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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or 12(g) of
The Securities Exchange Act of 1934

Liberty Media International, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code **(720) 875-5800**

Securities to be registered pursuant to Section 12(b) of the Act:

[None]

Securities to be registered pursuant to Section 12(g) of the Act:

Series A Common Stock, $0.01 par valuee
(Title of class)

Series B Common Stock, $0.01 par value
(Title of class)

Liberty Media International, Inc.

Cross-Reference Sheet Between the Information Statement and Items of Form 10
Information Included in the Information Statement and Incorporated by Reference
into
the Registration Statement on Form 10

Item No.	Item Caption	Location in Information Statement
1.	Business.	Summary; Risk Factors; Cautionary Statements Concerning Forward Looking Statements; Description of our Business; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Certain Inter-Company Agreements
2.	Financial Information.	Summary; Risk Factors; Capitalization; Selected Financial Data; and Management's Discussion and Analysis of Financial Condition and Results of Operations
3.	Properties.	Description of our Business—Properties
4.	Security Ownership of Certain Beneficial Owners and Management.	Management—Security Ownership of Management; and Security Ownership of Certain Beneficial Owners
5.	Directors and Executive Officers.	Management
6.	Executive Compensation.	Management
7.	Certain Relationships and Related Transactions.	Summary; Risk Factors; Management; and Certain Inter-Company Agreements
8.	Legal Proceedings.	Description of our Business—Legal Proceedings
9.	Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.	Summary; The Spin Off; Risk Factors; and Description of our Capital Stock
10.	Recent Sales of Unregistered Securities.	Not Applicable

11.	Description of Registrant's Securities to be Registered.	Description of our Capital Stock
12.	Indemnification of Directors and Officers.	Indemnification of Directors and Officers
13.	Financial Statements and Supplementary Data.	Summary; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; and Financial Statements
14.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	Not Applicable
15.	Financial Statements and Exhibits	

(a) *Financial Statements:* The following financial statements are included in the Information Statement and filed as part of this Registration Statement:

LMC International

Independent Auditors' Report

Combined Balance Sheets as of December 31, 2003 and 2002

Combined Statements of Operations and Comprehensive Earnings (Loss) for the years ended December 31, 2003, 2002 and 2001

Combined Statements of Parent's Investment for the years ended December 31, 2003, 2002 and 2001

Combined Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Combined Financial Statements

UnitedGlobalCom, Inc.

Independent Auditors' Report

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Jupiter Telecommunications Co., Ltd.

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Jupiter Programming Co. Ltd.

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statement

(b) *Exhibits.* The following documents are filed as exhibits hereto:

Exhibit Number	Exhibit Description
2.1	Form of Reorganization Agreement among Liberty Media Corporation ("LMC"), the Registrant and the other parties named therein*

3.1	Form of Restated Certificate of Incorporation of the Registrant to be in effect at the time of the spin off
3.2	Form of Bylaws of the Registrant to be in effect at the spin off
4.1	Specimen Certificate for shares of Series A common stock, par value $.01 per share, of the Registrant
4.2	Specimen Certificate for shares of Series B common stock, par value $.01 per share, of the Registrant
10.1	Liberty Media International, Inc. 2004 Incentive Plan*
10.2	Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan*
10.3	Form of Facilities and Services Agreement between LMC and the Registrant*
10.4	Form of Aircraft Joint Ownership and Use Agreement between LMC and the Registrant*
10.5	Form of Tax Sharing Agreement among LMC, the Registrant and the other parties named therein*
10.6	Form of Short-Term Credit Facility between LMC and the Registrant*
10.7	Form of Services Agreement between UnitedGlobalCom, Inc. ("UGC") and the Registrant*
10.8	Form of Option Agreement between John C. Malone and the Registrant*
10.9	Standstill Agreement among UGC and LMC, dated as of January 5, 2004 (incorporated by reference from UGC's Form 8-K, dated January 5, 2004 (File No. 000-496-58))
10.10	Standstill Agreement among UGC, LMC, Liberty Global, Inc. and Liberty UCOMA, LLC, dated January 30, 2002 (terminated except as to (i) UGC's obligations under the final sentence of Section 9(b) and (ii) Section 7B and the related definitions in Section 1 as set forth in, and as modified by, the Letter Agreement referenced in Exhibit 10.11) (incorporated by reference from UGC's Registration Statement on Form S-1, dated February 14, 2002 (File No. 333-82776))
10.11	Letter Agreement, dated November 12, 2003, by and between UGC and LMC (incorporated by reference from UGC's Form 8-K, dated November 13, 2003 (File No. 000-496-58))
10.12	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference from UGC's Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58))
10.13	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference from UGC's Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58))
10.14	Amended and Restated Credit Agreement, dated as of April 29, 2003, among VTR GlobalCom S.A. ("VTR"), the Subsidiary Guarantors named therein, Toronto Dominion (Texas), Inc., as Administrative Agent, and the Lenders named therein (incorporated by reference from UGC's Form 8-K, dated May 29, 2003 (File No. 000-496-58))
10.15	Restructuring Agreement, dated September 30, 2002, among United Pan-Europe Communications, N.V., New UPC, Inc., UGC, Old UGC, Inc., United Europe, Inc., United UPC Bonds, LLC, and certain holders of notes of UPC (incorporated by reference from UPC's Form 8-K, dated September 30, 2002 (File No. 000-496-58))
10.16	Loan Deferral Agreement, dated January 28, 2003, by and among UGC, LMC, UGCH Finance, Inc. (f/k/a United Programming Argentina II, Inc.) and LBTW I, Inc. (incorporated by reference from UGC's Amendment No. 3 to its Registration Statement on Form S-1, dated February 7, 2003 (File No. 333-82776))
10.17	UPC Distribution Bank Facility Amended Waiver Letter dated April 4, 2003 (incorporated by reference from UPC's Form 8-K, dated April 9, 2003 (File No. 000-25365))
10.18	Senior Secured Credit Facility dated January 16, 2004 for UPC Distribution Holding B.V. ("UPC Broadband") as borrower and TD Bank Europe Limited as facility agent and security agent (incorporated by reference from UGC's Form 8-K, dated January 20, 2004 (File No. 000-496-58))
10.19	Amendment and Restatement Agreement, dated January 16, 2004, between UPC Broadband and UPC Financing Partnership, as borrowers, and the companies listed in Schedule 1 thereto as guarantors with TD Bank Europe Limited and the Toronto Dominion (Texas), Inc. as facility agents, relating to a Credit Agreement, originally dated October 26, 2000 (the "Amendment and Restatement Agreement") (incorporated by reference from UGC's Form 8-K, dated January 20, 2004 (File No. 000-496-58))
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10.21	Share Exchange Agreement, dated as of August 18, 2003, among LMC and the Stockholders named therein (incorporated by reference from LMC's Statement in respect of UGC on Schedule 13D/A, as filed on August 21, 2003)
10.22	Amendment to Share Exchange Agreement, dated as of December 22, 2003, among LMC and the Stockholders named on the signature pages thereto (incorporated by reference from LMC's Registration Statement on Form S-3, dated December 24, 2003 (File No. 333-111564))
10.23	Stockholders' Agreement among LMC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasuhige Nishimora and Liberty Jupiter, Inc., dated April 24, 2000
10.24	Liberty Japan, Inc. Stockholders' Agreement, dated as of [ ], 2004, by and among LMC, the Registrant, Liberty Media International Holdings, LLC ("LMINT"), Liberty Holdings Japan, Inc. ("Liberty Holdings Japan") and Liberty Japan, Inc.*
10.25	Liberty Japan II, Inc. Stockholders' Agreement, dated as of [ ], 2004, by and among LMC, the Registrant, LMINT, Liberty Holdings Japan and Liberty Japan II, Inc.*
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	Japan and Liberty Japan IV, Inc.*
10.27	Liberty Kanto, Inc. Stockholders' Agreement, dated as of [ ], 2004, by and among LMC, the Registrant, LMINT, Liberty Holdings Japan and Liberty Kanto, Inc.*
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21.1	List of Subsidiaries*
99.1	Information Statement, Subject to Completion dated April 2, 2004

* To be filed by amendment.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 2, 2004

LIBERTY MEDIA INTERNATIONAL, INC.

By: /s/ ELIZABETH M. MARKOWSKI

Name: Elizabeth M. Markowski
Title: Senior Vice President, General Counsel and Secretary

EXHIBIT INDEX

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* To be filed by amendment.

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Exhibit 3.1

FORM OF RESTATED CERTIFICATE OF INCORPORATION
OF
LIBERTY MEDIA INTERNATIONAL, INC.

LIBERTY MEDIA INTERNATIONAL, INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

(1) The name of the Corporation is Liberty Media International, Inc. The original Certificate of Incorporation of the Corporation was filed on March 16, 2004. The name under which the Corporation was originally incorporated is Liberty Media International, Inc.

(2) This Restated Certificate of Incorporation restates and amends the Certificate of Incorporation of the Corporation.

(3) This Restated Certificate of Incorporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

(4) This Restated Certificate of Incorporation shall become effective upon its filing with the Secretary of State of the State of Delaware.

(5) Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, the text of the Certificate of Incorporation is hereby restated to read in its entirety as follows:

"ARTICLE I
NAME

The name of the corporation is Liberty Media International, Inc. (the "*Corporation*").

ARTICLE II
REGISTERED OFFICE

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, 19808. The name of its registered agent at such address is The Prentice-Hall Corporation System, Inc.

ARTICLE III
PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware (as the same may be amended from time to time, "*DGCL*").

ARTICLE IV
AUTHORIZED STOCK

The total number of shares of capital stock which the Corporation shall have authority to issue is one billion one hundred million (1,100,000,000) shares, which shall be divided into the following classes:

(a) One billion fifty million (1,050,000,000) shares shall be of a class designated Common Stock, par value $0.01 per share ("*Common Stock*"), such class to be divided into series as provided in Section A of this Article IV; and

(b) Fifty million (50,000,000) shares shall be of a class designated Preferred Stock, par value $0.01 per share ("*Preferred Stock*"), such class to be issuable in series as provided in Section B of this Article IV.

The description of the Common Stock and the Preferred Stock of the Corporation, and the relative rights, preferences and limitations thereof, or the method of fixing and establishing the same, are as hereinafter in this Article IV set forth:

SECTION A
SERIES A COMMON STOCK, SERIES B COMMON STOCK
AND SERIES C COMMON STOCK

Five hundred million (500,000,000) shares of Common Stock shall be of a series designated as Series A Common Stock (the "*Series A Common Stock*"), fifty million (50,000,000) shares of Common Stock shall be of a series designated as Series B Common Stock (the "*Series B Common Stock*") and five hundred million (500,000,000) shares of Common Stock shall be of a series designated as Series C Common Stock (the "*Series C Common Stock*").

Each share of common stock, par value $0.01 per share ("Old Common Stock"), of the Corporation issued and outstanding immediately prior to the effectiveness of this Restated Certificate of Incorporation (the "Effective Time") shall be changed into and reclassified into one fully paid and non-assessable share of Series A Common Stock such that at the Effective Time each holder of record of Old Common Stock shall, without further action, be and become the holder of one share of Series A Common Stock.

Each share of Series A Common Stock, each share of Series B Common Stock and each share of Series C Common Stock shall, except as otherwise provided in this Section A, be identical in all respects and shall have equal rights, powers and privileges.

1. *Voting Rights*.

Holders of Series A Common Stock shall be entitled to one vote for each share of such stock held, and holders of Series B Common Stock shall be entitled to ten votes for each share of such stock held, on all matters that may be submitted to a vote of stockholders at any annual or special meeting thereof (regardless of whether such holders are voting together with the holders of all series of Common Stock that are Voting Securities (as defined in Article V, Section C), or as a separate class with the holders of one or more series of Common Stock or as a separate series of Common Stock). Holders of Series C Common Stock shall not be entitled to any voting powers, except as otherwise required by the laws of the State of Delaware. When the vote or consent of the holders of Series C Common Stock is required by the laws of the State of Delaware, the holders of Series C Common Stock shall be entitled to 1/100th of a vote per share. Except as may otherwise be required by the laws of the State of Delaware or, with respect to any series of Preferred Stock, in any resolution or resolutions providing for the establishment of such series pursuant to authority vested in the Board of Directors by Article IV, Section B, of this Restated Certificate of Incorporation (as it may from time to time hereafter be amended or restated, the "*Certificate*"), the holders of outstanding shares of

Series A Common Stock, the holders of outstanding shares of Series B Common Stock and the holders of outstanding shares of each series of Preferred Stock entitled to vote thereon, if any, shall vote as one class with respect to the election of directors and with respect to all other matters to be voted on by stockholders of the Corporation (including, without limitation, any proposed amendment to this Certificate that would increase the number of authorized shares of Common Stock or any series thereof, the number of authorized shares of Preferred Stock or any series thereof or the number of authorized shares of any other class or series of capital stock or decrease the number of authorized shares of Common Stock or any series thereof, the number of authorized shares of Preferred Stock or any series thereof or the number of authorized shares of any other class or series of capital stock (but not below the number of shares of Common Stock or any series thereof, Preferred Stock or any series thereof or any other class or series of capital stock then outstanding)), and except as required by law no separate vote or consent of the holders of shares of any series of Common Stock or any series of Preferred Stock shall be required for the approval of any such matter.

2. *Conversion Rights*.

Each share of Series B Common Stock shall be convertible, at the option of the holder thereof, into one fully paid and non-assessable share of Series A Common Stock. Any such conversion may be effected by any holder of Series B Common Stock by surrendering such holder's certificate or certificates for the Series B Common Stock to be converted, duly endorsed, at the office of the Corporation or any transfer agent for the Series B Common Stock, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of shares of Series B Common Stock represented by such certificate and stating the name or names in which such holder desires the certificate or certificates representing shares of Series A Common Stock to be issued and, if less than all of the shares of Series B Common Stock represented by one certificate are to be converted, the name or names in which such holder desires the certificate representing shares of Series B Common Stock to be issued. If so required by the Corporation, any certificate representing shares surrendered for conversion in accordance with this paragraph shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder of such shares or the duly authorized representative of such holder, and shall, if required by this Section A.2., be accompanied by payment, or evidence of payment, of applicable issue or transfer taxes. Promptly thereafter, the Corporation shall issue and deliver to such holder or such holder's nominee or nominees, a certificate or certificates representing the number of shares of Series A Common Stock to which such holder shall be entitled as herein provided. If less than all of the shares of Series B Common Stock represented by any one certificate are to be converted, the Corporation shall issue and deliver to such holder or such holder's nominee or nominees a new certificate representing the shares of Series B Common Stock not converted. Such conversion shall be deemed to have been made at the close of business on the date of receipt by the Corporation or any such transfer agent of the certificate or certificates, notice and, if required, instruments of transfer and payment or evidence of payment of taxes referred to above, and the person or persons entitled to receive the Series A Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Series A Common Stock on that date. A number of shares of Series A Common Stock equal to the number of shares of Series B Common Stock outstanding from time to time shall be set aside and reserved for issuance upon conversion of shares of Series B Common Stock. Shares of Series B Common Stock that have been converted hereunder shall become treasury shares that may be issued or retired by resolution of the Board of Directors. Shares of Series A Common Stock and shares of Series C Common Stock shall not be convertible into shares of any other series of Common Stock.

The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of certificates representing shares of Common Stock on conversion of shares of Series B Common Stock pursuant to this Section A.2. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any issue or delivery of certificates representing any shares of Common Stock in a name other than that in which the shares of Series B Common Stock so converted were registered and no such issue or delivery shall be made unless and until the person requesting the same has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid.

3. *Dividends Generally*.

Whenever a dividend, other than a dividend that consists of a Share Distribution, is paid to the holders of one or more series of Common Stock, the Corporation also shall pay to the holders of each other series of Common Stock a dividend per share equal to the dividend per share paid to the holders of such first one or more series of Common Stock, such that the dividend paid on each share of Common Stock, regardless of series, is the same. Dividends shall be payable only as and when declared by the Board of Directors of the Corporation out of assets of the Corporation legally available therefor. Whenever a dividend that consists of a Share Distribution is paid to the holders of one or more series of Common Stock, the Corporation shall also pay a dividend that consists of a Share Distribution to the holders of each other series of Common Stock as provided in Section A.4. below. For purposes of this Section A.3. and Section A.4. below, a "*Share Distribution*" shall mean a dividend payable in shares of any class or series of capital stock, Convertible Securities (as defined in Section A.4.) or other equity securities of the Corporation or any other corporation, partnership, limited liability company, joint venture, trust, unincorporated association or other legal entity (all of the foregoing and any natural person, a "*Person*").

4. *Share Distributions*.

If at any time a Share Distribution is to be made with respect to the Series A Common Stock, Series B Common Stock or Series C Common Stock, such Share Distribution may be declared and paid only as follows:

(a) a Share Distribution (i) consisting of shares of Series A Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series A Common Stock) may be declared and paid to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, on an equal per share basis; or (ii) consisting of shares of Series B Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series B Common Stock) may be declared and paid to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, on an equal per share basis; or (iii) consisting of shares of Series C Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series C Common Stock) may be declared and paid to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, on an equal per share basis; or (iv) consisting of shares of Series A Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series A Common Stock) may be declared and paid to holders of Series A Common Stock, shares of Series B Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series B Common Stock) may be declared and paid to holders of Series B Common Stock and shares of Series C Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series C Common Stock) may be declared and paid to holders of Series C Common Stock, in each case on an equal per share basis; and

(b) a Share Distribution consisting of shares of any class or series of securities of the Corporation or any other Person other than Series A Common Stock, Series B Common Stock or Series C Common Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Series A Common Stock, Series B Common Stock or Series C Common Stock), may be declared and paid either on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, (ii) separate classes or series of securities, on an equal per share basis to the holders of each series of Common Stock or (iii) a separate class or series of securities to the holders of one or more series of Common Stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Common Stock; *provided*, *that*, in the case of clauses (ii) and (iii), (x) such separate classes or series of securities (and, if the distribution consists of Convertible Securities, the securities into which such Convertible Securities are convertible or for which they are exchangeable or which they evidence the right to purchase) do not differ in any respect other than their relative voting rights (and related differences in designation, conversion and Share Distribution provisions), with holders of shares of Series B Common Stock receiving securities of the class or series having (or convertible into, exchangeable for or evidencing the right to purchase securities having) the highest relative voting rights and the holders of shares of each other series of Common Stock receiving securities of a class or series having (or convertible into, exchangeable for or evidencing the right to purchase securities having) lesser relative voting rights, in each case without regard to whether such rights differ to a greater or lesser extent than the corresponding differences in voting rights (and related differences in designation, conversion and Share Distribution provisions) among the Series A Common Stock, the Series B Common Stock and the Series C Common Stock, and (y) in the event the securities to be received by the holders of shares of Common Stock other than the Series B Common Stock consist of different classes or series of securities, with each such class or series of securities (or the securities into which such class or series is convertible or for which such class or series is exchangeable or which such class or series evidences the right to purchase) differing only with respect to the relative voting rights of such class or series (and the related differences in designation, conversion, redemption and Share Distribution provisions), then such classes or series of securities shall be distributed to the holders of each series of Common Stock (other than the Series B Common Stock) (A) as the Board of Directors determines or (B) such that the relative voting rights (and related differences in designation, conversion, redemption and Share Distribution provisions) of the class or series of securities (or the securities into which such class or series is convertible or for which such class or series is exchangeable or which such class or series evidences the right to purchase) to be received by the holders of each series of Common Stock (other than the Series B Common Stock) corresponds to the extent practicable to the relative voting rights (and related differences in designation, conversion, redemption and Share Distribution provisions) of such series of Common Stock, as compared to the other series of Common Stock (other than the Series B Common Stock).

As used herein, the term "*Convertible Securities*" means (x) any securities of the Corporation (other than any series of Common Stock) that are convertible into, exchangeable for or evidence the right to purchase any shares of any series of Common Stock, whether upon conversion, exercise, exchange, pursuant to anti-dilution provisions of such securities or otherwise, and (y) any securities of any other Person that are convertible into, exchangeable for or evidence the right to purchase, securities of such Person or any other Person, whether upon conversion exercise, exchange, pursuant to antidilution provisions of such securities or otherwise.

5. *Reclassification*.

The Corporation shall not reclassify, subdivide or combine one series of Common Stock without reclassifying, subdividing or combining each other series of Common Stock on an equal per share basis.

6. *Liquidation and Dissolution*.

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and liabilities of the Corporation and subject to the prior payment in full of the preferential amounts to which any series of Preferred Stock is entitled, the holders of shares of Series A Common Stock, the holders of shares of Series B Common Stock and the holders of shares of Series C Common Stock shall share equally, on a share for share basis, in the assets of the Corporation remaining for distribution to its common stockholders. Neither the consolidation or merger of the Corporation with or into any other Person or Persons nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this paragraph 6.

SECTION B
PREFERRED STOCK

The Preferred Stock may be divided and issued in one or more series from time to time, with such powers, designations, preferences and relative, participating, optional or other rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of each such series adopted by the Board of Directors (a "*Preferred Stock Designation*"). The Board of Directors, in the Preferred Stock Designation with respect to a series of Preferred Stock (a copy of which shall be filed as required by law), shall, without limitation of the foregoing, fix the following with respect to such series of Preferred Stock:

(i) the distinctive serial designations and the number of authorized shares of such series, which may be increased or decreased, but not below the number of shares thereof then outstanding, by a certificate made, signed and filed as required by law (except where otherwise provided in a Preferred Stock Designation);

(ii) the dividend rate or amounts, if any, for such series, the date or dates from which dividends on all shares of such series shall be cumulative, if dividends on stock of such series shall be cumulative, and the relative preferences or rights of priority, if any, or participation, if any, with respect to payment of dividends on shares of such series;

(iii) the rights of the shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, if any, and the relative preferences or rights of priority, if any, of payment of shares of such series;

(iv) the right, if any, of the holders of such series to convert or exchange such stock into or for other classes or series of a class of stock or indebtedness of the Corporation or of another Person, and the terms and conditions of such conversion or exchange, including provision for the adjustment of the conversion or exchange rate in such events as the Board of Directors may determine;

(v) the voting powers, if any, of the holders of such series;

(vi) the terms and conditions, if any, for the Corporation to purchase or redeem shares of such series; and

(vii) any other relative rights, powers, preferences and limitations, if any, of such series.

The Board of Directors is hereby expressly authorized to exercise its authority with respect to fixing and designating various series of the Preferred Stock and determining the relative rights, powers and preferences, if any, thereof to the full extent permitted by applicable law, subject to any stockholder vote that may be required by this Certificate. All shares of any one series of the Preferred Stock shall be alike in every particular. Except to the extent otherwise expressly provided in the Preferred Stock Designation for a series of Preferred Stock, the holders of shares of such series shall have no voting rights except as may be required by the laws of the State of Delaware. Further, unless otherwise expressly provided in the Preferred Stock Designation for a series of Preferred Stock, no consent or vote of the holders of shares of Preferred Stock or any series thereof shall be required for any amendment to this Certificate that would increase the number of authorized shares of Preferred Stock or the number of authorized shares of any series thereof or decrease the number of authorized shares of Preferred Stock or the number of authorized shares of any series thereof (but not below the number of authorized shares of Preferred Stock or such series, as the case may be, then outstanding).

Except as may be provided by the Board of Directors in a Preferred Stock Designation or by law, shares of any series of Preferred Stock that have been redeemed (whether through the operation of a sinking fund or otherwise) or purchased by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes shall have the status of authorized and unissued shares of Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reissued as part of a new series of Preferred Stock to be created by a Preferred Stock Designation or as part of any other series of Preferred Stock.

ARTICLE V
DIRECTORS

SECTION A
NUMBER OF DIRECTORS

The governing body of the Corporation shall be a Board of Directors. Subject to any rights of the holders of any series of Preferred Stock to elect additional directors, the number of directors shall not be less than three (3) and the exact number of directors shall be fixed by the Board of Directors by resolution adopted by the vote of 75% of the members then in office. Election of directors need not be by written ballot.

SECTION B
CLASSIFICATION OF THE BOARD

Except as otherwise fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any series of Preferred Stock to separately elect additional directors, which additional directors are not required to be classified pursuant to the terms of such series of Preferred Stock, the Board of Directors of the

Corporation shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as possible, of a number of directors equal to one-third ($^1/_3$) of the number of members of the Board of Directors authorized as provided in Section A of this Article V. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2005; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2006; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2007. At each annual meeting of stockholders of the Corporation the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified or until such director's earlier death, resignation or removal.

SECTION C
REMOVAL OF DIRECTORS

Subject to the rights of the holders of any series of Preferred Stock, directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares of Series A Common Stock, Series B Common Stock and any series of Preferred Stock entitled to vote with the holders of the Series A Common Stock and the Series B Common Stock generally upon all matters that may be submitted to a vote of stockholders at any annual or special meeting thereof (collectively, "*Voting Securities*").

SECTION D
NEWLY CREATED DIRECTORSHIPS AND VACANCIES

Subject to the rights of holders of any series of Preferred Stock, vacancies on the Board of Directors resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director, except as may be provided in a Preferred Stock Designation with respect to any additional director elected by the holders of the applicable series of Preferred Stock.

SECTION E
LIMITATION ON LIABILITY AND INDEMNIFICATION

1. *Limitation On Liability*.

To the fullest extent permitted by the DGCL as the same exists or may hereafter be amended, a director of the Corporation shall not be liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this paragraph 1 shall be prospective only and shall not adversely affect any limitation, right or protection of a director of the Corporation existing at the time of such repeal or modification.

2. *Indemnification.*

(a) *Right to Indemnification*. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the Corporation or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) incurred by such person. Such right of indemnification shall inure whether or not the claim asserted is based on matters which antedate the adoption of this Section E. The Corporation shall be required to indemnify or make advances to a person in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) *Prepayment of Expenses*. The Corporation shall pay the expenses (including attorneys' fees) incurred by a director or officer in defending any proceeding in advance of its final disposition, *provided*, *however*, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this paragraph or otherwise.

(c) *Claims*. If a claim for indemnification or payment of expenses under this paragraph is not paid in full within 30 days after a written claim therefor has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

(d) *Non-Exclusivity of Rights*. The rights conferred on any person by this paragraph shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of this Certificate, the Bylaws, agreement, vote of stockholders or resolution of disinterested directors or otherwise.

(e) *Insurance.* The Board of Directors may, to the full extent permitted by applicable law as it presently exists, or may hereafter be amended from time to time, authorize an appropriate officer or officers to purchase and maintain at the Corporation's expense insurance: (i) to indemnify the Corporation for any obligation which it incurs as a result of the indemnification of directors and officers under the provisions of this Article V Section E; and (ii) to indemnify or insure directors and officers against liability in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article V Section E.

(f) *Other Indemnification*. The Corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity.

3. *Amendment or Repeal*.

Any amendment, modification or repeal of the foregoing provisions of this Section E shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

SECTION F
AMENDMENT OF BYLAWS

In furtherance and not in limitation of the powers conferred by the DGCL, the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation.

ARTICLE VI
MEETINGS OF STOCKHOLDERS

SECTION A
ANNUAL AND SPECIAL MEETINGS

Subject to the rights of the holders of any series of Preferred Stock, stockholder action may be taken only at an annual or special meeting. Except as otherwise provided in a Preferred Stock Designation with respect to any series of Preferred Stock or unless otherwise prescribed by law or by another provision of this Certificate, special meetings of the stockholders of the Corporation, for any purpose or purposes, shall be called by the Secretary of the Corporation at the request of at least 75% of the members of the Board of Directors then in office.

SECTION B
ACTION WITHOUT A MEETING

Except as otherwise provided in a Preferred Stock Designation with respect to any series of Preferred Stock, no action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

ARTICLE VII
ACTIONS REQUIRING SUPERMAJORITY STOCKHOLDER VOTE

Subject to the rights of the holders of any series of Preferred Stock, the affirmative vote of the holders of at least 80% of the total voting power of the then outstanding Voting Securities, voting together as a single class at a meeting specifically called for such purpose, shall be required in order for the Corporation to take any action to authorize:

(a) the amendment, alteration or repeal of any provision of this Certificate or the addition or insertion of other provisions herein; *provided*, *however*, that this clause (a) shall not apply to any such amendment, alteration, repeal, addition or insertion (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation's stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved;

(b) the adoption, amendment or repeal of any provision of the Bylaws of the Corporation; *provided*, *however*, that this clause (b) shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws of the Corporation by the Board of Directors in accordance with the power conferred upon it pursuant to Section F of Article V of this Certificate;

(c) the merger or consolidation of this Corporation with or into any other corporation; *provided*, *however*, that this clause (c) shall not apply to any such merger or consolidation (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation's stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved;

(d) the sale, lease or exchange of all, or substantially all, of the assets of the Corporation; *provided*, *however*, that this clause (d) shall not apply to any such sale, lease or exchange that at least 75% of the members of the Board of Directors then in office have approved; or

(e) the dissolution of the Corporation; *provided*, *however*, that this clause (e) shall not apply to such dissolution if at least 75% of the members of the Board of Directors then in office have approved such dissolution.

Subject to the foregoing provisions of this Article VII, the Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other Persons whomsoever by and pursuant to this Certificate in its present form or as hereafter amended are granted subject to the rights reserved in this Article VII.

ARTICLE IX
SECTION 203 OF THE DGCL

The Corporation expressly elects not to be governed by Section 203 of the DGCL."

IN WITNESS WHEREOF, the undersigned has signed this Restated Certificate of Incorporation this day of , 2004.

LIBERTY MEDIA INTERNATIONAL, INC.

By: ____________________
Name:
Title:

ATTEST:

By: ____________________
Name:
Title:

QuickLinks

[FORM OF RESTATED CERTIFICATE OF INCORPORATION OF LIBERTY MEDIA INTERNATIONAL, INC.]

Exhibit 3.2

LIBERTY MEDIA INTERNATIONAL, INC.

A Delaware Corporation

FORM OF BYLAWS

ARTICLE I
STOCKHOLDERS

Section 1.1 *Annual Meeting.*

An annual meeting of stockholders for the purpose of electing directors and of transacting any other business properly brought before the meeting pursuant to these Bylaws shall be held each year at such date, time and place, either within or without the State of Delaware or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), as may be specified by the Board of Directors in the notice of meeting.

Section 1.2 *Special Meetings*.

Except as otherwise provided in the terms of any series of preferred stock or unless otherwise provided by law or by the Corporation's Restated Certificate of Incorporation, special meetings of stockholders of the Corporation, for the transaction of such business as may properly come before the meeting, may be called by the Secretary of the Corporation only at the request of not less than 75% of the members of the Board of Directors then in office. Only such business may be transacted as is specified in the notice of the special meeting. The Board of Directors shall have the sole power to determine the time, date and place, either within or without the State of Delaware, for any special meeting of stockholders. Following such determination, it shall be the duty of the Secretary to cause notice to be given to the stockholders entitled to vote at such meeting that a meeting will be held at the time, date and place and in accordance with the record date determined by the Board of Directors.

Section 1.3 *Record Date*.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (i) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by the laws of the State of Delaware, not be more than sixty (60) nor less than ten (10) days before the date of such meeting, and (ii) in the case of any other lawful action, shall not be more than sixty (60) days prior to such other action. If no record date is fixed by the Board of Directors: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (ii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided*, *however*, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 1.4 *Notice of Meetings*.

Notice of all stockholders meetings, stating the place, if any, date and hour thereof; the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting; the place within the city, other municipality or community or electronic network at which the list of stockholders may be examined; and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered in accordance with applicable law and applicable stock exchange rules and regulations by the Chairman of the Board, the President, any Vice President, the Secretary or an Assistant Secretary, to each stockholder entitled to vote thereat at least ten (10) days but not more than sixty (60) days before the date of the meeting, unless a different period is prescribed by law, or the lapse of the prescribed period of time shall have been waived. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to such stockholder's address as it appears on the records of the Corporation.

Section 1.5 *Notice of Stockholder Business and Nominations*.

(a) *Annual Meetings of Stockholders*. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (i) pursuant to the Corporation's notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 1.5 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 1.5.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 1.5, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. For purposes of the first annual meeting of stockholders to be held in 2005, the first anniversary date shall be deemed to be   , 2005. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election as a director (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (y) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (w) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (x) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (y) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to

propose such business or nomination, and (z) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements of clauses (a)(2)(ii) and (iii) of this Section 1.5 shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this Section 1.5 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 1.5 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) *Special Meetings of Stockholders*. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 1.5 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 1.5. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a)(2) of this Section 1.5 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) *General*. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 1.5 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.5. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 1.5 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (a)(2)(iii)(z) of this Section 1.5) and (ii) if any proposed nomination or business was not made or proposed in compliance with this Section 1.5, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 1.5, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 1.5, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this Section 1.5, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 1.5, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.5. Nothing in this Section 1.5 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors pursuant to any applicable provisions of the Corporation's Restated Certificate of Incorporation.

Section 1.6 *Quorum*.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law or in the Corporation's Restated Certificate of Incorporation or these Bylaws, at any meeting of stockholders, the holders of a majority in total voting power of the outstanding shares of stock entitled to vote at the meeting shall be present or represented by proxy in order to constitute a quorum for the transaction of any business. The chairman of the meeting shall have the power and duty to determine whether a quorum is present at any meeting of the stockholders. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; *provided*, *however*, that the foregoing shall not limit the right of the Corporation or any subsidiary of the Corporation to vote stock, including, but not limited to, its own stock, held by it in a fiduciary capacity. In the absence of a quorum, the chairman of the meeting may adjourn the meeting from time to time in the manner provided in Section 1.7 hereof until a quorum shall be present.

Section 1.7 *Adjournment*.

Any meeting of stockholders, annual or special, may adjourn from time to time solely by the chairman of the meeting because of the absence of a quorum or for any other reason and to reconvene at the same or some other time, date and place, if any. Notice need not be given of any such adjourned meeting if the time, date and place thereof are announced at the meeting at which the adjournment is taken. The chairman of the meeting shall have full power and authority to adjourn a stockholder meeting in his sole discretion even over stockholder opposition to such adjournment. The stockholders present at a meeting shall not have the authority to adjourn the meeting. If the time, date and place, if any, thereof, and the means of remote communication, if any, by which the stockholders and the proxy holders may be deemed to be present and in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken and the adjournment is for less than thirty (30) days, no notice need be given of any such adjourned meeting. If the adjournment is for more than thirty (30) days and the time, date and place, if any, and the means of remote communication, if any, by which the stockholders and the proxy holders may be deemed to be present and in person are not announced at the meeting at which the adjournment is taken, or if after the adjournment a new record date is fixed for the adjourned meeting, then notice shall be given by the Secretary as required for the original meeting. At the adjourned meeting, the Corporation may transact any business that might have been transacted at the original meeting.

Section 1.8 *Organization*.

The Chairman of the Board, or in his absence the Vice-Chairman of the Board, or in their absence the President, or in their absence any Vice President, shall call to order meetings of stockholders and preside over and act as chairman of such meetings. The Board of Directors or, if the Board fails to act, the stockholders, may appoint any stockholder, director or officer of the Corporation to act as chairman of any meeting in the absence of the Chairman of the Board, the Vice-Chairman of the Board, the President and all Vice Presidents. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be determined by the chairman of the meeting and announced at the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Unless otherwise determined by the Board of Directors, the chairman of the meeting shall have the exclusive right to determine the order of business and to prescribe other such rules, regulations and procedures and shall have the authority in his discretion to regulate the conduct of any such meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) rules and procedures for maintaining order at the meeting and the safety of those present; (ii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iii) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (iv) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

The Secretary shall act as secretary of all meetings of stockholders, but, in the absence of the Secretary, the chairman of the meeting may appoint any other person to act as secretary of the meeting.

Section 1.9 *Postponement or Cancellation of Meeting*.

Any previously scheduled annual or special meeting of the stockholders may be postponed or canceled by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

Section 1.10 *Voting*.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law, the Corporation's Restated Certificate of Incorporation or these Bylaws and except for the election of directors, at any meeting duly called and held at which a quorum is present, the affirmative vote of a majority of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Subject to the rights of the holders of any series of preferred stock, at any meeting duly called and held for the election of directors at which a quorum is present, directors shall be elected by a plurality of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

ARTICLE II
BOARD OF DIRECTORS

Section 2.1 *Number and Term of Office*.

(a) The governing body of this Corporation shall be a Board of Directors. Subject to any rights of the holders of any series of preferred stock to elect additional directors, the Board of Directors shall be comprised of not less than three (3) members, or such other number as may be fixed from time to time by the Board of Directors by resolution adopted by the affirmative vote of 75% of the members of the Board of Directors then in office. Directors need not be stockholders of the Corporation. The Corporation shall nominate the person(s) holding the offices of Chairman of the Board and President for election as directors at any meeting at which such person(s) are subject to election as directors. The Board of Directors shall appoint from its own members at its first meeting after each annual meeting of stockholders a Vice-Chairman of the Board who, in the absence of the Chairman of the Board, will preside at all meetings of the stockholders and the Board of Directors. The position of Vice-Chairman of the Board will not be an office of the Corporation, but may be filled by an officer who is also a director.

(b) Except as otherwise fixed by the Corporation's Restated Certificate of Incorporation relating to the rights of the holders of any series of preferred stock to separately elect additional directors, which additional directors are not required to be classified pursuant to the terms of such series of preferred stock, the Board of Directors shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as possible, of a number of directors equal to one-third (331/3%) of the then authorized number of members of the Board of Directors. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2005; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2006; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2007. At each annual meeting of stockholders of the Corporation the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The directors of each class will serve until the earliest to occur of their death, resignation, removal or disqualification or the election and qualification of their respective successors.

Section 2.2 *Resignations*.

Any director of the Corporation, or any member of any committee, may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board, Vice-Chairman of the Board, or the President or Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified therein, then upon receipt thereof. The acceptance of such resignation shall not be necessary to make it effective unless otherwise stated therein.

Section 2.3 *Removal of Directors*.

Subject to the rights of the holders of any series of preferred stock, directors may be removed from office only for cause upon the affirmative vote of the holders of not less than a majority of the total voting power of the then outstanding shares entitled to vote at an election of directors voting together as a single class.

Section 2.4 *Newly Created Directorships and Vacancies*.

Subject to the rights of the holders of any series of preferred stock, vacancies on the Board of Directors resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director at any regular or special meeting of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director, except as may be provided in the terms of any series of preferred stock with respect to any additional director elected by the holders of such series of preferred stock. Notwithstanding Article I of these Bylaws, in case the entire Board of Directors shall die or resign, the President or Secretary of the Corporation, or any ten (10) stockholders may call and cause notice to be given for a special meeting of stockholders in the same manner that the Chairman of the Board or Vice-Chairman of the Board may call such a meeting, and directors for the unexpired terms may be elected at such special meeting.

Section 2.5 *Meetings*.

The annual meeting of each newly elected Board of Directors may be held on such date and at such time and place as the Board of Directors determines. The annual meeting may be held immediately following the annual meeting of stockholders, and if so held, no notice of such meeting shall be necessary to the newly elected directors in order to hold the meeting legally, provided that a quorum shall be present thereat.

Notice of each regular meeting shall be furnished in writing to each member of the Board of Directors not less than five (5) days in advance of said meeting, unless such notice requirement is waived in writing by each member. No notice need be given of the meeting immediately following an annual meeting of stockholders.

Special meetings of the Board of Directors shall be held at such time and place as shall be designated in the notice of the meeting. Special meetings of the Board of Directors may be called by the Chairman of the Board or the Vice-Chairman of the Board, and shall be called by the President or Secretary of the Corporation upon the written request of not less than 75% of the members of the Board of Directors then in office.

Section 2.6 *Notice of Special Meetings*.

The Secretary, or in his absence any other officer of the Corporation, shall give each director notice of the time and place of holding of special meetings of the Board of Directors by mail at least ten (10) days before the meeting, or by facsimile transmission, electronic mail or personal service at least twenty-four (24) hours before the meeting unless such notice requirement is waived in writing by each member. Unless otherwise stated in the notice thereof, any and all business may be transacted at any meeting without specification of such business in the notice.

Section 2.7 *Conference Telephone Meeting*.

Members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of telephone conference or other similar communications equipment by means of which all persons participating in the meeting can hear each other and communicate with each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 2.8 *Quorum and Organization of Meetings*.

A majority of the total number of members of the Board of Directors as constituted from time to time shall constitute a quorum for the transaction of business, but, if at any meeting of the Board of Directors (whether or not adjourned from a previous meeting) there shall be less than a quorum present, a majority of those present may adjourn the meeting to another time, date and place, and the meeting may be held as adjourned without further notice or waiver. Except as otherwise provided by law, the Corporation's Restated Certificate of Incorporation or these Bylaws, a majority of the directors present at any meeting at which a quorum is present may decide any question brought before such meeting. Meetings shall be presided over by the Chairman of the Board or in his absence by the Vice-Chairman of the Board, or in their absence by such other person as the directors may select. The Board of Directors shall keep written minutes of its meetings. The Secretary of the Corporation shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

The Board may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee to replace absent or disqualified members at any meeting of such committee. If a member of a committee shall be absent from any meeting, or disqualified from voting thereat, the remaining member or members present and not disqualified from voting, whether or not such member or members constitute a quorum, may, by a unanimous vote, appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in a resolution of the Board of Directors passed as aforesaid, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be impressed on all papers that may require it, but no such committee shall have the power or authority of the Board of Directors in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the laws of the State of Delaware to be submitted to the stockholders for approval or (ii) adopting, amending or repealing any Bylaw of the Corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Unless otherwise specified in the resolution of the Board of Directors designating a committee, at all meetings of such committee a majority of the total number of members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee shall keep regular minutes of its meetings. Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article II of these Bylaws.

Section 2.9 *Indemnification*.

To the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, the Corporation shall indemnify and hold harmless any person who is or was made, or threatened to be made, a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprises including non-profit enterprises (an "Other Entity"), against all liabilities and losses, judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees and disbursements). Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board of Directors at any time specifies that such persons are entitled to the benefits of this Section 2.9. Except as otherwise provided in Section 2.11 hereof, the Corporation shall be required to indemnify a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized in the specific case by the Board of Directors.

Section 2.10 *Advancement of Expenses*.

The Corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding in advance of the final disposition of such Proceeding; *provided, however*, that, if required by the laws of the State of Delaware, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer (or other person indemnified hereunder), to repay any such amount so advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses. Except as otherwise provided in Section 2.11 hereof, the Corporation shall be required to reimburse or advance expenses incurred by a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized by the Board of Directors.

Section 2.11 *Claims*.

If a claim for indemnification or advancement of expenses under this Article II is not paid in full within thirty (30) days after a written claim therefor by the person seeking indemnification or reimbursement or advancement of expenses has been received by the Corporation, the person may file suit to recover the unpaid amount of such claim and, if successful, in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the person seeking indemnification or reimbursement or advancement of expenses is not entitled to the requested indemnification, reimbursement or advancement of expenses under applicable law.

Section 2.12 *Amendment, Modification or Repeal*.

Any amendment, modification or repeal of the foregoing provisions of this Article II shall not adversely affect any right or protection hereunder of any person entitled to indemnification under Section 2.9 hereof in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 2.13 *Nonexclusivity of Rights*.

The rights conferred on any person by this Article II shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Corporation's Restated Certificate of Incorporation, these Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 2.14 *Other Sources*.

The Corporation's obligation, if any, to indemnify or to advance expenses to any person who was or is serving at its request as a director, officer, employee or agent of an Other Entity shall be reduced by any amount such person may collect as indemnification or advancement of expenses from such Other Entity.

Section 2.15 *Other Indemnification and Prepayment of Expenses*.

This Article II shall not limit the right of the Corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to additional persons when and as authorized by appropriate corporate action.

Section 2.16 *Executive Committee of the Board of Directors*.

The Board of Directors, by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, may designate an executive committee, all of whose members shall be directors, to manage and operate the affairs of the Corporation or particular properties or enterprises of the Corporation. Subject to the limitations of the law of the State of Delaware and the Corporation's Restated Certificate of Incorporation, such executive committee shall exercise all powers and authority of the Board of Directors in the management of the business and affairs of the Corporation including, but not limited to, the power and authority to authorize the issuance of shares of common or preferred stock. The executive committee shall keep minutes of its meetings and report to the Board of Directors not less often than quarterly on its activities and shall be responsible to the Board of Directors for the conduct of the enterprises and affairs entrusted to it. Regular meetings of the executive committee, of which no notice shall be necessary, shall be held at such time, dates and places as shall be fixed by resolution adopted by the executive committee. Special meetings of the executive committee shall be called at the request of the President or of any member of the executive committee, and shall be held upon such notice as is required by these Bylaws for special meetings of the Board of Directors, provided that oral notice by telephone or otherwise shall be sufficient if received not later than the day immediately preceding the day of the meeting.

Section 2.17 *Other Committees of the Board of Directors*.

The Board of Directors may by resolution establish committees other than an executive committee and shall specify with particularity the powers and duties of any such committee. Subject to the limitations of the laws of the State of Delaware and the Corporation's Restated Certificate of Incorporation, any such committee shall exercise all powers and authority specifically granted to it by the Board of Directors, which powers may include the authority to authorize the issuance of shares of common or preferred stock. Such committees shall serve at the pleasure of the Board of Directors, keep minutes of their meetings and have such names as the Board of Directors by resolution may determine and shall be responsible to the Board of Directors for the conduct of the enterprises and affairs entrusted to them.

Section 2.18 *Directors' Compensation*.

Directors shall receive such compensation for attendance at any meetings of the Board and any expenses incidental to the performance of their duties as the Board of Directors shall determine by resolution. Such compensation may be in addition to any compensation received by the members of the Board of Directors in any other capacity.

Section 2.19 *Action Without Meeting*.

Nothing contained in these Bylaws shall be deemed to restrict the power of members of the Board of Directors or any committee designated by the Board of Directors to take any action required or permitted to be taken by them without a meeting.

ARTICLE III
OFFICERS

Section 3.1 *Executive Officers*.

The Board of Directors shall elect from its own members, at its first meeting after each annual meeting of stockholders, a Chairman of the Board and a President. The Board of Directors may also elect such Vice Presidents as in the opinion of the Board of Directors the business of the Corporation requires, a Treasurer and a Secretary, any of whom may or may not be directors. The Board of Directors may also elect, from time to time, such other or additional officers as in its opinion are desirable for the conduct of business of the Corporation. Each officer shall hold office until the first meeting of the Board of Directors following the next annual meeting of stockholders following their respective election. Any person may hold at one time two or more offices; *provided*, *however*, that the President shall not hold any other office except that of Chairman of the Board. Vice-Chairman of the Board is not an office of the Corporation.

Section 3.2 *Powers and Duties of Officers*.

The Chairman of the Board shall have overall responsibility for the management and direction of the business and affairs of the Corporation and shall exercise such duties as customarily pertain to the office of Chairman of the Board and such other duties as may be prescribed from time to time by the Board of Directors. He shall be the senior officer of the Corporation and in case of the inability or failure of the President to perform his duties, he shall perform the duties of the President. He may appoint and terminate the appointment or election of officers, agents or employees other than those appointed or elected by the Board of Directors. He may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations. The Chairman shall preside at all meetings of stockholders and of the Board of Directors at which he is present, and shall perform such other duties as may be prescribed from time to time by the Board of Directors or these Bylaws.

