—	461	—
Actuarial losses recognized in the year	60	5	90	—
Total	2,542	2,323	1,646	1,126

Of the charge for the year, €3,555 (2004: €2,825) is included in costs of services provided in the income statement, €192 (2005: €350) is included in selling, general and administrative and €441 (2005: €274) is included in finance cost.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Changes in the present value of the defined benefit obligation are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Opening defined benefit obligation	4,719	2,265	3,471	1,855
Service cost	2,375	2,186	855	984
Interest cost	270	206	240	142
Plan participants contributions	60	57	—	—
Losses/(gains) on curtailments	—	—	461	
Actuarial loss (gain)	(317)	326	1,456	490
Benefits paid	(27)	(321)	(132)	—
Closing defined benefit obligation	7,080	4,719	6,351	3,471

Changes in the fair value of plan assets are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Opening fair value of plan assets	1,878	1,462	—	—
Actual return on plan assets	163	74	—	—
Company contributions	4,727	1,625	132	—
Plan participants contributions	59	56	—	—
Actuarial (loss) gain	(615)	(1,018)	—	—
Benefits paid	(27)	(321)	(132)	—
Closing fair value of plan assets	6,185	1,878	—	—

A 1% change in assumed medical cost increase would have the following effects on:

	1% increase	1% decrease
a) aggregate amount of service cost and interest cost	157	(123)
b) defined benefit obligation	687	(577)

The experience adjustments for the current and previous four annual periods amount to :

	2006	2005	2004	2003	2002
Defined benefit obligation	13,431	8,189	4,120	410	287
Fair value of plan assets	6,185	1,878	1,462	317	213
(Surplus)/deficit	7,246	6,311	2,658	93	74
Experience adjustments on plan liabilities	1,634	—	—	—	—
Experience adjustments on plan assets	(615)	(1,018)	—	—	—

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The principal assumptions used for the purpose of the actuarial valuations are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Discount rate at December 31	4.30%	4.00%	4.300%	4.00%
Rate of compensation increase	3.09%	3.11%	—	—
Expected return on plan assets	4.00%	4.83%	—	—
Underlying inflation rate	2.00%	2.00%	2.00%	2.00%
Increase of medical benefits	—	—	3.00%	3.00%

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31, 2006	December 31, 2005
Customer deposits	25,859	25,451
Compensation and employee benefits	32,828	30,574
Financial instruments	275	2,465
VAT and withholding taxes	4,244	1,616
Copyright fees	14,807	11,753
Other current liabilities	1,479	2,270
	79,492	74,129

17. REVENUE

The Company's revenue, for both continuing and discontinued operations, are comprised of the following:

	For the Year Ended December 31,	
	2006	2005
Continuing operations		
Cable television:		
- Basic Subscribers(1)	199,433	198,557
- Premium Subscribers(1)	47,312	51,808
- Distributors/Other	36,788	17,211
Residential:		
- Internet	268,588	231,097
- Telephony(2)	183,269	160,930
Business	78,062	73,914
Subtotal continuing operations	813,452	733,517
Discontinued Operations		
Residential:		
- Telephony(2)	7,509	9,364
Total	820,961	742,881

Residential telephony revenue also includes interconnection fees generated by business customers.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company also has unearned revenue as follows:

	December 31, 2006	December 31, 2005
Cable television:		
- Basic Subscribers(1)	113,982	107,861
- Premium Subscribers(1)	10,104	3,756
- Distributors/Other	207	777
Residential:		
- Internet	10,539	8,079
- Telephony(2)	2,529	2,062
Business	643	1,878
Total	138,004	124,413
Current portion	123,179	112,876
Long-term portion	14,825	11,537

(1) Basic and premium cable television substantially comprises residential customers, but also includes a small proportion of business customers.

(2) Residential telephony revenue also includes interconnection fees generated by business customers.

Unearned revenue is generally fees prepaid by the customers and, as discussed in Note 2, is recognized in the Income Statement on a straight-line basis over the related service period

18. EXPENSES BY NATURE

	For the Year Ended December 31, 2006	2005
Employee benefits:		
- Wages, salaries, commissions and social security costs	91,498	89,203
- Share-based payments granted to directors and employees	1,587	2,196
- Other employee benefit costs	21,246	18,854
Employee benefits	114,331	110,253
Depreciation and impairment	172,355	159,084
Amortization	43,118	39,087
Amortization of broadcasting rights	5,497	8,144
Network operating and service costs	247,130	213,137
Advertising, sales and marketing	57,117	49,401
Other costs	37,831	32,202
Total costs and expenses	677,379	611,308
Attributable to:		
Continuing operations	669,718	602,338
Discontinued operations	7,661	8,970
	677,379	611,308

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The average number of full time equivalents employed by the Company during the year ended December 31, 2006 was 1,552 (2005: 1,503).