The President of the Corporation shall have such powers and perform such duties as customarily pertain to a chief executive officer and the office of a president, including, without limitation, being responsible for the active direction of the daily business of the Corporation, and shall exercise such other duties as may be prescribed from time to time by the Board of Directors. The President may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations. In the absence or disability of the Chairman of the Board, the President shall perform the duties and exercise the powers of the office of Chairman of the Board.

Vice Presidents shall have such powers and perform such duties as may be assigned to them by the Chairman of the Board, the President, the executive committee, if any, or the Board of Directors. A Vice President may sign and execute contracts and other obligations pertaining to the regular course of his duties which implement policies established by the Board of Directors.

The Treasurer shall be the chief financial officer of the Corporation. Unless the Board of Directors otherwise declares by resolution, the Treasurer shall have general custody of all the funds and securities of the Corporation and general supervision of the collection and disbursement of funds of the Corporation. He shall endorse for collection on behalf of the Corporation checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depository as the Board of Directors may designate. He may sign, with the Chairman of the Board, President or such other person or persons as may be designated for the purpose by the Board of Directors, all bills of exchange or promissory notes of the Corporation. He shall enter or cause to be entered regularly in the books of the Corporation a full and accurate account of all moneys received and paid by him on account of the Corporation, shall at all reasonable times exhibit his books and accounts to any director of the Corporation upon application at the office of the Corporation during business hours and, whenever required by the Board of Directors or the President, shall render a statement of his accounts. He shall perform such other duties as may be prescribed from time to time by the Board of Directors or by these Bylaws. He may be required to give bond for the faithful performance of his duties in such sum and with such surety as shall be approved by the Board of Directors. Any Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Secretary shall keep the minutes of all meetings of the stockholders and of the Board of Directors. The Secretary shall cause notice to be given of meetings of stockholders, of the Board of Directors, and of any committee appointed by the Board of Directors. He or she shall have custody of the corporate seal, minutes and records relating to the conduct and acts of the stockholders and Board of Directors, which shall, at all reasonable times, be open to the examination of any director. The Secretary or any Assistant Secretary may certify the record of proceedings of the meetings of the stockholders or of the Board of Directors or resolutions adopted at such meetings, may sign or attest certificates, statements or reports required to be filed with governmental bodies or officials, may sign acknowledgments of instruments, may give notices of meetings and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 3.3 *Bank Accounts*.

In addition to such bank accounts as may be authorized in the usual manner by resolution of the Board of Directors, the Treasurer, with approval of the Chairman of the Board or the President, may authorize such bank accounts to be opened or maintained in the name and on behalf of the Corporation as he may deem necessary or appropriate, provided payments from such bank accounts are to be made upon and according to the check of the Corporation, which may be signed jointly or singularly by either the manual or facsimile signature or signatures of such officers or bonded employees of the Corporation as shall be specified in the written instructions of the Treasurer or Assistant Treasurer of the Corporation with the approval of the Chairman of the Board or the President of the Corporation.

Section 3.4 *Proxies; Stock Transfers*.

Unless otherwise provided in the Corporation's Restated Certificate of Incorporation or directed by the Board of Directors, the Chairman of the Board or the President or any Vice President or their designees shall have full power and authority on behalf of the Corporation to attend and to vote upon all matters and resolutions at any meeting of stockholders of any corporation in which this Corporation may hold stock, and may exercise on behalf of this Corporation any and all of the rights and powers incident to the ownership of such stock at any such meeting, whether regular or special, and at all adjournments thereof, and shall have power and authority to execute and deliver proxies and consents on behalf of this Corporation in connection with the exercise by this Corporation of the rights and powers incident to the ownership of such stock, with full power of substitution or revocation. Unless otherwise provided in the Corporation's Restated Certificate of Incorporation or directed by the Board of Directors, the Chairman of the Board or the President or any Vice President or their designees shall have full power and authority on behalf of the Corporation to transfer, sell or dispose of stock of any corporation in which this Corporation may hold stock.

ARTICLE IV
CAPITAL STOCK

Section 4.1 *Shares*.

The shares of the corporation shall be represented by a certificate or shall be uncertificated. Certificates shall be signed by the Chairman of the Board of Directors or the President and by the Secretary or the Treasurer, and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the Delaware General Corporation Law or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such an officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer, transfer agent or registrar had not ceased to hold such position at the time of its issuance.

Section 4.2 *Transfer of Shares*.

(a) Upon surrender to the Corporation or the transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be cancelled, and the issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

(b) The person in whose name shares of stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes, and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

Section 4.3 *Lost Certificates*.

The Board of Directors or any transfer agent of the Corporation may direct a new certificate or certificates or uncertificated shares representing stock of the Corporation to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Board of Directors (or any transfer agent of the Corporation authorized to do so by a resolution of the Board of Directors) may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as the Board of Directors (or any transfer agent so authorized) shall direct to indemnify the Corporation and the transfer agent against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificates or uncertificated shares, and such requirement may be general or confined to specific instances.

Section 4.4 *Transfer Agent and Registrar*.

The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates for shares to bear the manual or facsimile signature or signatures of any of them.

Section 4.5 *Regulations*.

The Board of Directors shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer, registration, cancellation and replacement of certificates representing stock of the Corporation or uncertificated shares, which rules and regulations shall comply in all respects with the rules and regulations of the transfer agent.

ARTICLE V
GENERAL PROVISIONS

Section 5.1 *Offices*.

The Corporation shall maintain a registered office in the State of Delaware as required by the laws of the State of Delaware. The Corporation may also have offices in such other places, either within or without the State of Delaware, as the Board of Directors may from time to time designate or as the business of the Corporation may require.

Section 5.2 *Corporate Seal*.

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the words "Corporate Seal" and "Delaware."

Section 5.3 *Fiscal Year*.

The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

Section 5.4 *Notices and Waivers Thereof*.

Whenever any notice is required by the laws of the State of Delaware, the Corporation's Restated Certificate of Incorporation or these Bylaws to be given to any stockholder, director or officer, such notice, except as otherwise provided by law, may be given personally, or by mail, or, in the case of directors or officers, by electronic mail or facsimile transmission, addressed to such address as appears on the books of the Corporation. Any notice given by electronic mail or facsimile transmission shall be deemed to have been given when it shall have been transmitted and any notice given by mail shall be deemed to have been given three (3) business days after it shall have been deposited in the United States mail with postage thereon prepaid.

Whenever any notice is required to be given by law, the Corporation's Restated Certificate of Incorporation, or these Bylaws, a written waiver thereof, signed by the person entitled to such notice, whether before or after the meeting or the time stated therein, shall be deemed equivalent in all respects to such notice to the full extent permitted by law.

Section 5.5 *Saving Clause*.

These Bylaws are subject to the provisions of the Corporation's Restated Certificate of Incorporation and applicable law. In the event any provision of these Bylaws is inconsistent with the Corporation's Restated Certificate of Incorporation or the corporate laws of the State of Delaware, such provision shall be invalid to the extent only of such conflict, and such conflict shall not affect the validity of any other provision of these Bylaws.

Section 5.6 *Amendments*.

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation.

Subject to the rights of the holders of any series of preferred stock, these Bylaws may be adopted, amended or repealed by the affirmative vote of the holders of not less than 80% of the total voting power of the then outstanding capital stock of the Corporation entitled to vote thereon; *provided*, *however*, that this paragraph shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws by the Board of Directors in accordance with the preceding paragraph.

QuickLinks

LIBERTY MEDIA INTERNATIONAL, INC. A Delaware Corporation FORM OF BYLAWS

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 4.1

Number	Incorporated Under the Laws of the State of Delaware	Shares
A-		- -0-
		Cusip No.

LIBERTY MEDIA INTERNATIONAL, INC.
Series A Common Stock, par value $.01 per share
Specimen Certificate

This Certifies that is the owner of FULLY PAID AND NON-ASSESSABLE SHARES OF SERIES A COMMON STOCK, PAR VALUE $0.01 PER SHARE, OF LIBERTY MEDIA INTERNATIONAL, INC. (hereinafter called the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of the Certificate properly endorsed. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

Witness, the seal of the Corporation and the signatures of its duly authorized officers.

Dated:

Liberty Media International, Inc.
[Corporate Seal]

President

Secretary

QuickLinks

LIBERTY MEDIA INTERNATIONAL, INC. Series A Common Stock, par value $.01 per share Specimen Certificate

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EXHIBIT 4.2

Number B-	Incorporated Under the Laws of the State of Delaware Shares	Shares - -0- Cusip No.

LIBERTY MEDIA INTERNATIONAL, INC.
Series B Common Stock, par value $.01 per share
Specimen Certificate

This Certifies that is the owner of FULLY PAID AND NON-ASSESSABLE SHARES OF SERIES B COMMON STOCK, PAR VALUE $0.01 PER SHARE, OF LIBERTY MEDIA INTERNATIONAL, INC. (hereinafter called the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of the Certificate properly endorsed. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

Witness, the seal of the Corporation and the signatures of its duly authorized officers.

Dated:

Liberty Media International, Inc.
[Corporate Seal]

President	Secretary

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Exhibit 10.23

LIBERTY JUPITER, INC.
STOCKHOLDERS' AGREEMENT

THIS STOCKHOLDERS' AGREEMENT (the "Agreement") is entered into this 24th day of April, 2000 (the "Effective Date"), by and among LIBERTY MEDIA CORPORATION, a Delaware corporation ("LMC"), Robert R. Bennett ("Bennett"), Miranda Curtis ("Curtis"), Graham Hollis ("Hollis"), Yasushige Nishimura ("Nishimura") and Liberty Jupiter, Inc., a Delaware corporation (the "Corporation"). Each of LMC, Curtis, Hollis, Nishimura and Bennett is referred to in this Agreement individually as a "Shareholder," and are referred to collectively in this Agreement as "Shareholders."

Recitals

The Shareholders own all of the issued and outstanding Class A Shares, Class B Shares and Preferred Shares of the Corporation, as follows:

Shareholder	Class	Number of Shares	Percentage of Issued and Outstanding in Class
LMC	Preferred	115,000	100.0%
	Class B Common	3,200	100.0%
Bennett	Class A Common	180	22.5%
Curtis	Class A Common	320	40.0%
Hollis	Class A Common	200	25.0%
Nishimura	Class A Common	100	12.5%

The parties to this Agreement desire to provide for certain conversion and repurchase rights and other matters relating to the relationship among them.

In consideration of the mutual promises and covenants contained in this Agreement and intending to be legally bound, the parties agree as follows:

Agreement

1. ***Definitions***. The following terms, when used in this Agreement, have the meanings set forth below:

(a) "Affiliate" means, with respect to any Person, any Person that directly or indirectly Controls, is Controlled by, or is under common Control with such Person, provided that Affiliates of LMC will not include AT&T or its Affiliates other than those entities that are included in the Liberty Media Group (as such term is defined in the certificate of incorporation of AT&T, as amended as of the Effective Date).

(b) "AT&T" means AT&T Corp., a New York corporation.

(c) "Business Day" means any day other than Saturday, Sunday or a day on which banking institutions in Denver, Colorado, are required or authorized to be closed.

(d) "Class A Shares" means Class A common stock, par value $.01 per share, of the Corporation and any security received in exchange or substitution for such stock.

(e) "Class B Shares" means Class B common stock, par value $.01 per share, of the Corporation and any security received in exchange or substitution for such stock.

(f) "Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(g) "Conversion Notice" means a notice delivered to LMC or to an Investor pursuant to Section 3, specifying the number of Class A Shares the provider of such notice desires to convert to LMGA Shares.

(h) "Converted Shares" has the meaning specified in Section 3(e).

(i) "Effective Date" has the meaning specified in the preamble to this Agreement.

(j) "Investor" means each of Curtis, Hollis, Nishimura and Bennett.

(k) "LMGA Share" means a share of Class A Liberty Media Group Common Stock of AT&T and any security received in exchange or substitution for such a share.

(l) "Non-Vested Shares" has the meaning specified in Section 4(a) of this Agreement.

(m) "Person" means a human being or a corporation, partnership, limited liability company, trust, unincorporated organization, association or other entity.

(n) "Preferred Shares" means shares of preferred stock, $.01 par value per share, of the Corporation and any security received in exchange or substitution of such stock.

(o) "Transfer" means a sale, exchange, assignment, pledge, grant of a security interest, or other disposition (whether voluntary, involuntary or by operation of law).

2. ***Share Transfer Restrictions.*** No Investor will directly or indirectly Transfer or agree to Transfer any Class A Shares except (a) by a Transfer of Class A Shares to LMC for purposes of converting such Class A Shares to LMGA Shares in accordance with Section 3 below, (b) with the prior written consent of LMC, (c) (i) to a trust or similar arrangement established primarily for the benefit of such Investor or such Investor's immediate family members, (ii) to the spouse and lineal descendants of such Investor (including an executor, administrator or personal representative of a deceased Investor for the benefit of such Person), or (iii) to a Person that is Controlled by the Transferring Investor and that continues to be Controlled by the Transferring Investor at all times while it owns any Class A Shares, so long as any such Transfer does not

subject LMC or the Corporation to any additional legal requirements or restrictions or to any liability or obligation, or (d) to LMC or the Corporation as provided in Section 4 below.

3. ***Conversion of Class A Shares.*** LMC and each Investor will have the right to require conversion of Class A Shares into LMGA Shares in accordance with the following provisions:

(a) *LMC Conversion Right*. Beginning on the Effective Date, LMC will have the right, exercisable by delivery of a Conversion Notice to an Investor, to require the conversion of all or any part of the Class A Shares held by such Investor into a number of LMGA Shares having a Fair Market Value equivalent to the Fair Market Value of the number of Class A Shares being converted. If LMC exercises its right under this Section 3(a) to require the conversion of Class A Shares held by an Investor, LMC will use commercially reasonable efforts to cause such conversion to be accomplished without the imposition of tax liability on the Investor whose Class A Shares are converted.

(b) *Investor Conversion Right*. Beginning on the fifth anniversary of the Effective Date, each Investor will have the right, exercisable by delivery of a Conversion Notice to LMC, to require the conversion of all of the Class A Shares held by such Investor into a number of LMGA Shares having a Fair Market Value equivalent to the Fair Market Value of the number of Class A Shares being converted.

(c) *Conversion Notice Date*. The date on which any Conversion Notice pursuant to Section 3(a) or (b) is delivered is the "Conversion Notice Date."

(d) *Fair Market Value of LMGA Shares*. For purposes of this Section 3, the Fair Market Value of an LMGA Share will be equal to the last reported sales price of an LMGA Share on the last trading day immediately preceding the Conversion Notice Date, as reported by the principal U. S. securities exchange on which LMGA Shares are traded or, if LMGA Shares are then traded in the over-the-counter market, as reported by NASDAQ or any recognized successor organization.

(e) *Fair Market Value of Class A Shares*. For purposes of this Section 3, the Fair Market Value of Class A Shares being converted pursuant to this Section 3 ("Converted Shares") will be determined by agreement between LMC and the Investor whose Class A Shares are being converted. If LMC and such Investor cannot agree on the Fair Market Value of the Converted Shares within thirty (30) days following the Conversion Notice Date, the Fair Market Value of the Converted Shares will be determined by a qualified independent appraiser jointly appointed by LMC and the Investor or, if they are unable to agree on an appraiser within thirty-five (35) days following the Conversion Notice Date, each of LMC and the Investor will appoint a qualified independent appraiser to determine the Fair Market Value of the Converted Shares as of the Conversion Notice Date. If the Fair Market Value of the Converted Shares as determined by the appraisal indicating the lower value is at least 90% of the Fair Market Value of the Converted Shares as determined by the appraisal indicating the higher value, the Fair Market Value of the Converted Shares will be deemed to be the average of the two values. If the Fair Market Value of the Converted Shares as determined by the appraisal indicating the lower value is less than 90% of the Fair Market Value of the Converted Shares as determined by the appraisal indicating the higher value, the two appraisers performing such valuations will appoint a third appraiser, whose determination of Fair Market Value will control. LMC will bear the cost of any appraiser appointed by it. The Investor will bear the cost of any appraiser appointed by the Investor. Each of LMC and the Investor will bear one-half of the cost of any appraiser appointed jointly by LMC and the Investor or by the appraisers appointed respectively by LMC and the Investor. Notwithstanding the foregoing, if a determination of Fair Market Value of Converted Shares has been made by independent appraisal under this Section 3(e) within thirty (30) days preceding the Conversion Notice Date, then the result of such appraisal process will determine the Fair Market Value of Converted Shares if LMC and the Investor are unable to agree on Fair Market Value within thirty (30) days following the Conversion Notice Date.

(f) *Representations of Investors Upon Conversion*. Immediately prior to any conversion of such Investor's Class A Shares to LMGA Shares and as a condition to such conversion, the applicable Investor will provide to LMC such written representations, warranties and opinions of counsel as are reasonably deemed necessary by LMC to establish compliance with applicable securities laws and regulations.

(g) *Delivery of Shares*. LMC will deliver LMGA Shares to the Investor, and the Investor will deliver Class A Shares to LMC at a time and place mutually agreeable to Investor and LMC, provided however, if LMC and Investor are unable to agree as to such time and place, the closing will occur at the offices of LMC on the later of (i) ten (10) Business Days following the Conversion Notice Date or, if a determination of the Fair Market Value of the Class A Shares is necessary pursuant to this Section 3, ten (10) Business Days following the completion of such determination.

4. ***Repurchase of Class A Shares or LMGA Shares.***

(a) *Repurchase Right*. Upon the termination of an Investor's employment with (or, in the case of Nishimura, termination of his provision of consulting services to) LMC or any Affiliate of LMC (i) by LMC or its Affiliate for any reason, or (ii) by the Investor for any reason, the Corporation (or if such Investor has converted any of his or her Class A Shares to LMGA Shares, LMC as to any Non-Vested Shares that are LMGA Shares) will have the right (but not the obligation) to purchase from the Investor any or all of that number of Class A Shares and/or LMGA Shares held by such Investor that is equal to the number of Class A Shares owned by the Investor on the Effective Date (adjusted as provided in Section 4(b) below), multiplied by the Applicable Percentage (the "Non-Vested Shares"). The Applicable Percentage will be the percentage specified below for the date of such termination (the "Termination Date"):

Termination Date	**Applicable Percentage**
On or prior the second anniversary of the Effective Date	100%
On or prior to the third anniversary of the Effective Date	75%
On or prior to the fourth anniversary of the Effective Date	50%
On or prior to the fifth anniversary of the Effective Date	25%
After the fifth anniversary of the Effective Date	0%

If, at the Termination Date, an Investor holds both Class A Shares and LMGA Shares that are Converted Shares, such Investor's Non-Vested Shares will consist of a proportionate number of each type of shares held by such Investor. The Corporation or LMC, as the case may be, may exercise the repurchase right provided under this Section 4(a) by delivering a notice ("Exercise Notice") to the Investor within ninety (90) days after the Termination Date. The purchase price for such Non-Vested Shares will be an amount equal to the sum of (x) $1,000 multiplied by the number of Non-Vested Shares so purchased (the "Base Amount"), adjusted as provided in Section 4(b) below, plus (y) 6% per annum from the Effective Date to the Termination Date (compounded annually) on the Base Amount. If LMC and/or the Corporation does not deliver an Exercise Notice under this Section 4(a) within the time permitted, LMC and/or the Corporation, as applicable, will be deemed to have elected not to exercise its repurchase right under this Section 4(a). If LMC and/or the Corporation elects to exercise its repurchase right under this Section 4(a), the Investor will be obligated to Transfer to LMC or the Corporation, as applicable, free and clear of any lien, claim or encumbrance, such Non-Vested Shares as to which the repurchase right has been exercised against payment of the purchase price therefor. The closing of any purchase and sale pursuant to this Section 4 will occur at a time and place mutually agreeable to Investor and LMC, provided however, if LMC and Investor are unable to agree as to such time and place, the closing will occur on a Business Day at the offices of LMC not earlier than ten (10) nor later than fifteen (15) days following the delivery of the Exercise Notice to the Investor by LMC and/or the Corporation.

(b) *Adjustment*. Both the number of Class A Shares used in determining the number of Non-Vested Shares held by an Investor and the $1,000 figure used in computing the Base Amount under Section 4(a) above will be appropriately adjusted to reflect any stock dividend, stock split, reverse stock split, merger, consolidation, recapitalization, reclassification or other similar transaction affecting the Class A Shares.

5. ***Death; Permanent Disability***. Notwithstanding any other provision of this Agreement, if an Investor dies or becomes Permanently Disabled, all Class A Shares owned by such Investor immediately will become convertible into LMGA Shares at the election of such Investor or, in the case of a deceased Investor, by his or her personal

representative, and none of such Class A Shares or LMGA Shares will be Non-Vested Shares for purposes of Section 4. For purposes of this Section 5, an Investor will be considered Permanently Disabled if he or she has been unable to substantially fulfill his or her employment or consulting duties with LMC or its Affiliate on a continuous basis for a period of 180 days, as evidenced by certificates executed and delivered to the Corporation by two medical doctors licensed to practice medicine in the state in which the Permanently Disabled Investor resides.

6. ***Additional Funding.*** If the Corporation is or becomes obligated to contribute additional capital to Jupiter Telecommunications Co., Ltd., LMC covenants and agrees that it will make available to the Corporation up to $10,000,000 to make such additional contribution. At the election of LMC, such funds will be provided to the Corporation through (a) a contribution in exchange for the issuance of additional Preferred Shares, (b) a loan to the Corporation, which loan will be evidenced by a promissory note bearing a market rate of interest and having a term not in excess of three years, or (c) some combination of the foregoing.

7. ***Endorsements on Stock Certificates.*** All certificates representing the Class A Shares will be endorsed with the following legends:

> "THE STOCK REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED OR PLEDGED ONLY IN ACCORDANCE WITH THE TERMS OF A STOCKHOLDERS' AGREEMENT AMONG THE CORPORATION, ITS STOCKHOLDERS AND LIBERTY MEDIA CORPORATION DATED APRIL 24, 2000, A COPY OF WHICH IS ON FILE WITH THE CORPORATION, AND ANY ATTEMPTED TRANSFER OR PLEDGE IN VIOLATION OF THE TERMS OF SUCH AGREEMENT IS NULL AND VOID. SUCH AGREEMENT MAY BE INSPECTED AT THE PRINCIPAL OFFICE OF THE CORPORATION DURING NORMAL BUSINESS HOURS.
>
> THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR THE SECURITIES LAWS OF ANY STATE AND HAVE BEEN
>
> PURCHASED FOR INVESTMENT PURPOSES. THEY MAY NOT BE OFFERED OR SOLD UNLESS SUBSEQUENTLY REGISTERED UNDER THE ACT AND ALL APPLICABLE STATE SECURITIES LAWS OR UNLESS EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF ARE AVAILABLE FOR THE TRANSACTION, AS ESTABLISHED TO THE SATISFACTION OF THE COMPANY, BY OPINION OF COUNSEL OR OTHERWISE."

8. ***Miscellaneous.***

(a) *Notices*. All notices and other communications given hereunder shall be in writing and shall be addressed as follows:

If to LMC:

Liberty Media Corporation
9197 South Peoria Street
Englewood, CO 80112
Attn: Charles Y. Tanabe, Esq.
Telecopy: 720-875-5382

If to the Corporation:

Liberty Jupiter, Inc.
9197 South Peoria Street
Englewood, CO 80112
Attn: Charles Y. Tanabe, Esq.
Telecopy: 720-875-5382

If to an Investor, at the address specified for such Investor on Schedule 8(a) of this Agreement

Any notice given in accordance with this Section 8(a) will be deemed to have been given (a) on the date of receipt if personally delivered, (b) five (5) days after being sent by U.S. mail, postage prepaid, (c) the date of receipt, if sent by registered or certified U.S. mail, postage prepaid, (d) one (1) Business Day after receipt, if sent by confirmed facsimile or telecopier transmission or (e) one (1) Business Day after having been sent by a nationally recognized overnight courier service. In computing time periods, the day of the notice will be included.

(b) *Binding Agreement*. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof, and may not be modified except by a writing executed by all parties hereto, and no waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the party against whom such waiver is sought to be enforced, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. This Agreement shall be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

(c) *Governing Law*. The provisions of this Agreement shall be construed and interpreted, and all rights and obligations of the parties hereto determined, in accordance with the internal laws of the State of Colorado. Each party hereby irrevocably submits to the general jurisdiction of the state and federal courts located in the State of Colorado in any action to interpret or enforce this Agreement, and irrevocably waives any objection to jurisdiction such Investor may have based on inconvenience of the forum.

(d) *Severability*. Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited or invalid under such law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision of this Agreement.

(d) *Interpretation; Headings*. The headings of the Sections of this Agreement have been inserted for convenience of reference only and will not be deemed to be a part of this Agreement or to affect its interpretation. Whenever the context may require, any pronouns used herein will include the corresponding masculine, feminine or neuter forms, and the singular form of names and pronouns will include the plural and vice versa.

(e) *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one and the same instrument, and each of the parties hereto may execute this Agreement by signing any such counterpart.

* * * * *

IN WITNESS WHEREOF, the undersigned have hereunto set their hands, by and through their duly authorized signatories, as of the day and year first above written.

LIBERTY MEDIA CORPORATION

By: /s/ CHARLES Y. TANABE

	Name:	Charles Y. Tanabe
	Title:	Senior Vice President
Robert R. Bennett	/s/ ROBERT R. BENNETT	
Miranda Curtis	/s/ MIRANDA CURTIS	
Graham Hollis	/s/ GRAHAM HOLLIS	
Yasushige Nishimura	/s/ YASUSHIGE NISHIMURA	

LIBERTY JUPITER, INC.

By: /s/ CHARLES Y. TANABE

Name: Charles Y. Tanabe

Title: Senior Vice President

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LIBERTY JUPITER, INC. STOCKHOLDERS' AGREEMENT

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Subject to Completion, dated April 2, 2004

INFORMATION STATEMENT

Liberty Media International, Inc.

12300 Liberty Boulevard
Englewood, Colorado 80112

We are currently a subsidiary of Liberty Media Corporation, which we refer to as "LMC." Our assets and businesses consist largely of those which LMC attributes to its International Group business segment. LMC has determined to spin off our company and to distribute to LMC's shareholders, as a dividend, all of our common stock.

For each share of LMC Series A common stock or LMC Series B common stock held by you as of 5:00 p.m., New York City time, on [ ], 2004, the record date for the distribution, you will receive 0.05 of a share of the same series of our common stock. If as a result of the foregoing ratio you would be entitled to a fraction of a share of our common stock, you will receive cash in lieu of a fractional share interest. We expect the shares of our common stock to be distributed by LMC to you on or about [ ], 2004.

No vote of LMC's shareholders is required in connection with the spin off. No action is required of you to receive your shares of our common stock.

There is no current trading market for our common stock. We have applied to list our Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LBTYA" and "LBTYB," respectively.

In reviewing this information statement, you should carefully consider the matters described under the caption "Risk Factors" beginning on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this information statement is [ ], 2004.

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SUMMARY

Our Company

We are currently a subsidiary of LMC, and our assets and businesses consist largely of those which LMC attributes to its International Group business segment, including UnitedGlobalCom, Inc. (which we refer to as UGC), Jupiter Telecommunications Co., Ltd. (which we refer to as J-COM), Jupiter Programming Co., Ltd. (which we refer to as JPC), Liberty Cablevision of Puerto Rico Ltd. and Pramer S.C.A. Following the spin off, we will be an independent publicly traded company, and LMC will not retain any ownership interest in us. In connection with the spin off, we and LMC are entering into certain agreements pursuant to which we will obtain services and facilities and a short-term credit facility from LMC, and we and LMC will indemnify each other against certain liabilities arising from our respective businesses. See "Certain Inter-Company Agreements."

Through our subsidiaries and affiliates, we provide broadband distribution services and video programming services to subscribers in Europe, Japan, Australia and Latin America. Our broadband distribution services consist primarily of cable television distribution, Internet access and, in selected markets, telephony and satellite distribution. Our programming networks create original programming and also distribute programming obtained from international and home-country content providers. When we refer to "our businesses" in this information statement, we are referring to the businesses of our subsidiaries and our affiliates.

Our principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112. Our main telephone number is (720) 875-5800.

The Spin Off

The following is a brief summary of the terms of the spin off. Please see "The Spin Off" for a more detailed description of the matters described below.

Q: ***What is the spin off?***

A: In the spin off, LMC will distribute to its shareholders all of the shares of our common stock that it owns. Following the spin off, we will be a separate company from LMC, and LMC will not have any ownership interest in us. The number of shares of LMC common stock you own will not change as a result of the spin off.

Q: ***What is being distributed in the spin off?***

A: Approximately [ ] shares of our Series A common stock and [ ] shares of our Series B common stock will be distributed in the spin off, based upon the number of shares of LMC Series A common stock and LMC Series B common stock outstanding on [ ], 2004. The shares of our common stock to be distributed by LMC will constitute all of the issued and outstanding shares of our common stock immediately after the distribution.

Q: ***What is the record date for the spin off?***

A: The record date is [ ], 2004, and record ownership will be determined as of 5:00 p.m., New York City time, on that date. When we refer to the "record date," we are referring to the foregoing time and date.

Q: ***What will I receive in the spin off?***

A: Holders of LMC Series A common stock will receive a dividend of 0.05 of a share of our Series A common stock for each share of LMC Series A common stock held by them on the record date, and holders of LMC Series B common stock will receive a dividend of 0.05 of a share of our

Series B common stock for every share of LMC Series B common stock held by them on the record date.

Q: ***What is the reason for the spin off?***

A: The following potential benefits were considered by LMC's board of directors in making the determination to consummate the spin off:

- enabling investors to invest directly in our international businesses;
- creating acquisition currency to finance our expansion plans;
- improving borrowing flexibility;
- creating more effective management incentives;
- simplifying LMC's strategic message while making our businesses more visible; and
- recognizing company value in the most immediate way.

Q: ***What do I have to do to participate in the spin off?***

A: Nothing. Shareholders of LMC on the record date for the spin off are not required to pay any cash or deliver any other consideration, including any shares of LMC common stock, for the shares of our common stock distributable to them in the spin off.

Q: ***How will LMC distribute shares of Liberty Media International common stock to me?***

A: Holders of shares of either series of LMC common stock on the record date will receive shares of the same series of our common stock in the same form, certificated or book entry, as the form in which the recipient shareholder held its shares of LMC common stock on the record date.

Q: ***If I sell, on or before the distribution date, shares of LMC common stock that I held on the record date, am I still entitled to receive shares of Liberty Media International common stock distributable with respect to the shares of LMC common stock I sold?***

A: No. No ex-dividend market will be established in LMC common stock until the first trading day following the distribution date. Therefore, if you own shares of either series of LMC common stock on the record date and thereafter sell those shares on or prior to the distribution date, you will also be selling the shares of our common stock that would have been distributed to you in the spin off with respect to the shares of LMC common stock you sell.

Q: ***How will fractional shares be treated in the spin off?***

A: If you would be entitled to receive a fractional share of our common stock in the spin off, you will instead receive a cash payment. See "The Spin Off—Treatment of Fractional Shares" for an explanation of how the cash payments will be determined.

Q: ***What is the distribution date for the spin off?***

A:

Shares of our common stock will be distributed by the distribution agent, on behalf of LMC, on or about [ ], 2004.

Q: ***What are the federal income tax consequences to me of the spin off?***

A: The spin off is conditioned on the receipt by LMC of an opinion from Skadden, Arps, Slate, Meagher & Flom LLP to the effect that, among other things, (1) you will not recognize income, gain or loss on the receipt of shares of our common stock in the spin off, except to the extent you receive cash in lieu of fractional shares, and (2) your tax basis in your LMC common stock will be apportioned between those shares and the shares of our common stock you receive in the spin off, based upon their relative fair market values. LMC has not, however, applied for an advance tax

ruling from the Internal Revenue Service with respect to the U.S. federal income tax consequences of the spin off, and opinions of counsel are not binding on the IRS. As a result, the conclusions expressed in the tax opinion could be challenged by the IRS and result in materially less favorable tax consequences to you. Please see "The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off" and "Risk Factors—The spin off could result in significant tax liability" for more information regarding the tax opinion and the potential tax consequences to you of the spin off.

Q: ***Does Liberty Media International intend to pay cash dividends?***

A: No. We presently intend to retain future earnings, if any, to finance the expansion of our businesses. As a result, we do not expect to pay any cash dividends in the foreseeable future. All decisions regarding the payment of dividends by our company will be made by our board of directors, from time to time, in accordance with applicable law.

Q: ***How will Liberty Media International common stock trade?***

A: Currently, there is no public market for our common stock. We have applied to list our Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LBTYA" and "LBTYB," respectively.

We anticipate that trading will commence on a when-issued basis shortly before the record date. When-issued trading in the context of a spin off refers to a transaction effected on or before the distribution date and made conditionally because the securities of the spun off entity have not yet been distributed. When-issued trades generally settle within three trading days after the distribution date. On the first trading day following the distribution date, any when-issued trading in respect of our common stock will end and regular way trading will begin. Regular way trading refers to trading after the security has been distributed and typically involves a trade that settles on the third full trading day following the date of the sale transaction. We cannot predict the trading prices for our common stock before or after the distribution date.

Q: ***Do I have appraisal rights?***

A: No. Holders of LMC common stock have no appraisal rights in connection with the spin off.

Q: ***Who is the transfer agent for your common stock?***

A: EquiServe Trust Company, N.A.

Q: ***Who is the distribution agent for the spin off?***

A: EquiServe Trust Company, N.A.

Summary Selected Financial Data

The following tables present selected historical information relating to our combined financial condition and results of operations for the past three years and is derived from our audited combined financial statements for the corresponding periods. The data should be read in conjunction with our combined financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	December 31,			
		2003	2002	2001
		amounts in thousands		
Summary Balance Sheet Data (1):				
Investment in affiliates	$	1,740,552	1,145,382	423,326
Other investments	$	450,134	187,826	916,562
Intangible assets, net	$	689,026	689,046	701,935
Total assets	$	3,551,226	2,800,896	2,169,102
Debt, including current portion	$	54,126	35,286	338,466
Parent's investment	$	3,418,568	2,708,893	2,039,593

	Year Ended December 31,			
		2003	2002	2001
		amounts in thousands		
Summary Statement of Operations Data (1):				
Revenue	$	108,634	103,855	139,535
Operating loss	$	(1,211)	(35,545)	(122,623)
Share of earnings (losses) of affiliates (2)	$	13,739	(331,225)	(589,525)
Net earnings (loss)	$	20,889	(568,154)	(820,355)

(1) Historically, the substantial majority of our operations have been conducted through equity method affiliates, including UGC, J-COM and JPC. As more fully discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Utilization of the Equity Method of Accounting for Investment in UGC," in January 2004, we completed a transaction which increased our ownership in UGC and enabled us to fully exercise our voting rights with respect to our historical investment in UGC. As a result, UGC will be included in our combined financial position and results of operations effective

January 1, 2004.

(2) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which among other matters, provides that excess costs that are considered equity method goodwill are no longer amortized, but are evaluated for impairment under APB Opinion No. 18. Share of losses of affiliates includes excess basis amortization of $92,902,000 for the year ended December 31, 2001.

RISK FACTORS

An investment in our common stock involves risk. You should carefully consider the risks described below, together with all of the other information included in this information statement in evaluating our company and our common stock. Any of the following risks, if realized, could have a material adverse effect on the value of our common stock.

Factors Relating to our Business

Our businesses are conducted almost exclusively outside of the United States, which subjects us to numerous operational risks. Our businesses operate almost exclusively in countries other than the United States. Our business is thus subject to the following inherent risks:

- longer payment cycles by customers in foreign countries that may increase the uncertainty associated with recoverable accounts;
- difficulties in staffing and managing international operations;
- economic instability;
- potentially adverse tax consequences;
- export and import restrictions, tariffs and other trade barriers; and
- disruptions of services or loss of property or equipment that are critical to our businesses due to expropriation, nationalization, war, insurrection, terrorism or general social or political unrest.

In addition, as a result of our international operations, we have risks from exposure to changes in foreign currency exchange rates, particularly when we translate the results of our foreign operations into our combined financial statements. We do not hedge against the majority of our exposure to foreign currency exchange rate transaction risk, since oftentimes a natural hedge exists in that local currency revenue is offset by local currency expenses. However, certain of our businesses do incur liabilities denominated in currencies which are not their functional currency. We generally do not hedge translation adjustment exposure since such amounts are recorded as cumulative currency translation adjustments, a separate component of shareholders' equity, and do not affect earnings or cash flow.

Our business is subject to risks of adverse regulation by foreign governments. Our businesses operate in a number of countries, many of which have unique regulatory regimes. Our cable and telecommunications businesses are subject to licensing eligibility rules and regulations, which also vary by country. The provision of telephony services requires licensing from, or registration with, the appropriate regulatory authorities and entrance into interconnection arrangements with the incumbent phone companies. It is possible that countries in which we operate may adopt laws and regulations regarding electronic commerce which could dampen the growth of the Internet access services being offered and developed by our businesses. Our programming businesses are subject to regulation on a country by country basis, including programming content requirements and ownership restrictions. Consequently, our businesses must adapt their ownership and organizational structure as well as their services to satisfy the rules and regulations to which they are subject. A failure to comply with these rules and regulations could result in penalties, restrictions on our business or loss of required licenses.

Our businesses that offer multiple services, such as video distribution as well as Internet access and telephony, or both video distribution and programming content, are facing increased regulatory review from competition authorities in several countries in which we operate with respect to their businesses and proposed business combinations. For example, regulatory authorities in several countries in which we do business are considering what access rights, if any, should be afforded to third parties for use of existing cable television networks. If third parties were to be granted access to our distribution infrastructure for the delivery of video, audio, Internet or other services, those providers could compete with similar services which our businesses offer, which could lead to significant price competition and our loss of market share.

Many of the economies in which we operate have recently experienced recessionary conditions, which has adversely affected consumer spending, borrowing costs and our business. The economies in many of our operating regions have experienced moderate to severe recessionary conditions over the past several years, including Argentina, Chile, Germany and Japan, among others. These conditions have strained consumer and corporate spending and financial systems and financial institutions in these regions. As a result, some of our businesses have experienced a downturn in revenue, as consumers conserve their disposable income. In addition, and due to these recessionary conditions, in certain regions creditors have restricted access to capital and there has been an increase in borrowing costs. It is not possible to predict when these recessionary conditions will abate, or whether continued economic weakness will lead to further reductions in consumer spending or demand for our services. We also cannot assure you that our businesses in certain of these regions will have access to sufficient capital or credit to continue to fund their operations at current levels or to expand their service offerings to remain competitive.

We are subject to the risk of revocation or loss of our telecommunications and media licenses. Many of the services provided by our businesses require prior receipt of a license from the appropriate national, provincial and/or local regulatory authority. These regulatory authorities can have significant discretion, grant licenses for a limited term and are often under no obligation to renew them when they expire. Regulatory authorities may have broad powers, exercised at their discretion, to terminate a license or amend its provisions, including those related to license fees. The breach of a license or applicable law can result in the revocation, suspension, cancellation, or reduction in the term of a license or the imposition of fines. Regulatory authorities may grant new licenses to third parties, resulting in greater competition in territories where our businesses may already be licensed. National authorities may pass new laws or regulations requiring these subsidiaries or other companies to re-bid or re-apply for licenses or interpret present laws in a manner adverse to us. Licenses may also require that third parties be granted access to our bandwidth, frequency capacity, facilities or services to promote competition. There can be no assurance that we will be able to retain any given license when it comes up for renewal, or that any renewal will not be on less favorable terms.

Changes in technology may limit the competitiveness of and demand for our services, which may adversely impact our business and the value of our stock. Technology in the video and telecommunications and data services industries is changing rapidly. This significantly influences the demand for the products and services that our businesses offer. The success of our businesses is dependent upon the ability to anticipate changes in technology and consumer tastes and to develop and introduce new and enhanced products on a timely basis.

New products, once marketed, may not meet consumer expectations or needs, can be subject to delays in development and may fail to operate as intended. There is no proven market for some of the advanced services that our businesses have begun to offer and have under development. A lack of market acceptance of new products or services which we may offer, or the development of significant competitive products or services by others, could have a material adverse impact on our business and stock price.

The liquidity and value of our interests in our subsidiaries and affiliates may be adversely affected by stockholder agreements and similar agreements to which we are a party. We own equity interests in a variety of international broadband distribution and video programming businesses. Certain of the equity interests we own are held pursuant to stockholder agreements, partnership agreements and other instruments and agreements that contain provisions that affect the liquidity, and therefore the realizable value, of those interests. Most of these agreements subject the transfer of such equity interests to consent rights or rights of first refusal of the other shareholders or partners. In certain cases, a change in control of our company or of the subsidiary holding our equity interest will give rise to rights or remedies exercisable by other shareholders or partners. Some of our subsidiaries and affiliates are parties to loan agreements that restrict changes in ownership of the borrower without the consent of the lenders. All of these provisions will restrict our ability to sell those equity interests and may adversely affect the prices at which those interests may be sold.

We do not have the right to manage the businesses or affairs of any of the companies in which we hold less than a majority voting interest. Rather, our rights may take the form of representation on the board of directors or a partners' or similar committee that supervises management or possession of veto rights over significant or extraordinary actions. The scope of our veto rights varies from agreement to agreement. Although our board representation and veto rights may enable us to exercise influence over the management or policies of an affiliate, they do not enable us to cause those affiliates to take actions, such as paying dividends or making distributions to their shareholders or partners.

We operate in an increasingly competitive market, and there is a risk that we may not be able to effectively compete with other service providers in the future. The market for cable television, high-speed Internet access and telecommunications in many of the regions in which our businesses operate is highly competitive, rapidly evolving and highly fragmented. Our businesses face competition today from other cable television service, direct-to-home satellite service, digital terrestrial television and video over asymmetric digital subscriber line. In the provision of Internet access services and online content, our businesses face competition from incumbent telecommunications companies and other telecommunications operators, other cable-based Internet service providers, non-cable based Internet service providers and Internet portals. The Internet services offered by these competitors include both traditional dial-up access services and high-speed access services. In the provision of telephony services, our businesses face competition from the incumbent telecommunications operators in each country in which they operate. These operators have substantially more experience in providing telephony services and have greater resources to devote to the provision of telephony services. In many countries, our businesses also face competition from wireless telephony providers.

The market for our programming services is also highly competitive. Our programming businesses compete with other programmers for distribution on a limited number of channels. Once distribution is obtained, our program offerings must then compete for viewers and advertisers with other programming services as well as with other entertainment media, such as home video, online activities and movies.

We expect the level and intensity of competition to increase in the future from both existing competitors and new market entrants as a result of the deregulation of the industries in which we operate, the influx of new market entrants and strategic alliances and cooperative relationships among industry participants. In addition, we anticipate that governments in other regions in which we operate will continue to promote competition in the industries in which we compete. Increased competition may result in increased customer churn, reduce the rate of customer acquisition and lead to significant price competition, in each case resulting in decreases in cash flows, operating margins and profitability.

Desirable programming content may not be available for the video services of our businesses, thereby lowering demand for such services. Most of our video distribution companies rely on programming suppliers for the bulk of their programming content. These companies may not be able to obtain sufficient high-quality or country-specific programming for their video services on satisfactory terms to offer their customers a compelling entertainment alternative. This may reduce demand for their services, thereby lowering their future revenues.

We may make significant capital contributions and loans to our businesses to cover their operating losses and fund their development and growth, which could limit the amount of cash available to make acquisitions or investments or to pay our own financial obligations. The development of broadband distribution and video programming businesses involves substantial costs and capital expenditures. As a result, most of our businesses have incurred operating and net losses to date. Our results of operations include our, and our consolidated subsidiaries', share of the net losses of affiliates. Our results of operations included earnings (losses) attributable to affiliates of approximately $13.7 million, $(331.2) million and $(589.5) million for the years ended December 31, 2003, 2002 and 2001, respectively.

We have assisted, and may in the future assist, our businesses by guaranteeing bank and other obligations, including obligations under various loans, leases, notes payable and letters of credit, and by making funding commitments. In addition, LMC has provided guarantees and funding commitments with respect to certain of our businesses. We have agreed to indemnify LMC for any amounts it is required to fund under any of such guarantees or commitments.

To the extent we make loans and capital contributions to our businesses or we are required to expend cash due to a default by a subsidiary or affiliate of any obligation we guarantee, there will be that much less cash available to us with which to make acquisitions or investments or to pay our own financial obligations.

If we fail to meet required capital calls to a company in which we hold interests, our interest in that company could be diluted or we could forfeit important rights. We are parties to stockholder and partnership agreements that provide for possible capital calls on shareholders and partners. Our failure to meet a capital call, or other commitment to provide capital or loans to a particular company in which we hold interests may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash. See "—We are a holding company, and we could be unable in the future to obtain cash in amounts sufficient to service our financial obligations or meet our other commitments" below.

We are a holding company, and we could be unable in the future to obtain cash in amounts sufficient to service our financial obligations or meet our other commitments. Our ability to meet our financial obligations and other contractual commitments depends upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, dividends and interest from our investments, availability under credit facilities and proceeds from asset sales. The ability of our operating subsidiaries to pay dividends or to make other payments or advances to us depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Most of our subsidiaries are subject to loan agreements that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to shareholders and partners, including us.

With respect to those companies in which we have less than a majority voting interest, we do not have sufficient voting control to cause those companies to pay dividends or make other payments or advances to their partners or shareholders, including us.

Certain of our subsidiaries are subject to various debt instruments that contain restrictions on how they finance their operations and operate their businesses, which could impede their ability to engage in transactions that would be beneficial to them and us. Certain of our subsidiaries are subject to significant financial and operating restrictions contained in outstanding credit agreements, indentures and similar instruments of indebtedness. These restrictions will affect, and in some cases significantly limit or prohibit, among other things, the ability of those subsidiaries to:

- borrow more funds;
- pay dividends or make other upstream distributions;
- make investments;
- engage in transactions with us or other affiliates; or
- create liens on their assets.

As a result of restrictions contained in these credit facilities, the companies party thereto, and their subsidiaries, could be unable to obtain additional capital in the future to:

- fund capital expenditures or acquisitions that could improve their value;
- meet their loan and capital commitments to their business affiliates;
- invest in companies in which they would otherwise invest;
- fund any operating losses or future development of their business affiliates;
- obtain lower borrowing costs that are available from secured lenders or engage in advantageous transactions that monetize their assets; or
- conduct other necessary or prudent corporate activities.

We are typically prohibited from or significantly restricted in accessing the net cash of our subsidiaries which have outstanding credit facilities.

In addition, some of the credit agreements to which our subsidiaries are parties require them to maintain financial ratios, including ratios of total debt to operating cash flow and operating cash flow to interest expense. If our subsidiaries fail to comply with the covenant restrictions contained in the credit agreements, that failure could result in a default that accelerates the maturity of the indebtedness under those agreements.

We may have to pay U.S. taxes on earnings of certain of our foreign subsidiaries regardless of whether such earnings are actually distributed to us, and we may be limited in claiming foreign tax credits; since a significant portion of our revenue is generated through our foreign investments, these tax risks could have a material adverse impact on our effective income tax rate, financial condition and liquidity. Certain foreign corporations in which we have interests, particularly those in which we have controlling interests, are considered to be "controlled foreign corporations" under U.S. tax law. In general, our pro rata share of certain income earned by our subsidiaries that are controlled foreign corporations during a taxable year when such subsidiaries have current or accumulated earnings and profits will be included in our income when the income is earned, regardless of whether the income is distributed to us. This income, typically 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 currency exchange gains in excess of currency exchange losses, and certain related party sales and services income. In addition, a U.S. shareholder of a controlled foreign corporation may be required to include in income its pro rata share of the controlled foreign corporation's increase for the year in current or accumulated earnings and profits (other than Subpart F income) invested in U.S. property, regardless of whether the U.S. shareholder received any actual cash distributions from the controlled foreign corporation. Since we are an investor in foreign corporations, we could have significant amounts of Subpart F income. Although we intend to take reasonable tax planning measures to limit our tax exposure, we cannot assure you that 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 taxes 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. Because we must calculate our foreign tax credit separately for dividends received from certain of our foreign subsidiaries from those of other foreign subsidiaries and because of certain other limitations, our ability to claim a foreign tax credit may be limited. Some of our businesses 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 our businesses and may be subject to double taxation on our income. Limitations on our ability to claim a foreign tax credit, our lack of treaty protection in some countries, and our inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal income tax rate on our earnings. Since a significant portion of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the United States, these risks are proportionately greater for us than for companies that generate most of their revenue in the United States or in jurisdictions that have such treaties.

We cannot be certain that we will be successful in integrating businesses we may acquire with our existing businesses. Our businesses may grow through acquisitions in selected markets. Integration of new businesses may present significant challenges, including: realizing economies of scale in interconnection, programming and network operations; eliminating duplicative overheads; and integrating networks, financial systems and operational systems. We cannot assure you that, with respect to any acquisition, we will realize anticipated benefits or successfully integrate any acquired business with our existing operations.

In addition, we anticipate that most, if not all, companies we acquire will be located outside the United States. Foreign companies may not have disclosure controls and procedures or internal controls over financial reporting that are as thorough or effective as those required by U.S. securities laws. While we intend to implement appropriate controls and procedures as we integrate acquired companies, we may not be able to certify as to the effectiveness of these companies' disclosure controls and procedures or internal controls over financial reporting until we have fully integrated them.

Factors Relating to the Spin Off

We have no operating history as a separate company upon which you can evaluate our performance. Due to our lack of operating history as a separate public company, there can be no assurance that our business strategy will be successful on a long-term basis. We may not be able to grow our business as planned and may not become a profitable business.

Our historical financial information may not be representative of our results as a separate company. The historical financial information included in this information statement may not necessarily reflect what our results of operations, financial condition and cash flows would have been had we been a separate, stand-alone entity pursuing independent strategies during the periods presented. We believe this because:

- we have made certain adjustments and allocations since LMC did not account for us, as we were not operated as, a single, stand-alone business for the periods presented;
- the information does not reflect certain changes that will occur in our funding and operations as a result of our separation from LMC; and
- effective January 1, 2004, we will begin consolidating the financial position and results of operations of UGC.

We may incur material costs in connection with our separation from LMC. We may incur costs and expenses greater than those we have planned for in connection with our separation from LMC. These increased costs and expenses may arise from various factors, including financing costs greater than those expected, arising from changes in prevailing interest rates and increased difficulty in obtaining financing as a stand-alone entity. We cannot assure you that these costs will not be material to our business.

We will have potential conflicts of interest with LMC after the spin off, which may not be resolved in our favor.

We have overlapping directors and management with LMC, which may lead to conflicting interests. At the time of the spin off, two of our executive officers will continue to serve as executive officers of LMC, and our boards of directors will be substantially the same. Those individuals will have fiduciary obligations to both companies, and may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting both companies. For example, there will be the potential for a conflict of interest when we or LMC look at acquisitions and other corporate opportunities that may be suitable for both of us. Moreover, after the spin off, most of our directors, officers and other employees will continue to own LMC stock and options to purchase LMC stock, which they acquired prior to the spin off. These ownership interests could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for our company and LMC. From time to time, LMC or its affiliates may enter into transactions with us or our subsidiaries or other affiliates, including joint investments or arrangements between broadband distribution companies in which we have an interest and programming companies in which LMC or its affiliates have an interest. Although the terms of any such transactions will be established based upon negotiations between employees of the transacting companies, there can be no assurance that the terms of any such transactions will be as favorable to us or our subsidiaries or affiliates as would be the case where the parties are completely at arms' length.

Our inter-company agreements were negotiated when we were a subsidiary of LMC. We have entered into agreements with LMC pursuant to which LMC will provide to us certain administrative, financial, treasury, accounting, tax, legal and other services and a short-term credit facility. In addition, we have entered into a number of inter-company agreements covering matters such as tax sharing and our responsibility for certain liabilities previously undertaken by LMC for certain of our businesses. The terms of these agreements were established while we were a wholly owned subsidiary of LMC, and hence were not the result of arms' length negotiations. Accordingly, there is no assurance that the terms and conditions of these agreements are as favorable to us as those that might be obtained from unaffiliated third parties. In addition, conflicts could arise in the interpretation, extension or renegotiation of the foregoing agreements. See "Certain Inter-Company Agreements."

We and LMC may compete for business opportunities. LMC will retain its interest in various U.S. programming companies that have subsidiaries or controlled affiliates that own or operate foreign programming services that may compete with the programming services offered by our businesses. We will have no rights in respect of international programming opportunities developed by or presented to the subsidiaries or controlled affiliates of LMC's U.S. programming companies, and the pursuit of these opportunities by such subsidiaries or affiliates may adversely affect the interests of our company and its shareholders.

The spin off could result in significant tax liability. The spin off is conditioned on the receipt by LMC of an opinion from Skadden, Arps, Slate, Meagher & Flom LLP to the effect that, among other things, the spin off will qualify as a tax-free spin off under Section 355 of the Internal Revenue Code of 1986, as amended (the Code), to LMC's shareholders and to LMC for U.S. federal income tax purposes. See "The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off." The opinion is based upon various factual representations and assumptions, as well as upon certain undertakings. We are not aware of any facts or circumstances that would cause the representations and assumptions to be untrue or incomplete in any material respect. If, however, any of those factual representations or assumptions were untrue or incomplete in any material respect, any undertaking was not complied with, or the facts upon which the opinion is based were materially different from the facts at the time of the spin off, the spin off may not qualify for tax-free treatment.

LMC has not applied for an advance tax ruling from the IRS with respect to the U.S. federal income tax consequences of the spin off. Opinions of counsel are not binding on the IRS, and the conclusions expressed in the opinion to be delivered to LMC could be challenged by the IRS.

If the spin off does not qualify for tax-free treatment for U.S. federal income tax purposes, then, in general, LMC would be subject to tax as if it had sold the common stock of our company in a taxable sale for its fair market value. LMC's shareholders would be subject to tax as if they had received a taxable distribution equal to the fair market value of our common stock that was distributed to them. It is expected that the amount of any such taxes to LMC's shareholders and LMC would be substantial. See "The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off." Although the taxes described above generally would be imposed on LMC and its shareholders, we would in certain circumstances be liable for all or a portion of such taxes.

A potential indemnity liability to LMC if the spin off is treated as a taxable transaction could materially adversely affect our liquidity. In the tax sharing agreement, we have agreed to indemnify LMC and its subsidiaries, officers and directors for any loss, including any adjustment to taxes of LMC, resulting from (1) any action or failure to act by us or any of our subsidiaries following the completion of the spin off that would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to LMC and to you under Section 355 of the Code or (2) any breach of any representation or covenant given by us or one of our subsidiaries in connection with the tax opinion delivered to LMC by Skadden, Arps, Slate, Meagher & Flom L.L.P. and any other tax opinion delivered to LMC, in each case relating to the qualification of the spin off as a tax-free distribution described in Section 355 of the Code. For a more detailed discussion, see "Certain Inter-Company Agreements—Agreements with LMC—Tax Sharing Agreement." Our indemnification obligations to LMC and its subsidiaries, officers and directors are not limited in amount or subject to any cap. If we are required to indemnify LMC and its subsidiaries, officers and directors under the circumstances set forth in the tax sharing agreement, we may be subject to substantial liabilities.

Risks Relating to our Common Stock and the Securities Market

We cannot be certain that an active trading market will develop or be sustained after the spin off, and following the spin off our stock price may fluctuate significantly. We cannot assure you that an active trading market will develop or be sustained for our common stock after the spin off. Nor can we predict the prices at which either series of our common stock may trade after the spin off. Similarly, we cannot predict the effect of the spin off on the trading prices of LMC's common stock or whether the market value of the shares of a series of our common stock and the shares of the same series of LMC's common stock held by a shareholder after the spin off will be less than, equal to or greater than the market value of the shares of that series of LMC's common stock held by such shareholder prior to the spin off.

The market price of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results;
- changes in earnings estimated by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of comparable companies;
- fluctuations in the stock prices of our publicly traded subsidiaries and affiliates; and
- domestic and foreign economic conditions.

It may be difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders. Certain provisions of our restated certificate of incorporation and bylaws may discourage, delay or prevent a change in control of our company that a shareholder may consider favorable. These provisions include the following:

- authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;
- authorizing the issuance of "blank check" preferred stock, which could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- classifying our board of directors with staggered three-year terms, which may lengthen the time required to gain control of our board of directors;
- limiting who may call special meetings of shareholders;
- prohibiting shareholder action by written consent, thereby requiring all shareholder actions to be taken at a meeting of the shareholders;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by shareholders at shareholder meetings;
-

requiring shareholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our board of directors with respect to certain extraordinary matters, such as a merger or consolidation of our company, a sale of all or substantially all of our assets or an amendment to our restated certificate of incorporation; and

- the existence of authorized and unissued stock which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of its management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

Our incentive plan may also discourage, delay or prevent a change in control of our company even if such change of control would be in the best interests of our shareholders.

After the spin off, we may be controlled by one principal shareholder. John C. Malone currently beneficially owns shares of LMC common stock representing approximately 29% of LMC's voting power. Following the consummation of the spin off, Mr. Malone will beneficially own shares of our common stock that may represent up to approximately 34% of our voting power, based upon his beneficial ownership of LMC common stock, as of March 5, 2004 (as reflected under "Management—Security Ownership of Management" below) and the distribution ratio and assuming the exercise in full of certain compensatory options to acquire shares of our Series B common stock to be granted to Mr. Malone at the time of the spin off (as further described under "Management—Employment Contracts and Termination of Employment and Change in Control Arrangements" below). By virtue of Mr. Malone's voting power in our company as well as his positions as our Chairman of the Board, President and Chief Executive Officer, Mr. Malone may be deemed to control our operations. Mr. Malone's rights to vote or dispose of his equity interests in our company are not subject to any restrictions in favor of our company other than as may be required by applicable law and except for customary transfer restrictions pursuant to incentive award agreements.

Holders of any single series of our common stock may not have any remedies if any action by our directors or officers has an adverse effect on only that series of our common stock. Principles of Delaware law and the provisions of our restated certificate of incorporation may protect decisions of our board of directors that have a disparate impact upon holders of any single series of our common stock. Under Delaware law, the board of directors has a duty to act with due care and in the best interests of all of our shareholders, including the holders of all series of our common stock. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common shareholders regardless of class or series and does not have separate or additional duties to any group of shareholders. As a result, in some circumstances, our directors may be required to make a decision that is adverse to the holders of one series of our common stock. Under the principles of Delaware law referred to above, you may not be able to challenge these decisions if our board of directors is disinterested and adequately informed with respect to these decisions and acts in good faith and in the honest belief that it is acting in the best interests of all of our shareholders.

CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS

This information statement contains certain forward looking statements regarding business strategies, market potential, future financial performance and other matters. In particular, information included under "The Spin Off," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of our Business" contain forward looking statements. Forward looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these 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. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- economic and business conditions and industry trends in the countries in which we operate;
- currency exchange risks;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- spending on foreign television advertising;
- the regulatory and competitive environment in the broadband communications and programming industries in the countries in which we operate;
- continued consolidation of the foreign broadband distribution industry;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- the expanded deployment of personal video recorders and the impact on television advertising revenue;
- rapid technological changes;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming, for new television and telecommunications technologies;
- future financial performance, including availability, terms and deployment of capital;
- the ability of suppliers and vendors to timely deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention which opens our broadband distribution networks to competitors;
- changes in the nature of key strategic relationships with partners and joint ventures;
- competitor responses to our products and services, and the products and services of the entities in which we have interests; and
- threatened terrorists attacks and ongoing military action in the Middle East and other parts of the world.

These forward looking statements and such risks, uncertainties and other factors speak only as of the date of this information statement, 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. Neither the Private Securities Litigation Reform Act of 1995 nor Section 21E of the Securities Exchange Act of 1934 provides any protection for forward looking statements made in this information statement.

THE SPIN OFF

Background

We are currently a wholly owned subsidiary of LMC, and our assets and businesses consist largely of those which LMC attributes to its International Group business segment. Through our subsidiaries and affiliates, we provide broadband distribution services and video programming services to subscribers in Europe, Japan, Australia and Latin America.

The board of directors of LMC has determined to separate its International Group from its other business segments by means of a spin off. To accomplish the spin off, LMC is distributing all of its equity interest, consisting of shares of our Series A common stock and our Series B common stock, in our company to LMC's shareholders on a pro rata basis. Following the spin off, LMC will cease to own any equity interest in our company, and we will be an independent, publicly traded company. No vote of LMC's shareholders is required or being sought in connection with the spin off, and LMC's shareholders have no appraisal rights in connection with the spin off.

Reasons for the Spin Off

The board of directors of LMC considered the following potential benefits in making its determination to consummate the spin off:

- *Enabling investors to invest directly in our international businesses.* Because our company and LMC's other business segments operate primarily in different geographic areas with different focuses, an equity investment in each company may appeal to investors with different goals, interests and concerns. In addition to the geographic separation, LMC's largest business segment is its Interactive Group, which provides a wide array of interactive services, such as electronic retailing and interactive technology services, whereas the focus of our business is broadband distribution and programming. Establishing separate equity securities will allow investors to make separate investment decisions with respect to our company's and LMC's respective businesses.

- *Creating acquisition currency to finance our expansion plans.* We and LMC believe that the spin off will provide greater flexibility in raising capital and responding to strategic opportunities, including potential future acquisitions, because it will allow us to offer debt or equity securities which are expected to trade more in line with the underlying fundamentals of our businesses and the industries in which we operate.

- *Improving borrowing flexibility.* We and LMC believe that the spin off will enable potential creditors to more accurately evaluate the credit risk and credit characteristics of each of our companies when pricing our respective debt instruments. In addition, the spin off will allow us to incur additional indebtedness without affecting LMC's credit rating.

- *Creating more effective management incentives.* We and LMC believe that the spin off will enable each of our companies to create more effective management incentive and retention programs. Following the spin off, stock-based compensation and other incentive awards held by employees of each of our companies will be tied more directly to the performance of the company for which the employees work.

- *Simplifying LMC's strategic message while making our businesses more visible.* LMC's businesses are divided into four segments: the Interactive Group; the International Group; the Networks Group; and Corporate and Other. Each of these business segments has distinct financial and operational characteristics and faces regulatory, economic and competitive risks unique to its businesses. The spin off will separate one of these business segments, the International Group, from LMC's other business segments, thereby allowing us and LMC to adopt more focused strategies and convey those strategies more clearly to the marketplace. Similarly, we expect our businesses to receive better market recognition and more effective analyst coverage once they are removed from the LMC holding company structure.

- *Recognizing company value in the most immediate way.* We and LMC believe that LMC common stock has been trading at a significant discount to the true value of LMC's businesses, in part as a result of the diversity and complexity of LMC's businesses and investments. Although efficient marketplace theory indicates that LMC's stock prices should eventually realign with the value of LMC's underlying businesses, we and LMC believe that the spin off will simplify LMC's holdings and enable the stock prices of our respective equity securities to more quickly reflect the true value of our underlying businesses.

Neither we nor LMC can assure you that, following the spin off, any of these benefits will be realized to the extent we anticipate or at all.

Manner of Effecting the Spin Off

LMC will effect the spin off by distributing to its shareholders as a dividend:

- 0.05 of a share of our Series A common stock for every share of LMC Series A common stock, and

- 0.05 of a share of our Series B common stock for every share of LMC Series B common stock,

in each case, owned of record by each shareholder on the record date.

Prior to the spin off, LMC will deliver all of the issued and outstanding shares of our Series A common stock and Series B common stock to the distribution agent. On or about [   ], 2004 (which we refer to as the distribution date), the distribution agent will effect delivery of the shares of our common stock issuable in the spin off in the same form, certificated or book-entry, as the form in which the recipient shareholder held its shares of LMC common stock on the record date. Please note that if any shareholder of LMC on the record date sells shares of LMC common stock after the record date but on or before the distribution date, the buyer of those shares, and not the seller, will become entitled to receive the shares of our common stock issuable in respect of the shares sold. See "—Trading between the Record Date and the Distribution Date" below for more information.

Shareholders of LMC are not being asked to take any action in connection with the spin off. No shareholder approval of the spin off is required or being sought. We are not asking you for a proxy, and you are requested not to send us a proxy. You are also not being asked to surrender any of your shares of LMC common stock for shares of our common stock. The number of outstanding shares of LMC common stock will not change as a result of the spin off.

Treatment of Fractional Shares

If any shareholder would be entitled to receive a fractional share of our common stock in the spin off, that shareholder will instead receive a cash payment. As soon as practicable following the record date, the distribution agent will determine the fractional share interests in our common stock attributable to each holder of record of LMC common stock on the record date. As soon as practicable following the tenth consecutive trading day following the trading day on which shares of our common stock begin trading in the regular way market, the distribution agent will calculate the cash amount deliverable to each such record holder in lieu of the fractional share interest in our common stock attributable to that record holder. The cash amount deliverable in lieu of a fractional share interest will equal the product of the applicable fraction multiplied by the average of the closing prices of the applicable series of our common stock on the Nasdaq National Market over such ten-trading day period beginning on the trading day on which shares of our common stock begin trading in the regular way market. The distribution agent will distribute a check to each such record holder representing the cash amount deliverable in lieu of the record holder's fractional share interest as soon as practicable following the calculation of these cash amounts. No interest will be paid on any cash distributed in lieu of fractional shares. The receipt of cash in lieu of fractional shares will generally be taxable to the recipient shareholders. See "—Material U.S. Federal Income Tax Consequences of the Spin Off" below for more information.

Treatment of LMC Stock Incentive Awards

Options to purchase shares of LMC common stock, stock appreciation rights with respect to shares of LMC common stock and shares of LMC restricted stock have been granted to various directors, officers, employees and consultants of LMC and certain of its subsidiaries pursuant to the Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective September 11, 2002) and various other stock incentive plans administered by the incentive plan committee of LMC's board of directors. Under the anti-dilution provisions of the applicable plans, the LMC incentive plan committee has the authority to make equitable adjustments to outstanding LMC options, LMC SARs and shares of LMC restricted stock in the event of certain transactions, including the distribution of our common stock in the spin off. We anticipate that the following adjustments will be made to the outstanding awards, in connection with the spin off:

Option Awards

As of the distribution date, each outstanding LMC option held by individuals who will be employees of our company or our wholly owned subsidiary, Liberty Media International Holdings, LLC, immediately following the distribution date (such individuals being referred to as LMI Holders) shall be divided into two options as follows:

- an option (which we refer to as an LMI option) to purchase shares of the same series of our common stock as the series of LMC common stock for which the outstanding LMC option is exercisable, exercisable for the number of shares of such series of our common stock that would have been issued in the distribution in respect of the shares of LMC common stock subject to the applicable LMC option, if such LMC option had been exercised in full immediately prior to the record date; and

- an option (which we refer to as an adjusted LMC option) to purchase shares of the same series of LMC common stock as the series of LMC common stock for which the outstanding LMC option is exercisable, exercisable for the same number of shares of such series of LMC common stock as the outstanding LMC option is exercisable for.

The aggregate exercise price of each outstanding LMC option held by an LMI Holder will be allocated between the LMI option and the adjusted LMC option. Except as otherwise described below, all other terms of the LMI option and the adjusted LMC option will in all material respects be the same as the outstanding LMC option. Following the distribution date, adjusted LMC options held by an LMI Holder will continue to be exercisable on the same basis as his or her LMI options.

Individuals who are directors of LMC and certain officers of LMC who are expected to retain that capacity immediately following the distribution date (such individuals being referred to as LMC Corporate Holders) may elect to have all of their outstanding LMC options divided into an LMI option and an adjusted LMC option in the same manner as described above for LMI Holders, or to retain the outstanding LMC option, with an adjustment to the number of shares for which such option is exercisable as well as an adjustment to the exercise price per share of such option in the same manner as described in the following paragraph. Following the distribution date, LMI options held by an LMC Corporate Holder will continue to be exercisable on the same basis as his or her adjusted LMC options.

All other holders of outstanding LMC options will retain their LMC options, subject to an adjustment to increase the number of LMC shares for which such option is exercisable and a corresponding adjustment to decrease the exercise price per share of such option, in each case to reflect the distribution of our common stock in the spin off. All other terms of the outstanding LMC options will in all material respects be retained.

As a result of these adjustments, certain persons who remain employed by or associated with LMC immediately following the distribution date will hold LMI options, and certain persons who will be employed by or associated with our company immediately following the distribution date will hold adjusted LMC options. Regardless of these employment or other relationships, LMC will not be responsible for the exercise or settlement of any LMI option, and we will not be responsible for the exercise or settlement of any LMC option (including an adjusted LMC option). Following the distribution date, any exercising holder of an LMI option must exercise the security directly with us. Similarly, any exercising holder of an LMC option or an adjusted LMC option must exercise the security directly with LMC. In this regard, as soon as practicable following the distribution date, we will enter into an option agreement with each holder of an LMI option, and LMC will amend its existing option agreement with each holder of an outstanding LMC option, in each case to reflect the foregoing adjustments.

SAR Awards

While stock appreciation rights will not be issued by our company in connection with the spin off, each outstanding stock appreciation right related to LMC common stock, as of the distribution date (which we refer to as an outstanding LMC SAR), will be adjusted in a manner similar to the adjustment to outstanding LMC options described under "—Option Awards" above.

Therefore, individuals who are LMI Holders and who hold outstanding LMC SARs as of the distribution date will receive an adjusted LMC SAR and an LMI option in replacement of an outstanding LMC SAR, as follows:

- the exercise price and number of shares for which the LMI option will be exercisable will be determined in the same manner described under "—Option Awards" above for awarding LMI options to LMI Holders, determined as if the LMC SAR were instead an LMC option exercisable for the number of shares to which the LMC SAR relates and at an exercise price equal to the base price of the LMC SAR; and

- the base price of the adjusted LMC SAR will be determined in the same manner described under "—Option Awards" above for determining an LMI Holder's exercise price of an adjusted LMC option, determined as if the LMC SAR were instead an LMC option exercisable for the number of shares to which the LMC SAR relates and at an exercise price equal to the base price of the LMC SAR.

Similarly, each LMC Corporate Holder will have the choice to elect to receive both an LMI option and an adjusted LMC SAR in replacement of his or her outstanding LMC SAR or, in lieu thereof, solely an adjustment to the number of shares and base price per share of such holder's LMC SAR. Each other holder of an LMC SAR will retain his or her LMC SAR, the number of shares and base price per share of which will be adjusted.

Also as described under "—Option Awards" above, regardless of any employment or other relationship, LMC will not be responsible for the exercise or settlement of any LMI option, and we will not be responsible for the exercise or settlement of any LMC SAR. In this regard, as soon as practicable following the distribution date, we will enter into an option agreement with each holder of an LMI option, and LMC will amend its existing stock appreciation rights agreement with each holder of an LMC SAR, in each case to reflect the foregoing adjustments.

Restricted Stock Awards

For each unvested LMC restricted stock award outstanding as of the record date, the holder of such restricted stock award will be entitled to receive, for each share of restricted LMC common stock awarded thereunder, an award of 0.05 of a share of the same series of our common stock as the shares of LMC common stock to which such LMC restricted stock award relates. Except as described below, the distribution will not have any effect on the outstanding LMC restricted stock awards, and the restricted stock awards relating to our common stock will be subject to the same restrictions as apply to the LMC restricted stock award with respect to which the distribution is made. Awards of our restricted stock received by any LMC Corporate Holder will continue to vest for so long as his or her award of LMC restricted stock continues to vest. Awards of LMC restricted stock outstanding on the record date and held by any LMI Holder will continue to vest for so long as his or her award of our restricted stock continues to vest.

We intend to file a Form S-8 registration statement with respect to shares of our common stock issuable upon exercise of LMI options or vesting of awards of our restricted stock as soon as practicable following the distribution date.

Material U.S. Federal Income Tax Consequences of the Spin Off

The following is a summary of certain material U.S. federal income tax consequences to LMC and the holders of LMC common stock resulting from the spin off. This discussion is based upon the Code, existing and proposed Treasury Regulations promulgated thereunder and current administrative rulings and court decisions, all as in effect as of the date on which the opinion of tax counsel described below is issued, and all of which are subject to change. Any such change, which may or may not be retroactive, could materially alter the tax consequences to LMC or the holders of LMC common stock as described in this information statement. This summary does not discuss all U.S. federal income tax considerations that may be relevant to particular shareholders in light of their particular circumstances, such as shareholders who are dealers in securities, banks, insurance companies, tax-exempt organizations and non-United States persons. In addition, the following discussion does not address the tax consequences of the spin off under U.S. state or local and non-U.S. tax laws or the tax consequences of transactions effectuated prior to or after the spin off (whether or not such transactions are undertaken in connection with the spin off). ACCORDINGLY, HOLDERS OF LMC'S COMMON STOCK ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE SPIN OFF TO THEM.

The spin off is conditioned upon the receipt by LMC of an opinion from Skadden, Arps, Slate, Meagher & Flom LLP to the effect that the spin off will qualify under Section 355 of the Code and that, accordingly, for U.S. federal income tax purposes:

- no gain or loss will be recognized by LMC upon the distribution of (i) shares of our Series A common stock to holders of LMC Series A common stock and (ii) shares of our Series B common stock to holders of LMC Series B common stock pursuant to the spin off;

- no gain or loss will be recognized by, and no amount will be included in the income of, a holder of LMC common stock upon the receipt of shares of our common stock pursuant to the spin off, except to the extent such shareholder receives cash in lieu of fractional shares of our common stock;

- an LMC shareholder who receives shares of our common stock in the spin off will have an aggregate adjusted basis in its shares of our common stock and its shares of LMC common stock immediately after the spin off equal to the aggregate adjusted basis of the shareholder's LMC

  common stock held prior to the spin off, which will be allocated in accordance with their relative fair market values; and

- the holding period of the shares of our common stock received in the spin off will include the holding period of your shares of LMC common stock, provided that such shares of LMC common stock were held as a capital asset on the date of the spin off.

The opinion of tax counsel will be based upon the Code, Treasury Regulations, administrative rulings and court decisions, all as in effect as of the date on which the opinion is issued, and all of which are subject to change, possibly with retroactive effect. In addition, the opinion of tax counsel will be based upon certain factual representations made by the officers of LMC and certain of its affiliates, certain assumptions and certain undertakings by us and LMC. We are not aware of any facts or circumstances that that would cause the representations and assumptions to be untrue or incomplete in any material respect. If, however, any such factual representations or assumptions were incorrect or untrue in any material respect, any undertaking was not complied with, or the facts upon which the opinion is based were materially different from the facts at the time of the spin off, the spin off may not qualify under Section 355 of the Code.

LMC has not applied for a ruling from the IRS with respect to the U.S. federal income tax consequences of the spin off and opinions of counsel are not binding on the IRS. As a result, the conclusions expressed in the tax opinion could be challenged by the IRS. If such a challenge were successful and the spin off did not qualify under Section 355 of the Code, LMC would recognize taxable gain in an amount equal to the excess of the value of the shares of our common stock held by LMC at the time of the spin off over LMC's tax basis in such shares of our common stock. In addition, a holder of LMC's common stock would be subject to tax as if it had received a taxable distribution in an amount equal to the fair market value of the shares of our common stock such holder received in the spin off. Please see "Risk Factors—The spin off could result in significant tax liability."

Even if the spin off otherwise qualifies for tax-free treatment under Section 355 of the Code, it may be disqualified as tax-free to LMC under Section 355(e) of the Code if 50% or more of either the total combined voting power or the total fair market value of the stock of LMC or our company is acquired as part of a plan or series of related transactions that includes the spin off. For this purpose, any acquisitions of LMC common stock or our common stock after the spin off are generally part of such a plan only if there was an agreement, understanding, arrangement or substantial negotiations regarding the acquisition or a similar acquisition at some time during the two-year period ending on the date of the spin off. All of the facts and circumstances must be considered to determine whether the spin off and an acquisition are part of such a plan. If Section 355(e) applies as a result of such an acquisition of LMC common stock or our common stock, LMC would recognize taxable gain as described above, but the spin off would generally be tax-free to each holder of LMC common stock who received shares of our common stock in the distribution.

Under the tax sharing agreement between our company and LMC, LMC will be entitled to indemnification from us if we or any of our subsidiaries take, or fail to take, any action where such action, or failure to act, precludes the spin off from qualifying as a tax-free transaction, including any such action, or failure to act, that results in an acquisition of 50% or more of our common stock as described in the preceding paragraph. Please see "Certain Inter-Company Agreements—Agreements with LMC—Tax Sharing Agreement" for a more detailed discussion of the tax sharing agreement between our company and LMC.

Treasury Regulations governing Section 355 of the Code require that each LMC shareholder who receives shares of our common stock pursuant to the spin off attach a statement to the Federal income tax return that will be filed by the shareholder for the taxable year in which such shareholder receives the shares of our common stock in the spin off, which statement shows the applicability of Section 355 of the Code to the spin off. LMC will provide each holder of LMC common stock with the information necessary to comply with this requirement.

Results of the Spin Off

Immediately following the spin off, we expect to have outstanding approximately [ ] shares of our Series A common stock and approximately [ ] shares of our Series B common stock, based upon the number of shares of LMC Series A common stock and LMC Series B common stock outstanding on [ ], 2004. The actual number of shares of our Series A common stock and Series B common stock to be distributed in the spin off will depend upon the actual number of shares of LMC Series A common stock and LMC Series B common stock outstanding on the record date.

Immediately following the spin off, we expect to have approximately [ ] holders of record of shares of our common stock, based upon the number of record holders of LMC common stock on [ ], 2004.

Listing and Trading of our Common Stock

On the date of this information statement, we are a wholly owned subsidiary of LMC. Accordingly, there is currently no public market for our common stock. We have applied to list our shares of Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LBTYA" and "LBTYB," respectively. Following the spin off, LMC Series A common stock and LMC Series B common stock will continue to trade on the New York Stock Exchange under the symbols "L" and "LMC.B," respectively.

Neither we nor LMC can assure you as to the trading price of either series of our common stock after the spin off or as to whether the combined trading prices of a series of our common stock and the same series of LMC's common stock after the spin off will be less than, equal to or greater than the trading prices of that series of LMC's common stock prior to the spin off. See "Risk Factors—Risks Relating to Our Common Stock and the Securities Markets."

The shares of our common stock distributed to LMC's shareholders will be freely transferable, except for shares received by individuals who are our affiliates and shares distributed in respect of LMC restricted stock. Individuals who may be considered our affiliates after the spin off include individuals who control, are controlled by or are under common control with us, as those terms generally are interpreted for federal securities law purposes. This may include some or all of our executive officers and directors. Individuals who are our affiliates will be permitted to sell their shares of our common stock only pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an exemption from the registration requirements of the Securities Act, such as the exemptions afforded by Section 4(2) of the Securities Act or Rule 144 thereunder. Our affiliates will not be permitted to sell shares of our common stock under Rule 144 until 90 days after the date on which the registration statement of which this information statement forms a part is declared effective.

Trading Between the Record Date and Distribution Date

Between the record date and the distribution date, LMC common stock will continue to trade on the NYSE in the regular way market. During this time, shares of either series of LMC common stock that trade on the regular way market will trade with an entitlement to receive shares of the same series of our common stock distributable in the spin off. No ex-dividend market will be established until the first trading day following the distribution date. Therefore, if you own shares of either series of LMC common stock on the record date and thereafter sell those shares on or prior to the distribution date, you will also be selling the shares of our common stock that would have been distributed to you in the spin off with respect to the shares of LMC common stock you sell. On the first trading day following the distribution date, shares of LMC Series A common stock and LMC Series B common stock will begin trading without any entitlement to receive shares of our common stock. Shares of LMC Series A common stock and LMC Series B common stock trade under the symbols "L" and "LMC.B," respectively.

Between the record date and the distribution date, a when-issued trading market in each series of our common stock may develop. Our common stock is expected to be listed for trading on the Nasdaq National Market. The when-issued trading market would be a market for the shares of our common stock that will be distributed in the spin off. If you own shares of either series of LMC common stock on the record date (and do not sell those shares of LMC common stock on or before the distribution date), then you are entitled to a number of shares of the same series of our common stock based upon the number of shares of such series of LMC common stock you held at that time. You may trade this entitlement to receive shares of our common stock, without the shares of LMC common stock you own, on the when-issued trading market. We expect when-issued trades of our common stock to settle within three trading days after the distribution date. On the first trading day following the distribution date, any when-issued trading with respect to our common stock will end and regular way trading will begin. If when-issued trading occurs, the listing for our common stock is expected to be under trading symbols different from our regular way trading symbols. We will announce our when-issued trading symbols when and if they become available. Following the distribution date, shares of our Series A common stock and Series B common stock are expected to be listed under the trading symbols "LBTYA" and "LBTYB" respectively. If the spin off does not occur, all when-issued trading will be null and void.

Reasons for Furnishing this Information Statement

This information statement is being furnished solely to provide information to LMC shareholders who will receive shares of our common stock in the spin off. It is not and is not to be construed as an inducement or encouragement to buy or sell any of our securities or any securities of LMC. We believe that the information contained in this information statement is accurate as of the date set forth on the cover. Changes to the information contained in this information statement may occur after that date, and neither our company nor LMC undertakes any obligation to update the information except in the normal course of our respective public disclosure obligations and practices.

CAPITALIZATION

The following table sets forth (1) our historical capitalization as of December 31, 2003, and (2) our adjusted capitalization assuming the spin off was effective on December 31, 2003. The table should be read in conjunction with our historical financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations." As more fully discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Utilization of the Equity Method of Accounting for Investment in UGC," in January 2004, we completed a transaction which increased our ownership in UGC and enabled us to fully exercise our voting rights with respect to our historical investment in UGC. As a result, UGC will be included in our combined financial position effective January 1, 2004. The impact of including UGC is not reflected in the following table.

	December 31, 2003	
	Historical	As adjusted
	amounts in thousands	
Payables, accruals and other liabilities	$ 90,880	90,880
LMC credit facility (1)	—	—
Long-term debt	41,700	41,700
Total liabilities	132,580	132,580
Minority interest	78	78
Equity:		
Common Stock ($.01 par value):		
Series A; 500,000,000 shares authorized; 134,156,714 assumed issued on a pro forma basis	—	1,342
Series B; 50,000,000 shares authorized; 10,855,026 assumed issued on a pro forma basis	—	109
Series C; 500,000,000 shares authorized; no shares assumed issued on a pro forma basis	—	—
Additional paid-in capital	—	5,094,632
Accumulated other comprehensive loss	(46,566)	(46,566)
Accumulated deficit	(1,630,949)	(1,630,949)
Parent's investment	5,096,083	—
Total equity	3,418,568	3,418,568
Total liabilities and equity	$ 3,551,226	3,551,226

(1) LMC has agreed to make loans to us from time to time up to an aggregate principal amount of $500 million pursuant to a short-term credit facility. The loans will bear interest at 6% per annum, compounded semi-annually, and will be due and payable no later than March 31, 2005.

SELECTED FINANCIAL DATA

The following tables present selected historical information relating to our combined financial condition and results of operations for the past five years. The financial data for the three years ended December 31, 2003, has been derived from our audited combined financial statements for the corresponding periods. Data for the other periods presented has been derived from unaudited information. The data should be read in conjunction with our combined financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations." LMC was a wholly owned subsidiary of Tele-Communications, Inc. (TCI) from August 1994 to March 9, 1999. On March 9, 1999, AT&T Corp. acquired TCI in a merger transaction (which we refer to as the AT&T Merger). For financial reporting purposes, the AT&T Merger is deemed to have occurred on March 1, 1999. In connection with the merger, our assets and liabilities were adjusted to their respective fair values pursuant to the purchase method of accounting. Selected financial data for the two months ended February 28, 1999, has been excluded from the following table. LMC was split off from AT&T on August 10, 2001.

		December 31,				
		2003	2002	2001	2000	1999
		amounts in thousands				
Summary Balance Sheet Data (1):						
Investment in affiliates	$	1,740,552	1,145,382	423,326	1,189,630	892,335
Other investments	$	450,134	187,826	916,562	134,910	140,832
Intangible assets, net	$	689,026	689,046	701,935	803,514	825,220
Total assets	$	3,551,226	2,800,896	2,169,102	2,301,800	1,989,230
Debt, including current portion	$	54,126	35,286	338,466	101,415	59,715
Parent's investment	$	3,418,568	2,708,893	2,039,593	1,907,085	1,578,109

		Year Ended December 31,				Ten months ended December 31
		2003	2002	2001	2000	1999
		amounts in thousands				
Summary Statement of Operations Data (1):						
Revenue	$	108,634	103,855	139,535	125,246	92,438
Operating income (loss)	$	(1,211)	(35,545)	(122,623)	3,828	(69,621)
Share of earnings (losses) of affiliates (2)	$	13,739	(331,225)	(589,525)	(168,404)	(101,510)
Net earnings (loss)	$	20,889	(568,154)	(820,355)	(129,694)	(133,635)

(1) Historically, the substantial majority of our operations have been conducted through equity method affiliates, including UGC, J-COM and JPC. As more fully discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Utilization of the Equity Method of Accounting for Investment in UGC," in January 2004, we completed a transaction which increased our ownership in UGC and enabled us to fully exercise our voting rights with respect to our historical investment in UGC. As a result, UGC will be included in our combined financial position and results of operations effective January 1, 2004.

(2) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which among other matters, provides that excess costs that are considered equity method goodwill are no longer amortized, but are evaluated for impairment under APB Opinion No. 18. Share of losses of affiliates includes excess basis amortization of $92,902,000, $41,419,000 and $31,788,000 for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are a holding company with majority and minority interests in international broadband distribution and programming companies. On March 15, 2004, LMC announced its intention to spin off all our capital stock to the holders of LMC Series A and Series B common stock. The spinoff will be effected as a distribution by LMC to holders of its Series A and Series B common stock of shares of our Series A and Series B common stock. The spin off will not involve the payment of any consideration by the holders of LMC common stock and is intended to qualify as a tax-free spinoff. The spin off is expected to occur in the second or third quarter of 2004, on a date to be determined by LMC's board, and will be made as a dividend to holders of record of LMC common stock as of the close of business on the record date for the spin off.

Following the spin off, we and LMC will operate independently, and neither will have any stock ownership, beneficial or otherwise, in the other.

Our more significant subsidiaries and investments at December 31, 2003 were as follows:

Subsidiaries

Liberty Cablevision of Puerto Rico Ltd.
Pramer S.C.A.

Investments

Chofu Cable k.k.
Fox Pan American Sports LLC
Jupiter Programming Co., Ltd. (JPC)
Jupiter Telecommunications Co., Ltd. (J-COM)
Metrópolis-Intercom S.A.
Sky Latin America
Telewest Communications plc bonds
Torneos y Competencias, S.A.
UnitedGlobalCom, Inc. (UGC)
The Wireless Group plc

Our consolidated operating subsidiaries at December 31, 2003, were Liberty Cablevision of Puerto Rico and Pramer. Liberty Cablevision of Puerto Rico is a provider of cable television and other broadband services in Puerto Rico. Pramer is an owner and distributor of cable programming services throughout Latin America. These businesses are wholly owned by us and, accordingly, the results of operations of these businesses are included in our combined results.

The substantial majority of our operations are conducted through entities in which we do not have a controlling financial interest, but do have the ability to exercise significant influence over the operating and financial policies of the investee. In these instances, we use the equity method of accounting. Accordingly, our share of the results of operations of these businesses is reflected in our combined results as earnings or losses of affiliates. Included in our investments in affiliates at December 31, 2003 were UGC, J-COM and JPC. As more fully described under "—Critical Accounting Policies—Utilization of Equity Method of Accounting for Investment in UGC," UGC became a subsidiary effective January 1, 2004.

We also hold interests in companies in which we do not have significant influence. These investments are classified as cost or as available-for-sale securities which are carried at fair value.

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

Our international businesses are subject to a number of risks including fluctuations in currency exchange rates and political unrest. In addition, the economies in many of the regions where our international businesses operate have recently experienced moderate to severe recessionary conditions, including among others, Argentina, Chile, and Japan. These recessionary conditions have strained consumer and corporate spending and financial systems and financial institutions in these areas. As a result, our affiliates have experienced a reduction in consumer spending and demand for services.

Results of Operations

To assist you in understanding and analyzing our business in the same manner we do, we have provided the table below, which presents 100% of each business' revenue, operating cash flow and operating income even though we own less than 100% of many of these businesses. These amounts are combined on an unconsolidated basis and are then adjusted to remove the effects of the equity method investments to arrive at the reported amounts. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with accounting principles generally accepted in the United States ("GAAP") since the results of operations of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate.

The financial information presented below for equity method affiliates was obtained directly from those affiliates. We do not control the decision-making process or business management practices of our equity affiliates. Accordingly, we rely on the management of these affiliates and their independent auditors to provide us with financial information prepared in accordance with GAAP that we use in the application of the equity method. We are not aware, however, of any errors in or possible misstatements of the financial information provided by our equity affiliates that would have a material effect on our combined financial statements.

Our chief operating decision maker and management team use operating cash flow in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We define operating cash flow as revenue less operating expenses and selling, general and administrative expenses (excluding stock compensation) ("SG&A"). We believe this is an important indicator of the operational strength and performance of our businesses, including their ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flows provided by operating activities and other measures of financial performance prepared in accordance with GAAP.

	Years ended December 31,		
	2003	2002	2001
	amounts in thousands		
Revenue			
Liberty Cablevision of Puerto Rico	$ 71,765	64,270	55,360
Pramer	35,102	35,985	82,855
Corporate and other	1,767	3,600	1,320
UGC(1)	1,891,530	1,515,021	1,561,894
J-COM(1)	1,233,492	930,736	628,892
JPC(1)	412,013	273,696	207,004
Other equity method affiliates(1)	268,126	241,540	231,674
Combined revenue	3,913,795	3,064,848	2,768,999
Eliminate revenue of equity method affiliates	(3,805,161)	(2,960,993)	(2,629,464)
Revenue from consolidated subsidiaries	$ 108,634	103,855	139,535
Operating Cash Flow			
Liberty Cablevision of Puerto Rico	$ 22,499	21,692	20,451
Pramer	4,961	3,990	22,056
Corporate and other	(9,469)	(8,027)	(9,746)
UGC(1)	628,882	296,374	(191,243)

J-COM(1)		428,513	211,146	56,652
JPC(1)		54,504	32,008	19,461
Other equity method affiliates(1)		(7,688)	(32,598)	3,763
Combined operating cash flow		1,122,202	524,585	(78,606)
Eliminate operating cash flow of equity method affiliates		(1,104,211)	(506,930)	111,367
Operating cash flow from consolidated subsidiaries	$	17,991	17,655	32,761
Operating Income (Loss)				
Liberty Cablevision of Puerto Rico	$	9,124	9,783	1,149
Pramer		3,272	967	(36,695)
Corporate and other		(13,607)	(46,295)	(87,077)
UGC(1)		(656,014)	(899,282)	(2,872,306)
J-COM(1)		113,753	(29,390)	(195,074)
JPC(1)		44,077	23,174	11,886
Other equity method affiliates(1)		(28,977)	(90,102)	(28,373)
Combined operating loss		(528,372)	(1,031,145)	(3,206,490)
Eliminate operating loss of equity method affiliates		527,161	995,600	3,083,867
Operating loss from consolidated subsidiaries	$	(1,211)	(35,545)	(122,623)

(1) Represents an equity method affiliate. Equity ownership percentages for significant equity affiliates at December 31, 2003 are as follows:

UGC	52%
J-COM	45%
JPC	50%

Liberty Cablevision of Puerto Rico. Liberty Cablevision of Puerto Rico's revenue increased 11.7% and 16.1% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The majority of the increase in 2003 is due to a $3,685,000 increase in basic cable revenue, a $1,772,000 increase in high speed data revenue and a $1,255,000 increase in equipment rental income. The increase in basic cable revenue is due to increases in rates that took effect in March 2002 and March 2003, as well as an increase in digital cable subscribers that converted from Liberty Cablevision of Puerto Rico's analog service. The rate increases and relatively poor economic conditions in Puerto Rico resulted in a 1% decrease in total basic cable subscribers in 2003. As of December 31, 2003, Liberty Cablevision of Puerto Rico had 122,000 video subscribers, 40,500 of which were digital cable subscribers. Liberty Cablevision of Puerto Rico launched high speed data in June 2002 and as of December 31, 2003 had 8,600 high speed data customers. The increase in equipment rental revenue is due to the increase in digital cable subscribers.

The majority of the 2002 increase in revenue is due to a March 2002 rate increase. When we were split off from AT&T in August 2001, Liberty Cablevision of Puerto Rico lost the benefit of AT&T's programming rates, which were based on AT&T's total subscriber base. In response to a resulting 55% increase in programming costs in late 2001 and early 2002, Liberty Cablevision of Puerto Rico raised its subscriber rates. The effect of the rate increase on revenue was partially offset by a 3.9% decrease in subscribers from December 31, 2001 to December 31, 2002.

Liberty Cablevision of Puerto Rico's operating expenses increased 18.7% and 45.8% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. These increases are due almost entirely to increases in programming costs. As noted above, Liberty Cablevision of Puerto Rico lost the benefit of AT&T's programming rates in 2001. As a result, Liberty Cablevision of Puerto Rico now is required to separately negotiate its own programming rates, which are based on the number of subscribers served by Liberty Cablevision of Puerto Rico.

Liberty Cablevision of Puerto Rico's SG&A expenses increased 12.5% and 4.0% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The 2003 increase is due to increases in salaries and related personnel costs, costs that vary with revenue such as franchise and copyright fees, and bad debt expense. The increase in personnel costs is due to an increase in headcount to support Liberty Cablevision of Puerto Rico's launch of high speed data service. The increase in bad debt expense relates to the effects of rate increases and the relatively poor economy in Puerto Rico. The 2002 increase is due primarily to increases in franchise and copyright fees.

Pramer. Pramer's revenue decreased 2.4% and 56.6% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. Argentina has been in a recession for the past several years. Prior to 2002, the Argentine government maintained an exchange rate of one Argentine peso to one U.S. dollar (the "peg rate"). Due to worsening economic and political conditions in late 2001, the Argentine government eliminated the peg rate effective January 11, 2002. The value of the Argentine peso dropped significantly on the day the peg rate was eliminated and continued to drop throughout 2002 ending 2002 at a rate of 3.36 pesos to one U.S. dollar. The peso stabilized somewhat in 2003 and ended 2003 at a rate of 2.93 pesos to one U.S. dollar. The change in Pramer's revenue in 2003 is primarily the net effect of a $3,179,000 decrease in affiliate revenue partially offset by a $2,213,000 increase in advertising revenue. The decrease in affiliate revenue is due to the renegotiation of certain contracts in 2002 in response to the economic crisis in Argentina. Advertising revenue increased in 2003 in response to the improving economic conditions.