19. FINANCE COSTS

	For the Year Ended December 31,	
	2006	2005
Interest expense (including amortization of financing cost)	98,888	142,676
Interest income	(4,569)	(3,420)
Interest expense, net	94,319	139,256
Net foreign exchange transaction (gains)/losses on financing transactions	(23,580)	40,262
Change in fair value of foreign exchange forward contracts reclassified into earnings (Note 12)	24,517	(43,403)
Change in fair value of derivatives (Note 12)	(15,661)	17,601
Net (Gains)/losses on derivative financial instruments	8,856	(25,802)
Loss on extinguishment of debt	21,355	39,472
Finance costs, net	100,950	193,188
Attributable to:		
Continuing operations	100,963	193,208
Discontinued operations	(13)	(20)
	100,950	193,188

20. INCOME TAX EXPENSE

	For the Year Ended December 31,	
	2006	2005
Current tax expense	107	136
Deferred tax expense (Note 13)	34,292	14,917
Income tax expense	34,399	15,053
Attributable to:		
Continuing operations	34,283	14,938
Discontinued operations	116	115
	34,399	15,053

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax on the Company's profit (loss) before tax differs from the theoretical amount that would arise using the Belgian statutory tax rate applicable to profits (losses) of the consolidated companies as follows:

	For the Year Ended December 31,	
	2006	2005
Income (loss) before tax from continuing operations	42,771	(62,029)
Income (loss) before tax from discontinued operations	(2,919)	415
Income (loss) before tax	39,852	(61,614)
Income tax expense/(benefit) at the Belgian statutory rate of 33.99%	13,546	(20,943)
Expenses not deductible for tax purposes	17,907	20,738
Recognition of previously unrecognized acquired tax losses through goodwill at the historic Belgian statutory rate of 40.17%	34,292	14,917
Utilization of previously unrecognized tax losses	(34,950)	(14,929)
Tax losses for which no deferred income tax asset was recognised	3,604	15,270
Tax expense for the year	34,399	15,053

21. EARNINGS (LOSS) PER SHARE

Basic

The earnings and weighted average number of shares used in calculating basic earnings (loss) per share are:

	For the Year Ended December 31,	
	2006	2005
Net Income (loss)		
Net Income (loss) from continuing operations used in the calculation of basic earnings per share from continuing operations	8,488	(76,967)
Net Income (loss) from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(3,035)	300
Net Income (loss) attributable to the equity holders of the Company	5,453	(76,667)
Weighted average number of shares		
Weighted average number of ordinary shares	100,365,003	89,503,387
Weighted average number of Class A Profit Certificates	120,536	—
Weighted average number of Class B Profit Certificates	140,008	—
Weighted average number of shares used in the calculation of basic earnings (loss) per share (all measures)	100,625,546	89,503,387
Basic and diluted earnings (loss) per share in €		
From continuing operations	0.08	(0.86)
From discontinued operations	(0.03)	—
Total basic and diluted earnings (loss) per share	0.05	(0.86)

Diluted

Diluted earnings (loss) per share is calculated adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential ordinary shares. During the year ended December 31, 2005, the Company had six categories of dilutive potential ordinary shares: Class A and Class B Options, stock options under the 1999 and 1998 Plans, the Bank Warrants and the Subordinated Debt Warrants. Of these, only the Class A and Class B Options and the Subordinated Debt Warrants are still outstanding during the year ended December 31, 2006 as the other instruments were exercised during September 2005. The effects of the dilutive potential ordinary shares were not included in the computation of diluted loss per share for the year ended December 31, 2005 because they are anti-dilutive. The earnings used in the calculation of all diluted earnings per share measures are the same as those for the equivalent basic earnings per share measures, as outlined above.

	For the Year Ended December 31, 2006	2005
Weighted average number of shares		
Weighted average number of shares used in the calculation of basic earnings (loss) per share	100,625,546	89,503,387
Adjustment for:		
— Class A Options	825,132	—
— Class B Options	400,537	—
— Subordinated Debt Warrants	2,602,510	—
Weighted average number of shares used in the calculation of diluted earnings (loss) per share (all measures)	104,453,725	89,503,387
Basic and diluted earnings (loss) per share in €		
From continuing operations	0.08	(0.86)
From discontinued operations	(0.03)	—
Total basic and diluted earnings (loss) per share	0.05	(0.86)

22. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Acquisition of Hypertrust

On February 2, 2006, the Company announced the acquisition of the assets and rights of Hypertrust, a Belgian provider of on-line digital photography services, for €550. Hypertrust's technology, which was previously marketed under the Pixagogo and Photoblog brand names, allows Telenet broadband internet and iDTV customers to easily store, manage and share digital photographs. The Company has allocated €70 of the total consideration paid to property and equipment and the remaining €480 to goodwill.

Acquisition of UPC Belgium

The Company completed the acquisition of 100% of UPC Belgium from LGI on December 31, 2006 for €183,077, net of cash acquired of €22,343. The acquisition was paid for in cash. UPC Belgium is a leading provider of television and broadband internet in the Brussels and Leuven regions. The acquisition provides the opportunity to expand the Company's footprint and offer its interactive digital television and telephony products to UPC Belgium's customers. On a provisional basis, the Company has allocated the consideration paid over the net assets as follows:

	December 31, 2006
Current assets, net of cash acquired	1,262
Fixed assets	16,352
Intangible assets	17,062
Non-current assets	65
Liabilities assumed	(26,159)
Goodwill	174,495
Total cash consideration paid	183,077

Disposal of Phone Plus

On November 28, 2006, Telenet signed an agreement for the sale of 100% of its equity ownership in its wholly-owned Phone Plus subsidiary to Toledo Telecom. Under the terms of the transaction, Telenet will receive total cash consideration of €2,350 less €1,056 cash and cash equivalents that was held by Phone Plus when sold. Of the cash consideration, €1,175 will be paid to the company in 2007. Telenet made the decision to sell Phone Plus as part of an optimisation of its products and services. In that review, Phone Plus was considered to be a non-core business. Toledo Communications and Telenet Solutions are working towards further broadening and deepening of their business cooperation for voice and data products. Goodwill held by the group was derecognized on disposal of Phone Plus for €4,482.

	For the Year Ended December 31,	
	2006	2005
Loss from discontinued operations		
Revenue	7,509	9,364
Expenses	(7,648)	(8,949)
Profit (loss) before tax	(139)	415
Attributable income tax expense	(116)	(115)
	(255)	300
Loss on disposal of business	(2,780)	—
Profit (loss) from discontinued operations	(3,035)	300
Cash flows from discontinued operations		
Net cash flows from operating activities	153	37
Net cash flows used in investing activities	(39)	(35)
Net cash flows from financing activities	—	—
Net cash flows	114	2

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	For the Year Ended December 31,	
	2006	2005
Book value of net assets sold		
Non-current assets	125	—
Current assets	2,864	—
Non-current liabilities	(11)	—
Current liabilities	(2,157)	—
Net assets disposed of	821	—

23. NON CASH INVESTING AND FINANCING TRANSACTIONS

	For the Year Ended December 31,	
	2006	2005
Acquisition of network user rights in exchange for debt	2,182	1,311
Extinguishment of Senior Credit Facility via the New Senior Credit Facility	600,000	—
Acquisition of property and equipment in exchange for short-term borrowings	9,670	—
Disposal of business in exchange for note receivable	1,175	—

24. COMMITMENTS AND CONTINGENCIES

Interconnection Litigation

The Company has been involved in legal proceedings with Belgacom related to the increased interconnection fees that have been charged since August 2002 to telephone operators to terminate calls made to end users on the Company’s network.

The Company obtained approval from the Belgian Institute for Postal Services and Telecommunications (BIPT) to increase its interconnection rates for inbound domestic calls in August 2002. Belgacom increased the tariffs charged to its telephony customers calling Telenet numbers to reflect the Company’s increased termination rates.

Belgacom challenged the Company’s increased interconnection termination rates before the Commercial Court of Mechelen (Rechtbank van Koophandel) alleging abusive pricing. Belgacom has further challenged the BIPT’s approval of the Company’s increased domestic interconnection termination rates before the Council of State (Raad van State), the highest administrative court in Belgium. The Council of State may affirm the BIPT’s decision or return the case to the BIPT for reconsideration. The Council of State rejected an emergency request from Belgacom to suspend the implementation of the increased interconnection termination rate.

On January 20, 2004, the President of the Commercial Court in Mechelen rendered a judgement in the case where Belgacom contested the validity of the Company’s interconnection tariffs which was heard on September 23, 2003. The judgement stated that there is no indication that the Company’s interconnection tariffs constitute a breach of the unfair trade practices law, competition law or pricing regulations as invoked by Belgacom. As a result, the judge determined that Belgacom’s potential claim is limited to a contractual matter upon which the judge who heard the case was not competent to rule, considering the nature of the procedure initiated by Belgacom. The judge therefore dismissed the claim. The Company is currently not required to change the interconnection rates it currently charges to Belgacom and which were approved in 2002 by the BIPT.

Belgacom appealed this judgement in April 2004. On March 17, 2005, the Court of Appeals of Antwerp dismissed Belgacom’s claims. In February 2006, Belgacom brought the case before the Belgian Supreme Court

(*Hof van Cassatie / Cour de Cassation*), which will have the authority to review only whether there has been a mistake of law or breach of certain formal procedural requirements in the case. We expect a final decision may take up to three years to be reached, since the Supreme Court can refer the case back to the Court of Appeal.

In August 2006, the BIPT issued a new decision on the fixed termination market, imposing a linear glide path over three year towards near reciprocity, starting in January 2007. Belgacom challenged the BIPT August decision before the Court of Appeal, imposing a three year gliding path for Telenet. We also challenged BIPT's decision as the gilding path prevents Telenet of recuperating all of its costs.

Operating Leases

The Company leases facilities, vehicles and equipment under cancelable and non-cancelable operating leases. The following schedule details, at December 31, 2006 and 2005, the future minimum lease payments under cancelable and non-cancellable operating leases:

	December 31, 2006	December 31, 2005
Within one year	12,238	7,762
In the second to fifth years, inclusive	22,181	10,849
Thereafter	3,881	1,146
Total minimum lease payments	38,300	19,758
Minimum lease payments recognized as an expense in the year	20,976	19,325

25. RELATED PARTIES

The related parties of the Company mainly comprise its shareholders that have the ability to exercise significant influence. This consisted of the Liberty Global Consortium for both 2006 and 2005, and the MICs, Electrabel and Suez as a result of their direct and indirect ownership of the Company until the change in ownership at the time of the IPO in October 2005. As a result of the sale of their investment in the Company in December 2004 and the termination of the Strategic Services Agreement on May 11, 2005, Cable Partners Europe L.L.C. ("CPE") (formerly known as Callahan Associates International L.L.C.) and Callahan InvestCo Belgium 1 S.à.R.L. ("CIB") are no longer related parties. Transactions with other related parties primarily relate to leasing and derivative contracts held with a financial institution.