The 2002 decrease in revenue is due to the devaluation of the peso. In functional currency, Pramer's revenue was relatively comparable over the 2002 and 2001 periods.

Pramer's operating expenses increased $2,742,000 or 12.9% and decreased $26,019,000 or 55.1% for the years ended December 31, 2003 and 2002, respectively. The increase in 2003 is due to individually insignificant increases in certain expense accounts. The decrease in 2002 is due to the devaluation of the peso.

UGC. UGC's revenue increased 24.9% and decreased 3.0% for the years ended December 31, 2003 and 2002, respectively. The increase in 2003 is due primarily to an increase in subscribers, revenue per subscriber and the strengthening of the euro against the U.S. dollar (approximately 16.1%). The decrease in 2002 is due to the sale of UGC's Australian and German operations partially offset by increases in Europe and Chile. UGC's operating expenses decreased $4 million or less than 1% in 2003 and $290 million or 27.3% in 2002. These decreases are due primarily to cost control initiatives, including restructurings. The 2002 expenses were also impacted by the sale of UGC's Australian and German operations. UGC's SG&A expenses increased $48 million or 10.7% in 2003 and decreased $244 million or 35.4% in 2002. The 2003 increase is due primarily to the strengthening of the euro against the U.S. dollar. The 2002 decrease is the result of cost control initiatives and the sale of UGC's Australian and German operations.

Also included in UGC's operating losses are (i) impairments of long-lived assets of $1,321 million in 2001, compared to $436 million in 2002 and $402 million in 2003, and (ii) restructuring charges of $204 million in 2001, compared to $1 million in 2002 and $36 million in 2003.

J-COM. J-COM's revenue increased 32.5% and 48.0% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The increase in revenue in 2003 was due to a 10.3% increase in the number of homes receiving at least one service, an 8.4% increase in the average number of services per home and a 9.6% increase in the average revenue per household receiving at least one service ("ARPH"). Revenue increased in 2002 due to a 23.2% increase in homes receiving at least one service, an 11.7% increase in average number of services per home and a 9.2% increase in ARPH. In addition, changes in the exchange rate also positively impacted revenue in 2003 and 2002. On a local currency basis, J-COM's revenue increased 22.7% and 52.3% in 2003 and 2002, respectively.

J-COM's operating expenses increased 17.0% and 22.2% in 2003 and 2002, respectively. These increases are due to the increase in subscribers and growth of J-COM's business. As a percent of revenue, operating expenses decreased from 40.3% in 2002 to 35.5% in 2003 due to the realization of economies of scale from the growth of the business. SG&A expenses increased 6.5% and 30.1% in 2003 and 2002, respectively. The increase in SG&A expenses are due to the growth of the business in 2002 and exchange rate fluctuations in 2003.

JPC. JPC's revenue increased 50.5% and 32.2% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior years. The increase in 2003 was largely due to increases in revenue for *Shop Channel*, which experienced a 17.5% increase in full time equivalent homes ("FTE's") and a 14% increase in sales per FTE. In 2002, *Shop Channel* had a 30.4% increase in FTE's and an 8.2% increase in sales per FTE. Affiliate revenue and advertising revenue at JPC's other networks also contributed to the overall revenue increase in both years due to continued subscriber growth at those networks. *Shop Channel* revenue accounted for 81%, 80% and 78% of JPC's revenue in 2003, 2002 and 2001, respectively. In addition, changes in the exchange rate also positively impacted revenue in 2003 and 2002. On a local currency basis, JPC's revenue increased 39.4% and 36.1% in 2003 and 2002, respectively.

JPC's operating expenses increased 52.5% and 33.0% in 2003 and 2002, respectively. These increases are primarily due to higher cost of goods sold at *Shop Channel* resulting from revenue increases of 41.3% and 38.9% during 2003 and 2002, respectively. JPC's SG&A expenses increased 34.2% and 17.9% in 2003 and 2002, respectively. The increases in SG&A were due to growth in the business resulting from additional sales volume at *Shop Channel* and additional channel offerings.

Corporate and Other. General and administrative expenses have been allocated from LMC to us based on the cost of services provided. We believe such allocations are reasonable and materially approximate the amount that we would have incurred on a stand-alone basis. Allocated expenses aggregated $10,873,000, $10,794,000 and $10,148,000 in 2003, 2002 and 2001, respectively.

Included in operating loss for corporate and other are impairments of long-lived assets of $45,928,000 and $91,087,000 in 2002 and 2001, respectively. No such impairments were recognized in 2003. These impairments are more fully described in the following paragraphs.

In connection with our 2002 annual evaluation of the carrying value of our enterprise-level goodwill, we estimated the fair value of our equity method investments and compared such estimated fair value to the carrying value of our equity method investments including any allocated enterprise-level goodwill. As a result of increased competition, losses in subscribers and a decrease in operating income in 2002, we determined that our carrying value exceeded the estimated fair value for Metrópolis-Intercom, which fair value was based on a per-subscriber valuation. Accordingly, we recorded a nontemporary decline in value of $66,555,000 related to our investment balance, which is included in share of losses of affiliates for the year ended December 31, 2002 and an impairment of long-lived assets of $39,000,000 related to the allocated enterprise-level goodwill for Metrópolis-Intercom.

In 2002, we also determined that our carrying value for Torneos, including allocated enterprise-level goodwill, exceeded its estimated fair value due to the devaluation of the Argentine peso. Accordingly, we recorded an impairment of long-lived assets of $5,000,000 related to the allocated enterprise-level goodwill for Torneos.

In December 2001, we determined that our carrying value for Pramer exceeded its estimated fair value as a result of the economic crisis in Argentina and the devaluation of the Argentine peso. Accordingly, we recorded a $52,775,000 impairment of goodwill. Also, in 2001 we determined that a loan in the amount of $21,312,000 was not collectible. Accordingly, we wrote the note receivable off and recorded a charge that is included in impairment of long-lived assets. In connection with our acquisition of Pramer in 1998, we acquired intangible assets for Cablevisión, S.A., an Argentine cable company. Cablevisión had the right to purchase the intangible assets from us for $25,000,000, $8,000,000 of which Cablevisión funded at the time of the Pramer acquisition. We accounted for the intangible assets as assets held for sale and recorded no amortization for them. In 2001, due to the economic crisis in Argentina, we determined that Cablevisión would be unable to fund the remaining $17,000,000 and recorded an impairment of long-lived assets.

Other Income and Expense

Interest expense. Interest expense was $2,178,000, $3,943,000 and $21,917,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The decrease in 2002 is due the repayment of our note payable to UGC in January 2002.

Interest income. Our interest income was relatively comparable over the 2003 and 2002 periods and was earned on our investments in debt securities of UGC Europe. Interest income in 2001 also included $46,376,000 earned on a note receivable (the "Belmarken Loan"), from Belmarken Holding B.V., an indirect subsidiary of Old UGC, Inc. (formerly known as UGC Holdings, Inc.), which was contributed to UGC in January 2002.

Share of earnings (losses) of affiliates. A summary of our share of earnings (losses) of affiliates, including excess cost amortization in 2001 and nontemporary declines in value, is included below:

	Percentage Ownership at December 31, 2003	Years ended December 31, 2003	2002	2001
		amounts in thousands		
J-COM	45%	20,341	(21,595)	(89,538)
UGC	52%	—	(190,216)	(439,843)
JPC	50%	11,775	5,801	(9,337)
Metrópolis	50%	(8,291)	(80,394)	(16,609)
Torneos	40%	(7,566)	(25,482)	(29,300)
Other	Various	(2,520)	(19,339)	(4,898)
		$ 13,739	(331,225)	(589,525)

At December 31, 2003, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates' net assets by $3.745 billion. Prior to the adoption of Statement 142, this excess basis was being amortized over estimated useful lives of up to 20 years based on the useful lives of the intangible assets represented by such excess costs. Such amortization was $92,902,000 for the year ended December 31, 2001, and is included in our share of losses of affiliates. Upon adoption of Statement 142, we discontinued amortizing equity method excess costs in existence at the adoption date due to their characterization as equity method goodwill. Also included in share of losses for the years ended December 31, 2003 and 2002 are adjustments for nontemporary declines in value aggregating $12,616,000 and $72,030,000, respectively. See the discussion of UGC, J-COM and JPC above for more information on these equity affiliates.

Realized and unrealized gains (losses) on derivative instruments. Realized and unrealized gains (losses) on derivative instruments during the years ended December 31, 2003, 2002 and 2001 are comprised of the following:

	Years ended December 31,		
	2003	2002	2001
	amounts in thousands		
Foreign exchange derivatives	$ (22,626)	(11,239)	—
Total return bond swaps	37,804	(1,088)	(124,698)
Belmarken Loan	—	(4,378)	(410,264)
Other	(2,416)	—	—
	$ 12,762	(16,705)	(534,962)

Nontemporary declines in fair value of investments. During 2003, 2002 and 2001, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The following table identifies such adjustments attributable to each of the individual investments as follows:

	Years ended December 31,		
Investments	2003	2002	2001
	amounts in thousands		
Sky Latin America	$ 6,884	105,250	2,002
Telewest bonds	—	141,271	—
Other	—	865	—
	$ 6,884	247,386	2,002

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

Income taxes. Our effective tax rate was 58%, 33% and 32% for the years ended December 31, 2003, 2002 and 2001, respectively. The 2003 effective tax rate differed from the U.S. Federal income tax rate of 35% primarily due to foreign taxes and state and local taxes. The effective tax rates in 2002 and 2001 differed from the U.S. Federal income tax rate of 35% primarily due to state and local taxes and amortization for book purposes that is not deductible for income tax purposes.

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

Liquidity and Capital Resources

Corporate

Historically, our primary source of funds has been cash transfers from LMC. In addition, our consolidated operating subsidiaries have generated cash from operating activities and have borrowed funds under their respective bank facilities. However, we generally are not entitled to the cash resources of our operating subsidiaries or business affiliates.

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

We and CristalChile Comunicaciones S.A. have entered into an agreement pursuant to which we have agreed to use our commercially reasonable efforts to merge Metrópolis-Intercom and VTR. The merger is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of the boards of directors of our company, CristalChile, VTR and UGC (including, in the case of UGC, the independent members of UGC's board of directors) and the receipt of necessary third party approvals and waivers. If the proposed merger is consummated as contemplated, we will own a direct and indirect interest aggregating 80% of the voting and equity rights in the new entity, and CristalChile will own the remaining 20%. In the merger, we will also receive a $100 million promissory note from the combined entity. The note will bear interest at LIBOR plus 3% per annum, will be unsecured and subordinated to third party debt and will have a maturity to be negotiated. In addition, CristalChile will have a put right which will allow CristalChile to require LMC to purchase all, but not less than all, of its interest in the new entity for not less than $140,000,000 on or after the first anniversary of the date on which Chilean regulatory approval of the merger is received. We will assume and indemnify LMC against this put obligation if the spin off occurs. The parties have agreed to decide by May 20, 2004, or such later date as we may mutually agree, whether to continue pursuing the consummation of the merger. If the merger does not occur, we and CristalChile have agreed to fund our pro rata share of a capital call sufficient to retire Metrópolis-Intercom's local debt facility, which had an outstanding principal amount of approximately $62.2 million at December 31, 2003 (based on exchange rates in effect on that date).

LMC currently owns an indirect 50% equity interest in Chorus Communication Limited, or Chorus, which is one of Ireland's largest cable and multi-point multi-channel distribution system companies outside of Dublin based on customers served. Chorus is currently undergoing a restructuring under applicable Irish insolvency laws in which Chorus is seeking to restructure its debt obligations and present a plan to pay its creditors. The restructuring plan includes a proposal by us to make a series of new investments in Chorus (consisting partly of new equity and partly of secured loans) and a proposal by us to acquire the 50% ownership interest in Chorus that is owned by a third party. The aggregate amount of the new investments, including the cost of acquisition of the third party interest, is approximately €77 million. Chorus will use the additional capital received from the new investments to to repay bank indebtedness. In addition, we anticipate committing to fund up to €15 million following the consummation of the restructuring for working capital, capital expenditures and creditor repayments. Our obligations to make the new investments are conditioned upon approval of the restructuring plan by the Irish court, the absence of any material adverse change in the business or operations of Chorus and the expiration of all applicable waiting periods and completion of all necessary government filings. If the restructuring plan is successfully completed, we expect to own substantially all of the ownership interests in the restructured Chorus. There can be no assurance that the foregoing transaction will be completed as currently contemplated or at all.

LMC owns an indirect 79% economic and non-voting interest in a limited liability company that owns 50% of the outstanding capital stock of Cablevisión, SA. Cablevisión is the largest cable television company in Argentina, in terms of number of subscribers. As a result of the termination by Argentina of its decade-old currency peg in late 2001, Cablevisión (in common with other Argentine issuers) stopped servicing its U.S. dollar denominated debt in 2002, which it is currently in the process of restructuring. As part of that restructuring, we would contribute to Cablevisión $27.5 million, for which we would receive, after giving effect to a capital reduction pertaining to the current shareholders of Cablevisión (including the aforementioned entity in which LMC has a 79% economic interest), approximately 39% of the equity of the restructured Cablevisión. The proceeds of our cash contribution would be distributed as part of the consideration being offered to Cablevisión's creditors. Cablevisión is expected to submit its restructuring plan, which has been approved by the requisite majorities of its creditors, to a commercial court in Buenos Aires in April 2004. No assurance can be given as to whether Cablevisión's restructuring plan will be accepted by the court. We have entered into a letter of intent with an affiliate of American International Group, Inc. which contemplates a joint venture (in which we would have a controlling interest), after the restructuring, with respect to our proposed investment in Cablevisión. We have also granted a put to and entered into a debt swap with a third party in respect of certain debt of Cablevisión, under which our aggregate maximum liability is approximately $28 million.

Subsequent to the spin off, cash transfers from LMC will no longer be a long-term source of liquidity for us. We currently anticipate that we will conduct a rights offering pursuant to which we will distribute to holders of our common stock transferable subscription rights to purchase fractional shares of our common stock at a yet to be determined discount from the trading price per share. We anticipate that, subject to market conditions, the rights offering will be sized to yield cash proceeds of $500 million to $1,000 million. We expect that we would use any cash proceeds from the rights offering for acquisitions, additional investments in existing affiliates and general corporate purposes. Such a rights offering would be subject to a number of factors, and no assurance can be given that we will conduct such a rights offering or, if we do conduct a rights offering, that we will receive the aforementioned amount of cash. In addition to the potential rights offering, we will consider other financing alternatives, including, but not limited to issuances of common stock or debt or sales of assets.

In the event we have investing opportunities after March 10, 2004, but prior to the completion of a rights offering, LMC has agreed to make loans to us from time to time through December 31, 2004 up to an aggregate principal amount of $500 million. The loans will bear interest at 6% per annum, compounded semi-annually. Proceeds of the loans may be used to fund working capital requirements, investments and acquisitions. We will be required to use our reasonable best efforts to obtain external equity or debt financing after the spin off and to make mandatory prepayments of the loans from the proceeds of such external financing. Any such prepayment will reduce the available amount of loans we may borrow from LMC. The outstanding principal amount of the loans, together with accrued interest, will be due and payable on March 31, 2005 whether or not we have obtained sufficient external financing.

Subsidiaries

Liberty Cablevision of Puerto Rico and Pramer generally fund their own investing and financing activities with cash from operations and bank borrowings, as necessary. Due to covenants in their respective loan agreements, we generally are not entitled to the cash resources or cash generated by operating activities of these two consolidated subsidiaries.

Equity Affiliates

UGC. UGC and its significant operating subsidiaries have incurred losses since their formation, as they have attempted to expand and develop their businesses and introduce new services.

On September 3, 2003, UPC completed a restructuring of its debt instruments and emerged from bankruptcy. Under the terms of the restructuring, approximately $5.4 billion of UPC's debt was exchanged for equity of UGC Europe, Inc., a new holding company of UPC ("UGC Europe"). Upon consummation, UGC received approximately 65.5% of UGC Europe's equity in exchange for UPC debt securities that it owned; third-party noteholders received approximately 32.5% of UGC Europe's equity; and existing preferred and ordinary shareholders, including UGC, received 2% of UGC Europe's equity. In January 2004, UGC also amended the €3,500 million bank facility of UGC Europe to, among other things, adjust certain financial covenants which require UGC Europe to maintain specified minimum or maximum financial ratios, reschedule payment maturities, reset interest rates on various tranches of indebtedness and to permit additional borrowings in certain instances. At December 31, 2003 there was approximately €2,900 million outstanding on this facility.

On December 18, 2003, UGC completed its offer to exchange its Class A common stock for the outstanding shares of UGC Europe common stock that it did not already own. Upon completion of the exchange offer, UGC owned 92.7% of the outstanding shares of UGC Europe common stock. On December 19, 2003, UGC effected a "short-form" merger with UGC Europe. In the short-form merger, each share of UGC Europe common stock not tendered in the exchange offer was converted into the right to receive the same consideration offered in the exchange offer, and UGC acquired the remaining 7.3% of UGC Europe.

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 us in exchange for 12.6 million shares of LMC Series A common stock and a cash payment of $12,857,000. Upon closing of the transaction with the Founders, 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 will be included in our combined financial position and results of operations beginning January 2004. We have entered into a new Standstill Agreement with UGC that limits our ownership of UGC common stock to 90 percent of the outstanding common stock unless we make an offer or effect another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with our company.

In January 2004, we also purchased an additional 17.6 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to us pursuant to our Standstill Agreement with UGC. The $135,626,000 purchase price for such shares was comprised of (1) the cancellation of indebtedness due from subsidiaries of UGC to certain of our subsidiaries in the amount of $104,462,000 (including accrued interest) and (2) $31,164,000 in cash.

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 .28 transferable subscription rights to purchase a like class of common stock for each share of common stock owned by them on January 21, 2004. The rights offering expired on February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering and expects to use such cash proceeds for working capital and general corporate purposes, including future acquisitions and repayment of outstanding indebtedness. 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 $544,251,000. Subsequent to the foregoing transactions, we own approximately 53% of UGC's common stock representing approximately 90% of the voting power of UGC's shares.

Off Balance Sheet Arrangements and Aggregate Contractual Obligations

At December 31, 2003, LMC guaranteed ¥14.4 billion ($134,246,000) of the bank debt of J-COM, an equity affiliate that provides broadband services in Japan. LMC's guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2018. In addition, LMC has agreed to fund up to ¥10 billion ($93,136,000 at December 31, 2003) to J-COM in the event J-COM's cash flow (as defined in its bank loan agreement) does not meet certain targets. In the event J-COM meets certain performance criteria, this commitment expires on September 30, 2004. We have agreed that if the spin off is completed we will indemnify LMC for any amounts it is required to fund under these arrangements.

We have guaranteed transponder and equipment lease obligations through 2018 of Sky Latin America. At December 31, 2003, our guarantee of the remaining obligations due under such agreements aggregated $105,611,000 and is not reflected in our balance sheet at December 31, 2003. During the fourth quarter of 2002, Globo Communicacoes e Participacoes ("GloboPar"), another investor in Sky Latin America, announced that it was reevaluating its capital structure. As a result, we believe that it is probable that GloboPar will not meet some, if not all, of its future funding obligations with respect to Sky Latin America. To the extent that GloboPar does not meet its funding obligations, we and other investors could mutually agree to assume GloboPar's obligations. To the extent that we or such other investors do not fully assume GloboPar's funding obligations, any funding shortfall could lead to defaults under applicable lease agreements. We believe that the maximum amount of our aggregate exposure under the default provisions is not in excess of the gross remaining obligations that we guaranteed, as set forth above. Although no assurance can be given, such amounts could be accelerated under certain circumstances. We cannot currently predict whether we will be required to perform under any of such guarantees.

We have also guaranteed various loans, notes payable, letters of credit and other obligations (the "Guaranteed Obligations") of certain other affiliates. At December 31, 2003, the Guaranteed Obligations aggregated approximately $92,331,000. Currently, we are not certain of the likelihood of being required to perform under such guarantees.

Information concerning the amount and timing of required payments under our contractual obligations is summarized below:

Contractual obligation	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	Payments due by period				
	amounts in thousands				
Long-term debt	$ 54,126	12,426	—	—	41,700
Operating lease obligations	2,442	780	1,266	381	15
Total contractual payments	$ 56,568	13,206	1,266	381	41,715

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

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us 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. Listed below are the accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting policies, estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with LMC's audit committee.

Carrying Value of Investments. Our cost and equity method investments comprised 13% and 49%, respectively, of our total assets at December 31, 2003 and 7% and 41%, respectively, at December 31, 2002. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142 and Accounting Principles Board Opinion No. 18. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary or "nontemporary." If a decline in fair value is determined to be nontemporary, we are required to reflect such decline in our statement of operations. Nontemporary declines in fair value of cost investments are recognized on a separate line in our combined statement of operations, and nontemporary declines in fair value of equity method investments are included in share of losses of affiliates in our combined statement of operations.

The primary factors we consider in our determination of whether declines in fair value are nontemporary are the length of time that the fair value of the investment is below our carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for recovery in fair value. Fair value of our publicly traded investments is based on the market price of the security at the balance sheet date. We estimate the fair value of our other cost investments using a variety of methodologies, including cash flow multiples, per subscriber values, or values of comparable public or private businesses. As our assessment of the fair value of our investments and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

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

Utilization of the Equity Method of Accounting for Investment in UGC. At December 31, 2003, we owned approximately 52% of UGC's outstanding equity representing approximately 89% of the voting power of UGC's common stock. We accumulated this ownership position through several step acquisitions in 2001 and 2002. UGC's operating and financial decisions are controlled by its board of directors. We held substantially all of our voting interest in UGC through Class C common shares of which we and LMC were the only Class C shareholders. Under UGC's certificate of incorporation, the Class C shareholders are entitled to elect only 4 of the 12 directors. Certain founding shareholders of UGC (the "Founders") had effective control because of their right to elect the remaining 8 directors through their ownership of UGC's Class B shares. Our ability to convert our Class C shares into Class B shares and to elect a majority of UGC's Board of Directors following such conversion was limited by the terms of such shares and by a standstill agreement which was in effect until June 2010. While an earlier termination of the standstill agreement was possible in the event that the Founders reduced their interests in Class B shares below certain specified levels, it was outside our control to effect such an early termination. The Class C shares had approval rights over certain material transactions and related party matters that were considered protective in nature.

As a result of the aforementioned governance arrangements, we determined that our voting interest was not sufficient to allow us to control UGC and therefore apply consolidation accounting with respect to our investment in UGC. We did consider our Class C shareholder rights sufficient to exert significant influence over the financial and operating policies of UGC, and accordingly, we applied the equity method of accounting for this investment.

On January 5, 2004, we completed a transaction pursuant to which the Founders transferred 8.2 million shares of UGC Class B common stock to us in exchange for 12.6 million shares of LMC Series A common stock and a cash payment of $12,857,000. Upon closing of the exchange, the restrictions on our right to exercise our voting power with respect to UGC were terminated, and we gained voting control of UGC. Accordingly, we will begin including UGC's results of operations and financial position in our combined financial statements in January 2004.

If UGC were treated as a consolidated subsidiary in our combined financial statements at December 31, 2003 and during the year then ended, our financial position and results of operations on a pro forma basis would have been approximately as follows (amounts in thousands):

Pro Forma Balance Sheet

Assets		
Cash and cash equivalents	$	323,114
Other current assets		536,275
Total current assets		859,389
Cost and equity method investments		2,190,686
Property, plant and equipment, net		3,483,829
Goodwill		2,352,363
Intangible and other assets		855,382
Total assets	$	9,741,649
Liabilities and Stockholders' Equity		
Accounts payable and accrued liabilities	$	939,294
Current portion of debt		550,913
Total current liabilities		1,490,207
Long-term debt		3,657,602
Deferred income tax liabilities		297,635
Other liabilities		267,441
Total liabilities		5,712,885
Minority interest		609,965
Stockholders' equity		3,418,799
Total liabilities and stockholders' equity	$	9,741,649

Pro Forma Statement of Operations		
Revenue	$	2,000,164
Operating expenses		(819,144)
Selling, general and administrative		(547,612)
Depreciation and amortization		(859,859)
Impairment of long-lived assets		(438,209)
Operating loss		(664,660)
Interest expense		(322,112)
Gains on extinguishment of debt		1,162,131
Other income		112,586
Earnings before income taxes		287,945
Income tax expense		(78,319)
Minority interest		(931,346)
Net loss	$	(721,720)

The foregoing pro forma financial statement information is based on a preliminary allocation of our investment basis in UGC at each significant step acquisition date based on the estimated relative fair values of UGC's assets and liabilities on such dates. These preliminary estimates are subject to change upon completion of this exercise. In addition, the foregoing pro forma financial information has been included to provide the reader with an illustration of the effect that the voting restrictions on our investment in UGC have caused by requiring us to account for UGC using the equity method, rather than as a consolidated subsidiary, and is not intended to comply with the requirements of Article 11 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission.

Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, "long-lived assets") also comprise a significant portion of our total assets at December 31, 2003 and 2002. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, and upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our combined statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value.

In connection with our 2002 annual evaluation of the carrying value of our enterprise-level goodwill, we estimated the fair value of our equity method investments and compared such estimated fair value to the carrying value of our equity method investments including any allocated enterprise-level goodwill. As a result of increased competition, losses in subscribers and a decrease in operating income in 2002, we determined that our carrying value exceeded the estimated fair value for Metropolis, which fair value was based on a per-subscriber valuation. Accordingly, we recorded a nontemporary decline in value of $66,555,000 related to our investment balance, which is included in share of losses of affiliates for the year ended December 31, 2002 and an impairment of long-lived assets of $39,000,000 related to the allocated enterprise-level goodwill for Metropolis.

In 2002, we also determined that our carrying value for Torneos, including allocated enterprise-level goodwill, exceeded its estimated fair value due to the economic crisis in Argentina and the devaluation of the Argentine peso. Accordingly, we recorded an impairment of long-lived assets of $5,000,000 related to the allocated enterprise-level goodwill for Torneos.

In December 2001, we determined that our carrying value for Pramer exceeded its estimated fair value as a result of the devaluation of the Argentine peso. Accordingly, we recorded a $52,775,000 impairment of goodwill. Also, in 2001 we determined that a loan in the amount of $21,312,000 was not collectible. Accordingly, we wrote the note receivable off and recorded a charge that is included in impairment of long-lived assets. In connection with our acquisition of Pramer in 1998, we acquired intangible assets for Cablevisión, S.A., an Argentine cable company. Cablevisión had the right to purchase the intangible assets from us for $25,000,000, $8,000,000 of which Cablevisión funded at the time of the Pramer acquisition. We accounted for the intangible assets as assets held for sale and recorded no amortization for them. In 2001, due to the economic crisis in Argentina, we determined that Cablevisión would be unable to fund the remaining $17,000,000 and recorded an impairment of long-lived assets.

Quantitative and Qualitative Disclosures about Market Risk

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

Each of our operating subsidiaries and affiliates operates in a distinct environment that is generally characterized by rapidly changing competitive, regulatory, technological, political, economic and other external factors. These factors are generally outside our control, and we are unable to predict what effect, if any, such factors might have on the respective financial condition and results of operations of our operating subsidiaries and affiliates.

We are also exposed to unfavorable and potentially volatile fluctuations of the United States dollar (our functional currency) against the currencies of our operating subsidiaries and affiliates. Because our functional currency is the U.S. dollar, any increase (decrease) in the value of the U.S. dollar against any foreign currency in which we have funding commitments effectively reduces (increases) the U.S. dollar equivalent of such funding commitments. At the same time, any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of one of our operating subsidiaries or affiliates will cause us to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. We and our operating subsidiaries and affiliates are also exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our respective functional currencies.

We generally do not hedge the majority of our foreign currency exchange risk because of the long-term nature of our interests in foreign affiliates. However, in order to reduce our foreign currency exchange risk related to our recent investment in J-COM, we entered into forward sale contracts with respect to ¥20,802 million ($193,741,000 at December 31, 2003) during the year ended December 31, 2003. In addition to the forward sale contracts, we entered into collar agreements with respect to ¥28,785 million ($268,092,000 at December 31, 2003). These collar agreements have a remaining term of approximately one year, an average call price of 108 yen/U.S. dollar and an average put price of 125 yen/U.S. dollar. During the year ended December 31, 2003, we reported unrealized losses of $22,626,000 related to our yen contracts. We continually evaluate our foreign currency exposure based on current market conditions and the business environment in each country in which we operate.

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include fixed and floating rate investments and borrowings by our operating subsidiaries used to maintain liquidity and fund their respective business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors.

We have entered into total return debt swaps in connection with our purchase of bank debt of UGC Europe. Under these arrangements, we direct a counterparty to purchase a specified amount of the underlying debt security for our benefit. We post collateral with the counterparty equal to 10% of the value of the purchased securities. We earn interest income based upon the face amount and stated interest rate of the underlying debt securities, and pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines 10%, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt securities. At December 31, 2003, the aggregate purchase price of debt securities underlying total return debt swap arrangements was $113,361,000. As of such date, we had posted cash collateral equal to $14,552,000. In the event the fair value of the purchased debt securities were to fall to zero, we would be required to post additional cash collateral of $98,809,000.

DESCRIPTION OF OUR BUSINESS

Overview

Through our subsidiaries and affiliates, we provide broadband distribution services and video programming services to subscribers in Europe, Japan, Australia and Latin America.

We are currently a wholly owned subsidiary of LMC. LMC is a holding company, which through its ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Our assets and businesses consist largely of those which LMC attributes to its International Group business segment. LMC is separating its International Group from its other business segments by means of a spin off of our company. Following the spin off, we will be an independent, publicly traded company, and LMC will not retain any ownership interest in us.

Broadband Distribution

We offer a variety of broadband distribution services over our cable television systems, including analog video, digital video, Internet access and telephony. Available service offerings depend on the bandwidth capacity of our cable systems and whether they have been upgraded for two-way communications. In select markets, we also offer video services through direct-to-home satellite television distribution (DTH). We operate our broadband distribution businesses in Europe principally through our subsidiary UnitedGlobalCom, Inc., which we refer to as UGC; in Japan principally through our affiliate Jupiter Telecommunications, Co., Ltd., which we refer to as J-COM; and in Latin America principally through UGC, our subsidiary Liberty Cablevision of Puerto Rico Ltd., which we refer to as LCPR, and our affiliate Metrópolis-Intercom S.A.

The following table presents certain operational data, as of December 31, 2003, with respect to the broadband distribution systems of our subsidiaries and affiliates in Europe, Japan and Latin America. For purposes of this presentation, we refer to Puerto Rico, the islands of the Caribbean and the countries of Central and South America collectively as Latin America.

				Video			Internet		Telephony		
	Homes in Service Area(1)	Homes Passed(2)	Two-way Homes Passed(3)	Basic Cable Subscribers(4)	DTH Subscribers(5)	Digital Cable Subscribers(6)	Homes Serviceable(7)	Subscribers(8)	Homes Serviceable(9)	Subscribers(10)	Total RGUs(11)
Europe:											
UGC*											
Western Europe	8,218,300	5,971,100	4,634,800	4,031,700	—	139,200	4,634,800	689,300	3,342,300	394,500	5,254,700
Central and Eastern Europe	5,136,100	4,440,500	1,369,200	2,614,100	191,800	—	1,332,900	101,800	104,900	67,200	2,974,900

Total Europe	13,354,400	10,411,600	6,004,000	6,645,800	191,800	139,200	5,967,700	791,100	3,447,200	461,700	8,229,600
Japan:											
J-COM**	6,707,000	5,958,800	5,947,200	1,526,700	—	25,600	5,947,200	632,900	4,215,500	554,600	2,739,800
Other	573,500	450,500	450,500	65,800	—	—	450,500	37,200	—	—	103,000
Total Japan	7,280,500	6,409,300	6,397,700	1,592,500	—	25,600	6,397,700	670,100	4,215,000	554,600	2,842,800
Latin America:											
UGC*											
VTR GlobalCom.	2,350,000	1,752,100	1,030,700	488,000	5,500	—	1,030,700	129,200	1,020,600	271,300	894,000
Other	790,000	529,800	501,300	21,300	—	6,500	501,300	3,900	—	—	31,700
LCPR	425,004	309,680	220,794	123,586	—	40,320	220,794	8,900	220,794	516	173,322
Metrópolis-Intercom.	2,241,004	1,192,891	223,873	231,925	—	7,783	223,873	34,462	223,873	3,639	277,809
Total Latin America	5,806,008	3,784,471	1,976,667	864,811	5,500	54,603	1,976,667	176,462	1,465,267	275,455	1,376,831
Total	**26,440,908**	**20,605,371**	**14,378,367**	**9,103,111**	**197,300**	**219,403**	**14,342,067**	**1,637,662**	**9,127,467**	**1,291,755**	**12,449,231**

* Excludes systems owned by affiliates that are not consolidated with UGC for financial reporting purposes.

** Includes managed systems owned by affiliates that are not consolidated with J-COM for financial reporting purposes.

(1) Homes in Service Area are homes that can potentially be served, based upon census data and other market information, by our networks.

(2) Homes Passed are homes that can be connected to our networks without further extending the distribution plant.

(3) 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, telephony services.

(4) Basic Cable Subscriber is comprised of basic analog customers and, where applicable, lifeline customers that are counted on a per connection basis. Commercial contracts such as hotels and hospitals are counted on an equivalent bulk unit (EBU) basis. 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.

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

(6) Digital Cable Subscriber is a home or commercial unit connected to our distribution networks with one or more digital converter boxes that receives our digital video service. Also counted as an Basic Cable Subscriber.

(7) Internet Homes Serviceable are homes that can be connected to our networks, where customers can request and receive Internet access services.

(8) Internet Subscriber is a home or commercial unit with one or more cable modems connected to our networks, where a customer has requested and is receiving high-speed Internet access services.

(9) Telephony Homes Serviceable are homes that can be connected to our networks, where customers can request and receive voice services.

(10) Telephony Subscriber is a home or commercial unit connected to our networks, where a customer has requested and is receiving voice services.

(11) Revenue Generating Unit (or RGU) is separately a basic cable subscriber, DTH subscriber, digital cable subscriber, Internet subscriber or telephony subscriber. A home may contain one or more RGUs. For example, if a single residential customer subscribed to our basic cable service, digital cable service, high-speed Internet access service and telephony service, the customer would constitute four RGUs. Total RGUs is the sum of basic cable subscribers, DTH subscribers, digital cable subscribers, Internet subscribers and telephony subscribers.

Video Programming

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 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 derive their revenues 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 revenues from subscriber 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 contractors. We operate our programming businesses in Europe principally through the chellomedia division of our subsidiary UGC; in Japan principally through our affiliate Jupiter Programming Co., Ltd., which we refer to as JPC; and in Latin America principally through our subsidiary, Pramer S.C.A.

Business Strategy

We plan to maximize the value of our businesses by:

- continually increasing our subscriber base and average revenue per subscriber by rolling out high value bundled entertainment, information and communications services;
- upgrading the quality of our networks infrastructures, where appropriate;
- leveraging the reach of our broadband distribution systems to create new content opportunities and further develop our programming businesses; and
- entering into strategic alliances and acquisitions in order to increase our distribution presence and maximize operating efficiencies.

Operations

Europe

UnitedGlobalCom, Inc.

Our European operations are conducted primarily through our subsidiary, UnitedGlobalCom, Inc. We currently own an approximate 53% common equity interest, representing an approximate 90% voting interest, in UGC. UGC is the largest broadband communications provider, in terms of aggregate number of subscribers and homes passed, outside the United States. UGC provides video distribution services in over 15 countries worldwide and Internet access and telephony service in a growing number of international markets.

UGC's European operations are conducted through its wholly owned subsidiary, UGC Europe, Inc., which provides services to 11 countries in Europe. UGC Europe's operations are currently organized into two principal divisions: UPC Broadband and chellomedia. Through its UPC Broadband division, UGC Europe provides video, high-speed Internet access and telephony services over its networks and operates the largest cable network in each of The Netherlands, Austria, Poland, Hungary, Czech Republic and Slovak Republic and the second largest cable network in Norway, in each case in terms of number of subscribers. UGC Europe's high-speed Internet access service is provided over the UPC Broadband network infrastructure generally under the brand name chello. Depending on the capacity of the particular network, UGC Europe may provide up to five tiers of high-speed Internet access: chello starter, chello entry, chello light, chello classic and chello plus. For information concerning the services offered by the chellomedia division, see "—chellomedia and Other."

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

The Netherlands

UGC Europe's networks in The Netherlands, which we refer to as UGC-Netherlands, passed approximately 2.6 million homes and had approximately 2.3 million basic cable subscribers, 324,300 Internet subscribers and 158,600 telephony subscribers, as of December 31, 2003. Over 30% of Dutch households receive at least analog cable service from UGC-Netherlands. UGC-Netherlands' subscribers are located in six regional clusters, including the major cities of Amsterdam and Rotterdam. Its networks are approximately 91% upgraded to two-way capability, with approximately 94% of its basic cable subscribers served by a system with a bandwidth of at least 860 MHz.

UGC-Netherlands offers analog cable services to approximately 91% of its homes passed. Approximately 82% of UGC-Netherlands' homes passed are capable of receiving digital cable service. UGC-Netherlands offers its digital cable subscribers a basic package of 58 channels with an option to subscribe for up to 15 additional general entertainment, movie, sports, music and ethnic channels and an electronic program guide. UGC-Netherlands' digital cable service also offers near-video-on-demand (NVOD) services and interactive services, including television-based email, to approximately 57% of its homes passed.

UGC-Netherlands offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 128 Kbps to 4.6 Mbps. Approximately 14% of its basic cable subscribers also receive its Internet access service, representing approximately 100% of its Internet subscribers.

UGC-Netherlands offers multi-feature telephony services to approximately 62% of its homes passed. During 2004, UGC-Netherlands plans to begin offering telephony services to its two-way homes passed by applying voice-over-Internet protocols (or IP-based technology). Approximately 7% of its basic cable subscribers also receive its telephony services, representing approximately 100% of its telephony subscribers.

In September 2003, UGC-Netherlands began offering incentives to customers who subscribe to a bundled service, which includes cable service. Bundles consist of two or more combinations of UGC-Netherlands' three main services—cable, high-speed Internet access and telephony, and their variants. The incentives that UGC-Netherlands provides to its subscribers vary from a monthly recurring discount to 30 free call minutes or a free NVOD movie.

In early 2004, UGC-Netherlands launched self-install for all of its Internet access services allowing subscribers to install the technology themselves and save money on the installation fee. UGC-Netherlands also plans to launch self-install for its digital cable and telephony services during 2004. Approximately 50% of its new Internet subscribers have chosen to self-install their new service.

Austria

UGC Europe's networks in Austria, which we refer to as UGC-Austria, passed 923,300 homes and had 497,300 basic cable subscribers, 205,800 Internet subscribers and 153,900 telephony subscribers, as of December 31, 2003. UGC-Austria's subscribers 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 it operates owns, directly or indirectly, 5% of the local operating company of UGC-Austria. UGC-Austria's network is almost entirely upgraded to two-way capability, with approximately 97% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz.

UGC-Austria provides a single offering to its analog cable subscribers that consists of 34 channels, mostly in the German language. UGC-Austria's digital platform is one of the most sophisticated in Europe, offering more than 100 basic and premium TV channels, plus NVOD, interactive services, television-based e-mail and an electronic program guide. UGC-Austria's premium content includes first run movies, as well as specific ethnic offerings, including Serb and Turkish channels. Later in 2004, UGC-Austria plans to offer subscription video-on-demand (or SVOD) and true-video-on-demand (commonly known as TVOD).

UGC-Austria offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 2 Mbps. UGC-Austria's high-speed Internet access is available in all of the cities in its operating area. Approximately 32% of its basic cable subscribers also receive its Internet access service, representing approximately 90% of its Internet subscribers.

UGC-Austria offers multi-feature telephony services to 97% of its residential subscribers. UGC-Austria offers basic dial tone service as well as value-added services. UGC-Austria also offers a bundled product of fixed line and mobile telephony services in cooperation with the third largest mobile phone operator in Austria under the brand "Take Two." More than 100,000 of its telephony subscribers subscribe to this product. Approximately 22% of UGC-Austria's basic cable subscribers also receive its telephony service, representing approximately 74% of its telephony subscribers.

UGC-Austria focuses on selling product bundles rather than individual services. Currently, UGC-Austria has a ratio of approximately 1.5 services per subscriber.

France

UGC Europe's networks in France, which we refer to as UGC-France, passed approximately 1.4 million homes and had 467,100 basic cable subscribers, 26,200 Internet subscribers and 58,400 telephony subscribers, as of December 31, 2003. Its major operations are located in suburban Paris, the Marne la Vallee area east of Paris and Lyon, with its other operations spread throughout France. Its network is approximately 50% upgraded to two-way capability, with approximately 83% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz.

In 2003, UGC-France launched a new digital cable platform which is available to approximately 90% of its homes passed. This new digital platform offers two packages —63 channels and an expanded tier of 78 channels. Programming includes series, general entertainment, youth, sports, news, documentary, music, lifestyle and foreign channels. With the expanded tier, UGC-France provides three movie premium packages, a pay-per-view service, two "a la carte" channels and several Canal+ channels. UGC-France intends to migrate most of its analog cable subscribers to this new digital platform.

UGC-France offers two tiers of chello brand high-speed Internet access service with download speeds ranging from 128 Kbps to 768 Kbps. UGC-France's high-speed Internet access is available in approximately 53% of its homes passed. UGC-France anticipates that the top tier speed of its existing service will be increased to 1 Mbps by the middle of 2004. In addition, UGC-France plans to launch two new tiers of service later this year. Approximately 3% of its basic cable subscribers also receive Internet service, representing approximately 49% of its Internet subscribers.

UGC-France offers multi-feature telephony service to approximately 50% of its homes passed. Local number portability was introduced in 2003, which allows subscribers to change telephony providers and retain their telephone number. Approximately 7% of its basic cable subscribers also receive telephony service, representing approximately 54% of its telephony subscribers.

On March 15, 2004, UGC signed a share purchase agreement with SUEZ, a French utility group, to acquire France's largest cable operator, Noos. SUEZ is to acquire a 20% interest in the combined French operations of UGC and Noos. The transaction is subject to regulatory approval.

Norway

UGC Europe's networks in Norway, which we refer to as UGC-Norway, passed 484,400 homes and had 340,600 basic cable subscribers, 37,000 Internet subscribers and 23,600 telephony subscribers, as of December 31, 2003. Its main network is located in Oslo and its other systems are located primarily in the southeast and along Norway's southwestern coast. UGC-Norway's networks are approximately 46% upgraded to two-way capability, with approximately 30% of its basic cable subscribers served by a system with a bandwidth of at least 860 MHz. Digital cable services are offered to approximately 37% of UGC-Norway's homes passed.

UGC-Norway's analog cable package is its plus-package with 23 channels. In addition to the plus-package, customers can subscribe to channels from the upper level tier, such as movie, sports and ethnic channels. UGC-Norway's highest analog tier, the total-package, includes the plus-package and 12 additional channels. Approximately 60% of its basic cable subscribers consist of multi-dwelling units (or MDUs), with a discounted pricing structure. On March 1, 2004, UGC-Norway launched a new entry-level analog cable package with 15 channels.

UGC-Norway's basic digital cable package consists of 27 channels. Its upper-level digital package includes an additional 23 channels. Subscribers to the basic digital cable package can subscribe to channels from the upper-level digital package for an additional fee. Different movie, sports, entertainment and ethnic channels may be selected from an a la carte menu for a per-channel fee.

UGC-Norway offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 1.024 Mbps. chello light was launched in 2003 and currently offers the least expensive Internet access subscription fee in Norway. In 2004, UGC-Norway plans to increase the number of available tiers of service to five with download speeds ranging from 128 Kbps to 4 Mbps. Approximately 11% of its basic cable subscribers also receive its Internet service, representing approximately 100% of its Internet subscribers.

UGC-Norway offers multi-feature telephony service to 30% of its homes passed. Approximately 7% of its basic cable subscribers also receive telephony service, representing approximately 100% of its telephony subscribers.

Sweden

UGC Europe's network in Sweden, which we refer to as UGC-Sweden, passed 421,600 homes and had 281,700 basic cable subscribers and 68,600 Internet subscribers, as of December 31, 2003. It operates in the greater Stockholm area on leased fiber from Stokab AB, a city controlled entity with exclusive rights to lay cable ducts for communications or broadcast services in the city of Stockholm. These lease terms vary from 10 to 25 years, and expire beginning in 2012 through 2018. UGC-Sweden does not offer telephony service. Its network is approximately 96% upgraded to two-way capability, with all of its basic cable subscribers served by a system with a bandwidth of at least 550 MHz.

UGC-Sweden provides all of its basic cable subscribers with a lifeline service consisting of four "must-carry" channels. In addition to this lifeline service, UGC-Sweden offers an analog cable package with 12 channels and a digital cable package with up to 59 channels. Its program offerings include domestic, foreign, sport and premium movie/adult channels, as well as digital event channels such as seasonal sport and real life entertainment events. Approximately 38% of the homes served by UGC-Sweden's network subscribe to the lifeline analog cable service only. Approximately 9% of its basic cable subscribers are digital cable subscribers.

UGC-Sweden offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 300 Kbps to 1 Mbps. UGC-Sweden anticipates that the top tier speed will be increased to 1.5 Mbps in 2004. Approximately 24% of its basic cable subscribers subscribe to its Internet service, representing approximately 100% of its Internet subscribers.

Belgium

UGC Europe's network in Belgium, which we refer to as UGC-Belgium, passed 154,200 homes and had 131,800 basic cable subscribers and 27,400 Internet access subscribers, as of December 31, 2003. Its operations are located in certain areas of Leuven and Brussels, the capital city of Belgium. UGC-Belgium does not offer telephony service. UGC-Belgium's network is fully upgraded to two-way capability, with all of its basic cable subscribers served by a system with a bandwidth of 860 MHz.

UGC-Belgium's analog cable service, consisting of all Belgium terrestrial channels, regional channels and selected European channels, offers 34 channels in Brussels and 36 channels in Leuven. In both regions, UGC-Belgium offers an expanded analog cable package, including a "starters pack" of three channels that can be upgraded to 15 channels in Leuven and 18 channels in Brussels. This programming generally includes a selection of European and United States thematic satellite channels, including sports, kids, adult, nature, movies and entertainment channels. UGC-Belgium also distributes three premium channels that are provided by Canal+, two in Brussels and one in Leuven.

UGC-Belgium offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 1Mbps to 1.5 Mbps. UGC-Belgium intends to implement speed increases for each tier of service during the first half of 2004. Approximately 11% of its basic cable subscribers also receive Internet access service, representing approximately 100% of its Internet subscribers.