The following tables summarize material related party balances and transactions for the period:

Balance Sheet

	December 31, 2006	December 31, 2005
Purchases of property and equipment — Other related parties	—	6
Other receivables — Other related parties	—	1,486
Accounts receivable — Liberty Global Consortium	15	—
Accounts payable — Liberty Global Consortium	10	23
Accrued expenses — Other related parties	—	974
Current portion of long-term debt — Other related parties	—	808
Long-term debt — Other related parties	—	19,110
Derivative financial instruments — Other related parties	—	6,255

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Income Statement

	For The Years Ended December 31 2006	2005
Operating		
Leases and other operating expenses — Electrabel and Suez	—	(4,691)
Leases and other operating expenses — Liberty Global Consortium	(319)	(1,961)
Other operating income — Liberty Global Consortium	16	—
Other operating income — Electrabel and Suez	—	1,063
Interconnect net result — Other related parties	—	(10,284)
Other operating expenses — Other related parties	—	(3,501)
Finance costs		
Finance income (loss) — Other related parties	—	3,387

Key management compensation

	December 31, 2006	December 31, 2005
Salaries and other short-term employee benefits	3,554	3,570
Post-employment benefits	174	150
Share-based payments	346	1,620
	4,074	5,340

On August 24, 2005, the Company's Chief Executive Officer also exercised the Bank Warrants as described in Note 10.

26. SUBSIDIARIES

Details of the Company and its subsidiaries as of December 31, 2006 are as follows.

Company	National Number	Address	% Held	Consolidation Method
Telenet Group Holding NV	477.702.333	Liersesteenweg 4, 2800, Belgium	—	Parent company
Telenet Communciations NV	473.416.814	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet Bidco NV	473.416.418	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet NV	439.840.857	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet Vlaanderen NV	458.840.088	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
UPC Belgium	455.620.381	Chazallaan 140, 1030, Belgium	100%	Fully consolidated
Merrion Communications	6378934T	62, Merrion Square, Dublin 2, Ireland	100%	Fully consolidated
Telenet Solutions Luxembourg SA	1.999.223.4426	Rue de Neudorf 595, 2220 Luxembourg, Luxembourg	100%	Fully consolidated

In order to simplify the internal corporate structure of the Company and to align the corporate structure with the operating functioning of the Company, the Company completed the mergers of MixtICS and PayTVCo with Telenet NV during July 2005 with effect from January 1, 2005 and the merger of Telenet Solutions NV with Telenet NV on December 31, 2005 with effect from January 1, 2006. On January 31, 2006, Telenet Holding NV was liquidated since it no longer fulfilled any function in the group structure.

27. SUBSEQUENT EVENTS

Cooperation with Interkabel

On January 24, 2007, Telenet received a letter from the Pure Intermunicipality companies (acting together under the Interkabel umbrella) inviting Telenet to submit a proposal to offer video-on-demand services to Interkabel's customers. Telenet and Interkabel have engaged in another round of discussions on an agreement for iDTV. Telenet holds a number of rights for point-to-point services on the Interkabel networks which include Video on Demand.

Proposals for a broader framework of cooperation have also been exchanged recently. The outcome of these contacts cannot be predicted at this point. Telenet remains committed to work towards a constructive solution that is consistent with its rights which have been agreed at its foundation and which it will defend firmly.

European Commission Approval of LGI's Controlling Ownership in Telenet

On February 26, 2007, LGI announced that the European Commission has approved their increased and controlling ownership position in the Company. With this regulated approval, the Company will be consolidated by LGI for financial reporting purposes beginning January 1, 2007. LGI also stated that it intends to nominate a majority of the Company's Board of Directors.

28. RECONCILIATION OF IFRSs AS ADOPTED BY THE EU TO U.S. GAAP

The consolidated financial statements have been prepared in accordance with IFRSs as adopted by the EU, as described in Note 2 to the consolidated financial statements. Those principles differ in certain significant respects from U.S. general accepted accounting principles ("U.S. GAAP"). These differences relate to the items that are described below and are summarized in the following tables. Such differences affect both the determination of net income and shareholders' equity, as well as the classification and format of the consolidated financial statements

Items Affecting Net Income and Shareholders' Equity

A. Deferred Taxes

Tax losses carried forward by subsidiaries acquired in previous business combinations have historically been presented net of a full valuation allowance. The Company started using these tax losses carried forward in 2004. Under IFRSs as adopted by the EU, the Company is required to reduce goodwill using the tax rate in effect at the time of the acquisition, or 40.17%, while using the current tax rate of 33.99% to establish the deferred tax asset. The difference between these two rates is recorded as an expense. Under U.S. GAAP, both the deferred tax asset and the reduction of +goodwill are determined using the current tax rate of 33.99%, resulting in lower deferred tax expense as these tax loss carryforwards are recognized. This results in an increase in goodwill of €8,254 and €2,978 and a decrease in deferred tax expense of €5,276 and €2,294 as of and for the years ended December 31, 2006 and 2005, respectively.