Poland

UGC Europe's networks in Poland, which we refer to as UGC-Poland, passed approximately 1.9 million homes and had approximately 1 million basic cable subscribers and 32,600 Internet subscribers, as of December 31, 2003. UGC-Poland's subscribers are located in regional clusters encompassing eight of the ten largest cities in Poland, including Warsaw and Katowice. UGC-Poland does not offer telephony service. Approximately 21% of its networks are upgraded to two-way capability, with approximately 9.6% of its basic cable subscribers served by a system with a bandwidth of at least 550 MHz. UGC-Poland continues to upgrade portions of its network that have bandwidths below 550 MHz to bandwidths of at least 860 MHz.

UGC-Poland offers analog cable subscribers three packages of cable television service. Its lowest tier, the broadcast package, includes 6 to 12 channels. Its next highest tier, the intermediate package, includes 20 to 22 channels. Its highest tier, the basic package, includes 34 to 60 channels which generally includes all Polish terrestrial broadcast channels, selected European satellite programming and regional and local programming consisting of proprietary and third party channels. For an additional monthly charge, UGC-Poland offers two premium television services, the HBO Poland service and Canal+ Multiplex, a Polish-language premium package of three movie, sport and general entertainment channels.

UGC-Poland offers three different tiers of chello brand high-speed Internet access service in portions of its network with download speeds ranging from 128 Kbps to 768 Kbps. UGC-Poland is currently expanding its Internet ready network in Warsaw, Krakow, Gdansk and Katowice and is planning to begin providing Internet access services in Szczecin and Lublin in the second quarter of 2004. Approximately 5% of its basic cable subscribers also receive its Internet service, representing approximately 94% of its Internet subscribers.

Hungary

UGC Europe's networks in Hungary, which we refer to as UGC-Hungary, passed approximately 1 million homes and had 708,200 basic cable subscribers, 41,300 Internet subscribers and 64,800 telephony subscribers, as of December 31, 2003. Approximately 58% of its networks are upgraded to two-way capability, with 50% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz.

UGC-Hungary offers up to four tiers of analog cable programming services (between 4 and 60 channels) and two premium channels, depending on the technical capability of the network. Programming consists of the national Hungarian terrestrial broadcast channels and selected European satellite and local programming that consists of proprietary and third party channels.

UGC-Hungary offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 416 Kbps to 768 Kbps. UGC-Hungary offers Internet services to 568,400 homes in twelve cities, including Budapest. UGC-Hungary plans to increase the download speed of its two top tiers to 768 Kbps and 1 Mbps, respectively, in 2004. Approximately 4% of its basic cable subscribers also receive its Internet service, representing approximately 77% of its Internet subscribers.

Monor Telefon Tarsasag Rt., one of UGC-Hungary's operating companies, offers traditional switched telephony services over a twisted copper pair network in the southeast part of Pest County. As of December 31, 2003, it had 64,800 telephony subscribers using 71,700 lines. It also had 542 asymmetric digital subscriber line (or ADSL) and 3,653 dial-up Internet access subscribers.

Czech Republic

UGC Europe's network in the Czech Republic, which we refer to as UGC-Czech, passed 720,900 homes and had 299,900 basic cable subscribers, 25,400 Internet subscribers and 2,400 telephony subscribers, as of December 31, 2003. Its operations are located in more than 80 cities and towns in the Czech Republic, including Prague and Brno, the two largest cities in the country. Approximately 40% of its networks are upgraded to two-way capability, with 40% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz. UGC-Czech offers two to three tiers of analog cable programming services, with between 23 and 35 channels, and two premium channels.

UGC-Czech offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 768 Kbps. Approximately 6% of its basic cable subscribers also receive its Internet service, representing approximately 71% of its Internet subscribers.

UGC-Czech's telephony services are offered to a small number of residential subscribers.

Romania

UGC Europe's networks in Romania, which we refer to as UGC-Romania, passed 458,400 homes and had 333,300 basic cable subscribers, as of December 31, 2003. UGC-Romania's systems served 34 cities in Romania with 75% of its subscriber base in six cities: Timisoara, Cluj, Ploiesti, Focsani, Bacau and Botosani. UGC Europe does not offer telephony service in Romania. UGC-Romania is currently test-marketing, on a limited basis, an Internet access product in one of its main systems. Approximately 21% of its networks are upgraded to two-way capability, with 65% of its basic cable subscribers served by a system with a bandwidth of at least 550 MHz. UGC-Romania continues to upgrade its medium size systems to 550 MHz.

UGC-Romania offers analog cable service with 24 to 36 channels in all of its cities, which include Romania terrestrial broadcast channels, European satellite programming and regional local programming. Two extra basic packages of 6 to 10 channels each are offered in Timisoara and Ploiesti. Premium Pay TV (HBO Romania) is offered in 13 cities.

Slovak Republic

UGC Europe's network in the Slovak Republic, which we refer to as UGC-Slovak, passed 399,800 homes and had 283,800 basic cable subscribers and 2,500 Internet subscribers, as of December 31, 2003. UGC-Slovak does not offer telephony service. Approximately 20% of its networks are upgraded to two-way capability, with 23% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz. In some areas like Bratislava, the capital city, its network is 50% upgraded to two-way capability.

UGC-Slovak offers two tiers of analog cable service and three premium services. Its lower-tier, the lifeline package, includes 4 to 9 channels. UGC-Slovak's most popular tier, the basic package, includes 16 to 40 channels that generally offer all Slovak terrestrial, cable and local channels, selected European satellite programming and other third-party programming. For an additional monthly charge, UGC-Slovak offers three premium services—HBO, Private Gold (adult entertainment channel) and the UPC Komfort package consisting of six thematic third-party channels.

In Bratislava, UGC-Slovak offers two tiers of chello brand high-speed Internet access service with download speeds ranging from 512 Kbps to 768 Kbps. Approximately 1% of its basic cable subscribers also receive Internet access service, representing approximately 82% of its Internet subscribers.

chellomedia and Other

UGC Europe's chellomedia division provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates UGC Europe's digital media center and operates a competitive local exchange carrier (CLEC) business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Below is a description of the operations of the chellomedia division:

- *chello broadband.* Through agreements with operating companies in the UPC Broadband division, chello broadband provides Internet access, on-line content, product development, aspects of customer support, local language broadband portals and marketing support for a fee, based upon a percentage of subscription and installation revenue as determined in the agreements. The agreements with UPC Broadband's operating companies further provide that in the future the local operator will receive a percentage of chello broadband's ecommerce and advertising revenue.

- *Interactive Services.* We expect the development of interactive television services to play an important role in increasing subscription to UGC Europe's digital television offerings. The chellomedia division's Interactive Services Group is responsible for developing its core digital products, such as an electronic program guide, walled garden, television-based email, and PC / TV portals as well as other television and PC-based applications supporting various areas, including communications services and enhanced television services. A base set of interactive services has been launched by UGC-Netherlands and UGC-Austria, as discussed above.

- *Transactional Television.* Transactional television, branded as "Arrivo," is another component of UGC Europe's digital service offerings. UGC-Netherlands currently offers 42 channels of NVOD programming and UGC-Austria currently offers 56 channels of NVOD programming. Arrivo provides digital customers with a wide range of Hollywood blockbusters and other movies. Arrivo is also in the process of developing video-on-demand (VOD) services for UGC Europe's UPC Broadband division and third-party cable operators. The VOD service will provide VOD subscribers with enhanced playback functionality and will give subscribers access to a broad array of on-demand programming, including movies, live events, local drama, music videos, kids programming and adult programming.

- *Pay Television.* UPCtv, a wholly owned subsidiary of UGC Europe, produces and markets its own pay television products, currently consisting of three thematic channels. The channels target the following genres: extreme sports and lifestyles; women's information and entertainment; and real life documentaries. All three channels originate from UGC Europe's digital media center located in Amsterdam. The "DMC" is a technologically advanced production facility that services UPCtv 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, then transmits the final product to various customers in numerous countries through affiliated and unaffiliated cable systems and DTH platforms. UGC Europe is also involved in branded equity ventures for the development of country-specific programming, including Iberian Programming Services, Xtra Music, MTV Networks Polska and Sports I.

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Priority Telecom. Priority Telecom is a facilities-based business telecommunications provider that focuses primarily on its core metropolitan markets in The Netherlands, Austria and Norway. UGC Europe owns an approximate 72% economic interest in Priority Telecom. Priority Telecom provides voice services, high-speed Internet access, private data networks and customized network services to over 7,700 business customers. Priority Telecom focuses on medium and large business customers and metropolitan/national telecommunications providers. Priority Telecom is a publicly traded company on Euronext Amsterdam under the symbol "PRIOR." The

chellomedia division provides services to Priority Telecom, including equipment, local loop and other capacity leases, human resources, billing, information technology and co-location services.

Standstill Agreement with UGC. We have entered into a standstill agreement with UGC pursuant to which we may not acquire more than 90% of UGC's outstanding common stock unless we make an offer or otherwise effect a transaction to acquire all of the outstanding common stock of UGC not already owned by us. Under certain circumstances, such an offer or transaction would require an independent appraisal to determine the price to be paid to shareholders unaffiliated with our company. In addition, we are entitled to preemptive rights with respect to certain issuances of UGC common stock.

Other

We also own minority interests in other European businesses. The following table provides information with respect to these interests:

Entity	Business Description and Ownership Interest (as of 12/31/03)
PrimaCom AG	Owns and operates a cable television and broadband network offering a range of analog, digital and interactive services to approximately 1.3 million subscribers in Germany and The Netherlands. PrimaCom has begun to offer telephony services in The Netherlands and has plans to expand its telephony offerings to Germany. We own an aggregate 26.7% equity interest in PrimaCom, primarily through UGC.
The Wireless Group plc	The fifth largest commercial radio group in the United Kingdom based upon number of radio ownership points. Operates talkSPORT, the only nationwide commercial radio station dedicated to sports, in addition to 13 local and regional radio stations with a strong presence in North West England, South Wales and Scotland. We own an approximate 26% equity interest in The Wireless Group.
SBS Broadcasting S.A.	A European commercial television and radio broadcasting company. UGC owns an approximate 19% equity interest in SBS Broadcasting.

Proposed Investment

Chorus Communication Limited. LMC currently owns an indirect 50% equity interest in Chorus Communication Limited, which is one of Ireland's largest cable and multi-point multi-channel distribution system (MMDS) companies outside of Dublin based upon number of subscribers. At December 31, 2003, Chorus provided video services to approximately 200,000 customers and Internet access services in portions of its network. Chorus is currently undergoing a restructuring under applicable Irish insolvency laws in which Chorus is seeking to restructure its debt obligations and present a plan to pay its creditors. The restructuring plan includes a proposal by us to make a series of new investments in Chorus (consisting partly of new equity and partly of secured loans) and a proposal by us to acquire the remaining 50% ownership interest in Chorus that is owned by a third party. Our obligations to make the new investments are conditioned upon approval of the restructuring plan by the Irish court and the absence of any material adverse change in the business or operations of Chorus. If the restructuring plan is successfully completed, we expect to own substantially all of the ownership interests in the restructured Chorus. LMC will retain its current equity interest in Chorus, which will be diluted in the restructuring. There can be no assurance that the restructuring plan will be completed as described or at all.

Japan

Our Japanese operations are conducted primarily through our affiliate Jupiter Telecommunications Co., Ltd., which we refer to as J-COM, and our affiliate Jupiter Programming Co., Ltd., which we refer to as JPC. We currently own an approximate 45% ownership interest in J-COM and a 50% ownership interest in JPC. We also hold approximate 31% and 24% ownership interests, respectively, in Chofu Cable k.k. and Mediatti Communications, Inc., two smaller Japanese broadband providers.

Jupiter Telecommunications Co., Ltd.

J-COM is a broadband provider of integrated entertainment, information and communication services in Japan. J-COM operates its broadband networks through 18 individually managed cable franchises, and is the largest stockholder in each of these managed franchises. 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 its networks are upgraded to two-way capability, with almost all of its basic cable subscribers served by a system with a bandwidth of 750 MHz.

J-COM provides analog cable services in all of its managed franchises and provides digital and interactive television services in some of its managed franchises. J-COM offers its analog cable subscribers approximately 43 channels, consisting of terrestrial broadcasts, satellite-delivered and local community programs, including news, sports, kids, movies and entertainment channels. J-COM's digital cable subscribers receive all of the channels included in the basic package and 10 additional digital channels. For a fee, cable subscribers can receive 8 additional premium channels, including movies, animation, adult entertainment and live events. J-COM expects to begin offering digital cable television services to additional managed franchises later in 2004. J-COM is beginning to offer pay-per view services in some of its managed franchises. J-COM offers package discounts to customers who subscribe to bundles of J-COM services.

J-COM offers high-speed Internet access in all of its managed franchises through its wholly owned subsidiary, @NetHome Co., Ltd, and through its affiliate, Kansai Multimedia Services. J-COM holds a 25.8% interest in Kansai Multimedia, which provides high-speed Internet access in the Kansai region of Japan. These Internet access services offer two download speeds: 8 Mbps or 30 Mbps. Approximately 489,900 of J-COM's basic cable subscribers also receive Internet service, representing approximately 77% of its Internet subscribers.

J-COM currently offers telephony services over its own network in 16 of its 18 franchise areas. In these franchise areas, J-COM's headend facilities contain equipment that routes calls from the local network to J-COM's telephony switches, which in turn transmit voice signals and other information over the network. J-COM currently provides a single line to the majority of its telephony customers, most of whom are residential customers. J-COM charges its telephony subscribers a flat fee for basic telephony service (plus the costs of calls) and offers additional premium services, including call-waiting, call-forwarding, caller identification and three way calling, for a fee. Approximately 423,500 of J-COM's basic cable subscribers also receive telephony service, representing approximately 76% of its telephony subscribers.

In addition to its 18 managed franchises, J-COM owns non-controlling equity interests, between 11% and 20%, in four cable franchises that are operated and managed by third-party franchise operators. As of December 31, 2003, these non-managed investments passed approximately 1.4 million homes and served 284,000 basic cable subscribers and 117,000 Internet subscribers.

J-COM sources its programming through multiple suppliers including its affiliate, JPC. J-COM's relationship with JPC 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. In addition, 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 five separate corporations. LMC will own shares of a separate class of common stock in each of the five corporations, which will entitle LMC to a majority of the ordinary voting power of those corporations. LMC's shares of common stock will have common equity rights in the five corporations proportionate to their common stock ownership, which initially will be less than 1% in each of the corporations. We will own the balance of the capital stock in the five corporations, except that several individuals, including two of our executive officers and one of our directors, will continue to own common stock representing an aggregate of 20% of the common equity in one corporation that owns an approximate 6% interest in J-COM. We will enter into certain stockholder arrangements with LMC relating to our respective interests in the five corporations. We will have the right to veto significant decisions related to the five corporations and those corporations' rights related to J-COM. The shares owned by LMC in each of the five corporations can be redeemed by such corporations or acquired by us for nominal consideration. The veto rights and the rights relating to redemption and acquisition will not be exercisable if they would result in a breach or default under any material agreements to which any of such corporations or J-COM or its subsidiaries is a party or by which their respective assets or properties are bound. As a result of these arrangements, we refer to our and LMC's collective ownership interests in J-COM as our own.

Our two primary partners in J-COM are Sumitomo Corporation and Microsoft Corporation. Sumitomo owns a 31.8% ownership interest in J-COM, and Microsoft owns a 19.4% ownership interest in J-COM. We are party to certain stockholder arrangements with Sumitomo and Microsoft relating to our respective interests in J-COM. We and Sumitomo have agreed not to transfer our shares to a third party before the earlier of February 12, 2008 or an initial public offering of J-COM stock and have each granted to the other a right of first offer after February 12, 2008. In addition, we, Sumitomo and Microsoft have each granted to the other a right of first refusal with respect to any transfer of our respective interests in J-COM to a third party. Microsoft has tag-along rights with respect to certain sales of J-COM stock by us, and we have drag-along rights as to Microsoft with respect to certain sales of our J-COM stock. We are also entitled to certain preemptive rights with respect to any new issuance of J-COM securities.

We have the right to appoint three non-executive directors of J-COM's 13 member board and to nominate persons to (and remove persons from) the positions of chief operating officer and chief financial officer, which officers also serve as directors. Sumitomo also has the right to appoint three non-executive directors and holds similar rights with respect to the chief executive officer and another executive position of J-COM, which officers also serve as directors. We and Sumitomo have also agreed that certain specified actions by J-COM will require our mutual consent, while Microsoft has the right to challenge certain types of transactions and require review by an independent advisor based upon specified criteria. We and Sumitomo have agreed not to acquire or invest, to the extent of more than a 10% equity interest, in any broadband businesses serving residential customers in Japan without first offering the opportunity to J-COM.

The foregoing arrangements expire upon an initial public offering of J-COM stock, except that, if an initial public offering has not occurred by February 12, 2008, the arrangements relating to Microsoft will expire on that date.

Jupiter Programming Co., Ltd.

JPC is a joint venture between us and Sumitomo that was formed to develop, manage and distribute to cable television and DTH providers cable and satellite television channels in Japan. As of December 31, 2003, JPC owned four channels through wholly or majority-owned subsidiaries and had investments ranging from approximately 10% to 50% in eleven additional channels. JPC's majority owned channels are a movie channel (*Movie Plus*), a golf channel (*Golf Network*), a shopping channel (*Shop Channel*, in which JPC has a 70% interest and Home Shopping Network has a 30% interest), and a women's entertainment channel (*LaLa TV*). Channels in which JPC holds investments include three sports channels owned by J Sports Broadcasting Corporation, a joint venture with News Television B.V., Sony Broadcast Media Co. Ltd, Fuji Television Network, Inc. and SOFTBANK Broadmedia Corporation; *Animal Planet Japan*, a one-third owned joint venture with Discovery and BBC Worldwide; *Discovery Channel Japan*, a 50% owned joint venture with Discovery; and *AXN Japan*, a 35% joint venture with Sony. JPC 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 and direct-to-home satellite platforms. Cable systems in Japan served approximately 15.4 million homes at December 31, 2003. A large percentage of these homes, however, are served by systems (referred to as compensation systems) whose service principally consists of retransmitting free TV 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, currently serve approximately 4.9 million households. The majority of channels in which JPC holds an interest are marketed as basic television services to cable system operators, with distribution at December 31, 2003 ranging from approximately 13 million homes for *Shop Channel* (which is carried in many compensation systems and on VHF as well as in multi-channel cable systems) to approximately 1.6 million homes for more recently launched channels, such as *Animal Planet Japan*.

Each of the channels in which JPC has an interest is also currently offered on SkyPerfecTV1, a digital satellite platform that delivers approximately 140 channels a la carte and in an array of basic and premium packages, from two satellites operated by JSAT Corporation. JPC also offers channels on SkyPerfecTV2, another satellite platform in Japan, which delivers a significantly smaller number of channels. Under Japan's complex regulatory scheme for satellite broadcasting, each television channel obtains a broadcast license which is perpetual, although subject to revocation by the relevant governmental agency, and leases from a satellite operator the bandwidth capacity on satellites necessary to transmit the licensed channel to cable and other distributors and direct-to-home satellite subscribers. In the case of distribution of JPC's 33% or greater owned channels on SkyPerfecTV1, these licenses and satellite capacity leases are held through its subsidiary, Jupiter Satellite Broadcasting Corporation (JSBC). The satellite broadcast licenses for JPC's 33% or greater owned channels with respect to SkyPerfecTV2 are held by two other companies that are majority owned by unaffiliated entities. JSBC's leases with JSAT for bandwidth capacity on JSAT's two satellites expire between 2006 and 2011. The satellite broadcast licenses with respect to the SkyPerfecTV2 platform expire between 2012 and 2014. JSBC 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 JPC holds an interest are marketed as basic television services to DTH subscribers with distribution at December 31, 2003 ranging from 3.1 million homes for *Shop Channel* (which is carried as a free service to all DTH subscribers) to 200,000 homes for more recently launched channels, such as *Animal Planet Japan*.

Approximately 81% of JPC's consolidated revenues for 2003 were attributable to retail revenues generated by the *Shop Channel*. Cable operators are paid distribution fees to carry the *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 fixed rate per subscriber distribution fees to provide the *Shop Channel* to its DTH subscribers. After *Shop Channel*, J Sports Broadcasting generates the most revenues of the channels in which JPC has an interest. The majority of these revenues are derived from cable and satellite subscriptions. J Sports Broadcasting, in which JPC has an approximate direct and indirect 29% ownership interest, supplies sports programming to three specialized channels in Japan. Currently, advertising sales are not a significant component of JPC's revenues.

We and Sumitomo each own a 50% interest in JPC. Pursuant to a stockholders agreement we entered into with JPC and Sumitomo, we and Sumitomo each have preemptive rights to maintain our respective equity interests in JPC, and we and Sumitomo each appoint an equal number of directors provided we maintain our equal ownership interests. Currently, we each appoint three of JPC's six directors. 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 we and Sumitomo each own 30% of JPC's equity at the time of any such action. We and Sumitomo each hold a right of first refusal with respect to the other's interests in JPC, and we and Sumitomo have each agreed to provide JPC 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 JPC distributes its signals, in each case subject to specified limitations.

Australia

We own minority interests in broadband distributors and video programmers operating in Australia. The following table provides information with respect to these interests:

Entity	Business Description (as of 12/31/03)
Austar United Communications Ltd.	Provides pay television services, Internet access and mobile telephony services to more than an aggregate of 400,000 homes in regional and rural Australia and the capital cities of Hobart and Darwin. Austar's 50% owned joint venture, XYZnetworks, owns and/or distributes *Nickelodeon, Discovery, Channel [V], musicMAX, Arena*, *The Lifestyle Channel* and *The Weather Channel* to over 1.2 million subscribers throughout Australia. UGC owns an approximate 34% equity interest in Austar.
Premium Movie Partnership	Supplies three premium movie programming channels to all the major subscription television distributors in Australia. PMP's partners include Showtime, Twentieth Century Fox, Sony Pictures, Paramount Pictures and Universal Studios. PMP is also one of the largest private investors in Australian feature films. We own an approximate 20% equity interest in PMP.

Latin America

Our Latin American operations are conducted primarily through VTR GlobalCom S.A., which is a wholly owned subsidiary of UGC; our subsidiary Liberty Cablevision of Puerto Rico, Ltd., our affiliate Metrópolis-Intercom S.A.; and our subsidiary Pramer S.C.A. Through UGC, we also hold interests in other broadband providers operating in Brazil, Peru and Uruguay.

Many countries in Latin America have experienced ongoing recessionary conditions during the past five years. Among these countries, Argentina, in which certain of our businesses offer programming services, may have been the most harshly affected. Argentina has experienced severe economic and political volatility since 2001. Effective January 2002, the Argentine government eliminated the historical exchange rate of one Argentine peso to one U.S. dollar (the "peg rate"). The value of the Argentine peso dropped significantly on the date the peg rate was eliminated and dropped further through 2002. As a result of the recessionary conditions in Latin America, our businesses in these countries, particularly in Argentina, have experienced significant negative effects on their financial results. In many cases, their customers reduced spending or extended payments, while their lenders tightened credit criteria. We cannot predict how much longer these recessionary conditions will last, nor can we predict the future impact of these conditions on the financial results of our businesses which operate in this region.

UnitedGlobalCom, Inc.

UGC's primary Latin American operation, VTR GlobalCom S.A. (VTR), is Chile's largest multi-channel television and high-speed Internet access provider in terms of homes passed and number of subscribers, 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, Concepcion, Viña del Mar, Valparaiso and Rancagua, and smaller cities across Chile. Approximately 98% of its video subscribers are served via wireline cable, with the remainder via MMDS and DTH technologies. VTR's network is approximately 59% upgraded to two-way capability, with 65% of its basic cable subscribers served by a system with a bandwidth of at least 750 MHz. VTR has an approximate 69% market share of cable television services throughout Chile and an approximate 51% market share within Santiago.

VTR's channel lineup consists of 53 to 69 channels segregated into two tiers of analog cable service: a basic service with 53 to 58 channels and a premium service with 11 channels. VTR offers basic tier programming similar to the basic tier program lineup in the United States, plus more premium-like 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. In order to better differentiate VTR's premium service, increase the number of subscribers to premium service and increase average monthly revenue per subscriber, VTR anticipates gradually moving some channels out of its basic tier and into premium tiers or pay-per-view events, offering additional movies on premium tiers in the future. 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 offers several alternatives of always on, unlimited-use high-speed Internet access to residences and small/home offices under the brand name Banda Ancha in 22 communities within Santiago and 12 cities outside Santiago. Subscribers can purchase one of three services with download speeds ranging from 64 Kbps to 600 Kbps. For a moderate to heavy Internet user, VTR's Internet service is generally less expensive than a dial-up service with its metered usage. To provide more flexibility to the user, VTR also offers Banda Ancha Flex, where a low monthly flat fee includes the first 200 minutes, with metered usage above 200 minutes. Approximately 27% of VTR's basic cable subscribers also receive Internet service, representing approximately 98% of its Internet subscribers.

VTR offers telephony service to customers in 22 communities within Santiago and seven cities outside Santiago. 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 small businesses and home offices. Approximately 35% of VTR's basic cable subscribers also receive telephony service, representing approximately 63% of its telephony subscribers.

We, LMC and CristalChile Comunicaciones S.A., the parent of our partner in Metrópolis-Intercom, entered into an agreement pursuant to which we each agreed to use our respective commercially reasonable efforts to merge Metrópolis-Intercom and VTR, in an effort to facilitate the provision of enhanced services to cable and telecommunications consumers in the Chilean marketplace. The merger is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of the boards of directors of LMC, CristalChile, VTR and UGC (including, in the case of UGC, the independent members of UGC's board of directors) and the receipt of necessary third party approvals and waivers. If the proposed merger is consummated as contemplated, we will own directly and through UGC 80% of the voting and equity rights in the new entity, and CristalChile will own the remaining 20%. CristalChile will have the right to elect 1 of the 5 members of the new entity's board and will have veto rights over certain material decisions for so long as CristalChile owns at least a 10% equity interest in the merged entity. In addition, CristalChile will have a put right which will allow CristalChile to require LMC to purchase all, but not less than all, of its interest in the new entity on or after the first anniversary of the date on which Chilean regulatory approval of the merger is received at the fair market value of the interest subject to a minimum price. The parties have agreed to decide by May 10, 2004, or such later date as they may mutually agree, whether to continue pursuing the consummation of the merger. We will assume and indemnify LMC against its obligations with respect to CristalChile's put right.

Liberty Cablevision of Puerto Rico Ltd.

Liberty Cablevision of Puerto Rico Ltd., our wholly owned subsidiary, is one of Puerto Rico's largest cable television operators based upon number of subscribers. Liberty Cablevision of Puerto Rico operates three head ends, serving the communities of Luquillo, Arecibo, Florida, Caguas, Humacao, Cayey and Barranquitas and 30 other municipalities. In portions of its network, Liberty Cablevision of Puerto Rico also offers high speed Internet access and cable telephony services. Liberty Cablevision of Puerto Rico's network is approximately 71% upgraded to two-way capability, with all of its basic cable subscribers served by a system with a bandwidth of at least 550 MHz.

Liberty Cablevision of Puerto Rico provides subscribers with 61 analog channels. In some service areas, Liberty Cablevision of Puerto Rico also offers 48 digital channels, 46 premium channels, 46 pay-per-view channels and 33 digital music channels. Liberty Cablevision of Puerto Rico obtains programming primarily from international sources, including suppliers from the United States.

Liberty Cablevision of Puerto Rico offers four tiers of high-speed Internet access with download speeds ranging from 64 Kbps to 1.5 Mbps. Approximately 6% of Liberty Cablevision of Puerto Rico's basic cable subscribers also receive Internet service, representing approximately 70% of its Internet subscribers.

Liberty Cablevision of Puerto Rico has begun offering telephony service using IP-based technology. Currently, only 1% of Liberty Cablevision of Puerto Rico's basic cable subscribers also receive telephony service, representing approximately 87% of its telephony subscribers.

Metrópolis-Intercom S.A.

Metrópolis-Intercom S.A. is Chile's second largest cable operator based upon the number of subscribers served. Metrópolis-Intercom operates cable systems in nine of the most densely populated cities within Chile, including Santiago (the capital of Chile), Viña del Mar, Concepcion and Temuco. Approximately 77% of Metropolis-Intercom's distribution network operates at a bandwidth of 750 MHz.

Metrópolis-Intercom offers digital services in Santiago, including an interactive programming guide, near video on demand and music channels. Metrópolis-Intercom's channel lineup consists of 77 channels segregated into two tiers of service: a basic tier with 65 channels and a premium service with 12 channels. Metrópolis-Intercom obtains programming primarily from international sources, including suppliers from the United States, Europe, Argentina and Mexico. It also carries domestic programming, including one channel of programming which it produces. More domestic cable television programming in Chile is being developed around local events, such as soccer matches.

Metrópolis-Intercom offers high-speed Internet access through a two-way network serving approximately 20% of its homes passed. Metrópolis-Intercom offers several alternatives of always-on, unlimited use Internet access services with download speeds ranging from 64 Kpbs to 600 Kbps. In addition, in those areas where Metrópolis-Intercom's network cannot provide high-speed Internet access it offers ADSL services through the CTC network, the local phone company controlled by Telefónica S.A.

Metrópolis-Intercom offers telephony service primarily to residential customers requiring one or two telephony lines. Currently, Metrópolis-Intercom is offering basic dial tone service and in the near future expects to offer several value-added services, including voice mail, caller ID, speed dial, wake-up services and call waiting. In areas where its network is not upgraded, Metrópolis-Intercom offers standard telephony in partnership with CTC.

We and Cristalerías de Chile, a large publicly traded Chilean company with significant media interests, each own a 50% interest in Metrópolis-Intercom. The board of directors of Metrópolis-Intercom consists of ten members. We and Cristalerías each designate one-half of the directors of Metrópolis-Intercom and almost all actions by the board require the consent of representatives of each partner. We have given Cristalerías the right to control the day-to-day operations of Metrópolis-Intercom.

As discussed under "—UnitedGlobalCom, Inc." above, we, LMC and CristalChile, of which Cristalerías is a subsidiary, have entered into an agreement pursuant to which we have agreed to use our respective commercially reasonable efforts to merge Metrópolis-Intercom and VTR. The merger is subject to certain conditions. The parties have agreed to decide by May 10, 2004, or such later date as they may mutually agree, whether to continue pursuing the consummation of the merger. If the merger does not occur, we and CristalChile have each agreed to fund our pro rata share of a capital call sufficient to retire Metrópolis-Intercom's local debt facility, and to amend the existing agreement governing our relationship with respect to Metrópolis-Intercom. Among other things, our approval rights as an owner of Metrópolis-Intercom will be limited to certain material matters, including material related party transactions, but will not include the adoption of budgets or business plans or the making of capital calls. CristalChile will have a call right with respect to our interest in Metrópolis-Intercom, subject to a minimum price, and for so long as CristalChile owns directly or indirectly 50% or more of the shares of Metrópolis-Intercom, CristalChile will have a drag-along right, subject to a minimum purchase price, with respect to our interest in Metrópolis-Intercom in connection with a bona fide sale of all of its and its affiliates' direct interest in Metrópolis-Intercom. We will have tag-along rights in connection with sales by CristalChile or its affiliates of any of their direct interests in Metrópolis-Intercom. Neither party will have a put right to the other party of its interest in Metrópolis-Intercom.

Pramer S.C.A.

Pramer S.C.A., our wholly owned subsidiary, is an Argentine programming company which supplies programming services to cable television and DTH satellite distributors in Latin America, Spain and some Spanish speaking markets in the United States. Pramer currently owns 11 channels and produces, markets, distributes or otherwise represents 13 additional channels, including two of Argentina's five terrestrial broadcast stations. Total subscription units for 2003 (which equals the sum of the total number of subscribers to each of Pramer's owned and represented channels) were approximately 82.5 million, with the number of subscribers per channel ranging from less than 23,000 for the smallest premium service to over 9.7 million for the most popular basic service. Pramer's owned channels include *Canal (a)*, the first Latin-American quality arts channel, *Film & Arts*, offering quality films, concerts, operas and interviews with artists, and *elgourmet.com*, a channel for the lovers of "the good things in life," all of which are offered as basic television services. Approximately 50% of Pramer's total revenue for 2003 was generated by owned channels. Pramer's represented channels include *Hallmark*, *Locomotion* and *Cosmo Channel* (in which we own a 50% interest).

Pramer's affiliation agreements with cable television and satellite distributors typically have terms of one to five years and provide for payments based upon the number of subscribers that receive Pramer's services. Pramer's current affiliation agreements expire in 2004 and 2005. The only distributor that represented more than 10% of Pramer's total revenue for 2003 was Cablevisión S.A., an Argentine cable provider. Pramer's affiliation agreement with Cablevisión expires in December 2004. For more information concerning Cablevisión, see "—Other—Cablevisión S.A." below.

Of the 24 channels owned and/or represented by Pramer, 15 channels are distributed outside of Argentina, principally in Chile, Mexico and Venezuela. For 2003, approximately 43% of Pramer's affiliate revenue was derived from the distribution of channels outside of Argentina.

Pramer handles affiliate sales for the 8 channels it represents and advertising sales for 7 of such channels. Pramer collects the revenue for the represented channels and pays the channel owners either a fixed fee or a fee based upon amounts collected. Representation agreements typically have terms of two to five years. Advertising revenue accounted for approximately 13% of Pramer's total revenue for 2003.

Pramer has two sources of content: rights that are purchased from various distributors and its own productions. Contracts with producers or distributors of films and shows usually have terms of two to four years. Pramer's own productions are usually contracted with independent producers.

All of Pramer's satellite transponder capacity is provided pursuant to contracts expiring in 2014.

Torneos y Competencias S.A.

Torneos y Competencias 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. Torneos' emphasis is on soccer, and it has an exclusive agreement (except for certain cable broadcast rights held by an affiliate) with the Asociacion del Futbol Argentino (AFA) to produce and distribute matches between clubs in the Argentine professional soccer leagues. This agreement expires in 2010 unless extended to 2014 at Torneos' request. Torneos produces or co-produces, through its three television studios and the production facilities of its production partners, a number of successful soccer-based programs, including Futbol de Primera, El Clasico del Domingo and Futbol de Verano.

Torneos' 50%-owned affiliate, Television Satelital Codificada S.A. (TSC), holds the commercial rights, with certain exceptions, in Argentina to select official soccer matches of AFA's Premier League. TSC sells the right to televise specific matches to cable operators, to an over-the-air broadcast television channel in the City of Buenos Aires and the greater Buenos Aires metropolitan area and, in certain cases, exclusively to the TyC Sports Channel. Another 50%-owned affiliate of Torneos, Tele-Red Imagen S.A. (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, including non-AFA soccer cup games, hockey, volleyball and tennis. Trisa also holds commercial rights to produce and distribute certain motor racing, basketball and boxing events. Trisa co-produces motor racing events for distribution through over-the-air television in the City of Buenos Aires and the greater Buenos Areas metropolitan area and through cable operators in the interior of Argentina and produces a weekly basketball and a weekly boxing event for cable exclusive distribution.

Torneos has interests in two magazines: El Grafico, which covers Argentine and international sports, with special emphasis on soccer; and Golf Digest's Argentine and Chilean editions. Torneos also owns a 50% interest in T&T Sports Marketing Ltd., which owns the television rights until 2007 for the principal South American soccer tournament, the Copa Libertadores de America, a regional championship played by the champion and the runner-up soccer team of each country affiliated with the South American Soccer Confederation. Fox Pan American Sports LLC acquired the other 50% interest in T&T Sports Marketing in January 2002.

Fox Pan American Sports LLC, a joint venture in which we own a 15.2% voting interest and a 10.6% economic interest, is a principal customer of Torneos. Torneos supplies most of the sports production for Fox Pan American Sports' Latin American signal. Torneos also sells its regional soccer distribution rights to Fox Pan American Sports, as well as to third parties. Through Fox Pan American Sports, Torneos anticipates a growing distribution for its programming outside of Argentina.

We own a 40% interest in Torneos; an affiliate of Hicks Muse owns a 20% interest; a subsidiary of Telefónica S.A. owns a 20% interest; and the remaining 20% is owned by entities controlled by Luis B. Nofal. We have the right, during each of the 30-day periods beginning on April 25, 2004, April 25, 2005 or April 25, 2006 to purchase a 14% interest from Mr. Nofal. The purchase price that we would have to pay would be $2 million in 2004, $2.4 million in 2005 or $3 million in 2006.

Pursuant to a stockholders agreement among us and the founding stockholders of Torneos, we retain, among others, the right to (1) participate with Torneos in any joint ventures formed to distribute sports programming in Argentina, Bolivia, Paraguay and Uruguay, (2) use Torneos trademarks in connection with any such sports programming, (3) match third party offers for DTH distribution of Argentine Soccer Association events, (4) match third party offers to the remaining founder of Torneos for its shares in Torneos, and (5) purchase as many Torneos shares as required to increase our ownership in Torneos to 50%, at the price paid by us for our initial 35% interest.

Other

We also own minority interests in other broadband distributors and video programmers operating in Latin America. The following table provides information with respect to these interests:

Entity	**Business Description and Ownership Interest (as of 12/31/03)**
Digital Latin America, LLC*	Operator of a digital network, via satellite transmission, that offers digital programming and programming transportation services to cable television operators throughout Latin America. We own a 43% equity interest in DLA.
Fox Pan American Sports LLC	A joint venture that develops and operates multiple Spanish language subscription television and radio services comprised predominantly of sports programming. We own a 10.6% equity interest in Fox Pan American Sports.
Sky Latin America	Offers entertainment services via satellite to households through its owned and affiliated distribution platforms in Latin America. Distributes programming primarily via DTH platforms, allowing subscribers to access a variety of channels covering general entertainment, music, movies, sports, kids, news, documentaries and education genres. We own a 10% equity interest in Sky Latin America.

* DLA is currently involved in renegotiations concerning the terms and conditions of its satellite agreements with PanAmSat Corporation and its loan agreement with Motorola, Inc. In October 2003, DLA defaulted on the PanAmSat agreement, and, in January 2004, DLA defaulted under the Motorola loan agreement. As a result of these defaults, among other factors, we cannot assure you that DLA will be able to continue as a going concern.

Proposed Investment

Cablevisión S.A. LMC owns an indirect 79% economic and non-voting interest in a limited liability company that owns 50% of the outstanding capital stock of Cablevisión S.A. Cablevisión is the largest cable television company in Argentina, in terms of number of subscribers, with 1.2 million basic cable subscribers as of December 31, 2003. As a result of the termination by Argentina of its decade-old currency peg in late 2001, Cablevisión (in common with other Argentine issuers) stopped servicing its U.S.-dollar denominated debt in 2002, which it is currently in the process of restructuring. As part of that restructuring, we would contribute to Cablevisión U.S. $27.5 million, for which we would receive, after giving effect to a capital reduction pertaining to the current shareholders of Cablevisión (including the aforementioned entity in which LMC has a 79% economic interest), approximately 39% of the equity of the restructured Cablevisión. The proceeds of our cash contribution would be distributed as part of the consideration being offered to Cablevisión's creditors. Cablevisión is expected to submit its restructuring plan, which has been approved by the requisite majorities of its creditors, to a commercial court in Buenos Aires in April 2004. No assurance can be given as to whether Cablevisión's restructuring plan will be accepted by the court. We have also entered into a letter of intent with an affiliate of American International Group, Inc., which contemplates, after the restructuring, a joint venture with respect to our proposed investment in Cablevisión, which we will control.

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 Western European markets is harmonized under the regulatory structure of the European Union, which we refer to as the EU. Adverse regulatory developments could subject our businesses to a number of risks. See "Risk Factors—Factors Relating to our Business—Our business is subject to risks of adverse regulation by foreign governments." Regulations could limit growth, revenues 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 open-network obligations, and restrictions 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 required to obtain licenses, permits or other governmental authorizations from (or to notify or register with) relevant local or regulatory authorities to own and operate their respective distribution systems. In many countries, these licenses are non-exclusive and of limited duration. In some countries where we provide video programming services, such as the EU countries, we must comply with restrictions on programming content. Local or regulatory authorities in many countries where we provide video services also impose pricing restrictions and subject certain price increases to approval by the relevant local or national authority.

Our telecommunications businesses generally are required to obtain licenses to offer telephony services, although, in some instances, we need only register with the appropriate regulatory authority. Our businesses to date have not been subject to certain additional rate regulation but would become subject to such regulation in a number of jurisdictions if they are deemed to hold significant market power. Under the EU's new regulatory framework discussed below, a company will be deemed to have significant market power if it has the power to behave to an appreciable extent independently of competitors, customers and consumers. In some countries, we must notify the regulatory authority of our tariff structure and any subsequent price increases.

European Union

Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom are all member states of the EU. As such, these countries are required to enact national legislation which implements EU directives. Although not an EU member state, Norway is a member of the European Economic Area and generally has implemented or is implementing the same principles on the same timetable as EU member states. The following 10 countries will join the EU on May 1, 2004: The Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and the Slovak Republic. As a result, most of the markets in Europe in which our businesses operate have been significantly affected by regulation initiated at the EU level.

Communications Services and Competition Directives

A suite of new directives, which we refer to as the Directives, is revising 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); and
- Directive on Privacy and Electronic Communications (referred to as the Privacy Directive).

In addition to the Directives, a decision intended to ensure the efficient use of radio spectrum within the EU was adopted by the European Parliament. EU member countries were required to implement the Framework, Authorization, Access and the Universal Service and Users' Rights Directives by July 25, 2003. As of November 1, 2003, the following eight countries had taken action to incorporate the Directives into national law: Denmark, Spain, Ireland, Italy, Austria, Finland, Sweden and the U.K. The 10 countries scheduled to join the EU on May 1, 2004 must ensure compliance with the new framework as of the date of accession. The European Commission, which proposes legislation and policies for member states, expects the implementation process in France and Germany to be lengthy. The implementation process has begun in Greece, Luxembourg, The Netherlands and Portugal but is not yet complete. Finally, implementation has been delayed in Belgium. The Privacy Directive was to be implemented by October 31, 2003. The following countries have adopted the Privacy Directive: Denmark, Spain, Italy, Austria, Sweden and the U.K.

The new regulatory framework seeks, 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. It remains to be seen whether there will be a trend in the future to use general competition laws, rather than regulation to prevent dominant carriers from abusing their market power.

In order to make the rules on liberalization simpler and more transparent, on September 16, 2002, the European Commission adopted a Directive on Competition in the Markets for Electronic Communications Networks and Services (referred to as the Competition Directive). The Competition Directive requires EU member states to abolish special or exclusive rights relating to electronic communications networks and services and to ensure that any firm is entitled to provide them. In addition, member states must ensure that any general authorization allowing firms to provide such networks or services is based upon objective, non-discriminatory, proportionate and transparent criteria. Consistent with the scope of the Directives, the Competition Directive applies to all networks and services used for the conveyance of signals by wire, radio, optical or other electromagnetic means, such as fixed, wireless, cable and satellite networks. The Competition Directive applies to transmission networks and services used for the broadcasting of radio and television programs, but excludes services providing or exercising control over such programs' content. The European Commission currently is investigating whether regulation in the member states of the networks and services used for the broadcasting of radio and television programs and other audio-visual services complies with the Competition Directive.

Most of the obligations included within the Directives apply to operators with "Significant Market Power" in a specific market. For example, the provisions of the Access Directive allow member states to mandate access obligations for those operators that are deemed to have Significant Market Power. For purposes of the Directives, an operator will be deemed to have Significant Market Power 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. Consequently, we do not anticipate that the Directives will result in any form of additional regulatory burden for a majority of our businesses given their current position in the market.

The European Commission is consulting on draft guidelines on market analysis and the assessment of Significant Market Power under the new Directives. The draft guidelines propose a structure for analyzing and determining market power. Under the new Directives, the European Commission also has the power to veto the decisions concerning Significant Market Power and market definitions of the national regulatory authorities in each EU member state.

Conditional Access for Video Services. EU member states may regulate the offering of conditional access systems, such as set-top converters used for the expanded basic tier services offered by many of our businesses. Under EU law, providers of such conditional access systems may be required to make them available on a fair, reasonable and non-discriminatory basis to other video service providers, such as broadcasters.

Telecommunications Interconnection. The Access Directive sets forth the general framework for interconnection, including general obligations for telecommunications operators to allow interconnection with their networks. Public telecommunications network operators with Significant Market Power are subject to additional obligations. They must offer interconnection without discriminating between operators that offer similar services, and their interconnection charges must follow the principles of transparency and be based upon the actual cost of providing the interconnection and carriage of telephony traffic. The Access Directive also contains provisions on collocation of facilities, number portability with certain exceptions, supplementary charges to contribute to the costs of universal service obligations and other interconnection standards. As a result, when the principles in the Access Directive are implemented, our businesses in the EU and Norway should be able to interconnect with the public fixed network and other major telecommunications networks on reasonable terms in order to provide their services.

Telecommunications Licensing. EU member states are required to adopt national legislation so that providers of telecommunications services generally require either no authorization or a general authorization which is conditional upon "essential requirements," such as the security and integrity of the network's operation. Licensing conditions and procedures must be objective, transparent and non-discriminatory. In addition, telecommunications operators with Significant Market Power may be required by EU member states to hold individual licenses carrying more burdensome conditions than authorizations held by other providers. However, license fees charged to operators may only include administrative costs, except in the case of scarce resources where additional fees are allowed. Following the entry into force of the new regulatory framework, licensing rules will be subsumed into a new authorization directive, and general authorizations are expected to replace individual licenses in almost all cases.

Broadcasting. Generally, broadcasts originating in and intended for reception within a country must respect the laws of that country. EU member states are required to allow broadcast signals of broadcasters in other EU member states 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 territories in which we operate. An 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.

EU member states are required to permit a satellite broadcaster to obtain the necessary copyright license for its programs in just one country (generally, the country in which the broadcaster is established), rather than obtaining copyright licenses in each country in which the broadcast is received. This concession does not apply to cable distribution.

Distribution Infrastructure and Video Business

Licenses. Certain of our businesses are generally required to either obtain licenses, permits or other governmental authorizations from, or notify or register with, relevant local or regulatory authorities to own and operate their respective distribution systems. Generally, these licenses are non-exclusive. In many countries, licenses are granted for a specified number of years.

Some of our businesses are dependent on these licenses, permits and authorizations, and their termination or non-renewal could have a material adverse effect on certain of our businesses.

In some countries, our businesses pay annual franchise fees based upon the amount of their revenues. In other countries, the fee consists of a payment upon initial application and/or nominal annual payments.

Video "Must Carry" Requirements. In most countries where our businesses provide video and radio service, they are required to transmit to subscribers certain "must carry" channels, which generally include public national and local channels. Certain countries have adopted additional programming requirements. For example, in France various laws restrict the programming content our businesses are allowed to offer. In parts of Belgium, our businesses must seek authorization for the distribution of non-EU programming. Under the new EU framework, 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.

Pricing Restrictions. Local or national regulatory authorities in many countries where we provide video services also impose pricing restrictions. 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. In countries where rates are not regulated, subscriber fees may be challenged if they are deemed to constitute anti-competitive practices. These price restrictions are generally not applied to expanded basic tier or digital programming.

Internet

Our businesses must comply with both EU regulation and with relevant domestic law in the provision of Internet access services and on-line content. Most countries require that providers of these services register with or notify the relevant regulatory authority of the services they provide and, in some cases, the prices charged to subscribers for such services.