B. Share-based Payment

Under IFRSs as adopted by the EU, warrants granted after November 7, 2002 that had not vested before January 1, 2005 are recorded at the fair value of each option granted as estimated on the date of grant using the

Black-Scholes option-pricing model. Warrants granted on or before November 7, 2002 were not modified subsequent to this date and, as a result, no compensation expense was recognized.

Through December 31, 2005 under U.S. GAAP, the Company used the intrinsic value method to account for stock option plans, including those plans that were not expensed under IFRSs as adopted by the EU as discussed above. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* on January 1, 2006 using the modified prospective method. Under the intrinsic method, the excess of the measurement date fair value of the Company's ordinary shares over the exercise price of the stock options is recognized as compensation expense over the vesting period of the options. Under SFAS 123(R), the compensation cost is based on the grant-date fair value for the portion of the awards outstanding at the transition date where the requisite service has not been rendered. After the adoption of SFAS 123(R) on January 1, 2006, there is not a difference in compensation expense recognized under IFRSs as adopted by the EU or U.S. GAAP. The 2005 adjustments did not have tax consequences.

C. Copyright Fees

Under IFRSs as adopted by the EU, the Company records settlements with certain broadcasters and copyright collection agencies at the present value of the expenditures expected to be required to settle the obligation. Under U.S. GAAP, the Company retained an accrual in other liabilities for the gross amounts that the Company expects to pay. The interest expense recognized under IFRSs as adopted by the EU is reversed in U.S. GAAP resulting in an decrease in interest expense of €392 and €183 during the years ended December 31, 2006 and 2005, respectively. These adjustments did not have tax consequences.

D. Pension Liability

Under IFRSs as adopted by the EU, the cost of providing defined benefit retirement benefit schemes is determined using the Projected Unit Credit Method. The corridor approach is applied to actuarial gains and losses. Accordingly, all gains and losses exceeding 10% of the greater of the present value of the defined benefit obligation and the fair value of any plan assets are recognized over the expected average remaining working life of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

As of December 31, 2006 for U.S. GAAP, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). SFAS No. 158 requires the recognition of the funded status of pension and other postretirement benefit plans on the balance sheet. The overfunded or underfunded status is recognized as an asset or liability on the balance sheet with changes occurring during the current year reflected through the comprehensive income portion of equity. Further, SFAS No. 158 requires the unrecognized transition asset or obligation, gains or losses, and prior service costs to be recognized as a component of other comprehensive income, net of tax. The adoption of SFAS No. 158, resulted in an increase in the pension liability of €3,536 that has been recorded as a direct adjustment to accumulated other comprehensive income under U.S. GAAP.

TELENET GROUP HOLDING NV

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation to U.S. GAAP

Reconciliation to U.S. GAAP of net income (loss) and shareholders' equity are presented as follows:

	Note	For the Years Ended December 31 2006	2005
Net income (loss) in accordance with IFRSs as adopted by the EU		5,453	(76,667)
Items having the effect of (increasing) decreasing reported net income (loss):			
Deferred taxes	A	5,276	2,294
Stock based compensation	B	—	1,365
Copyright fees	C	392	183
Total of U.S. GAAP adjustments		5,668	3,842
Net income (loss) in accordance with U.S. GAAP		11,121	(72,825)

	Note	December 31, 2006	December 31, 2005
Shareholders' equity in accordance with IFRSs as adopted by the EU		721,657	709,098
Items having the effect of increasing (decreasing) reported shareholders' equity:			
Deferred taxes	A	8,254	2,978
Copyright fees	C	(843)	(1,235)
Pension liability	D	(3,536)	—
Total of U.S. GAAP adjustments		3,875	1,743
Shareholders' equity in accordance with U.S. GAAP		725,532	710,841

Cash Flow Statement

The cash flow statement has been prepared in accordance with International Accounting Standards No. 7, and accordingly, the cash flow statement has not been reconciled to U.S. GAAP.

EXHIBIT INDEX

Exhibit No.	Description
3 — Articles of Incorporation and Bylaws:	
3.1	Restated Certificate of Incorporation of the Registrant, dated June 15, 2005 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed June 16, 2005 (File No. 000-51360) (the Merger 8-K)).
3.2	Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Merger 8-K).
4 — Instruments Defining the Rights of Securities Holders, including Indentures:	
4.1	Specimen certificate for shares of the Registrant's Series A common stock, par value $.01 per share (incorporated by reference to Exhibit 4.1 to the Merger 8-K).
4.2	Specimen certificate for shares of the Registrant's Series B common stock, par value $.01 per share (incorporated by reference to Exhibit 4.2 to the Merger 8-K).
4.3	Specimen certificate for shares of the Registrant's Series C Common Stock, par value $.01 per share (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A, filed August 24, 2005 (File No. 000-51360)).
4.4	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding BV (UPC Broadband Holding) and UPC Financing Partnership (UPC Financing), as Borrowers, the guarantors listed therein, the banks and financial institutions listed therein as Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and certain others, amending and restating the €1,072,000,000 Credit Agreement originally dated January 16, 2004 (the First Amended and Restated Senior Credit Facility) (incorporated by reference to Exhibit 10.32 to the UnitedGlobalCom, Inc. (UGC) Annual Report on Form 10-K, filed March 14, 2005 (File No. 000-49658) (UGC 2004 10-K)).
4.5	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband Holding, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the First Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K).
4.6	Amendment, dated December 15, 2005, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and Toronto-Dominion (Texas) LLC, as Facility Agent, to the First Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed December 19, 2005 (File No. 000-51360)).
4.7	Deed of Amendment and Restatement, dated May 10, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and the Senior Hedging Banks listed therein, with Toronto Dominion (Texas) LLC, as Facility Agent, and TD Bank Europe Limited, as Existing Security Agent, including as Schedule 2 thereto the Amended and Restated Senior Secured Credit Facility Agreement, amending and restating the First Amended and Restated Senior Credit Facility (the Second Amended and Restated Senior Credit Facility) (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q, filed May 10, 2006 (the March 31, 2006 10-Q)).
4.8	Additional Facility Accession Agreement, dated May 10, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Existing Security Agent, and the Additional Facility J Lenders listed therein under the Second Amended and Restated Senior Credit Facility.*
4.9	Additional Facility Accession Agreement, dated May 10, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Existing Security Agent, and the Additional Facility K Lenders listed therein under the Second Amended and Restated Senior Credit Facility.*