Our businesses that provide Internet services must comply with both Internet-specific and general laws concerning data protection, content provider liability and electronic commerce. Future regulations will likely have a significant impact on the provision of Internet services by our businesses. For example, in June 2000, the EU issued a directive establishing several principles for the regulation of e-commerce activities, including limiting the obligations and liability of companies providing network services or information storage for information transmitted or stored on their systems.

Telephony

The liberalization of the telecommunications market in Europe allowed new entrants, including some of our businesses, to enter the telephony services market. The regulatory situation in most of the Eastern European markets in which our businesses operate currently precludes them from offering traditional switched telephony services.

Generally, our businesses are required to obtain licenses to offer telephony services, although, in some countries, we need only register with the appropriate regulatory authority. Certain of our businesses require these licenses for their telephony businesses and their termination or non-renewal could have a material adverse effect on them. Our businesses have, to date, generally not been subject to telephony rate regulation but would become subject to such regulation in a number of jurisdictions if they are deemed to hold Significant Market Power. In some countries, our businesses must notify the regulatory authority of their tariff structure and any subsequent price increases. Licensing procedures in the EU will be simplified under the new regulatory framework discussed above.

Incumbent telephony providers in each EU market are required to offer new entrants into the telephony market interconnection with their networks. Interconnection must be offered on a non-discriminatory basis and in accordance with certain principles set forth in the relevant EU directive, including cost-based pricing.

Competition Law and Other Matters

EU directives and national consumer protection and competition laws in our Western European and certain other markets impose limitations on the pricing and marketing of integrated packages of services, such as video, telephony and Internet access services. Although our businesses may offer their services in integrated packages in Western European markets, they are generally 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' legislative debates were extensive regarding whether, and under what terms and conditions, third parties should be allowed access to cable networks given the high penetration of cable infrastructure in The Netherlands, which exceeds 90% cable penetration. The Dutch government sent to the Dutch Parliament in January 2002 a law on access to cable, under the EU framework. As an EU member, The Netherlands is required to implement the EU's Access Directive. The legislative process to implement the EU framework in The Netherlands has begun but is not yet complete.

Poland

As a general matter, Poland's telecommunications laws are in a state of flux as Poland prepares for EU membership. Poland is required to harmonize its national laws to EU requirements, and many legislative proposals are under discussion.

On January 1, 2001, the Telecommunications Law took effect, under which only the operation of public telephony networks and public networks used for the broadcasting or distributing of radio and TV programs are required to obtain a telecommunications permit to be issued by the Telecommunications and Posts Regulatory Authority, or "Authority." Other types of telecommunications activities, such as data transmission and Internet access services, are subject to registration with the Authority.

The Telecommunications Law may affect the ability of our Polish operating company to obtain required radio frequency allocations if such frequencies are assigned by public tenders. The Telecommunications Law also contains provisions regarding access to networks and infrastructure sharing and eliminates certain foreign ownership limitations for the provision of cable television and domestic telecommunications services.

Japan

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

Under the Cable Television Broadcasting Law, any business seeking to install cable television facilities with more than 500 drop terminals must obtain a license from the Ministry of Public Management, Home Affairs, Posts, and Telecommunications (which we refer to as the Ministry). Under the Wire Telecommunications Law, if these facilities have fewer than 500 drop terminals, only prior notification to the Ministry 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 Ministry in order to change any of the items included in the original license application. The Cable Television Broadcasting Law also provides that any business that wishes to furnish cable television services must file prior notification with the Ministry before commencing service. This notification must identify the service areas, facilities and frequencies to be used 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 Ministry of any changes to these items.

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

A cable television provider must comply with specific guidelines, including: (1) editing standards; (2) providing facilities for third party use for cable television broadcasting services, subject to availability; (3) providing service within its service area to those who request it absent reasonable grounds for refusal; and (4) obtaining permission to use public roads for the installation and use of cable.

Regulation of the Telecommunications Industry. As providers of high-speed Internet access and telephony, our businesses in Japan also are subject to regulation by the Ministry under the Telecommunications Business Law. The Telecommunications Business Law regulates Type I and Type II carriers. Type I carriers are allowed to carry data over telecommunications circuit facilities which they install or on which they hold long-term leases meeting certain criteria. Type I carriers include common carriers, as well as wireless operators. Type II carriers, including telecommunications circuit resale carriers and Internet service providers, carry data over facilities installed by others. Under the Telecommunications Business Law, Type I carriers are allowed to offer the same kinds and categories of services as Type II carriers. Because our businesses carry data over telecommunications circuit facilities they installed in connection with their telephony and high-speed Internet access, our businesses are Type I carriers.

A Type I carrier is required to obtain a license from the Ministry before providing telephony or Internet access services. The license application must set forth categories and descriptions of services, service areas and telecommunications facilities. Additionally, a Type I carrier generally must obtain prior permission from the Ministry in order to change any of the items set forth in the original application. For a Type I carrier license, Internet access and telephony services are deemed to be separate categories of service. A Type I carrier must also obtain approval from the Ministry before it enters into an agreement entrusting any part of its telecommunications service to any other telecommunications carrier. A license may be revoked by the Ministry if, *inter alia*, a Type I carrier has failed to commence its telecommunications business within the time period designated by the Ministry or has harmed the public interest by otherwise violating the Telecommunications Business Law.

Effective April 1, 2004, amendments to the Telecommunications Business Law will eliminate the distinction between Type I (facilities-based) and Type II (service-based) carriers. Type I carriers currently are subject to more stringent licensing and tariffing requirements than Type II carriers. The amendments will make it easier for entities to enter the Japanese telecommunications market, particularly those carriers who wish to own and operate their own facilities on a limited scale. Larger carriers with facilities exceeding a certain size that operate within a specified area will be required to register with the Ministry, while smaller carriers may enter the market just by providing notice to the Ministry. The amendments also allow any carrier to discontinue business by providing notice to their users and ex post notification to the Ministry.

Under these amendments, carriers who provide Basic Telecommunications Services, defined as telecommunications which are indispensable to the lives of the citizenry as specified in Ministry ordinances, will be required to provide such services in an appropriate, fair and stable 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 Ministry. The Ministry may order modifications to contract terms and conditions it deems inappropriate for certain specified reasons. The terms and conditions as well as charges and tariffs for the provision of telecommunications services for Type I carriers are strictly regulated, but under these amendments, carriers may generally negotiate terms and conditions with their users (including fees and charges) except those relating to Basic Telecommunications Services.

Australia

Subscription television services are regulated in Australia by a number of Commonwealth statutes. In addition, state and territory laws, including environmental and consumer protection legislation, may impact the construction and maintenance of a transmission system for subscription television services, the content of those services, and on various other aspects of the subscription television business itself.

The Australian Broadcasting Services Act 1992, or "BSA," regulates the ownership and operation of all categories of television and radio services in Australia. The technical delivery of broadcasting services is separately licensed under the Radiocommunications Act 1992 or the Telecommunications Act 1997, depending on the delivery technology utilized.

The BSA regulates subscription television broadcasting services through a licensing regime. Our Australian businesses and their related companies hold the required broadcasting licenses. Subscription television broadcasting licenses are for an indefinite period.

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 the aggregate, have "company interests" of more than 35% in a subscription television broadcasting license. The companies which hold the BSA licenses used by our Australian businesses to deliver their pay television services meet these requirements. However, the foreign ownership restrictions in the BSA are currently under legislative review.

In addition to licenses issued under the BSA, our Australian businesses hold the required spectrum licenses issued under and regulated by the Radiocommunications Act 1992. Spectrum licenses can be issued for up to 15 years, but they are not renewable. Those held by Austar, one of UGC's operating companies, expire in 2015.

Further, 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.

Latin America

Chile

Cable and telephony applications for concessions and permits are submitted to the Ministry of Transportation and Telecommunications, which, through the Subsecretary of Telecommunications, is responsible for regulating, granting concessions and registering all telecommunications. The Antitrust Commission also plays an important role in regulating telecommunications in Chile. Wireline cable television licenses are non-exclusive and granted for indefinite terms, based upon a business plan for a particular geographic area. Wireless licenses have renewable terms of 10 years. Our businesses have cable permits in most major and medium sized markets in Chile. Cross ownership between cable television and telephony is also permitted.

The General Telecommunications Law of Chile allows telecommunications companies to provide service and develop telecommunications infrastructure without geographic restriction or exclusive rights to serve. Chile currently has a competitive, multi-carrier system for international and local long distance telecommunications services. Regulatory authorities currently determine prices for local telecommunications services until the market is determined to be competitive. To date, the regulatory authorities have determined prices charged to customers by the dominant local wireline telephony providers. The maximum rate structure is determined every five years. The current maximum rate structure is scheduled to expire in May 2004. Local service providers with concessions are obligated to provide service to all concessionaires who are willing to pay for an extension to receive service. Local providers must also give long distance service providers equal access to their network connections.

Puerto Rico

U.S. Federal Communications Commission Regulation. The Communications Act of 1934, as amended, and the regulations of the Federal Communications Commission (FCC) significantly affect the cable system operations of our subsidiary LCPR, including, for example, subscriber rates; carriage of broadcast television stations; leased access and public, educational and government access; customer service; program packaging to subscribers; obscene programming; technical operating standards; use of utility poles and conduit; and ownership transfers. Thus, the FCC limits the price that cable systems which are not subject to effective competition may charge for basic services and equipment. Cable systems also must carry, without compensation, certain commercial and non-commercial television station programming within their geographic markets. Alternatively, local television stations may insist that a cable operator negotiate for retransmission consent. In addition, the FCC has initiated a further notice of proposed rulemaking to determine whether a television station may assert rights to carriage on cable systems of both analog and digital signals during the transition to digital television and to carriage of all digital signals transmitted by a station.

Liberty Cablevision of Puerto Rico also offers high-speed Internet access over portions of its network. The FCC has classified high-speed Internet service as an "interstate information service" which the FCC traditionally has not regulated. However, the FCC sought rehearing of a federal appellate panel decision vacating the FCC's classification, but such hearing was denied. Thus, it is uncertain how the FCC ultimately will classify Internet access services. The FCC also adopted a notice of proposed rulemaking to examine whether local franchising authorities should be allowed to impose regulatory requirements on high-speed Internet access services, among other issues.

Puerto Rico Regulation. The Puerto Rico Telecommunications Regulatory Board awards franchises for and regulates cable television systems in Puerto Rico. Such franchises are non-exclusive and renewable for periods up to 10 years. The regulatory board may revoke a franchise for various reasons, including, for example, substantial noncompliance with franchise terms and conditions, violations of applicable regulations, or continuing failure to satisfy required customer service standards. Cable systems may be charged a franchise fee of up to 5% of their gross revenues.

Argentina

The Comité Federal de Radiodifusión exercises broad regulatory authority over broadcast television, cable system and DTH satellite licensees. Our businesses provide programming to such distributors. Programming must comply with restrictions on obscene, violent and advertising content, among other matters. Licensed distributors are responsible for complying with these restrictions.

Competition

Markets for broadband distribution, including cable and satellite distribution, 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.

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 (systems that transmit satellite signals containing video programming, data and other information to receiving dishes of varying sizes located on the subscriber's premises); (3) satellite master antenna television systems, commonly known as SMATVs, which generally serve condominiums, apartment and office complexes and residential developments; (4) MMDS operators; (5) digital terrestrial television services; (6) pay-per-view and interactive television services; (7) other operators who build and operate wireline communications systems in the same communities that we serve; (8) interactive online computer services, including distribution of video products (such as movies and other programming) using Internet ADSL technology; and (9) 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 some countries, our businesses face significant competition from other cable operators, while in other countries the primary competition is from DTH satellite service providers or developing digital terrestrial television services.

Internet

With respect to 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 Internet service providers, non-cable-based Internet service providers and Internet portals, many of which have substantial resources. The Internet services offered by these competitors include both traditional dial-up Internet services and high-speed Internet access services using digital subscriber line (DSL) and ADSL technology, 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.

Telephony

With respect to telephony services, our businesses face competition from the incumbent telecommunications operator in each country. For example, in Japan, our businesses compete primarily with Nippon Telegraph and Telephone Corporation, which was the sole provider of telephony service in Japan until 1985. 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 and indirect access providers. Competition in both the residential and business telephony markets will increase as certain market trends and regulatory changes, such as general price competition, the introduction of carrier pre-selection, number portability and the continued growth of mobile operators and telephony, increase throughout the EU and in the other countries in which we operate. Competition from mobile operators could increase even further if mobile operators' call charges are reduced or their service offerings are expanded or improved.

Video Programming

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.

Properties

We lease our executive offices in Englewood, Colorado from LMC. All of our other real or personal property is owned or leased by our subsidiaries and affiliates.

UGC leases its executive offices in Denver, Colorado. UGC's various operating companies lease or own their respective administrative offices, headend facilities, tower sites and other property necessary for their operations. UGC generally owns the towers on which their equipment is located. The physical components of their broadband networks require maintenance and periodic upgrades to support the new services and products they introduce.

Liberty Cablevision of Puerto Rico owns its main office in Luquillo, Puerto Rico, its headends and certain other equipment in Cayey, Humacao and Lares, Puerto Rico. Liberty Cablevision of Puerto Rico also leases additional customer service offices, warehouses, headends and other equipment throughout Puerto Rico.

Pramer leases its offices in Buenos Aires, Argentina.

Our other subsidiaries and affiliates own or lease the fixed assets necessary for the operation of their respective businesses, including office space, transponder space, headends, cable television and telecommunications distribution equipment, telecommunications switches and customer equipment (including converter boxes). Our management believes that our current facilities are suitable and adequate for our business operations for the foreseeable future.

Employees

As of December 31, 2003, we and our consolidated subsidiaries had an aggregate of approximately 210 employees. We believe that our employee relations are good.

Legal Proceedings

From time to time, our subsidiaries and affiliates have become involved in litigation relating to claims arising out of their operations in the normal course of business. The following is a description of certain legal proceedings to which one of our subsidiaries or another company in which we hold an interest is a party. In our opinion, the ultimate resolution of these legal proceedings would not likely have a material adverse effect on our business, results of operations, financial condition or liquidity.

Movieco. On December 3, 2002, Europe Movieco Partners Limited filed a request for arbitration against a United Pan-Europe Communications, N.V., a subsidiary of UGC which we refer to as UPC, with the International Court of Arbitration of the International Chamber of Commerce. The request contains claims that are based upon a cable affiliation agreement entered into between the parties on December 21, 1999. The arbitral proceedings were suspended from December 17, 2002 to March 18, 2003. They have subsequently been reactivated and directions have been given by the Arbitral Tribunal. In the proceedings, Movieco claims (1) unpaid license fees due under the affiliation agreement, plus interest, (2) an order for specific performance of the affiliation agreement or, in the alternative, damages for breach of that agreement, and (3) legal and arbitration costs plus interest. Of the unpaid license fees, approximately $11.0 million had been accrued prior to UPC's commencing insolvency proceedings in The Netherlands on December 3, 2002 (which we refer to as the pre-petition claim). Movieco made a claim in the Dutch insolvency proceedings for the pre-petition claim and following consummation of the insolvency proceedings, equity of the appropriate value was delivered to Movieco in December 2003. UPC filed a counterclaim in the arbitral proceeding, stating that the affiliation agreement is null and void because it breaches Article 81 of the EC Treaty. UPC also relies on the Order of the Southern District of New York dated January 7, 2003, in which the New York court ordered that the rejection of the affiliation agreement was approved effective March 1, 2003, and that UPC shall have no further liability under the affiliation agreement.

UGC Europe Exchange Offer. On October 8, 2003, an action was filed in the Court of Chancery of the State of Delaware in New Castle County, in which the plaintiff named as defendants UGC Europe, UGC and certain of UGC's directors. The complaint purports to assert claims on behalf of all public shareholders of UGC Europe. On October 21, 2003, the plaintiff filed an amended complaint in the Delaware Court of Chancery. The complaint alleges that UGC Europe and the defendant directors have breached their fiduciary duties to the public shareholders of UGC Europe in connection with an offer by UGC to exchange shares of its common stock for outstanding common stock of UGC Europe. Among the remedies demanded, the complaint seeks to enjoin the exchange offer and obtain declaratory relief, unspecified damages and rescission. On November 12, 2003, UGC and the plaintiff, through respective counsel, entered into a memorandum of understanding agreeing to settle the litigation and to pay up to $975,000 in attorney fees, subject to court approval of the settlement.

Excite@Home. In 2000, certain of UGC's subsidiaries, including UPC, pursued a transaction with Excite@Home, which if completed, would have merged chello broadband with Excite@Home's international broadband operations to form a European Internet business. The transaction was not completed, and discussions between the parties ended in late 2000. On November 3, 2003, UGC received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors' Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation, Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleges breach of contract and fiduciary duty by UGC and Old UGC, Inc. (formerly known as UGC Holdings, Inc., now a wholly owned subsidiary of UGC). Old UGC has commenced bankruptcy proceedings, and this action has been stayed by the Bankruptcy Court in the bankruptcy proceeding. The plaintiff has filed a claim in the bankruptcy proceedings of approximately $2.2 billion. UGC denies the material allegations and intends to defend the litigation vigorously.

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

Phillips. On October 22, 2002, Phillips Digital Networks B.V. commenced legal proceedings against UPC and two of its subsidiaries (together the UPC Defendants) alleging failure to perform by the UPC Defendants under a Set Top Computer Supply Agreement between the parties dated November 19, 2001, as amended (the STC Agreement). The action was commenced by Philips following a termination of the STC Agreement by the UPC Defendants as a consequence of Philips' failure to deliver STCs conforming to the material technical specifications required by the terms of the STC Agreement. The parties have entered into a settlement agreement conditioned upon the UPC Defendants entering into a purchase agreement for STCs by June 30, 2004.

Rate Increases in The Netherlands. UGC previously announced that it would increase rates for approximately 50% of its customers in The Netherlands, effective January 1, 2004. UGC has been enjoined from or has waived implementing these rate increases in certain jurisdictions within The Netherlands. As a result, UGC may not be able to implement these rate increases as originally announced. UGC is currently negotiating with the municipalities and expects a satisfactory resolution.

Eximus. On June 10, 2003, Eximus Capital Funding, Ltd. commenced an action in the United States District Court for the Southern District of New York (SDNY), against Cablevisión S.A., certain then-shareholders of Cablevisión, LMC, a subsidiary of our company, an officer of LMC and a director of LMC, for interest past due, principal and other payments due on $1,210,000 of 13.75% notes of Cablevisión and for preliminary and permanent injunctions. The allegations against Cablevisión are (1) breach of contract on the notes for past due interest only, to the amount of approximately $250,000; and (2) breach of a covenant in the indenture governing the notes, which restricted Cablevisión's ability to enter into transactions for the benefit of its affiliates unless such transaction was on terms no less favorable than could be obtained in an arms' length transaction with an unrelated party. The other counts in the complaint are directed at various officers, directors and shareholders of Cablevisión for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, tortious interference with contract, piercing the corporate veil, and fraudulent conveyance. On October 3, 2003, motions to dismiss were filed on behalf of LMC, our subsidiary named in the suit and the officer and the director of LMC named in the suit. The motions were subsequently withdrawn to allow the plaintiffs time to conduct limited discovery on these matters, which is on-going. None of the defendants has answered the complaint at this time.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information concerning our directors and executive officers, including a five year employment history and any directorships held in public companies:

Name	Positions
John C. Malone Born March 7, 1941	President, Chief Executive Officer, Chairman of the Board and a director of our company since March 2004. Mr. Malone has served as Chairman of the Board of LMC since 1990. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc., a subsidiary of LMC, from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of Tele-Communications, Inc., the former parent company of LMC (TCI), from November 1996 to March 1999; Chief Executive Officer of TCI from January 1994 to March 1999; and President of TCI from January 1994 to March 1997. Mr. Malone is a director of LMC, The Bank of New York, InterActiveCorp and UGC.
Miranda Curtis Born November 26, 1955	Senior Vice President of our company since March 2004. Ms. Curtis has served as President of our subsidiary, Liberty Media International Holdings, LLC, and its predecessors since February 1999.
Bernard G. Dvorak Born April 19, 1960	Senior Vice President and Controller of our company since March 2004. Mr. Dvorak served as Senior Vice President, Chief Financial Officer and Treasurer of On Command Corporation, a subsidiary of LMC, from July 2002 through [ ] 2004. Mr. Dvorak was the Chief Executive Officer and a member of the board of directors of Formus Communications, Inc., a provider of fixed wireless services in Europe, from September 2000 until June 2002, and, from April 1999 until September 2000, he served as Chief Financial Officer of Formus. On March 28, 2001, an involuntary petition under Chapter 7 of the United States Bankruptcy Code was filed against Formus in the United States Bankruptcy Court for the District of Colorado.
Graham Hollis Born January 9, 1952	Senior Vice President and Treasurer of our company since March 2004. Mr. Hollis has served as an executive vice president of Liberty Media International Holdings and its predecessors since September 1996 and chief financial officer since May 1995.
David B. Koff Born December 26, 1958	Senior Vice President of our company since March 2004. Mr. Koff served as a Senior Vice President of LMC from February 1998 through [ ] 2004; and Vice President—Corporate Development of LMC from August 1994 to February 1998. Mr. Koff is a director of Crown Media Holdings, Inc. and UGC.
David J. Leonard Born March 28, 1953	Senior Vice President of our company since March 2004. Mr. Leonard has served as the President of LMC's Latin America Group, a subgroup of LMC's International Group, since January 2004. Prior to joining LMC, Mr. Leonard was the founder and managing director of VLG Acquisition Corporation, which owned interests in selected telecommunications companies in Latin America. From 1998 to 2002, Mr. Leonard was the founder, president and CEO of VeloCom Inc., a competitive local exchange carrier which provided wireless communications services throughout Brazil and Argentina.
Elizabeth M. Markowski Born October 26, 1948	Senior Vice President, General Counsel and Secretary of our company since March 2004. Ms. Markowski has served as a Senior Vice President of LMC since November 2000. Prior to joining LMC, Ms. Markowski was a partner in the law firm of Baker Botts L.L.P for more than five years.
Robert R. Bennett Born April 19, 1958	A director of our company and Vice-Chairman of the Board since March 2004. Mr. Bennett has served as President and Chief Executive Officer of LMC since April 1997, and he held various other executive positions with LMC since its inception in 1990. Mr. Bennett served as Executive Vice President of TCI from April 1997 to March 1999. Mr. Bennett is a director of LMC, InterActiveCorp, OpenTV Corp. and UGC.
Donne F. Fisher Born May 24, 1938	A director of our company since [ ] 2004. Mr. Fisher has served as President of Fisher Capital Partners, Ltd., a venture capital partnership, since December 1991. Mr. Fisher has served as a consultant to the subsidiary of Comcast Corporation that is the successor entity to TCI since 1996. Mr. Fisher is a director of LMC, General Communication, Inc. and Sorrento Networks Corporation.
Gary S. Howard Born February 22, 1951	A director of our company since [ ] 2004. Mr. Howard served as Executive Vice President and Chief Operating Officer of LMC from July 1998 to February 2004. Mr. Howard served as Chief Executive Officer of Liberty Satellite from December 1996 to April 2000. Mr. Howard also served as Executive Vice President of TCI from December 1997 to March 1999; as Chief Executive Officer, Chairman of the Board and a director of TV Guide, Inc. from June

	1997 to March 1999; and as President and Chief Executive Officer of TCI Ventures Group, LLC from December 1997 to March 1999. Mr. Howard is a director of LMC, UGC and SpectraSite, Inc.
David E. Rapley Born June 22, 1941	A director of our company since [ ] 2004. Mr. Rapley served as Executive Vice President Engineering of VECO Corp.—Alaska from January 1998 to December 2001. Mr. Rapley is a director of LMC.
Larry E. Romrell Born December 30, 1939	A director of our company since [ ] 2004. Mr. Romrell served as an Executive Vice President of TCI from January 1994 to March 1999 and since March 1999 has served as a consultant to the subsidiary of Comcast that is the successor entity to TCI. Mr. Romrell also served, from December 1997 to March 1999, as Executive Vice President and Chief Executive Officer of TCI Business Alliance and Technology Co.; and from December 1997 to March 1999, as Senior Vice President of TCI Ventures Group. Mr. Romrell is a director of LMC.
J. David Wargo Born October 1, 1953	A director of our company since [ ] 2004. Mr. Wargo has served as the President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is a director of OpenTV Corp. and Strayer Education, Inc.

The executive officers named above will serve in such capacities until the next annual meeting of our board of directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office. There is no family relationship between any of the directors, by blood, marriage or adoption.

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

Board Composition

Our board of directors currently consists of seven directors, divided among three classes. Our Class I directors, whose term will expire at the annual meeting of our shareholders in 2005, are David J. Rapley and Larry E. Romrell. Our Class II directors, whose term will expire at the annual meeting of our shareholders in 2006, are Robert R. Bennett, Gary S. Howard and Donne F. Fisher. Our Class III directors, whose term will expire at the annual meeting of our shareholders in 2007, are John C. Malone and J. David Wargo. At each annual meeting of our shareholders, the successors of that class of directors whose term(s) expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of our shareholders held in the third year following the year of their election. The directors of each class will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified.

Committees of the Board

Our board of directors has established an executive committee, whose members are Robert R. Bennett and John C. Malone. Except as specifically prohibited by the General Corporation Law of the State of Delaware, the executive committee may exercise all the powers and authority of our board in the management of our business and affairs, including the power and authority to authorize the issuance of shares of our capital stock.

Our board of directors has established a compensation committee, whose members are Donne F. Fisher, Larry E. Romrell and J. David Wargo. The compensation committee will review and make recommendations to our board regarding all forms of compensation provided to our executive officers and directors. In addition, the compensation committee will review and make recommendations on bonus and stock compensation arrangements for all of our employees and will have sole responsibility for the administration of our incentive plan.

Our board of directors has established an audit committee, whose members are Donne F. Fisher, David E. Rapley and J. David Wargo. The audit committee will review and monitor the corporate financial reporting and the internal and external audits of our company. The committee's functions will include, among other things:

- appointing or replacing our independent auditors;
- reviewing and approving in advance the scope and the fees of our annual audit and reviewing the results of our audits with our independent auditors;
- reviewing and approving in advance the scope and the fees of non-audit services of our independent auditors;
- reviewing compliance with and the adequacy of our existing major accounting and financial reporting policies;
- reviewing our management's procedures and policies relating to the adequacy of our internal accounting controls and compliance with applicable laws relating to accounting practices;
- reviewing compliance with applicable Securities and Exchange Commission and stock exchange rules regarding audit committees; and
- preparing a report for our annual proxy statement.

Our board of directors has established a nominating and corporate governance committee, whose members are Donne F. Fisher, David E. Rapley, J. David Wargo and Larry E. Romrell. The nominating and corporate governance committee will identify and recommend as nominees to our board of directors individuals qualified to become members of our board, and develop and recommend to our board of directors a set of Corporate Governance Guidelines applicable to our company. The nominating and corporate governance committee will also oversee the evaluation of management of our company and our board of directors and make recommendations, as appropriate.

The board, by resolution, may from time to time establish certain other committees of the board, consisting of one or more of our directors. Any committee so established will have the powers delegated to it by resolution of the board, subject to applicable law.

Executive Compensation

We have not yet paid any compensation to any of our executive officers. The form and amount of the compensation to be paid to each of our executive officers will be determined by the compensation committee of our board of directors. The following tables set forth information relating to compensation from LMC to our Chief Executive Officer and each of the other persons who we anticipate will serve as our four other most highly compensated executive officers following the spin off, who we refer to as our "named executive officers." The compensation set forth below does not necessarily reflect the compensation to be paid by our company to our named executive officers in the future. The services rendered to LMC were, in some cases, in capacities not equivalent to those to be provided to us.

Summary Compensation Table

Annual Compensation

Name and Principal Position with LMI	Year	Salary ($)	Other Annual Compensation	Long-Term Compensation: Restricted Sock Awards	Long-Term Compensation: Securities Underlying Options/SARs	All Other Compensation ($)
John C. Malone	2003	$ 2,600	$ 706,759(1)	$ —	—	$ 260(7)
President and Chief	2002	$ 4,200	$ 435,857(1)	$ —	—	$ 410(7)
Executive Officer	2001	$ 2,600	$ 207,050(1)	$ —	11,485,402(5)(6)	$ 17,500(7)
Miranda Curtis	2003	$ 541,000	$ —	$ —	125,000	$ —
Senior Vice President	2002	$ 525,000	$ —	$ —	—	$ —
	2001	$ 475,000	$ —	$ —	284,379(6)	$ —
Graham Hollis	2003	$ 340,000	$ —	$ —	75,000	$ 20,000(7)
Senior Vice President and	2002	$ 330,000	$ —	$ —	—	$ 20,000(7)
Treasurer	2001	$ 288,462	$ —	$ —	770,157(5)(6)	$ 17,500(7)
David B. Koff	2003	$ 560,523	$ 227,166(2)	$ —	250,000	$ 20,000(7)
Senior Vice President	2002	$ 525,000	$ —	$ 616,500(4)	—	$ 20,000(7)
	2001	$ 475,000	$ —	$ —	3,439,938(5)(6)	$ 17,500(7)
Elizabeth M. Markowski	2003	$ 633,500	$ —	$ —	250,000	$ 20,000(7)
Senior Vice President,	2002	$ 615,000	$ —	$ —	—	$ 20,000(7)
General Counsel and Secretary	2001	$ 600,000	$ 72,391(3)	$ —	205,120(6)	$ 17,500(7)

(1) Includes $317,970, $240,443 and $133,745 of compensation related to Mr. Malone's personal use of LMC's aircraft and flight crew during 2003, 2002 and 2001, respectively, which compensation has been calculated based upon the aggregate incremental cost of such usage to LMC. In accordance

with applicable Treasury Regulations, LMC included in Mr. Malone's reportable income for 2003, 2002 and 2001 $111,997, $76,735 and $63,011, respectively, of compensation related to his personal use of LMC's aircraft and flight crew. Also includes $213,219, $188,127 and $66,639 in 2003, 2002 and 2001, respectively, related to reimbursement of Mr. Malone's legal and accounting fees for tax and estate planning purposes. Mr. Malone's employment agreement with LMC was amended in 2003 to provide for payment or reimbursement of professional fees and other expenses incurred by Mr. Malone for estate, tax planning and other services, and for personal use of LMC's aircraft and flight crew. The aggregate amount of such payments or reimbursements and the value of his personal use of LMC's aircraft is limited to $500,000 per year. For purposes of Mr. Malone's employment agreement, the value of his aircraft use is determined in accordance with applicable Treasury Regulations.

(2) Represents reimbursement for housing and other costs incurred by Mr. Koff in connection with his transfer to London, England at LMC's request.

(3) Includes $72,173 of compensation related to reimbursement of Ms. Markowski's relocation expenses.

(4) Mr. Koff was granted 50,000 restricted shares of LMC Series A common stock in April 2002. Such shares vest as to 25% on each of the first four anniversaries of the grant date. At December 31, 2003, the unvested restricted shares had a value of $445,875.

(5) Effective February 28, 2001 (the "Effective Date"), LMC restructured the options and options with tandem SARs to purchase AT&T Liberty Media Group tracking stock (collectively, the "Restructured Options") held by certain of its executive officers. Pursuant to such restructuring, all Restructured Options became exercisable on the Effective Date, and each executive officer was given the choice to exercise all of his Restructured Options. Each executive officer who opted to exercise his Restructured Options received consideration equal to the excess of the closing price of the subject securities on the Effective Date over the exercise price. The exercising officers received (i) a combination of cash and AT&T Liberty Media Group tracking stock for Restructured Options that were vested prior to the Effective Date and (ii) cash for Restructured Options that were previously unvested. The exercising officers used the cash proceeds from the previously unvested options to purchase restricted shares of AT&T Liberty Media Group tracking stock which were converted into shares of Liberty common stock upon LMC's split off from AT&T. Such restricted shares were subject to forfeiture upon termination of employment. The forfeiture obligation lapsed according to a schedule that corresponded to the vesting schedule applicable to the previously unvested options, and all restricted shares have vested as of December 31, 2003.

In addition, each exercising officer was granted free-standing SARs equal to the total number of Restructured Options exercised. The free-standing SARs were tied to the value of AT&T Liberty Media Group tracking stock and will vest as to 30% in year one and 17.5% in years two through five. Upon the completion of LMC's split off from AT&T, the free-standing SARs automatically converted to options to purchase LMC Series A common stock, or in the case of Mr. Malone, LMC Series B common stock.

(6) The numbers of shares reflect adjustments for LMC's rights offering which concluded in December 2002.

(7) Amounts represent contributions to the Liberty Media 401(k) Savings Plan (the "Liberty 401(k) Savings Plan"). The Liberty Savings Plan provides employees with an opportunity to save for retirement. The Liberty Savings Plan participants may contribute up to 10% of their compensation, and LMC makes a matching contribution of 100% of the participants' contributions. Participant contributions to the Liberty Savings Plan are fully vested upon contribution.

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

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

With respect to LMC contributions made to the Liberty Savings Plan in 2003, 2002 and 2001, all of the named executive officers are fully vested. Directors who are not LMC employees are ineligible to participate in the Liberty Savings Plan. Under the terms of the Liberty Savings Plan, employees are eligible to participate after three months of service.

We have agreed to grant, effective as of the distribution date, to John C. Malone, one of our named executive officers, options to acquire shares of our Series B common stock. These options represent the primary form of compensation to be paid to Mr. Malone by our company. See "—Employment Contracts and Termination of Employment and Change in Control Arrangements" for more information regarding these options.

Following the spin off, LMC and our company will share compensation expenses for Elizabeth M. Markowski, one of our named executive officers, based upon the amount of time she spends on our respective businesses. We currently anticipate that Ms. Markowski will spend approximately 75% of her time on matters relating to our company.

Option and SAR Grants in Last Fiscal Year

We did not grant any stock options or stock appreciation rights to our named executive officers during the year ended December 31, 2003. The grant of any stock options or stock appreciation rights following the spin off will be determined by the compensation committee of our board of directors. The following table sets forth certain information concerning stock options and stock appreciation rights granted under the Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective September 11, 2002) during its fiscal year ended December 31, 2003, to our named executive officers:

	Number of securities underlying SARs granted	Percent of total SARs granted to employees in fiscal year	Exercise or base price ($/sh)(1)	Expiration Date	Grant date present value(2)
John C. Malone	—	—	$ —	—	$ —
Miranda Curtis	125,000	2.0%	$ 11.09	July 31, 2013	$ 727,210
Graham Hollis	75,000	1.2%	$ 11.09	July 31, 2013	$ 436,326
David B. Koff	250,000	4.1%	$ 11.09	July 31, 2013	$ 1,454,419
Elizabeth M. Markowski	250,000	4.1%	$ 11.09	July 31, 2013	$ 1,454,419

(1) Represents the closing market price per share of LMC Series A common stock on July 31, 2003.

(2) The value shown is based upon the Black-Scholes model and is stated on a present value basis. The key assumptions used in the model for purposes of this calculation include the following: (a) a 4.5% discount rate; (b) a 32.0% volatility factor; (c) the 10-year option term; (d) the closing price of LMC Series A common stock on July 31, 2003; and (e) a per share exercise price of $11.09. The actual value realized will depend upon the extent to which the stock price exceeds the exercise price on the date the SAR is exercised. Accordingly, the realized value, if any, will not necessarily be the value determined by the model.

Effective upon the distribution date of the spin off, each outstanding option and stock appreciation right with respect to LMC common stock will be adjusted. In connection with these adjustments, certain options to acquire shares of our common stock will be granted under the Liberty Media International, Inc. 2004 Incentive Plan. See "The Spin Off—Treatment of LMC Stock Incentive Awards" for a discussion of these adjustments and grants.

We have agreed to grant, effective as of the distribution date, to John C. Malone, one of our named executive officers, options to acquire shares of our Series B common stock. These options represent the primary form of compensation to be paid to Mr. Malone by our company. See "—Employment Contracts and Termination of Employment and Change in Control Arrangements" for more information regarding these options.

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

None of our named executive officers held options to purchase our common stock during the year ended December 31, 2003. The following table sets forth certain information concerning exercises of options and/or stock appreciation rights for LMC's common stock during the year ended December 31, 2003, by our named executive officers:

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

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at December 31, 2003 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at December 31, 2003 Exercisable/ Unexercisable ($)
John C. Malone				
Series A				
Exercisable	—	$ —	4,125	$ —
Unexercisable	—	$ —	—	$ —
Series B				
Exercisable	—	$ —	7,922,931	$ —
Unexercisable	—	$ —	8,756,922	$ —
Miranda Curtis				
Series A				
Exercisable	—	$ —	1,433,447	$ 3,247,692
Unexercisable	—	$ —	338,284	$ 100,000
Graham Hollis				
Series A				
Exercisable	—	$ —	365,825	$ —
Unexercisable	—	$ —	479,332	$ 60,000
David B. Koff				
Series A				
Exercisable	—	$ —	1,644,227	$ —
Unexercisable	—	$ —	2,055,967	$ 200,000
Elizabeth M. Markowski				
Series A				

Exercisable	—	$	—	682,665	$	—
Unexercisable	—	$	—	862,155	$	200,000

Compensation of Directors

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

Each of our directors who is not an employee of our company, immediately following the distribution date, will be granted options to acquire 3,000 shares of our Series A common stock. Following each annual meeting of our shareholders, each of our directors who is not an employee of our company will be granted options to acquire an additional 3,000 shares of our Series A common stock. All of these options will be granted pursuant to the Liberty Media International, Inc. 2004 Nonemployee Director Incentive Plan, will vest on the first anniversary of the applicable grant date and will be granted at an exercise price equal to the fair market value of our Series A common stock.

Employment Contracts and Termination of Employment and Change in Control Arrangements

Except as described below, we will have no employment contracts, termination of employment agreements or change of control agreements with any of our named executive officers at the time of the spin off.

Prior to the spin off, we will enter into an option agreement with John C. Malone, our Chairman and President, pursuant to which we will grant to Mr. Malone, under our incentive plan, options to acquire that number of shares of our Series B common stock as will be equal to 1% of the aggregate number of shares of our common stock outstanding immediately following the distribution date and after giving effect, on a pro forma basis, to the exercise of Mr. Malone's options. The options will be granted at an exercise price equal to fair market value, as determined by the LMC incentive plan committee, and will represent the primary form of compensation to be paid to Mr. Malone by our company. The options will be exercisable immediately; however, Mr. Malone's rights with respect to the options and any shares issued upon exercise will vest at the rate of 20% per year on each anniversary of the distribution date. Thus, in the event Mr. Malone ceases to have a qualifying relationship (whether as a director, officer, employee or consultant) with our company (or any successor to our company), other than as a result of his death or disability or his termination without cause, prior to the fifth anniversary of the distribution date, unvested options will be terminated and/or we will have the right to require Mr. Malone to sell to us, at the exercise price of the options, any shares of our Series B common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with our company.

Equity Compensation Plan Information

Liberty Media International, Inc. 2004 Incentive Plan

General

The incentive plan will be administered by the compensation committee of our board of directors and will be submitted for shareholder approval at our 2005 annual meeting of shareholders. The compensation committee is currently comprised of three members: Donne F. Fisher, Larry E. Romrell and J. David Wargo. As of the distribution date, each member will be a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act and an "outside director" within the meaning of Section 162(m) of the Code. The compensation committee has the full power and authority to grant eligible persons the awards described below and determine the terms and conditions under which any awards are made.

The incentive plan is designed to provide additional remuneration to certain employees and independent contractors for exceptional service and to encourage their investment in our company. The incentive plan is also intended to (1) attract persons of exceptional ability to become officers and employees of our company, and (2) induce independent contractors to provide services to our company. Our employees (including employees who are officers or directors of our company or any of our subsidiaries) and independent contractors are eligible to participate and may be granted awards under the incentive plan. Awards may be made to any such employee, officer, director or contractor whether or not he or she holds or has held awards under this plan or under any other plan of our company or any of our affiliates.

The number of individuals who will receive awards under the incentive plan will vary from year to year and will depend on various factors, such as the number of promotions and our hiring needs during the year, and thus we cannot determine future award recipients.

The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards). The maximum number of shares of any series of our common stock with respect to which awards may be issued under the incentive plan is 20 million. With the exception of certain awards that have been accelerated, no person may be granted in any calendar year awards covering more than 2 million shares of our common stock. In addition, no person may receive payment for performance awards during any calendar year in excess of $10 million or the equivalent value thereof in shares of our common stock.

Shares of our common stock will be made available from either our authorized but unissued shares or shares that have been issued but reacquired by our company. Shares of our common stock that are subject to (1) any award that expires, terminates or is annulled for any reason without having been exercised, (2) any award of any SARs that is exercised for cash, and (3) any award of restricted shares or stock units that shall be forfeited prior to becoming vested, will once again be available for distribution under the incentive plan.

The compensation committee also has the power to:

- interpret the incentive plan and adopt any rules, regulations and guidelines for carrying out the incentive plan that it believes are proper;
- correct any defect or supply any omission or reconcile any inconsistency in the incentive plan or related documents;
- determine the form and terms of the awards made under the incentive plan, including persons eligible to receive the award and the number of shares or other consideration subject to awards;
- provide that option exercises may be paid in cash, by check, by promissory note (subject to applicable law), in common stock, by cashless exercise, by broker-assisted exercise or any combination of the foregoing; and
- delegate to any subcommittee its authority and duties under the incentive plan unless a delegation would adversely impact the availability of transaction exemptions under Rule 16b-3 of the Exchange Act, and the deductibility of compensation for federal income tax purposes.

Options

Non-qualified stock options entitle the holder to purchase a specified number of shares of common stock at a specified exercise price subject to the terms and conditions of the option grant. The price at which options may be exercised under the incentive plan may be more than, less than or equal to the fair market value of the applicable series of our common stock as of the day the option is granted. The compensation committee determines, in connection with each option awarded to a holder, (1) the exercise price, (2) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of our common stock, by the withholding of shares of our common stock issuable upon exercise of the option, by cashless exercise, or any combination of the foregoing, (3) other terms and conditions of exercise, (4) restrictions on transfer of the option and (5) other provisions not inconsistent with the incentive plan. Options granted under the incentive plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Stock Appreciation Rights

SARs entitle the recipient to receive a payment in cash, in stock or in a combination of both equal to the excess value of the stock (on the day the right is exercised) over the price specified in the grant. A SAR may be granted to an option holder with respect to all or a portion of the shares of common stock subject to the related option (a tandem SAR) or granted separately to an eligible employee (a free-standing SAR). Tandem SARs are exercisable only to the extent that the related option is exercisable. Upon the exercise or termination of the related option, the related tandem SAR will be automatically cancelled to the extent of the number of our shares of common stock with respect to which the related option was so exercised or terminated. Free-standing SARs are exercisable at the time and upon the terms and conditions as provided in the relevant agreement. The base price of a free-standing SAR may be more than, less than or equal to the fair market value of the applicable series of our common stock as of the day the free-standing SAR is granted. SARs granted under the incentive plan are also generally non-transferable during the lifetime of a SAR holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Restricted Shares

Restricted shares are shares of our common stock that become vested and may be transferred upon completion of the restriction period. Restricted shares may be issued at either the beginning or end of the restriction period. Individual agreements may provide that dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period. An agreement under which restricted shares are issued may provide that the holder of the shares may be paid a cash amount any time after the shares become vested. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the such restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash award to be received by the holder with respect to such restricted shares will become payable.

Stock Units

Shares of our common stock or units based upon the fair market value of our common stock may also be awarded under the incentive plan. The compensation committee has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

Cash Awards

The compensation committee may also provide for the grant of cash awards. A cash award is a bonus paid in cash that is based solely upon the attainment of one or more performance goals that have been established by the compensation committee. The terms, condition and limitations applicable to any cash awards will be determined by the compensation committee.

Performance Awards

At the discretion of the compensation committee, performance awards payable in cash may be granted and any of the above-described awards may be designated a performance award. Performance awards will be contingent upon performance measures applicable to a particular period, as established by the compensation committee, based upon any one or more of the following:

- increased revenue;
- net income measures (including, but not limited to, income after capital costs and income before or after taxes);
- stock price measures (including, but not limited to, growth measures and total stockholder return);
- price per share of common stock;
- market share;
- earnings per share (actual or targeted growth);
- earnings before interest, taxes, depreciation and amortization;
- economic value added (or an equivalent metric);
- market value added;
- debt to equity ratio;
- cash flow measures (including, but not limited to, cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities);
- return measures (including, but not limited to, return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity);
- operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes and production efficiency);
- expense measures (including, but not limited to, overhead costs and general and administrative expense);
- margins;
- stockholder value;
-

- total stockholder return;
- proceeds from dispositions;
- total market value; and
- corporate values measures (including ethics compliance, environmental and safety).

Such performance measures may apply to the holder, to one or more business units or divisions of our company or the applicable sector, or to our company as a whole. Goals may also be based upon performance relative to a peer group of companies. If the compensation committee intends for the performance award to be granted and administered in a manner that preserves the deductibility of the compensation resulting from such award in accordance with Section 162(m) of the Code, the performance goals must be established (1) no later than 90 days after the commencement of the period of service to which the performance goals relate and (2) prior to the completion of 25% of such period of service. The compensation committee may modify or waive the performance goals or conditions to the granting or vesting of a performance award unless the performance award is intended to qualify as performance-based compensation under Section 162(m) of the Code. Section 162(m) of the Code generally disallows deductions for compensation in excess of $1 million for some executive officers unless the awards meet the requirements for being performance-based.

Awards Generally

The awards described above may be granted either individually, in tandem or in combination with each other. Under certain conditions, including the occurrence of an approved transaction, a board change or a control purchase (all as defined in the incentive plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. In addition, if a holder's service terminates due to death or disability (as defined in the incentive plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise.

Adjustments

The number and kind of shares of common stock which may be awarded, optioned or otherwise made subject to awards under the incentive plan, the number and kind of shares of common stock covered by outstanding awards and the purchase or exercise price and any relevant appreciation base with respect to any of the foregoing are subject to appropriate adjustment in the compensation committee's discretion, as the compensation committee deems equitable, in the event (1) we subdivide our outstanding shares of any series of our common stock into a greater number of shares of such series of common stock, (2) we combine our outstanding shares of any series of common stock into a smaller number of shares of such series of common stock or (3) there is a stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin off, combination, exchange of shares, warrants or rights offering to purchase such series of common stock, or any other similar corporate event (excluding approved transactions (as defined in the incentive plan)).

Amendment and Termination of the Incentive Plan

The compensation committee may terminate the incentive plan at any time prior to the tenth anniversary of the date on which the incentive plan became effective. The compensation committee may also suspend, discontinue, modify or amend the incentive plan any time prior to the tenth anniversary of the date on which the incentive plan became effective. However, before an amendment can be made that would adversely affect a participant who has already been granted an award, the participant's consent must be obtained.

Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan

The director plan is designed to encourage investment in our company by our non-employee directors and to more fully align their interests with the interests of our existing shareholders. The director plan is administered by the full board of directors and will be submitted for shareholder approval at our 2005 annual meeting of shareholders. The board has the full power and authority to grant eligible non-employee directors the awards described below and determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to our employees.

The board may grant non-qualified stock options, stock appreciation rights, restricted shares, stock units, any combination of the foregoing or cash under the director plan (collectively, awards). Only non-employee members of our board of directors are eligible to receive awards under the director plan. The maximum number of shares of any series of our common stock with respect to which awards may be issued under the director plan and which may be issued in lieu of director compensation under the director plan is 5 million. Shares of our common stock will be made available from either our authorized but unissued shares or shares that have been issued but reacquired by our company. Shares of our common stock that are subject to (1) any award that expires, terminates or is annulled for any reason without having been exercised, (2) any award of any SARs that is exercised for cash, and (3) any award of restricted shares or stock units that shall be forfeited prior to becoming vested, will once again be available for distribution under the director plan.

The board also reserves the power to:

- interpret the director plan and adopt any rules, regulations and guidelines for carrying out the director plan that it believes are proper;
- correct any defect or supply any omission or reconcile any inconsistency in the director plan or related documents;
- determine the form and terms of awards made under the director plan, including directors eligible to receive awards and the number of shares or other consideration subject to awards;
- provide that option exercises may be paid in cash, by check, by promissory note (subject to applicable law), in common stock, by cashless exercise, by broker-assisted exercise or any combination of the foregoing; and
- delegate to company employees certain administrative or ministerial duties in carrying out the purposes of the director plan.

Options

Non-qualified stock options entitle the holder to purchase a specified number of shares of common stock at a specified exercise price subject to the terms and conditions of the option grant. The price at which options may be exercised under the director plan may be more than, less than or equal to the fair market value of the applicable series of our common stock as of the day the option is granted The board determines, in connection with each option awarded to a holder, (1) the exercise price, (2) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of our common stock, by the withholding of shares of our common stock issuable upon exercise of the option, by cashless exercise or any combination of the foregoing, (3) other terms and conditions of exercise, (4) restrictions on transfer of the option, and (5) other provisions not inconsistent with the director plan. Options granted under the director plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Stock Appreciation Rights

SARs entitle the recipient to receive a payment in cash, in stock or in a combination of both equal to the excess value of the stock (on the day the right is exercised) over the price specified in the grant. A SAR may be granted to an option holder with respect to all or a portion of the shares of common stock subject to the related option (a tandem SAR) or granted separately to an eligible director (a free-standing SAR). Tandem SARs are exercisable only to the extent that the related option is exercisable. SARs are also generally non-transferable during the lifetime of a SAR holder, subject to prescribed exceptions. Upon the exercise or termination of the related option, the related tandem SAR will be automatically cancelled to the extent of the number of our shares of common stock with respect to which the related option was so exercised or terminated. Free-standing SARs are exercisable at the time and upon the terms and conditions as provided in the relevant agreement. The base price of a free-standing SAR may be more than, less than or equal to the fair market value of the applicable series of our common stock as of the day the free-standing SAR is granted. SARs granted under the director plan are also generally non-transferable during the lifetime of a SAR holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Restricted Shares

Restricted shares are shares of our common stock that become vested and may be transferred upon completion of the restriction period. Restricted shares may be issued at either the beginning or end of the restriction period. Individual agreements may provide that dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period. An agreement under which restricted shares are issued may provide that the holder of the shares may be paid a cash amount any time after the shares become vested. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the such restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash award to be received by the holder with respect to such restricted shares will become payable.

Stock Units

Shares of our common stock or units based upon the fair market value of our common stock may also be distributed as an award under the director plan. The board has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

Awards Generally

The awards described above may be granted either individually, in tandem or in combination with each other. Under certain conditions, including the occurrence of an approved transaction, a board change or a control purchase (all as defined in the director plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. In addition, if a holder's service terminates due to death or disability (as defined in the director plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise.

Adjustments

The number and kind of shares of common stock which may be awarded, optioned or otherwise made subject to awards under the director plan, the number and kind of shares of common stock covered by outstanding awards and the purchase or exercise price and any relevant appreciation base with respect to any of the foregoing are subject to appropriate adjustment in the board's discretion, as the board deems equitable, in the event (1) we subdivide our outstanding shares of any series of our common stock into a greater number of shares of such series of common stock, (2) we combine our outstanding shares of any series of common stock into a smaller number of shares of such series of common stock or (3) there is a stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin off, combination, exchange of shares, warrants or rights offering to purchase such series of common stock, or any other similar corporate event (excluding approved transactions (as defined in the director plan)).

Amendment and Termination of the Director Plan

The board of directors may terminate the director plan at any time prior to the tenth anniversary of the date on which the director plan became effective. The board may also suspend, discontinue, modify or amend the director plan any time prior to the tenth anniversary of the date on which the director plan became effective. However, before an amendment can be made that would adversely affect a non-employee director who has already been granted an award, the non-employee director's consent must be obtained.

U.S. Federal Income Tax Consequences

The following is a summary of the general rules of present U.S. federal income tax law relating to the tax treatment of non-qualified stock options, SARs, restricted shares, stock units and cash awards issued under the incentive plan and the director plan. The discussion is general in nature and does not take into account a number of considerations that may apply based upon the circumstances of a particular holder under the incentive plan and the director plan, including the possibility that a holder may not be subject to U.S. federal income taxation.

Non-Qualified Stock Options; SARs

Holders will not realize taxable income upon the grant of a non-qualified stock option or a SAR. Upon the exercise of a non-qualified stock option or a SAR, the holder will recognize ordinary income (subject to withholding, if applicable) in an amount equal to the excess of (1) the fair market value on the date of exercise of the shares received over (2) the exercise price (if any) he or she paid for the shares. The holder will generally have a tax basis in any shares of our common stock received pursuant to the exercise of a SAR, or pursuant to the cash exercise of a non-qualified stock option, that equals the fair market value of such shares on the date of exercise. Subject to the discussion under "—Certain Tax Code Limitations on Deductibility" below, we will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by the holder under the foregoing rules. The disposition of the shares of our common stock acquired upon exercise of a non-qualified stock option will ordinarily result in capital gain or loss.

Under current rulings, if a holder transfers previously held ordinary shares in satisfaction of part or all of the exercise price of a non-qualified stock option, the holder will recognize income with respect to the shares received, but no additional gain will be recognized as a result of the transfer of such previously held shares in satisfaction of the non-qualified stock option exercise price. Moreover, that number of shares received upon exercise that equals the number of previously held shares surrendered in satisfaction of the non-qualified stock option will have a tax basis that equals, and a holding period that includes, the tax basis and holding period of the previously held shares surrendered in satisfaction of the non-qualified stock option exercise price. Any additional shares received upon exercise will have a tax basis that equals the amount of cash (if any) paid by the holder, plus, the amount of ordinary income recognized by the holder with respect to the shares received.

Cash Awards; Stock Units; Restricted Shares

A holder will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time such cash is otherwise made available for the holder to draw upon it. A holder will not have taxable income upon the grant of a stock unit but rather will generally recognize ordinary compensation income at the time the holder receives cash in satisfaction of such stock unit or shares of common stock in satisfaction of such stock unit in an amount equal to the fair market value of the shares received.

Generally, a holder will not recognize taxable income upon the grant of restricted shares, and we will not be entitled to any federal income deduction upon the grant of such award. The value of the restricted shares will generally be taxable to the holder as compensation income in the year or years in which the restrictions on the shares of common stock lapse. Such value will equal the fair market value of the shares on the date or dates the restrictions terminate. A holder, however, may elect pursuant to Section 83(b) of the Code to treat the fair market value of the shares subject to the restricted share award on the date of such grant as compensation income in the year of the grant of the restricted share award. The holder must make such an election pursuant to Section 83(b) of the Code within 30 days after the date of grant. If such an election is made and the holder later forfeits the restricted shares to us, the holder will not be allowed to deduct, at a later date, the amount such holder had earlier included as compensation income.

A holder who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time the holder recognizes income under the rules described above with respect to the cash or the shares of our common stock received pursuant to awards. Dividends that are received by a holder prior to the time that the restricted shares are taxed to the holder under the rules described in the preceding paragraph are taxed as additional compensation, not as dividend income. The tax basis of a holder in the shares of our common stock received will equal the amount recognized by the holder as compensation income under the rules described in the preceding paragraph, and the holder's holding period in such shares will commence on the date income is so recognized.

Subject to the discussion under "—Certain Tax Code Limitations on Deductibility" below, we will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by the holder under the foregoing rules.

Certain Tax Code Limitations on Deductibility

In order for us to deduct the amounts described above, such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses. Our ability to obtain a deduction for future payments under the incentive plan could also be limited by Section 280G of the Code, which provides that certain excess parachute payments made in connection with a change of control of an employer are not deductible. Our ability to obtain a deduction for amounts paid under the incentive plan could also be affected by Section 162(m) of the Code, which limits the deductibility, for U.S. federal income tax purposes, of compensation paid to certain employees to $1 million during any taxable year. However, certain exceptions apply to this limitation in the case of performance-based compensation. It is intended that the approval of the incentive plan by our shareholders will satisfy certain of the requirements for the performance-based exception and that we will be able to comply with the requirements of the Code and Treasury Regulation Section 1.162-27 with respect to the grant and payment of certain performance-based awards (including certain options and stock appreciation rights) under the incentive plan so as to be eligible for the performance-based exception. However, it may not be possible in all cases to satisfy all of the requirements for the exception and we may, in our sole discretion, determine that in one or more cases it is in our best interests not to satisfy the requirements for the performance-based exception.

Security Ownership of Management

The following table sets forth information with respect to the ownership by each director and each of our named executive officers and by all of our directors and executive officers as a group of shares of LMC Series A common stock and LMC Series B common stock, as of March 5, 2004. The percentage of LMC common stock beneficially owned by each named executive officer and by all of our directors and executive officers as a group reflects the percentage of our common stock that would have been beneficially owned by such persons on March 5, 2004, had the record date for the spin off occurred on that date. The table also sets forth information with respect to the ownership by each director and each of our named executive officers and by all of our directors and executive officers as a group of shares of Class A common stock of UGC, which is traded on the Nasdaq National Market under the symbol "UCOMA."

The security ownership information is given as of March 5, 2004 and, in the case of percentage ownership information, is based upon (1) 2,788,535,647 shares of LMC Series A common stock and 121,062,825 shares of LMC Series B common stock outstanding on that date, and (2) 387,666,548 shares of UGC Class A common stock outstanding on March 12, 2004.

Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after March 5, 2004 (or March 12, 2004, as the case may be), are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of LMC Series B common stock, though convertible on a one-for-one basis into shares of LMC Series A common stock, is reported as beneficial ownership of LMC Series B common stock only, and not as beneficial ownership of LMC Series A common stock. In addition, although outstanding shares of UGC Class B common stock and UGC Class C common stock are convertible into UGC Class A common stock, share data set forth in the following presentation with respect to UGC Class A common stock excludes any dilution associated with the potential conversion of UGC Class B common stock or UGC Class C common stock into UGC Class A common stock. So far as is known to us, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership (in thousands)	Percent of Class	Voting Power
John C. Malone	LMC Series A	16,639(1)(2)(3)(4)(5)	*	29.0%
	LMC Series B	116,413(1)(3)(4)(5)(6)	90.6%	
	UGC Class A	177(7)	*	*
Miranda Curtis	LMC Series A	1,576(8)	*	*
	LMC Series B	0		
	UGC Class A	0		
Graham Hollis	LMC Series A	623(9)(10)(11)	*	*
	LMC Series B	0		
	UGC Class A	0		
David B. Koff	LMC Series A	2,473(12)(13)(14)	*	*
	LMC Series B	0		
	UGC Class A	0		
Elizabeth M. Markowski	LMC Series A	829(15)(16)(17)(18)	*	*
	LMC Series B	0		
	UGC Class A	0		
Robert R. Bennett	LMC Series A	3,806(19)(20)(21)	*	2.7%
	LMC Series B	10,842(20)	8.2%	
	UGC Class A	184(22)	*	*
Donne F. Fisher	LMC Series A	401(23)	*	*
	LMC Series B	633	*	
	UGC Class A	0		

Gary S. Howard	LMC Series A	7,175(24)(25)(26)(27)	*	*
	LMC Series B	0		
	UGC Class A	56(22)	*	*
David E. Rapley	LMC Series A	5	*	*
	LMC Series B	0		
	UGC Class A	0		
Larry E. Romrell	LMC Series A	233(28)	*	*
	LMC Series B	3	*	
	UGC Class A	0		
J. David Wargo	LMC Series A	127(29)(30)	*	*
	LMC Series B	0		
	UGC Class A	210(31)	*	*
All directors and executive officers as a group (13 persons)	LMC Series A	33,906(3)(4)(5)(14)(18)(21)(26)(27)(32)(33)(34)	1.2	31.3
	LMC Series B	127,892(3)(4)(5)(6)(32)(33)	91.8%	%
	UGC Class A	424(31)(35)	*%	*

* Less than one percent

(1) Includes 1,505,043 shares of LMC Series A common stock and 3,409,436 shares of LMC Series B common stock held by Mr. Malone's wife, Mrs. Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.

(2) Includes 787,597 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.

(3) Includes 1,000,000 shares of LMC Series A common stock and 9,511,690 shares of LMC Series B common stock held by a Grantor Retained Annuity Trust with respect to which Mr. Malone retains certain rights.

(4) Includes 800,000 shares of LMC Series A common stock and 2,118,648 shares of LMC Series B common stock held by two irrevocable trusts with respect to which Mr. Malone retains certain rights.

(5) Includes beneficial ownership of 4,125 shares of LMC Series A common stock and 7,465,511 shares of LMC Series B common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options. Mr. Malone has the right to convert the options to purchase shares of LMC Series B common stock into options to purchase shares of LMC Series A common stock.

(6) Includes 5,281,739 shares of LMC Series B common stock held by TP-JCM, LLC of which Mr. Malone is the sole member.

(7) Includes beneficial ownership of 176,668 shares of UGC Class A common stock which may be acquired within 60 days after March 12, 2004, pursuant to stock options.

(8) Includes beneficial ownership of 1,575,636 shares of LMC Series A common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options.

(9) Includes 92,729 shares of LMC Series A common stock held by Mr. Hollis' wife, Catherine Paula Hollis, as to which shares Mr. Hollis has disclaimed beneficial ownership.

(10) Includes beneficial ownership of 500,602 shares of LMC Series A common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options.

(11) Includes 12,940 shares of LMC Series A common stock held by the Liberty 401(k) Saving Plan.

(12) Includes beneficial ownership of 2,246,216 shares of LMC Series A common stock which may be acquired within 60 days of March 5, 2004, pursuant to stock options.

(13) Includes 13,474 shares of LMC Series A common stock held by the Liberty 401(k) Saving Plan.

(14) Includes 37,500 restricted shares of LMC Series A common stock, none of which was vested at March 5, 2004.

(15) Includes 2,273 shares of LMC Series A common stock held by Ms. Markowski's husband, Thomas Markowski, as to which shares Ms. Markowski has disclaimed beneficial ownership.

(16) Includes beneficial ownership of 756,380 shares of LMC Series A common stock which may be acquired within 60 days of March 5, 2004, pursuant to stock options.

(17) Includes 5,001 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.

(18) Includes 1,750 restricted shares of LMC Series A common stock, none of which was vested at March 5, 2004.

(19) Includes 28,713 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.

(20) Includes beneficial ownership of 25,778 shares of LMC Series A common stock and 10,841,904 shares of LMC Series B common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options. Mr. Bennett has the right to convert the options to purchase shares of LMC Series B common stock into options to purchase shares of LMC Series A common stock.

(21) Includes 1,246,580 shares of LMC Series A common stock owned by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.

(22) Includes beneficial ownership of 56,251 shares of UGC Class A common stock which may be acquired within 60 days of March 12, 2004, pursuant to stock options.

(23) Includes beneficial ownership of 113,188 shares of LMC Series A common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options (550 of which were granted in tandem with SARs).

(24) Includes beneficial ownership of 5,723,806 shares of LMC Series A common stock which may be acquired within 60 days of March 5, 2004, pursuant to stock options.

(25) Includes 45,830 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.

(26) Includes 349,049 shares owned by a Grantor Retained Annuity Trust with respect to which Mr. Howard retains certain rights.

(27) Includes 110,723 shares of LMC Series A common stock owned by Mr. Howard's wife, Mrs. Leslie D. Howard, and 86,681 shares of LMC Series A common stock owned by Mrs. Leslie D. Howard, and held by a Grantor Retained Annuity Trust, as to which shares Mr. Howard has disclaimed beneficial ownership.

(28) Includes beneficial ownership of 19,638 shares of LMC Series A common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options (1,375 of which were granted in tandem with SARs).

(29) Includes beneficial ownership of 8,750 shares of LMC Series A common stock which may be acquired within 60 days of March 5, 2004, pursuant to stock options.

(30) Includes 125,873 shares of LMC Series A common stock held by a partnership of which Mr. Wargo is the general partner, as to which shares Mr. Wargo has disclaimed beneficial ownership.

(31) Includes 41,551 shares of UGC Class A common stock held by a partnership of which Mr. Wargo is the general partner, as to which shares Mr. Wargo has disclaimed beneficial ownership.

(32) Includes 1,507,316 shares of LMC Series A common stock and 3,409,436 shares of LMC Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers has been disclaimed.

(33) Includes beneficial ownership of 10,978,119 shares of LMC Series A common stock and 18,307,415 shares of LMC Series B common stock which may be acquired within 60 days after March 5, 2004, pursuant to stock options. The options to purchase shares of LMC Series B common stock may be converted into options to purchase shares of LMC Series A common stock.

(34) Includes 880,158 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.

(35) Includes beneficial ownership of 289,170 shares of UGC Class A common stock which may be acquired within 60 days of March 12, 2004, pursuant to stock options.

One of our directors and two of our named executive officers also hold interests in Liberty Jupiter, Inc., one of our privately held subsidiaries. Mr. Bennett, Ms. Curtis, Mr. Hollis and another individual hold 180, 320, 200 and 100 shares, respectively, of Class A common stock of Liberty Jupiter, representing a 20% aggregate common equity interest and less than 1% aggregate voting interest in Liberty Jupiter, based upon 800 shares of Class A common stock, 3,200 shares of Class B common stock and approximately 93,379 shares of preferred stock outstanding, as of March 5, 2004. Liberty Jupiter owns an approximate 6% interest in our affiliate, J-COM.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Prior to the spin off, all of the outstanding shares of our common stock have been owned beneficially and of record by LMC. The following table sets forth shares of LMC common stock beneficially owned by each person or entity (excluding any of our directors and executive officers) known by us to own more than five percent of the outstanding shares of LMC common stock, based upon filings pursuant to Section 13(d) or (g) under the Securities Exchange Act.

The percentage ownership information is based upon 2,788,535,647 shares of LMC Series A common stock and 121,062,825 shares of LMC Series B common stock outstanding as of March 5, 2004. The percentage of LMC common stock beneficially owned by the entity listed in the table reflects the percentage of our common stock that would have been beneficially owned by the listed entity on March 5, 2004, had the record date for the spin off occurred on that date. The listed entity has sole voting power and investment power with respect to the shares of LMC Series A common stock set forth opposite its name. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities.

Name and Address of Beneficial Owner	Series of LMC Common Stock	Number of Shares (in thousands)	Percent of Class
Comcast Corporation (through wholly owned subsidiaries) 1500 Market Street Philadelphia, PA 19102	Series A	222,342	8.0%

CERTAIN INTER-COMPANY AGREEMENTS

Agreements with LMC

Following the spin off, our company and LMC will operate independently, and neither will have any ownership interest in the other. In order to govern certain of the ongoing relationships between our company and LMC after the spin off and to provide mechanisms for an orderly transition, we and LMC are entering into certain agreements pursuant to which we will obtain services and facilities and a short-term credit facility from LMC, and we and LMC will indemnify each other against certain liabilities arising from our respective businesses. The following is a summary of the terms of the material agreements we are entering into with LMC. This summary is qualified by reference to the full text of the agreements to be filed as exhibits to the Form 10 registration statement of which this information statement is a part.

Reorganization Agreement

Prior to the record date, LMC and a number of LMC subsidiaries, including our company, will enter into a reorganization agreement to provide for, among other things, the principal corporate transactions required to effect the spin off, certain conditions to the spin off and provisions governing the relationship between our company and LMC with respect to and resulting from the spin off.

The reorganization agreement will provide that, on or prior to the record date, LMC will transfer to us, or cause its other subsidiaries to transfer to us, the assets comprising LMC's International Group not already held by us. The reorganization agreement will also provide for mutual indemnification obligations, which are designed to make our company financially responsible for substantially all of the liabilities relating to the businesses of LMC's International Group prior to the spin off, as well as for all liabilities incurred by our company after the spin off, and to make LMC financially responsible for all potential liabilities of our company which are not related to our businesses, including, for example, liabilities arising as a result of our company having been a subsidiary of LMC.

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

The spin off is conditioned on the receipt by LMC of an opinion from Skadden, Arps, Slate, Meagher & Flom LLP to the effect that, among other things, the spin off will qualify as a tax-free spin off to LMC's shareholders and to LMC for U.S. federal income tax purposes.

The reorganization agreement may be terminated, and the spin off may be abandoned, at any time prior to the date of the spin off, by and in the sole discretion of the LMC board of directors, without the approval of LMC's shareholders or anyone else. In such event, LMC will have no liability to any person under the reorganization agreement or any obligation to effect the spin off.

Facilities and Services Agreement

Pursuant to the facilities and services agreement, following the spin off, LMC will provide us with specified services and benefits, including:

(1) the lease of office space at LMC's executive headquarters, including furniture and furnishings and the use of building services;

(2) telephone, utilities, technical assistance (including information technology, management information systems, network maintenance and data storage), computers, office supplies, postage, courier service, cafeteria access and other office and administrative services;

(3) insurance administration and risk management services;

(4) other services typically performed by LMC's accounting, treasury, engineering, legal, investor relations, tax, and billing department personnel; and

(5) such other services as we and LMC may from time to time mutually determine to be necessary or desirable.

We will make payments to LMC under the facilities and services agreement based upon an annual per-square foot occupancy charge and an allocated portion of LMC's personnel costs (taking into account wages and fringe benefits) of the departments expected to provide services to us. The allocated portion of these personnel costs will be based upon the anticipated percentages of time to be spent by LMC personnel in each department performing services for us under the facilities and services agreement. We will also reimburse LMC for direct out-of-pocket costs incurred by LMC for third party services provided to us that are not included in our occupancy charge. We and LMC will evaluate all charges for reasonableness semi-annually and make any adjustments to these charges as we and LMC mutually agree upon. Based upon the square footage currently occupied by us, the current personnel costs of the affected LMC departments and our anticipated percentage usage thereof, the fees payable to LMC for the first year of the facilities and services agreement are expected to be approximately $2.3 million.

The facilities and services agreement will continue in effect for one year and will be renewed automatically for successive one-year periods thereafter, unless earlier terminated (1) by us at any time on at least 30 days' prior written notice, (2) by LMC at the end of the initial term or any renewal term, upon at least 180 days' prior notice, (3) by LMC upon written notice to our company, following certain changes in control of our company or our company being the subject of certain bankruptcy or insolvency-related events, or (4) by us upon written notice to LMC, following certain changes in control of LMC or LMC being the subject of certain bankruptcy or insolvency-related events.

Aircraft Arrangements

LMC has agreed to transfer to us, prior to the spin off, a joint ownership interest in two of LMC's aircrafts. The interest transferred will be based upon our and LMC's expected relative usage. Following the interest transfer, we and LMC will share the costs of LMC's flight department and the costs of maintaining and operating the jointly owned aircrafts based upon our respective usage of such aircrafts.

Tax Sharing Agreement

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

We and our eligible subsidiaries currently join with LMC in the filing of a consolidated return for U.S. federal income tax purposes and also join with LMC in the filing of certain consolidated, combined, and unitary returns for state, local, and foreign tax purposes. However, for periods (or portions thereof) beginning after the spin off, we will not join with LMC in the filing of any federal, state, local or foreign consolidated, combined or unitary tax returns.

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

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

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

The tax sharing agreement provides that we will enter into a closing agreement with the Internal Revenue Service with respect to unrecaptured dual consolidated losses attributable to us or any of our subsidiaries under Section 1503(d) of the Code. Moreover, we agree to be liable for any deemed adjustment to taxes resulting from the recapture of any dual consolidated loss so attributed to us, if such loss is required to be recaptured as a result of one or more specified events described in the U.S. Treasury Regulations occurring after the distribution date. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the recaptured dual consolidated loss multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. We estimate the amount of dual consolidated losses attributable to us and our subsidiaries to be approximately $53 million as of December 31, 2003. We must also indemnify and hold harmless LMC and its subsidiaries against any liability arising under LMC's tax sharing agreement with AT&T Corp. with respect to such recaptured dual consolidated loss.

The tax sharing agreement provides that we will be liable for any deemed adjustment to taxes resulting from the recognition of gain pursuant to a gain recognition agreement entered into by LMC (or any parent of a consolidated group of which we were formerly a member) in accordance with Treasury Regulations Section 1.367(a)-8(b), but only if the recognition of such gain results in an adjustment to the basis of any property held by us or any of our subsidiaries. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. We must also indemnify and hold harmless LMC and its subsidiaries against any liability arising under its tax sharing agreement with AT&T Corp. with respect to such recognition of gain. However, the amount we are required to indemnify LMC and its subsidiaries for any deemed adjustment to taxes or any liability arising under LMC's tax sharing agreement with AT&T Corp. will be reduced by any amount that LMC or any of its subsidiaries receives pursuant to any indemnification arrangement with any other person arising from or relating to recognition of gain under such gain recognition agreement.

We will be responsible for filing all tax returns that include us or one of our subsidiaries other than any consolidated, combined or unitary income tax return that includes us or one of our subsidiaries, on the one hand, and LMC or one of its subsidiaries (other than us or any of our subsidiaries), on the other hand. We will have the authority to respond to and conduct all tax proceedings, including tax audits, relating to taxes or any deemed adjustment to taxes for which we are liable under the tax sharing agreement, and LMC will have the authority to respond to and conduct all tax proceedings, including tax audits, relating to taxes or any deemed adjustment to taxes for which it is liable under the tax sharing agreement. The tax sharing agreement further provides for cooperation between LMC and our company with respect to tax matters, the exchange of information and the retention of records that may affect the tax liabilities of the parties to the agreement.

Finally, the tax sharing agreement requires that neither we nor any of our subsidiaries will take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to LMC and to you under Section 355 of the Code. Moreover, we must indemnify LMC and its subsidiaries, officers and directors for any loss, including any deemed adjustment to taxes of LMC, resulting from (1) such action or failure to act, if such action or failure to act precludes the spin off from qualifying as a tax-free transaction or (2) any breach of any representation or covenant given by us or one of our subsidiaries in connection with the tax opinion delivered to LMC by Skadden, Arps, Slate, Meagher & Flom L.L.P. and any other tax opinion delivered to LMC, in each case relating to the qualification of the spin off as a tax-free distribution described in Section 355 of the Code. See "The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off." For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized by LMC multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties.

Short-Term Credit Facility

LMC has agreed to make loans to us from time to time through December 31, 2004, up to an aggregate principal amount of $500 million. The loans will bear interest at 6% per annum, compounded semi-annually. Proceeds of the loans may be used to fund working capital requirements, investments and acquisitions. We will be required to use our reasonable best efforts to obtain external equity or debt financing after the spin off and to make mandatory prepayments of the loans from the proceeds of such external financing. Any such prepayment will reduce the available amount of loans we may borrow from LMC. The outstanding principal amount of the loans, together with accrued interest, will be due and payable on March 31, 2005, whether or not we have obtained sufficient external financing.

Services Agreement with UGC

We and our subsidiary, UGC, are entering into an agreement pursuant to which we and UGC will obtain certain services from each other. The following is a summary of the terms of the services agreement we are entering into with UGC. This summary is qualified by reference to the full text of the agreement to be filed as an exhibit to the Form 10 registration statement of which this information statement is a part.

Pursuant to the services agreement, following the spin off, UGC will provide us with specified services and benefits, including employee benefit administration, payroll, tax withholding, workers' compensation administration and enrollment in UGC's benefit plans, in each case with respect to persons employed by our company following the spin off, and such other services as we and UGC may from time to time mutually determine to be necessary or desirable. Also, pursuant to the services agreement, we will provide to UGC certain services typically performed by accounting and tax department personnel, which may include services provided to us by LMC's accounting and tax department personnel pursuant to our facilities and services agreement with LMC.

We will pay UGC an annual fee of $20,000 for providing the foregoing benefits and services to our company and our employees. In addition, we will reimburse UGC for direct out-of-pocket costs incurred by UGC for third party services in providing the foregoing benefits and services to our company and our employees. UGC will pay us the portion of any accounting or tax department personnel costs (taking into account wages and fringe benefits) that is expected to be attributable to time spent performing services for UGC under the services agreement. We and UGC will evaluate all charges for reasonableness periodically and make any adjustments as we and UGC mutually agree upon.

The services agreement will continue in effect until the close of business on December 31, 2004, and will be renewed automatically for successive one-year periods thereafter, unless earlier terminated (1) by either of us at any time on at least 90 days' prior written notice, (2) by UGC upon written notice to our company, following certain changes in control of our company or our company being the subject of certain bankruptcy or insolvency-related events, or (3) by us upon written notice to UGC, following certain changes in control of UGC or UGC being the subject of certain bankruptcy or insolvency-related events.

DESCRIPTION OF OUR CAPITAL STOCK

The following information reflects our restated certificate of incorporation and bylaws as these documents will be in effect at the time of the spin off.

Authorized Capital Stock

Our authorized capital stock consists of one billion one hundred million (1,100,000,000) shares, of which one billion fifty million (1,050,000,000) shares are designated common stock, par value $0.01 per share, and fifty million (50,000,000) shares are designated preferred stock, par value $0.01 per share. Our common stock is divided into three series. We have authorized five hundred million (500,000,000) shares of Series A common stock, fifty million (50,000,000) shares of Series B common stock, and five hundred million (500,000,000) shares of Series C common stock.

Immediately following the spin off, we expect to have approximately [ ] shares of our Series A common stock and approximately [ ] shares of our Series B common stock outstanding, based upon the number of shares of LMC Series A common stock and Series B common stock outstanding on [ ], 2004. No shares of our Series C common stock or preferred stock will be outstanding immediately following the spin off.

Our Common Stock

The holders of our Series A common stock, Series B common stock and Series C common stock have equal rights, powers and privileges, except as otherwise described below.

Voting Rights

The holders of our Series A common stock will be entitled to one vote for each share held, and the holders of our Series B common stock will be entitled to ten votes for each share held, on all matters voted on by our shareholders, including elections of directors. The holders of our Series C common stock will not be entitled to any voting powers, except as required by Delaware law. When the vote or consent of holders of our Series C common stock is required by Delaware law, the holders of our Series C common stock will be entitled to 1/100th of a vote for each share held. Our charter does not provide for cumulative voting in the election of directors.

Dividends; Liquidation

Subject to any preferential rights of any outstanding series of our preferred stock created by our board from time to time, the holders of our common stock will be entitled to such dividends as may be declared from time to time by our board from funds available therefor. Except as otherwise described under "—Distributions," whenever a dividend is paid to the holders 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. For a more complete discussion of our dividend policy, please see "—Dividend Policy."

Conversion

Each share of our Series B common stock is convertible, at the option of the holder, into one share of our Series A common stock. Our Series A common stock and Series C common stock are not convertible.

Distributions

Distributions made in shares of our Series A common stock, our Series B common stock, our Series C common stock or any other security with respect to our Series A common stock, our Series B common stock or our Series C common stock may be declared and paid only as follows:

- a share distribution (1) consisting of shares of our Series A common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (2) consisting of shares of our Series B common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (3) consisting of shares of our Series C common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (4) consisting of shares of our Series A common stock (or securities convertible therefor) to holders of our Series A common stock and, on an equal per share basis, shares of our Series B common stock (or securities convertible therefor) to holders of our Series B common stock and, on an equal per share basis, shares of our Series C common stock (or securities convertible thereof) to holders of our Series C common stock; and

- a share distribution consisting of shares of any class or series of securities of our company or any other person, other than our Series A common stock, Series B common stock or Series C common stock (or securities convertible therefor) on the basis of a distribution of (1) identical securities, on an equal per share basis, to holders of our Series A common stock, Series B common stock and Series C common stock; or (2) separate classes or series of securities, on an equal per share basis, to holders of our Series A common stock, Series B common stock and Series C common stock; or (3) a separate class or series of securities to the holders of one or more series of our common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of our common stock, *provided* that, in the case of (2) or (3) above, the securities so distributed do not differ in any respect other than their relative voting rights and related differences in designation, conversion and share distribution provisions, with the holders of shares of Series B common stock receiving securities of the class or series having the highest relative voting rights and the holders of shares of each other series of our common stock receiving securities of the class or series having lesser relative voting rights, and *provided further* that, if different classes or series of securities are being distributed to holders of our Series A common stock and Series C common stock, then such securities shall be distributed either as determined by our board of directors or such that the relative voting rights of the securities of the class or series of securities to be received by the holders of our Series A common stock and Series C common stock corresponds, to the extent practicable, to the relative voting rights of each such series of our common stock, and *provided further* that, in each case, the distribution is otherwise made on a equal per share basis.

We may not reclassify, subdivide or combine any series of our common stock without reclassifying, subdividing or combining the other series of our common stock, on an equal per share basis.

Liquidation and Dissolution

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 stock holders may be entitled, the holders of our Series A common stock, Series B common stock and Series C common stock will share equally, on a share for share basis, in our assets remaining for distribution to the holders of our common stock.

Our Preferred Stock

Our restated certificate of incorporation authorizes our board of directors to establish one or more series of our preferred stock and to determine, with respect to any series of our preferred stock, the terms and rights of the series, including:

- the designation of the series;
- the number of authorized shares of the series, which number our board may thereafter increase or decrease but not below the number of such shares then outstanding;
- the dividend rate or amounts, if any, payable on the shares and, in the case of cumulative dividends, the date or dates from which dividends on all shares of the series shall be cumulative;
- the rights of the series in the event of our voluntary or involuntary liquidation, dissolution or winding up;
- the rights, if any, of holders of the series to convert into or exchange for other classes or series of stock or indebtedness and the terms and conditions of any such conversion or exchange, including provision for adjustments within the discretion of our board;
- the voting rights, if any, of the holders of the series;
- the terms and conditions, if any, for us to purchase or redeem the shares; and
- any other relative rights, preferences and limitations of the series.

We believe that the ability of our board of directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financing and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as shares of our common stock, will be available for issuance without further action by our shareholders, unless such action is required by applicable law or the rules of any, stock exchange or automated quotation system on which our securities may be listed or traded. If the approval of our shareholders is not required for the issuance of shares of our preferred stock or our common stock our board may determine not to seek shareholder approval.

Although our board of directors has no intention at the present time of doing so, it could issue a series of our preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based upon its judgment as to the best interests of our company and our shareholders. Our board of directors, in so acting, could issue our preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our shareholders might believe to be in their best interests or in which shareholders might receive a premium for their stock over the then-current market price of the stock.

Dividend Policy

We presently intend to retain future earnings, if any, to finance the expansion of our business. Therefore, we do not expect to pay any cash dividends in the foreseeable future. All decisions regarding the payment of dividends by our company will be made by our board of directors, from time to time, in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, plans for expansion and possible loan covenants which may restrict or prohibit our payment of dividends.

Anti-Takeover Effects of Provisions of our Restated Certificate of Incorporation and Bylaws

Board of Directors

Our restated certificate of incorporation and bylaws provide that, subject to any rights of the holders of any series of our preferred stock to elect additional directors, the number of our directors shall not be less than three and the exact number shall be fixed from time to time by a resolution adopted by the affirmative vote of 75% of the members of our board then in office. The members of our board, other than those who may be elected by holders of our preferred stock, are divided into three classes. Each class consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of board members. The term of office of our Class I directors expires at the annual meeting of our shareholders in 2005. The term of office of our Class II directors expires at the annual meeting of our shareholders in 2006. The term of office of our Class III directors expires at the annual meeting of our shareholders in 2007. At each annual meeting of our shareholders, the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of our shareholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified.

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, our directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the total voting power of our outstanding capital stock entitled to vote at an election of directors, voting together as a single class.

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, vacancies on our board resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on our board, shall be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director so elected shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is assigned, and until that director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting our board shall shorten the term of any incumbent director, except as may be provided in any certificate of designation with respect to a series of our preferred stock with respect to any additional director elected by the holders of that series of our preferred stock.

These provisions would preclude a third party from removing incumbent directors and simultaneously gaining control of our board by filling the vacancies created by removal with its own nominees. Under the classified board provisions described above, it would take at least two elections of directors for any individual or group to gain control of our board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of us.

No Shareowner Action by Written Consent; Special Meetings

Our restated certificate of incorporation provides that, except as otherwise provided in the terms of any series of preferred stock, any action required to be taken or which may be taken at any annual meeting or special meeting of shareholders may not be taken without a meeting and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of our preferred stock, special meetings of our shareholders for any purpose or purposes may be called only by our Secretary at the request of at least 75% of the members of our board then in office. No business other than that stated in the notice of special meeting shall be transacted at any special meeting.

Advance Notice Procedures

Our bylaws establish an advance notice procedure for shareholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholder.

All nominations by shareholders or other business to be properly brought before a meeting of shareholders shall be made pursuant to timely notice in proper written form to our Secretary. To be timely, a shareholder's notice shall be given to our Secretary at our offices as follows:

(1) with respect to an annual meeting of our shareholders that is called for a date not more than 30 days before or 70 days after the anniversary date of the immediately preceding annual meeting of our shareholders, such notice shall be given no earlier than 120 days prior to such anniversary and no later than 90 days in advance of such meeting or the 10th day following the day on which we first publicly announce the date of the annual meeting, whichever is later; and

(2) with respect to an annual meeting of our shareholders which is called for a date that is not more than 30 days before or 70 days after the anniversary date of the immediately preceding annual meeting of our shareholders, such notice shall be given no earlier than 120 days prior to such anniversary and not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; and

(3) with respect to an election to be held at a special meeting of our shareholders, not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting.

The public announcement of an adjournment or postponement of a meeting of our shareholders does not commence a new time period (or extend any time period) for the giving of any such shareholder notice. However, if the number of directors to be elected to our board at any meeting is increased, and we do not make a public announcement naming all of the nominees for director or specifying the size of the increased board at least 100 days prior to the anniversary date of the immediately preceding annual meeting, a shareholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to our Secretary at our offices not later than the close of business on the 10th day following the day on which we first make the relevant public announcement. For purposes of the first annual meeting of shareholders to be held in 2005, the first anniversary date shall be deemed to be [ ], 2005.

Amendment

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, the affirmative vote of the holders of at least 80% of the voting power of our outstanding capital stock, voting together as a single class, is required to adopt, amend or repeal any provision of our restated certificate of incorporation or the addition or insertion of other provisions in the certificate, provided that the foregoing voting requirement shall not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of our shareholders or (2) which has been approved by at least 75% of the members of our board then in office. Our restated certificate of incorporation further provides that the affirmative vote of the holders of at least 80% of the voting power of our outstanding capital stock, voting together as a single class, is required to adopt, amend or repeal any provision of our bylaws, provided that the foregoing voting requirement shall not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of our board then in office.

Section 203 of the Delaware General Corporation Law

Section 203 of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an "interested stockholder." An "interested stockholder" for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the outstanding voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the outstanding voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. In our restated certificate of incorporation, we have elected not to be governed by Section 203.

Transfer Agent and Registrar

EquiServe Trust Company, N.A. will be the transfer agent and registrar for our common stock.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses including attorneys' fees, judgments, fines and amounts paid in settlement in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative other than an action by or in the right of the corporation, a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses including attorneys' fees incurred in connection with the defense or settlement of such actions, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's certificate of incorporation, bylaws, agreement, a vote of shareholders or disinterested directors or otherwise.

Our restated certificate of incorporation provides that we will indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person, or a person for whom such person is the legal representative, is or was a director or officer of us or, while a director or officer of us, is or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) incurred by such person in connection therewith. Our restated certificate of incorporation also provides that we shall pay the expenses incurred by a director or officer in defending any such proceeding in advance of its final disposition, subject to such person providing us with certain undertakings. Such rights are not exclusive of any other right which any person may have or thereafter acquire under any statute, provision of our restated certificate of incorporate, bylaws, agreement, vote of shareholders or disinterested directors or otherwise. No amendment, modification or repeal of such provision will in any way adversely affect any right or protection thereunder of any person in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

The Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to the corporation or its shareholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- payments of unlawful dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation provides that, to the fullest extent permitted by applicable law, none of our directors will be personally liable to us or our shareholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this provision will be prospective only and will not adversely affect any limitation, right or protection of a director of our company existing at the time of such repeal or modification.

INDEPENDENT AUDITORS

The audit committee of LMC's board of directors has selected KPMG LLP as our independent auditors for the year ended December 31, 2004.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form 10 with the SEC with respect to the shares of our common stock being distributed as contemplated by this information statement. This information statement is a part of, and does not contain all of the information set forth in, the registration statement and the exhibits and schedules to the registration statement. For further information with respect to our company and our common stock, please refer to the registration statement, including its exhibits and schedules. Statements made in this information statement relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement, including its exhibits and schedules, at the SEC's public reference room, located at 450 Fifth Street, N.W., Washington, D.C. 20549, as well as on the Internet website maintained by the SEC at *www.sec.gov*. Information contained on any website referenced in this information statement is not incorporated by reference in this information statement.

As a result of the distribution, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, we will file periodic reports, proxy statements and other information with the SEC.

You may request a copy of any of our filings with the SEC at no cost, by writing or telephoning the office of:

Investor Relations
Liberty Media International, Inc.
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) -

We intend to furnish holders of our common stock with annual reports containing consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles and audited and reported on, with an opinion expressed, by an independent public accounting firm.

This information statement includes information concerning UGC, which files reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information contained in this information statement concerning UGC has been derived from the reports and other information filed by UGC with the SEC. If you would like further information about UGC, the reports and other information it files with the SEC can be accessed on the Internet website maintained by the SEC at *www.sec.gov*. Those reports and other information are not incorporated by reference in this information statement.

You should rely only on the information contained in this information statement or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this information statement.

INDEX TO FINANCIAL STATEMENTS

Independent Auditors' Report

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying combined balance sheets of LMC International (a combination of certain assets and businesses owned by Liberty Media Corporation, as defined in note 1) ("LMC International") as of December 31, 2003 and 2002, and the related combined statements of operations and comprehensive earnings (loss), parent's investment, and cash flows for each of the years in the three-year period ended December 31, 2003. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined 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 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of LMC International as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4 to the combined financial statements, the Company changed its method of accounting for intangible assets in 2002.

KPMG LLP

Denver, Colorado
March 26, 2004

LMC INTERNATIONAL
(a combination of certain assets and businesses owned by Liberty Media Corporation, as defined in note 1)

Combined Balance Sheets

December 31, 2003 and 2002

		2003	2002
		(amounts in thousands)	
Assets			
Current assets:			
Cash and cash equivalents	$	12,753	5,592
Trade and other receivables, net		15,130	13,723
Prepaid expenses		1,830	1,376
Other current assets		1,030	405
Total current assets		30,743	21,096
Investments in affiliates, accounted for using the equity method, and related receivables (note 5)		1,740,552	1,145,382
Other investments (note 6)		450,134	187,826
Property and equipment, at cost:			
Distribution systems		116,962	100,780
Support equipment and buildings		11,051	13,548
		128,013	114,328
Accumulated depreciation		(30,436)	(25,117)
		97,577	89,211
Intangible assets not subject to amortization:			
Goodwill		525,576	525,576
Franchise costs		163,450	163,470
		689,026	689,046
Deferred income tax assets (note 9)		457,831	638,909
Restricted cash (note 8)		41,700	—
Other assets		43,663	29,426
	$	3,551,226	2,800,896
Liabilities and Parent's Investment			
Current liabilities:			
Accounts payable	$	20,629	22,224
Accrued liabilities		13,815	13,287
Accrued stock compensation		15,052	11,445
Derivative instruments (note 7)		21,010	2,626
Current portion of debt (note 8)		12,426	21,786
Total current liabilities		82,932	71,368
Long-term debt (note 8)		41,700	13,500
Other liabilities		7,948	7,089
Total liabilities		132,580	91,957
Minority interest		78	46
Parent's investment:			
Parent's investment		5,096,083	4,621,185
Accumulated deficit		(1,630,949)	(1,651,838)
Accumulated other comprehensive loss, net of taxes (note 11)		(46,566)	(260,454)
		3,418,568	2,708,893
Commitments and contingencies (note 12)			
	$	3,551,226	2,800,896

See accompanying notes to combined financial statements.

LMC INTERNATIONAL
(a combination of certain assets and businesses owned by Liberty Media Corporation, as defined in note 1)

Combined Statements of Operations and Comprehensive Earnings (Loss)

Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
		(amounts in thousands)	
Revenue	$ 108,634	103,855	139,535
Operating costs and expenses:			
Operating	50,306	43,931	63,155
Selling, general and administrative ("SG&A") (note 10)	40,337	42,269	43,619
Stock compensation—SG&A	4,088	(5,815)	6,275
Depreciation	14,642	13,037	13,772
Amortization	472	50	44,250
Impairment of long-lived assets	—	45,928	91,087
	109,845	139,400	262,158
Operating loss	(1,211)	(35,545)	(122,623)
Other income (expense):			
Interest expense	(2,178)	(3,943)	(21,917)
Interest income	24,874	25,883	67,189
Share of earnings (losses) of affiliates (note 5)	13,739	(331,225)	(589,525)
Realized and unrealized gains (losses) on derivative instruments (note 7)	12,762	(16,705)	(534,962)
Nontemporary declines in fair value of investments (note 6)	(6,884)	(247,386)	(2,002)
Gain on disposition of assets, net (note 5)	3,759	122,331	—
Other, net	4,027	(9,391)	(11,182)
	50,099	(460,436)	(1,092,399)
Earnings (loss) before income taxes and minority interest	48,888	(495,981)	(1,215,022)
Income tax benefit (expense) (note 9)	(27,975)	166,121	394,696
Minority interests in earnings of subsidiaries	(24)	(27)	(29)
Earnings (loss) before cumulative effect of accounting change	20,889	(329,887)	(820,355)
Cumulative effect of accounting change, net of taxes (note 4)	—	(238,267)	—
Net earnings (loss)	$ 20,889	(568,154)	(820,355)
Other comprehensive earnings (loss), net of taxes (note 11):			
Foreign currency translation adjustments	103,145	(173,715)	(111,787)
Unrealized gains (losses) on available-for-sale securities	111,594	46,649	(30,400)
Other comprehensive earnings (loss)	214,739	(127,066)	(142,187)
Comprehensive earnings (loss)	$ 235,628	(695,220)	(962,542)

See accompanying notes to combined financial statements.