Exhibit No.	Description
4.10	Additional Facility Accession Agreement, dated July 3, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility L Lenders listed therein under the Second Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed July 7, 2006 (File No. 000-51360)).
4.11	Amendment Letter, dated December 11, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors, listed therein and Toronto Dominion (Texas) LLC, as Facility Agent, to the Second Amended and Restated Senior Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed December 12, 2006 (File No. 000-5160)).
4.12	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.
10 — Material Contracts:	
10.1	Liberty Global, Inc. 2005 Incentive Plan (As Amended and Restated Effective October 31, 2006) (the Incentive Plan) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed November 6, 2006 (File No. 000-51360) (the November 2006 8-K)).
10.2	Form of the Non-Qualified Stock Option Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed August 19, 2005 (File No. 000-51360) (the Incentive Plan 8-K)).
10.3	Form of Stock Appreciation Rights Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.2 to the Incentive Plan 8-K).
10.4	Form of Restricted Shares Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.3 to the Incentive Plan 8-K).
10.5	Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (as assignee of Liberty Media International, Inc., the predecessor issuer to the Registrant (LMI)) under the Incentive Plan (the Malone Award Agreement) (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/A (Amendment No. 1) with respect to LMI's common stock, filed July 14, 2004 (File No. 005-79904)).
10.6	Form of Amendment to the Malone Award Agreement (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed December 27, 2005 (File No. 000-51360) (the 409A 8-K)).
10.7	Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan (as Amended and Restated Effective November 1, 2006) (the Director Plan) (incorporated by reference to Exhibit 99.2 to the November 2006 8-K).
10.8	Form of Restricted Shares Agreement under the Director Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (Amendment No. 1), filed August 11, 2006 (File No. 000-51360), amending the June 2006 8-K (as defined below)).
10.9	Form of Non-Qualified Stock Option Agreement under the Director Plan (incorporated by reference to Exhibit 10.3 to the Merger 8-K).
10.10	Liberty Global, Inc. Compensation Policy for Nonemployee Directors (As Amended and Restated Effective June 7, 2006) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed June 12, 2006 (File No. 000-51360) (the June 2006 8-K)).
10.11	Liberty Global, Inc. Senior Executive Performance Incentive Plan effective November 1, 2006 (the SEP Incentive Plan).*
10.12	Form of Participation Certificate under the SEP Incentive Plan.*

Exhibit No.	Description
10.13	Liberty Global, Inc. 2006 Annual Bonus Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 1.01 of the Registrant's Current Report on Form 8-K, filed March 14, 2006 (File No. 000-51360)).
10.14	Liberty Media International, Inc. Transitional Stock Adjustment Plan (the Transitional Plan) (incorporated by reference to Exhibit 4.5 to LMI's Registration Statement on Form S-8, filed June 23, 2004 (File No. 333-116790)).
10.15	Form of Non-Qualified Stock Option Exercise Price Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.1 to the 409A 8-K).
10.16	Form of Non-Qualified Stock Option Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.2 to the 409A 8-K).
10.17	UnitedGlobalCom, Inc. Equity Incentive Plan (amended and restated effective October 17, 2003).*
10.18	UnitedGlobalCom, Inc. 1993 Stock Option Plan (amended and restated effective January 22, 2004) (incorporated by reference to Exhibit 10.6 to the UGC 2003 10-K).
10.19	Form of Amendment to Stock Appreciation Rights Agreement under the UnitedGlobalCom, Inc. 2003 Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 6, 2005 (File No. 000-51360)).
10.20	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to the UGC 2003 10-K).
10.21	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K).
10.22	Form of Letter Agreement dated December 22, 2006, between United Chile LLC and certain employees of the Registrant, including three executive officers and a director.*
10.23	Form of Indemnification Agreement between the Registrant and its Directors (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K, filed March 14, 2006 (File No. 000-51360) (the 2005 10-K)).
10.24	Form of Indemnification Agreement between the Registrant and its Executive Officers (incorporated by reference to Exhibit 10.20 of the 2005 10-K).
10.25	Personal Usage of Aircraft Policy (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed November 21, 2005 (File No. 000-51360) (the Aircraft 8-K)).
10.26	Form of Aircraft Time Sharing Agreement (incorporated by reference to Exhibit 99.2 to the Aircraft 8-K).
10.27	Executive Service Agreement, dated December 15, 2004, between UPC Services Limited and Charles Bracken (incorporated by reference to Exhibit 10.15 to the UGC 2004 10-K).
10.28	Employment Agreement, effective April 19, 2000, among UGC, United Pan-Europe Communications NV, now known as Liberty Global Europe NV (Liberty Global Europe), and Gene Musselman (incorporated by reference to Exhibit 10.27 to the UGC 2003 10-K).
10.29	Addendum to Employment Agreement, dated as of September 3, 2003, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.28 to the UGC 2003 10-K).

Exhibit No.	Description
10.30	Contract Extension Letter, dated November 2, 2005, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.26 to the 2005 10-K).
10.31	Executive Service Agreement, dated January 10, 2005, between UPC Services Limited and Shane O'Neill (incorporated by reference to Exhibit 10.16 to the UGC 2004 10-K).
10.32	Executive Service Agreement, dated November 30, 2006, between Liberty Global Europe Ltd. and Miranda Curtis (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed December 4, 2006 (File No. 000-51360)).
10.33	Employment Agreement, dated January 5, 2004, between the Registrant (as assignee of UGC) and Gene W. Schneider (incorporated by reference to Exhibit 10.5 to UGC's Current Report on Form 8-K, filed January 6, 2004 (File No. 000-49658)).
10.34	Letter from UGC to Gene W. Schneider, dated April 17, 2003 regarding the Split Dollar Life Insurance Agreement included as Exhibit 10.35 below (incorporated by reference to Exhibit 10.87 to UGC's Amendment No. 10 to its Registration Statement on Form S-1, filed December 11, 2003 (File No. 333-82776) (the UGC Form S-1)).
10.35	Split Dollar Life Insurance Agreement, dated February 15, 2001, between UGC and Mark L. Schneider, Tina M. Wildes and Carla Shankle, as trustees under The Gene W. Schneider 2001 Trust, dated February 12, 2001 (incorporated by reference to Exhibit 10.88 to the UGC Form S-1).
10.36	Amended and Restated Stockholders' Agreement, dated as of May 21, 2004, among the Registrant (as successor to LMI), Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty Media Corporation (incorporated by reference to Exhibit 10.23 to Amendment No. 1 to LMI's Registration Statement on Form 10, filed May 25, 2004 (File No. 000-50671)).
10.37	Form of Tax Sharing Agreement between Liberty Media Corporation and the Registrant (as successor to LMI) (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to LMI's Registration Statement on Form 10, filed May 25, 2004 (File No. 000-50671)).
10.38	Amended and Restated Operating Agreement, dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant (as successor to LMI) (incorporated by reference to Exhibit 10.27 of LMI's Annual Report on Form 10-K, filed March 14, 2005 (File No. 000-50671)).
10.39	Share Purchase Agreement, dated September 30, 2005, between Glacier Holdings S.C.A. and United ACM Holdings, Inc. (the Cablecom Agreement) (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed October 5, 2005 (File No. 000-51360) (the Cablecom 8-K)).
10.40	Excerpts from Schedule 4.6 to the Cablecom Agreement (incorporated by reference to Exhibit 2.2 to the Cablecom 8-K).
10.41	Deed, dated September 30, 2005, between LMI and Glacier Holdings S.C.A. (incorporated by reference to Exhibit 99.1 to the Cablecom 8-K).
10.42	Agreement for the Sale and Purchase of the Share Capital of UPC France SA, dated June 6, 2006, among UPC Broadband France SAS, UPC Broadband Holding, Altice France EST SAS and ENO France SAS (incorporated by reference to Exhibit 2.1 to the June 2006 8-K).

Exhibit No.	Description
10.43	Agreement for the Sale and Purchase of the Share Capital of NBS Nordic Broadband Services AB (publ), dated April 4, 2006, among UPC Scandinavia Holding BV, UPC Holdco VI BV, UPC Broadband Holding and Nordic Cable Acquisition Company II AB (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 23, 2006 (File No. 000-51360)).

21 — List of Subsidiaries*

23 — Consent of Experts and Counsel:

23.1	Consent of KPMG LLP**
23.2	Consent of KPMG AZSA & Co.**
23.3	Consent of KPMG AZSA & Co.**
23.4	Consent of Sibille (Formerly Finsterbusch Pickenhayn Sibille)**
23.5	Consent of Ernst & Young LTDA.**
23.6	Consent of KPMG LLP**
23.7	Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba**

31 — Rule 13a-14(a)/15d-14(a) Certification:

31.1	Certification of President and Chief Executive Officer**
31.2	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)**
31.3	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)**

32 — Section 1350 Certification **

* Filed with the Registrant's Form 10-K dated March 1, 2007

** Filed with the Registrant's Form 10-K/A (Amendment No. 1) dated June 18, 2007

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Liberty Global, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our reports dated February 28, 2007, with respect to the consolidated balance sheets of Liberty Global, Inc. and subsidiaries as of December 31, 2006 and 2005, 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, 2006, and the related financial statement schedules I and II, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 and the effectiveness of internal control over financial reporting as of December 31, 2006, which reports appear in the December 31, 2006 annual report on Form 10-K/A (As amended by Amendment No.1) of Liberty Global, Inc.

Our report on the financial statements refers to a change in the methods of accounting for a hybrid financial instrument, defined benefit pension plans, and share-based compensation.

Our report on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2006, contains an explanatory paragraph that states that the aggregate amount of total assets and revenues of entities excluded from management's assessment of the effectiveness of Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2006 are $1,536.3 million and $174.3 million, respectively. Our audit of internal control over financial reporting of Liberty Global, Inc. also excluded an evaluation of the internal control over financial reporting of these entities.

KPMG LLP

Denver, Colorado
June 15, 2007

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Jupiter TV Co., Ltd.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated February 23, 2007, except as to Note 23, which is as of June 8, 2007, with respect to the consolidated balance sheets of Jupiter TV Co., Ltd. (formerly, Jupiter Programming Co., Ltd.) and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006, which report appears in the December 31, 2006, annual report on Form 10-K/A (As amended by Amendment No. 1) of Liberty Global, Inc.

KPMG AZSA & Co.

Tokyo, Japan
June 18, 2007

Exhibit 23.3

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated February 14, 2005, with respect to the consolidated balance sheets of Jupiter Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2004, which report appears in the December 31, 2006 annual report on Form 10-K/A (As amended by Amendment No.1) of Liberty Global, Inc.

KPMG AZSA & Co.

Tokyo, Japan
June 15 , 2007

Exhibit 23.4

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Torneos y Competencias S.A.

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 128036, 333-128037, 333-128038, and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated March 11, 2005, with respect to the consolidated balance sheets of Torneos y Competencias S.A. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2006 Annual Report on Form 10-K/A (As amended by Amendment No. 1) of Liberty Global, Inc.

Our report dated March 11, 2005 contains an explanatory paragraph that states that the Company is in default with respect to two bank loans, has certain loans that are past due, and has a net working capital deficiency, which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

Sibille (*)

Buenos Aires, Argentina
June 15, 2007

(*) Sibille, a partnership established under Argentine law, is the Argentine member firm of KPMG International, a Swiss cooperative

Exhibit 23.5

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated February 25, 2005, with respect to the consolidated financial statements of Cordillera Comunicaciones Holding Limitada and subsidiaries as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 included in the December 31, 2006 annual report on form 10-K/A of Liberty Global, Inc.

ERNST & YOUNG LTDA.
Santiago, Chile
June 18, 2007

Exhibit 23.6

KPMG LLP
Suite 2800
One Biscayne Tower
Two South Biscayne Boulevard
Miami, FL 33131

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Fox Pan American Sports, LLC:

We consent to incorporation by reference into Liberty Global, Inc.'s Forms S-3 (333-128945, 333-128553, and 333-125927) and Forms S-8 (333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038, and 333-140111) of our report dated April 16, 2005, with respect to the consolidated balance sheet of Fox Pan American Sports, LLC as of December 31, 2004, and the related consolidated statements of operations, changes in members' (deficit) equity and cash flows for the year then ended, which report appears in the December 31, 2006 Annual Report on Form 10-K/A (As amended by Amendment No. 1) of Liberty Global, Inc.

KPMG LLP

Miami, Florida
June 15, 2007
Certified Public Accountants

Exhibit 23.7

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-128945, 333-128553, and 333-125927) and on Form S-8 (Nos. 333-140111, 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, and 333-128038) of Liberty Global, Inc. of our report dated June 12, 2007 relating to the consolidated financial statements of Telenet Group Holding NV as of December 31, 2006 and 2005, and for the years then ended, which appears in Liberty Global, Inc.'s Annual Report on Form 10-K/A for the year ended December 31, 2006.

Antwerp, Belgium, June 14, 2007
PricewaterhouseCoopers Bedrijfsrevisoren bcvba
Represented by,

/s/ B. Gabriëls

Exhibit 31.1

CERTIFICATION

I, Michael T. Fries, certify that:

1. I have reviewed this annual report on Form 10-K/A of Liberty Global, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 18, 2007

/s/ Michael T. Fries
Michael T. Fries
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Charles H.R. Bracken, certify that:

1. I have reviewed this annual report on Form 10-K/A of Liberty Global, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 18, 2007

/s/ Charles H.R. Bracken

Charles H.R. Bracken
Senior Vice President and Co-Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.3

CERTIFICATION

I, Bernard G. Dvorak, certify that:

1. I have reviewed this annual report on Form 10-K/A of Liberty Global, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 18, 2007

/s/ Bernard G. Dvorak

Bernard G. Dvorak
Senior Vice President and Co-Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Liberty Global, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K/A for the year ended December 31, 2006 (the "Form 10-K/A") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Company as of December 31, 2006 and December 31, 2005, and for the years ended December 31, 2006, 2005 and 2004.

Dated: June 18, 2007	/s/ Michael T. Fries Michael T. Fries Chief Executive Officer
Dated: June 18, 2007	/s/ Charles H.R. Bracken Charles H.R. Bracken Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)
Dated: June 18, 2007	/s/ Bernard G. Dvorak Bernard G. Dvorak Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-K/A or as a separate disclosure document.