LMC INTERNATIONAL
(a combination of certain assets and businesses owned by Liberty Media Corporation, as defined in note 1)

Combined Statements of Parent's Investment

Years ended December 31, 2003, 2002 and 2001

	Parent's investment	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Total parent's investment
		(amounts in thousands)		
Balance at January 1, 2001	$ 2,161,615	(263,329)	8,799	1,907,085
Net loss	—	(820,355)	—	(820,355)
Other comprehensive loss	—	—	(142,187)	(142,187)
Losses in connection with issuances of stock of affiliates, net of taxes	(929)	—	—	(929)
Intercompany tax allocation	2,073	—	—	2,073
Allocation of corporate overhead (note 10)	10,148	—	—	10,148
Net cash transfers from parent	1,083,758	—	—	1,083,758
Balance at December 31, 2001	3,256,665	(1,083,684)	(133,388)	2,039,593

Net loss	—	(568,154)	—	(568,154)
Other comprehensive loss	—	—	(127,066)	(127,066)
Reallocation of enterprise-level goodwill from parent	118,000	—	—	118,000
Intercompany tax allocation	3,988	—	—	3,988
Allocation of corporate overhead (note 10)	10,794	—	—	10,794
Net cash transfers from parent	1,231,738	—	—	1,231,738
Balance at December 31, 2002	4,621,185	(1,651,838)	(260,454)	2,708,893
Net earnings		20,889		20,889
Other comprehensive earnings	—	—	214,739	214,739
Intercompany tax allocation	(14,774)	—	—	(14,774)
Allocation of corporate overhead (note 10)	10,873	—	—	10,873
Net cash transfers from parent	478,799	—	—	478,799
Other	—	—	(851)	(851)
Balance at December 31, 2003	$ 5,096,083	(1,630,949)	(46,566)	3,418,568

See accompanying notes to combined financial statements.

LMC INTERNATIONAL
(a combination of certain assets and businesses owned by Liberty Media Corporation, as defined in note 1)

Combined Statements of Cash Flows

Years ended December 31, 2003, 2002 and 2001

	2003	2002	2001
		(amounts in thousands)	
Cash flows from operating activities:			
Net earnings (loss)	$ 20,889	(568,154)	(820,355)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change, net of taxes	—	238,267	—
Depreciation and amortization	15,114	13,087	58,022
Stock compensation	4,088	(5,815)	6,275
Payments for stock compensation	(481)	—	(5,874)
Impairment of long-lived assets	—	45,928	91,087
Share of losses (earnings) of affiliates	(13,739)	331,225	589,525
Unrealized losses (gains) on derivative instruments	(12,762)	16,705	534,962
Nontemporary declines in fair value of investments	6,884	247,386	2,002
Gain on disposition of assets, net	(3,759)	(122,331)	—
Deferred income tax expense (benefit)	42,278	(169,606)	(402,027)
Noncash interest income and other	(1,609)	(6,908)	(45,960)
Changes in operating assets and liabilities:			
Receivables and prepaid expenses	6,925	13,442	(18)
Payables and accruals	(3,317)	(23,514)	11,195
Net cash provided by operating activities	60,511	9,712	18,834
Cash flows from investing activities:			
Investments in and loans to affiliates and others	(494,193)	(1,219,588)	(1,341,129)
Capital expended for property and equipment	(22,869)	(24,910)	(14,782)
Cash paid to settle foreign exchange contracts	(10,499)	—	—
Cash received due to increase in fair value of bond swaps	30,079	—	—
Proceeds from dispositions of assets	8,230	—	—
Other investing activities, net	(16,042)	1,940	2,474
Net cash used in investing activities	(505,294)	(1,242,558)	(1,353,437)
Cash flows from financing activities:			
Borrowings of debt	41,700	—	283,281
Repayments of debt	(22,954)	(12,784)	(46,211)
Change in restricted cash	(41,700)	—	—
Contributions from parent	474,898	1,246,520	1,095,492
Net cash provided by financing activities	451,944	1,233,736	1,332,562
Net increase (decrease) in cash and cash equivalents	7,161	890	(2,041)
Cash and cash equivalents:			
Beginning of year	5,592	4,702	6,743

End of year	$	12,753	5,592	4,702
Cash paid for interest	$	932	18,603	6,263
Cash paid for taxes	$	4,651	2,895	1,725

See accompanying notes to combined financial statements.

LMC INTERNATIONAL
(a combination of certain assets and businesses owned by Liberty Media Corporation,
as defined in note 1)

Notes to Combined Financial Statements

December 31, 2003, 2002 and 2001

(1) Basis of Presentation

The accompanying combined financial statements of "LMC International" or "the Company" represent a combination of the historical financial information of certain international cable television and programming subsidiaries and assets of Liberty Media Corporation ("Liberty"). Upon consummation of the spinoff transaction described in note 2, Liberty Media International, Inc. will own the assets that comprise "LMC International."

The more significant subsidiaries and investments of Liberty initially comprising LMC International are as follows:

Subsidiaries

Liberty Cablevision of Puerto Rico Ltd. ("Puerto Rico Cable")
Pramer S.C.A. ("Pramer")

Investments

Chofu Cable k.k.
Fox Pan American Sports LLC
Jupiter Programming Co., Ltd. ("JPC")
Jupiter Telecommunications Co., Ltd. ("J-COM")
Metrópolis-Intercom S.A. ("Metropolis")
Sky Latin America
Telewest Communications plc ("Telewest") bonds
Torneos y Competencias, S.A. ("Torneos")
UnitedGlobalCom, Inc. ("UGC")
The Wireless Group plc

(2) Spinoff Transaction

On March 15, 2004, Liberty announced its intention to spin off all the capital stock of Liberty Media International, Inc. to the holders of Liberty Series A and Series B common stock (the "Spin Off"). The Spin Off will be effected as a distribution by Liberty to holders of its Series A and Series B common stock of shares of Series A and Series B common stock of the Company. The Spin Off will not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free spin off. The Spin Off is expected to occur in the second or third quarter of 2004, on a date to be determined by Liberty's board of directors, and will be made as a dividend to holders of record of Liberty common stock as of the close of business on the date of record for the Spin Off. The Spin Off is expected to be accounted for at historical cost due to the pro rata nature of the distribution.

Following the Spin Off, the Company and Liberty will operate independently, and neither will have any stock ownership, beneficial or otherwise, in the other. In connection with the Spin Off, LMC International and Liberty will enter into certain agreements in order to govern certain of the ongoing relationships between Liberty and LMC International after the Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement, a Tax Sharing Agreement and a Short-Term Credit Facility.

The Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the Spin Off and cross indemnities. Pursuant to the Facilities and Services Agreement, Liberty will provide LMC International with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. LMC International will reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for LMC International's allocable portion of facilities costs and costs associated with any shared services or personnel.

Under the Tax Sharing Agreement, Liberty will generally be responsible for U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes LMC International or one of its subsidiaries, on the one hand, and Liberty or one of its subsidiaries on the other hand, subject to certain limited exceptions. LMC International will be responsible for all other taxes that are attributable to LMC International or one of its subsidiaries, whether accruing before, on or after the Spin Off. The Tax Sharing Agreement requires that the Company 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, the Company will indemnify Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the Spin Off from qualifying as a tax-free transaction.

(3) AT&T Ownership of Liberty

On March 9, 1999, AT&T Corp. ("AT&T") acquired Tele-Communications, Inc. ("TCI"), the former parent of Liberty, in a merger transaction (the "AT&T Merger").

From March 9, 1999 through August 9, 2001, AT&T owned 100% of the outstanding common stock of Liberty. Effective August 10, 2001, AT&T effected the split off of Liberty pursuant to which all of the common stock of Liberty was distributed in a tax-free manner to holders of AT&T Liberty Media Group common stock (the "Split Off Transaction"). Subsequent to the Split Off Transaction, Liberty is no longer a subsidiary of AT&T. The Split Off Transaction has been recorded at historical cost.

(4) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of all investments which are readily convertible into cash and have maturities of three months or less at the time of acquisition.

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $13,947,000 and $13,103,000 at December 31, 2003 and 2002, respectively.

Investments

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

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather then as dividends or other distributions are received, limited to the extent of the Company's investment in, and advances and commitments to, the investee. If the Company's investment in the common stock of an affiliate is reduced to zero as a result of recording its share of the affiliate's net losses, and the Company holds investments in other more senior securities of the affiliate, the Company would continue to record losses from the affiliate to the extent of these additional investments. The amount of additional losses recorded would be determined based on changes in the hypothetical amount of proceeds that would be received by the Company if the affiliate were to experience a liquidation of its assets at their current book values. Prior to the Company's January 1, 2002 adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"), the Company's share of net earnings or losses of affiliates included the amortization of the difference between the Company's investment and its share of the net assets of the investee. Upon adoption of Statement 142, the portion of excess costs on equity method investments that represents goodwill ("equity method goodwill") is no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. The Company's share of net earnings or losses of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases in the Company's statements of parent's investment.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's 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 nontemporary, 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, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and available-for-sale securities are included in the combined statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments

The Company has entered into several derivative instrument contracts including total return bond swaps and foreign currency hedges. The Company accounts for its derivative instruments pursuant to Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("Statement 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. 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. 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.

Property and Equipment

Property and equipment is stated at cost, including acquisition costs allocated to tangible assets acquired. Construction and initial subscriber installation costs, including interest during construction, material, labor and applicable overhead, are capitalized. Interest capitalized during 2003, 2002 and 2001 was not material.

Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years for cable distribution systems and 3 to 40 years for support equipment and buildings.

Repairs and maintenance are charged to operations, and additions are capitalized.

Intangible Assets

The Company's primary intangible assets are goodwill and franchise costs. Goodwill represents the excess purchase price over the fair value of assets acquired, for acquisitions other than cable television systems. Franchise costs represent the difference between the cost of acquiring cable television systems and amounts allocated to their tangible assets.

Effective January 1, 2002, the Company adopted 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 to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144").

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. As a result, a portion of the Company's enterprise-level goodwill balance was allocated to various reporting units which included a single equity method investment as its only asset. For example, goodwill was allocated to a separate reporting unit which included only the Company's investment in J-COM. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

The Company determined the fair value of its reporting units using independent appraisals, public trading prices and other means. 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.

In situations where the implied fair value of a reporting unit's goodwill was less than its carrying value, LMC International recorded a transition impairment charge. In total, the Company recognized a $238,267,000 transitional impairment loss, net of taxes of $103,105,000, as the cumulative effect of a change in accounting principle in 2002. The foregoing transitional impairment loss includes an adjustment of $264,372,000 for the Company's proportionate share of transition adjustments that UGC recorded.

As noted above, indefinite lived intangible assets are no longer amortized. Adjusted net loss, exclusive of amortization expense related to goodwill, franchise costs and equity method goodwill, for periods prior to the adoption of Statement 142 is as follows (amounts in thousands):

		Year ended December 31, 2001
Net loss, as reported	$	(820,355)
Adjustments:		
Goodwill amortization		34,600
Franchise costs amortization		9,521
Equity method excess costs amortization included in share of losses of affiliates		92,902
Income tax effect		(39,945)
Net loss, as adjusted	$	(723,277)

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 these allocations at December 31, 2003 (amounts in thousands).

Entity		Allocable goodwill
J-COM	$	203,000
JPC		127,000
Puerto Rico Cable		121,000
Other		74,576
Total enterprise-level goodwill	$	525,576

As more fully described in note 5, LMC International recorded a $66,555,000 nontemporary decline in value for Metropolis in 2002. In connection therewith, the Company also recorded a $39,000,000 impairment of enterprise-level goodwill that had been allocated to Metropolis. In 2002, the Company also recorded a $5,000,000 impairment of enterprise-level goodwill related to Torneos as a result of the devaluation of the Argentine peso.

Due to deteriorating economic and political conditions in Argentina in 2001, Pramer, a consolidated subsidiary of LMC International, assessed the recoverability of its long-lived assets and determined that an impairment adjustment was necessary. Such adjustment aggregated $52,775,000 and is included in the accompanying 2001 combined statement of operations.

Impairment of Long-Lived Assets

Statement 144 requires that the Company periodically review the carrying amounts of its property and equipment and its intangible assets (other than goodwill) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets, accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Foreign Currency Translation

The functional currency of LMC International is the U.S. dollar. The functional currency of LMC International's foreign operations generally is the applicable local currency for each foreign subsidiary and equity method investee. Assets and liabilities of foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations and LMC International's share of the results of operations of its equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in the combined statement of parent's investment.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations as unrealized (based on the applicable period end translation) or realized upon settlement of the transactions. Cash flows from LMC International's consolidated foreign subsidiaries are calculated in their functional currencies.

Unless otherwise indicated, convenience translations of foreign currencies into U.S. dollars are calculated using the applicable spot rate at December 31, 2003, as published in *The Wall Street Journal*.

Revenue Recognition

Cable and programming revenue are recognized in the period that services are delivered. Cable installation revenue is recognized in the period 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 subscribers are expected to remain connected to the cable television system.

Stock Based Compensation

Certain company employees hold options, stock appreciation rights ("SARs") and options with tandem SARs to purchase shares of Liberty Series A common stock. The Company accounts for these grants pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees*." ("APB Opinion No. 25") Under these provisions, options are accounted for as fixed plan awards and no compensation expense is recognized because the exercise price is equal to the market price of the underlying common stock on the date of grant; whereas options with tandem SARs are accounted for as variable plan awards, and compensation is recognized based upon the percentage of the options that are vested and the difference between the market price of the underlying common stock and the exercise price of the options at the balance sheet date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation,"* ("Statement 123") to its options.

Compensation expense for options with tandem SARs is the same under APB Opinion No. 25 and Statement 123.

	Years ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
Net earnings (loss)	$ 20,889	(568,154)	(820,355)
Deduct stock compensation as determined under the fair value method, net of taxes	(1,038)	(1,498)	(2,355)
Pro forma net earnings (loss)	$ 19,851	(569,652)	(822,710)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("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. Actual results could differ from those estimates.

LMC International holds a significant number of investments that are accounted for using the equity method. LMC International does not control the decision making process or business management practices of these affiliates. Accordingly, LMC International relies on management of these affiliates and their independent auditors to provide it with accurate financial information prepared in accordance with GAAP that LMC International uses in the application of the equity method. LMC International is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliates that would have a material effect on LMC International's combined financial statements.

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

LMC International's affiliates generally are engaged in the cable and/or programming businesses in various foreign countries. Most of LMC International's affiliates have incurred net losses since their respective inception dates. As such, substantially all of the affiliates are dependent upon external sources of financing and capital contributions in order to meet their respective liquidity requirements.

The following table includes LMC International's carrying value and percentage ownership of its more significant investments in affiliates:

	December 31, 2003		December 31, 2002
	Percentage ownership	Carrying amount	Carrying amount
	(dollar amounts in thousands)		
J-COM	45%	1,330,602	782,039
UGC	52%	—	—
JPC	50%	259,571	223,033
Metropolis	50%	52,223	47,025
Torneos	40%	32,500	34,937
Other	Various	65,656	58,348
		$ 1,740,552	1,145,382

The following table reflects LMC International's share of earnings (losses) of affiliates including nontemporary declines in value:

	Years ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
J-COM	$ 20,341	(21,595)	(89,538)
UGC	—	(190,216)	(439,843)
JPC	11,775	5,801	(9,337)
Metropolis	(8,291)	(80,394)	(16,609)
Torneos	(7,566)	(25,482)	(29,300)
Other	(2,520)	(19,339)	(4,898)
	$ 13,739	(331,225)	(589,525)

At December 31, 2003, LMC International's aggregate carrying amount in its affiliates exceeded LMC International's proportionate share of its affiliates' net assets by $3.745 billion. Prior to the adoption of Statement 142, such excess cost were being amortized over estimated useful lives of up to 20 years based upon the useful lives of the intangible assets represented by such excess costs. Such amortization was $92,902,000 for the year ended December 31, 2001, and is included in share of earnings (losses) of affiliates. Upon adoption of Statement 142, the Company discontinued amortizing its equity method excess costs in existence at the adoption date due to their characterization as equity method goodwill. Any calculated excess costs on investments made after January 1, 2002 are allocated on an estimated fair value basis to the underlying assets and liabilities of the investee. Amounts allocated to assets other than indefinite lived intangible assets are amortized over their estimated useful lives.

UGC

UGC is an international broadband communications provider of video, voice and data services with operations in 15 countries outside the U.S. On January 30, 2002, the Company and UGC completed a transaction (the "UGC Transaction") pursuant to which UGC was formed to own Old UGC, Inc. (formerly known as UGC Holdings, Inc.) ("UGC Holdings"). Upon consummation of the UGC Transaction, all shares of UGC Holdings common stock were exchanged for shares of common stock of UGC. In addition, the Company contributed (i) cash consideration of $200,000,000, (ii) a note receivable from Belmarken Holding B.V., an indirect subsidiary of UGC Holdings, with an accreted value of $891,671,000 and a carrying value of $495,603,000 (the "Belmarken Loan") and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V. ("UPC"), a subsidiary of UGC Holdings, with an aggregate carrying amount of $270,398,000 to UGC in exchange for 281.3 million shares of UGC Class C common stock with a fair value of $1,406,441,000. The Company has accounted for the UGC Transaction as the acquisition of an additional noncontrolling interest in UGC in exchange for monetary financial instruments. Accordingly, the Company calculated a $440,440,000 gain on the transaction based on the difference between the estimated fair value of the financial instruments and their carrying value. Due to its continuing indirect ownership in the assets contributed to UGC, the Company limited the amount of gain it recognized to the minority shareholders' attributable share (approximately 28%) of such assets or $122,618,000 (before deferred tax expense of $47,821,000).

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

At December 31, 2003, the Company owned approximately 305 million shares of UGC common stock, or an approximate 52% economic interest and an 89% voting interest in UGC. The closing price of UGC's Class A common stock was $8.48 on December 31, 2003. Pursuant to certain voting and standstill arrangements, the Company was unable to exercise control of UGC, and accordingly, the Company used the equity method of accounting for its investment.

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

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

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

On January 5, 2004, the Company completed a transaction pursuant to which UGC's founding shareholders (the "Founders") transferred 8.2 million shares of UGC Class B common stock to the Company in exchange for 12.6 million shares of Liberty Series A common stock and a cash payment of $12,857,000. Upon closing of the transaction with the Founders, the restrictions on the exercise by the Company of its voting power with respect to UGC terminated, and the Company gained voting control of UGC. Accordingly, UGC will be included in the Company's combined financial position and results of operations beginning January 2004. The Company has entered into a new Standstill Agreement with UGC that limits the Company's ownership of UGC common stock to 90 percent of the outstanding common stock unless it makes an offer or effects another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with the Company.

In January 2004, the Company also purchased an additional 17.6 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to it pursuant to our Standstill Agreement with UGC. The $135,626,000 purchase price for such shares was comprised of (1) the cancellation of indebtedness due from subsidiaries of UGC to certain subsidiaries of the Company in the amount of $104,462,000 (including accrued interest) and (2) $31,164,000 in cash.

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 .28 transferable subscription rights to purchase a like class of common stock for each share of common stock owned by them on January 21, 2004. The rights offering expired on February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering and expects to use such cash proceeds for working capital and general corporate purposes, including future acquisitions and repayment of outstanding indebtedness. As a holder of UGC Class A, Class B and Class C common stock, the Company participated in the rights offering and exercised its rights to purchase 90.7 million shares for a total cash purchase price of $544,251,000. Subsequent to the foregoing transactions, LMC International owns approximately 53% of UGC's common stock representing approximately 90% of the voting power of UGC's shares.

Summarized financial information for UGC is as follows:

	December 31, 2003	December 31, 2002
	(amounts in thousands)	
Financial Position		
Current assets	$ 828,646	865,551
Property and equipment, net	3,342,743	3,640,211
Intangible and other assets, net	2,928,282	1,425,832
Total assets	$ 7,099,671	5,931,594
Debt	$ 4,351,905	6,959,767
Other liabilities	1,252,513	1,854,555
Minority interest	22,761	1,402,146
Shareholders' equity (deficit)	1,472,492	(4,284,874)
Total liabilities and equity	$ 7,099,671	5,931,594

	Year ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
Results of Operations			
Revenue	$ 1,891,530	1,515,021	1,561,894
Operating, selling, general and administrative expenses	(1,300,672)	(1,246,875)	(1,761,955)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets and restructuring charges	(438,209)	(437,427)	(1,525,069)
Operating loss	(656,014)	(899,282)	(2,872,306)
Interest expense, net	(327,132)	(680,101)	(1,070,830)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Share of earnings (losses) of affiliates	294,464	(72,142)	(386,441)
Foreign currency translation gains (losses)	121,612	739,794	(148,192)
Minority interest	183,182	(67,103)	496,515
Other, net	195,259	(241,680)	(536,958)
Net income (loss) from continuing operations	$ 1,995,368	988,268	(4,514,765)

J-COM

J-COM was incorporated in 1995 to own and operate broadband businesses in Japan and other parts of Asia. Upon formation, LMC International and Sumitomo Corporation ("Sumitomo") owned 40% and 60% of J-COM, respectively. In the second quarter of 2000, LMC International purchased an additional 10% equity interest from Sumitomo for $92 million in cash. In September 2000, J-COM acquired Titus Communications Corporation in a stock-for-stock exchange, and LMC's ownership interest was reduced to 35%.

In 2003, LMC International purchased an additional 8% equity interest from Sumitomo for $141 million in cash, and LMC International and Sumitomo each converted certain of their shareholder loans to equity interests in J-COM. At December 31, 2003, LMC International and Sumitomo owned 45.2% and 31.8% of J-COM, respectively.

Summarized financial information for J-COM is as follows:

	December 31,	
	2003	2002
	(amounts in thousands)	
Financial Position		
Investments	$ 52,962	42,874
Property and equipment, net	2,274,632	2,025,396
Intangible and other assets, net	1,601,596	1,424,161
Total assets	$ 3,929,190	3,492,431
Debt	$ 2,378,698	2,447,593
Other liabilities	649,229	541,857
Owners' equity	901,263	502,981
Total liabilities and equity	$ 3,929,190	3,492,431

	Year ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
Results of Operations			
Revenue	$ 1,233,492	930,736	628,892
Operating, selling, general and administrative expenses	(806,014)	(720,084)	(572,239)
Depreciation and amortization	(313,725)	(240,042)	(251,727)
Operating income (loss)	113,753	(29,390)	(195,074)
Interest expense, net	(68,980)	(33,381)	(27,283)
Other, net	1,335	2,579	870
Net earnings (loss)	$ 46,108	(60,192)	(221,487)

JPC

JPC, a joint venture formed in 1996 by LMC International and Sumitomo, is a programming company in Japan, which owns and invests in a variety of channels including the *Shop Channel*. LMC International and Sumitomo each own 50% of JPC.

Summarized financial information for JPC is as follows:

	December 31,	
	2003	2002

		(amounts in thousands)	
Financial Position			
Investments	$	31,290	18,447
Property and equipment, net		18,742	16,171
Intangible and other assets, net		142,100	97,877
Total assets	$	192,132	132,495
Debt	$	61,160	57,244
Other liabilities		88,099	58,932
Owners' equity		42,873	16,319
Total liabilities and equity	$	192,132	132,495

		Year ended December 31,		
		2003	2002	2001
		(amounts in thousands)		
Results of Operations				
Revenue	$	412,013	273,696	207,004
Operating, selling, general and administrative expenses		(357,509)	(241,688)	(187,543)
Depreciation and amortization		(10,427)	(8,834)	(7,575)
Operating income		44,077	23,174	11,886
Other, net		(21,112)	(15,052)	(4,075)
Net earnings	$	22,965	8,122	7,811

Metropolis

Metropolis provides broadband services in Chile. Due to increased competition, losses in subscribers and a decrease in operating income in 2002, LMC International determined that its carrying value, including allocated enterprise-level goodwill, exceeded the estimated fair value for Metropolis, which fair value was based on a per-subscriber valuation. Accordingly, LMC International recorded a nontemporary decline in value of $66,555,000, which is included in share of losses of affiliates for the year ended December 31, 2002 and an impairment of long-lived assets of $39,000,000 related to the allocated enterprise-level goodwill for Metropolis.

Summarized financial information for Metropolis is as follows:

		December 31,	
		2003	2002
		(amounts in thousands)	
Financial Position			
Property and equipment, net	$	182,948	154,376
Intangible and other assets, net		176,126	156,855
Total assets	$	359,074	311,231
Debt	$	74,053	74,462
Other liabilities		50,471	24,872
Owners' equity		234,550	211,897
Total liabilities and equity	$	359,074	311,231

		Year ended December 31,		
		2003	2002	2001
		(amounts in thousands)		
Results of Operations				
Revenue	$	65,266	67,718	75,353
Operating, selling, general and administrative expenses		(61,680)	(71,783)	(78,076)
Depreciation and amortization		(15,969)	(14,074)	(20,711)
Operating loss		(12,383)	(18,139)	(23,434)
Other, net		(4,198)	(4,099)	(4,600)
Net loss	$	(16,581)	(22,238)	(28,034)

Torneos

Torneos provides sports and entertainment programming in Latin American. As of December 31, 2002, LMC International, through several intermediary companies indirectly owned 54% of Torneos. As LMC International was unable to exercise control over Torneos, it accounted for such investment using the equity method. In the second quarter of 2003, LMC International sold a 14% ownership interest in Torneos to an unrelated third party for $1.7 million in cash, which was $30,195,000 less than LMC

International's carrying amount for such interest. In connection with this sale, LMC International retained a call right to repurchase the 14% interest in Torneos on the first, second and third anniversaries of the sale for the $1.7 million sale price plus a financing fee. Due to LMC International's unilateral ability to repurchase this interest and the favorable call price relative to the fair value of the interest, LMC International did not meet the criteria for treating this transaction as a sale, and accordingly, has recorded the cash received as a liability in the accompanying combined balance sheet.

During 2003, LMC International reviewed its carrying value for Torneos and determined that such carrying value exceeded the estimated fair value, which fair value was based on a discounted cash flow model. Accordingly, LMC International recorded a nontemporary decline in value of $11,279,000, which is included in share of earnings of affiliates for the year ended December 31, 2003.

In 2000, LMC International loaned Avila Inversora S.A. ("AISA") $18 million (the "AISA Note") and guaranteed bank debt of AISA in the amount of $27 million (the AISA Bank Loan"). The AISA Note was secured by AISA's 20% interest in Torneos. In 2001, LMC International determined that the AISA Note was not collectible and reserved all principal and accrued interest in the amount of $21,312,000. This reserve is included in impairment of long-lived assets in the accompanying combined statement of operations. In 2002, LMC International forgave principal and accrued interest related to the AISA Note in the amount of $15,857,000 and repaid $28,496,000 of principal and accrued interest related to the AISA Bank Loan. In exchange, LMC International received an additional 14% indirect interest in Torneos, bringing LMC International's total indirect interest in Torneos to 54%. The remaining balance of the AISA Note is fully reserved.

(6) Other Investments

The components of other investments are as follows:

	December 31, 2003	December 31, 2002
	(amounts in thousands)	
Telewest bonds	$ 281,393	100,884
Sky Latin America	94,347	86,772
Other	74,394	170
	$ 450,134	187,826

Telewest bonds

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

Sky Latin America

LMC International holds a 10% ownership interest in each of three direct-to-home satellite providers that operate in Brazil ("Sky Brazil"), Mexico ("Sky Mexico") and Chile and Colombia ("Sky Multi-Country") (collectively, "Sky Latin America"), which are accounted for as cost investments. LMC International also holds an investment in public debt securities issued by Sky Brazil and accounts for this investment as an available-for-sale security. In 2002, LMC International determined that due to, among other factors, economic conditions in the countries in which Sky Latin America operates, its investment in Sky Latin America experienced an other than temporary decline in value. As a result, the investment in each of the Sky Latin America entities was adjusted to its respective fair value based on a discounted cash flow model and per subscriber values. In the case of Sky Multi-Country, LMC International determined that low subscriber counts, lack of economies of scale and the future projected cash needs of Sky Multi-Country, that the entire investment should be written off at December 31, 2002. In addition, all amounts funded to Sky Multi-Country in 2003 were expensed when paid. The total amount of impairment for Sky Latin America in 2003 and 2002 was $6,884,000 and $105,250,000, respectively.

Belmarken Loan

In May 2001, the Company entered into a loan agreement with UPC and Belmarken Holding B.V. ("Belmarken"), a subsidiary of UPC, pursuant to which the Company loaned Belmarken $857 million, which represented a 30% discount to the face amount of the loan of $1,225 million (the "Belmarken Loan"). UPC is a consolidated subsidiary of UGC. The loan accrued interest at 6% per annum, and all principal and interest was due in May 2007. After May 29, 2002, the loan was exchangeable, at the option of the Company, into shares of ordinary common stock of UPC at a rate of $6.85 per share. At inception, LMC International recorded the conversion feature of the loan at its estimated fair value of $420 million, and the $437 million remaining balance as a loan receivable. LMC International accounted for the convertible feature of the Belmarken Loan as a derivative security under Statement 133, and recorded the convertible feature at fair value with periodic market adjustments recorded in the statement of operations as unrealized gains or losses on derivative instruments. The discounted loan receivable was being accreted up to the $1,225 million face amount over its term. Such accretion, which includes the stated interest of 6%, was recognized in interest income over the term of the loan. Upon consummation of the UGC Transaction, the Company contributed the Belmarken Loan to UGC in exchange for Class C shares of UGC.

Unrealized holding gains and losses related to investments in available-for-sale securities that are included in accumulated other comprehensive loss are summarized as follows:

	December 31, 2003		December 31, 2002	
	Equity securities	Debt securities	Equity securities	Debt securities
	(amounts in thousands)			
Gross unrealized holding gains	$ 156	210,925	—	28,146
Gross unrealized holding losses	$ —	—	—	—

(7) Derivative Instruments

Forward Foreign Exchange Contracts

The Company generally does not hedge its foreign currency exchange risk because of the long term nature of its interests in foreign affiliates. However, in order to reduce its foreign currency exchange risk related to its recent investment in J-COM, the Company entered into forward sale contracts with respect to ¥20,802 million ($193,741,000 at December 31, 2003) during the year ended December 31, 2003. In addition to the forward sale contracts, the Company entered into collar agreements with respect to ¥28,785 million ($268,092,000 at December 31, 2003). These collar agreements have a remaining term of approximately one year, an average call price of 108 yen/U.S. dollar and an average put price of 125 yen/U.S. dollar. During the year ended December 31, 2003, the Company reported unrealized losses of $22,626,000 related to its yen contracts.

Total Return Debt Swaps

The Company has entered into total return debt swaps in connection with its purchase of bank debt of UGC Europe. Under these arrangements, LMC International directs a counterparty to purchase a specified amount of the underlying debt security for the benefit of the Company. The Company initially posts collateral with the counterparty equal to 10% of the value of the purchased securities. The Company earns interest income based upon the face amount and stated interest rate of the underlying debt securities, and pays interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debentures declines 10%, the Company is required to post cash collateral for the decline, and the Company records an unrealized loss on derivative instruments. The cash collateral is further adjusted up or down for subsequent changes in the fair value of the underlying debt security. At December 31, 2003, the aggregate purchase price of debt securities underlying LMC International's total return debt swap arrangements was $113,361,000. As of such date, the Company had posted cash collateral equal to $14,552,000. In the event the fair value of the purchased debt securities were to fall to zero, the Company would be required to post additional cash collateral of $98,809,000.

Realized and Unrealized Gains (Losses) on Derivative Instruments

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

	Year ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
Foreign exchange derivatives	$ (22,626)	(11,239)	—
Total return debt swaps	37,804	(1,088)	(124,698)
Belmarken loan	—	(4,378)	(410,264)
Other	(2,416)	—	—
	$ 12,762	(16,705)	(534,962)

(8) Debt

The components of debt are as follows:

	December 31,	
	2003	2002
	(amounts in thousands)	
Puerto Rico Cable Bank Credit Facility	$ 41,700	22,500
Pramer	12,426	12,786
Total debt	54,126	35,286
Less current maturities	(12,426)	(21,786)
Total long term debt	$ 41,700	13,500

Puerto Rico Cable Bank Credit Facility

In October 2003, LMC International and Puerto Rico Cable refinanced Puerto Rico Cable's bank credit facility. The new facility provides for maximum borrowings of up to $50,000,000, which accrue interest at 8%, and matures in October 2013. The availability of such commitments is subject to Puerto Rico Cable's compliance with applicable financial covenants and other customary conditions, including among other things, the maintenance of certain financial ratios and limitations on indebtedness, investments, guarantees, acquisitions, dispositions, dividends, liens and encumbrances, and transactions with affiliates. LMC International is required to post cash collateral equal to the outstanding borrowings under the facility. LMC International earns interest at 7.75% on the cash collateral. At December 31, 2003, the outstanding balance under this facility was $41,700,000. Puerto Rico Cable used borrowings under the new facility to repay and terminate its previous bank credit facility and to repay intercompany debt to LMC International.

Pramer

Pramer has made short-term borrowings which are denominated in Argentine pesos to finance certain acquisitions and for working capital needs. Interest accrues at a weighted average interest rate of 5.11% at December 31, 2003. Pramer anticipates that these borrowings will be renewed in 90-day terms and will be repaid as cash flow permits.

The U.S. dollar equivalent of the annual maturities of LMC International's debt over the next five years is:

2004	$ 12,426
2005	$ —
2006	$ —
2007	$ —
2008	$ —

LMC International believes that the fair value and the carrying value of its debt were approximately equal at December 31, 2003.

(9) Income Taxes

LMC International and its 80%-or-more-owned domestic subsidiaries (the "LMC International Tax Group") are included in the consolidated federal and state income tax returns of Liberty. LMC International's income taxes include those items in the consolidated income tax calculation applicable to the LMC International Tax Group ("intercompany tax allocation") and any income taxes of LMC International's consolidated foreign or domestic subsidiaries that are excluded from the consolidated federal and state income tax returns of Liberty.

Income tax benefit (expense) consists of:

		Current	Deferred	Total
			(amounts in thousands)	
Year ended December 31, 2003:				
Federal	$	14,774	(28,630)	(13,856)
State and local		—	(5,589)	(5,589)
Foreign		(471)	(8,059)	(8,530)
	$	14,303	(42,278)	(27,975)
Year ended December 31, 2002:				
Federal	$	(3,988)	140,533	136,545
State and local		—	26,527	26,527
Foreign		503	2,546	3,049
	$	(3,485)	169,606	166,121
Year ended December 31, 2001:				
Federal	$	(2,411)	434,507	432,096
State and local		338	(35,540)	(35,202)
Foreign		(5,258)	3,060	(2,198)
	$	(7,331)	402,027	394,696

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

		Year ended December 31,		
		2003	2002	2001
			(amounts in thousands)	
Computed "expected" tax benefit (expense)	$	(17,111)	173,593	425,258
State and local income taxes, net of federal income taxes		(4,315)	15,472	(23,288)
Foreign taxes		(7,922)	3,049	(1,885)
Effect of change in estimated state tax rate		—	—	12,759
Impairment charges and amortization not deductible for tax purposes		—	(16,153)	(10,345)
Other, net		1,373	(9,840)	(7,803)
	$	(27,975)	166,121	394,696

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are presented below:

		December 31,	
		2003	2002
		(amounts in thousands)	
Deferred tax assets:			
Investments	$	499,214	663,641
Net operating loss carryforwards		7,263	6,062
Other future deductible amounts		15,823	19,199
Deferred tax assets		522,300	688,902
Deferred tax liabilities:			
Property and equipment		(14,749)	(12,701)
Intangible assets		(19,038)	(10,099)
Other future taxable amounts		(30,682)	(27,193)
Deferred tax liabilities		(64,469)	(49,993)
Net deferred tax asset	$	457,831	638,909

Based on the difference between the estimated fair value and the Company's tax bases in the Company's assets, management considers it more likely than not that the Company will have sufficient taxable income to realize the full amount of its net deferred tax assets at December 31, 2003.

At December 31, 2003, LMC International had net operating loss carryforwards for income tax purposes aggregating approximately $20,751,000 which, if not utilized to reduce taxable income in future periods, will expire as follows: $6,300,000 in 2021; $11,021,000 in 2022; and $3,430,000 in 2023.

(10) Related Party Transactions

Corporate expenses have been allocated from Liberty to LMC International based upon the cost of general and administrative services provided. LMC International believes such allocations are reasonable and materially approximate the amount that LMC International would have incurred on a stand-alone basis. Amounts allocated aggregated $10,873,000, $10,794,000 and $10,148,000 in 2003, 2002 and 2001, respectively, and are included in selling, general and administrative expenses in the accompanying combined statements of operations.

Certain key employees of LMC International hold stock options and options with tandem SARs with respect to certain common stock of Liberty. Estimates of the compensation expense relating to SARs have been included in the accompanying combined statements of operations, but are subject to future adjustment based upon the vesting and market value of the underlying Liberty common stock and ultimately on the final determination of market value when the rights are exercised.

In 2003 and 2002, Puerto Rico Cable purchased programming services from affiliates of Liberty. Costs for such services aggregated $1,867,000 and $632,000 in 2003 and 2002, respectively. In 2001, Puerto Rico Cable purchased programming services from a subsidiary of AT&T, and costs for such services aggregated $5,956,000 during the seven months ended July 31, 2001, and are included in operating expenses in the accompanying combined statements of operations.

Pramer provides programming and uplink services to certain affiliates. Total revenue for such services aggregated $5,643,000, $6,019,000 and $16,742,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The decrease in revenue from 2001 to 2002 is due to the economic crisis in Argentina and the devaluation of the Argentine peso.

(11) Other Comprehensive Earnings (Loss)

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

	Foreign currency translation adjustment	Unrealized gains (losses) on securities	Other comprehensive earnings (loss), net of taxes
		(amounts in thousands)	
Balance at January 1, 2001	$ 8,799	—	8,799
Other comprehensive loss	(111,787)	(30,400)	(142,187)
Balance at December 31, 2001	(102,988)	(30,400)	(133,388)
Other comprehensive earnings (loss)	(173,715)	46,649	(127,066)
Balance at December 31, 2002	(276,703)	16,249	(260,454)
Other comprehensive earnings	103,145	111,594	214,739
Other	(851)	—	(851)
Balance at December 31, 2003	$ (174,409)	127,843	(46,566)

The components of other comprehensive earnings (loss) are reflected in LMC International's combined statements of operations and comprehensive earnings (loss), net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
		(amounts in thousands)	
Year ended December 31, 2003:			
Foreign currency translation adjustments	$ 169,090	(65,945)	103,145
Unrealized holding gains arising during period	182,941	(71,347)	111,594
Other comprehensive earnings	$ 352,031	(137,292)	214,739
Year ended December 31, 2002:			
Foreign currency translation adjustments	$ (284,779)	111,064	(173,715)
Unrealized holding gains arising during period	76,474	(29,825)	46,649
Other comprehensive loss	$ (208,305)	81,239	(127,066)
Year ended December 31, 2001:			
Foreign currency translation adjustments	$ (183,257)	71,470	(111,787)
Unrealized holding losses arising during period	(49,836)	19,436	(30,400)
Other comprehensive loss	$ (233,093)	90,906	(142,187)

(12) Commitments and Contingencies

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

In addition to the foregoing, agreements governing LMC International's investment in certain of its affiliates contain buy-sell and other exit arrangements whereby LMC International could be required to purchase another investor's ownership interest.

At December 31, 2003, Liberty guaranteed ¥14.4 billion ($134,246,000) of the bank debt of J-COM, an equity affiliate that provides broadband services in Japan. Liberty's guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2018. In addition, Liberty has agreed to fund up to ¥10 billion ($93,136,000 at December 31, 2003) to J-COM in the event J-COM's cash flow (as defined in its bank loan agreement) does not meet certain targets. In the event J-COM meets certain performance criteria, this commitment expires on September 30, 2004. If the Spin Off is completed, LMC International has agreed to indemnify Liberty for any amounts it is required to fund under these arrangements.

LMC International has guaranteed transponder and equipment lease obligations through 2018 of Sky Latin America. At December 31, 2003, the Company's guarantee of the remaining obligations due under such agreements aggregated $105,611,000 and is not reflected in LMC International's balance sheet at December 31, 2003. During the fourth quarter of 2002, Globo Communicacoes e Participacoes ("GloboPar"), another investor in Sky Latin America, announced that it was reevaluating its capital structure. As a result, LMC International believes that it is probable that GloboPar will not meet some, if not all, of its future funding obligations with respect to Sky Latin America. To the extent that GloboPar does not meet its funding obligations, LMC International and other investors could mutually agree to assume GloboPar's obligations. To the extent that LMC International or such other investors do not fully assume GloboPar's funding obligations, any funding shortfall could lead to defaults under applicable lease agreements. LMC International believes that the maximum amount of its aggregate exposure under the default provisions is not in excess of the gross remaining obligations guaranteed by LMC International, as set forth above. Although no assurance can be given, such amounts could be accelerated under certain circumstances. LMC International cannot currently predict whether it will be required to perform under any of such guarantees.

LMC International has also guaranteed various loans, notes payable, letters of credit and other obligations (the "Guaranteed Obligations") of certain other affiliates. At December 31, 2003, the Guaranteed Obligations aggregated approximately $92,331,000. Currently, LMC International is not certain of the likelihood of being required to perform under such guarantees.

LMC International leases business offices, has entered into pole rental and transponder lease agreements, and uses certain equipment under lease arrangements. Rental costs under such arrangements amounted to $2,934,000, $1,701,000 and $4,767,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of future minimum lease payments under noncancellable operating leases as of December 31, 2003 follows (amounts in thousands):

Years ending December 31:	
2004	$ 780
2005	$ 699
2006	$ 567
2007	$ 225
2008	$ 156
Thereafter	$ 15

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by similar leases.

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

(13) Information About Operating Segments

LMC International is a holding company with a variety of international subsidiaries and investments that provide broadband distribution services and video programming services. The Company identifies its reportable segments as those consolidated subsidiaries that represent 10% or more of its combined revenue, earnings before taxes or total assets; and those equity method affiliates whose share of earnings or loss represents 10% of more of the Company's pre-tax earnings. The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, operating cash flow and revenue or sales per customer. In addition, the Company reviews non-financial measures such as subscriber growth and penetration, as appropriate.

The Company defines operating cash flow as revenue less operating expenses and selling, general and administrative expenses (excluding stock compensation). The Company believes this is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2003, The Company has identified the following consolidated subsidiaries and equity method affiliates as its reportable segments:

- Puerto Rico Cable—consolidated subsidiary that provides broadband services in Puerto Rico.
- Pramer—consolidated subsidiary that provides programming throughout Latin America.
- UGC—52% owned equity method affiliate that provides broadband communications services, including video, voice and data, with operations in over 15 countries.
- J-COM—45% owned equity method affiliate that provides broadband communications services in Japan.
- JPC—50% owned equity method affiliate that provides cable and satellite television programming in Japan.
- Metropolis—50% owned equity method affiliate that provides broadband services in Chile.
- Torneos—40% owned equity method affiliate that provides sports and entertainment programming in Latin America.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the summary of significant policies.

The amounts presented below represent 100% of each business' revenue and operating cash flow. These amounts are combined on an unconsolidated basis and are then adjusted to remove the effects of the equity method investments to arrive at the reported amounts. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with GAAP since the results of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate.

Performance Measures

	Years ended December 31,					
	2003		2002		2001	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	(amounts in thousands)					
Puerto Rico Cable	$ 71,765	22,499	64,270	21,692	55,360	20,451
Pramer	35,102	4,961	35,985	3,990	82,855	22,056
UGC	1,891,530	628,882	1,515,021	296,374	1,561,894	(191,243)
J-COM	1,233,492	428,513	930,736	211,146	628,892	56,652
JPC	412,013	54,504	273,696	32,008	207,004	19,461
Metropolis	65,266	3,586	67,717	(4,065)	75,353	(2,723)
Torneos	27,877	4,156	26,781	11,517	77,899	4,751
Corporate and other	1,767	(9,469)	3,600	(8,027)	1,320	(9,746)
Eliminate equity affiliates	(3,630,178)	(1,119,641)	(2,813,951)	(546,980)	(2,551,042)	113,102
Combined LMC International	$ 108,634	17,991	103,855	17,655	139,535	32,761

Balance Sheet Information

	December 31,			
	2003		2002	
	Total assets	Investments in affiliates	Total assets	Investments in affiliates
	(amounts in thousands)			
Puerto Rico Cable	$ 270,828	—	261,807	—
Pramer	134,520	—	126,645	—
UGC	7,099,671	95,238	5,931,594	153,853
J-COM	3,929,190	26,027	3,492,431	18,610
JPC	192,132	24,201	132,495	12,038
Metropolis	359,074	1,741	311,231	1,488
Torneos	28,510	11,251	25,789	6,714
Corporate and other	3,145,878	1,740,552	2,412,444	1,145,382
Eliminate equity affiliates	(11,608,577)	(158,458)	(9,893,540)	(192,703)
Combined LMC International	$ 3,551,226	1,740,552	2,800,896	1,145,382

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

	Years ended December 31,		
	2003	2002	2001
	(amounts in thousands)		
Combined segment operating cash flow	$ 17,991	17,655	32,761
Stock compensation	(4,088)	5,815	(6,275)
Depreciation and amortization	(15,114)	(13,087)	(58,022)
Impairment of long-lived assets	—	(45,928)	(91,087)
Share of earnings (losses) of affiliates	13,739	(331,225)	(589,525)
Nontemporary declines in fair value of investments	(6,884)	(247,386)	(2,002)
Realized and unrealized gains (losses) on derivative instruments, net	12,762	(16,705)	(534,962)
Gains (losses) on dispositions, net	3,759	122,331	—
Other, net	26,723	12,549	34,090
Earnings (loss) before income taxes and minority interest	$ 48,888	(495,981)	(1,215,022)

Independent Auditors' Report

The Board of Directors
UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the revision described in Note 7 to the 2003 consolidated financial statements, in their report dated April 12, 2002 (except with respect to the matter discussed in Note 23 to those consolidated financial statements, as to which the date was May 14, 2002). Such report included an explanatory paragraph indicating substantial doubt about the Company's ability to continue as a going concern.

We conducted our audits in accordance with 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets and in 2003, changed its method of accounting for gains and losses on the early extinguishments of debt.

As discussed above, the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. As described in Note 6, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 in Note 6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries other than with respect to such disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

KPMG LLP

Denver, Colorado
March 8, 2004

The following is a copy of the Report of Independent Public Accountants previously issued by Arthur Andersen LLP in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as amended in connection with Amendment No. 1 to the Company's Form S-1 Registration Statement filed on June 6, 2002. The report of Andersen is included in this Annual Report on Form 10-K pursuant to Rule 2-02(e) of Regulation S-X. This Audit Report has not been reissued by Arthur Andersen LLP. The information previously contained in Note 23 to those consolidated financial statements is provided in Note 4 to our 2003 consolidated financial statements. The information previously contained in Note 2 to those consolidated financial statements is not included in our 2003 consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation f/k/a New UnitedGlobalCom, Inc. – see Note 23) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 3 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, is currently in default under certain of its significant bank credit facilities, senior notes and senior discount note agreements, which has resulted in a significant net working capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

ARTHUR ANDERSEN LLP

Denver, Colorado
April 12, 2002 (except with respect
to the matter discussed in Note 23,
as to which the date is May 14, 2002)

UNITEDGLOBALCOM, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PAR VALUE AND NUMBER OF SHARES)

	December 31,	
	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 310,361	$ 410,185

Restricted cash		25,052		48,219
Marketable equity securities and other investments		208,459		45,854
Subscriber receivables, net of allowance for doubtful accounts of $51,109 and $71,485, respectively		140,075		136,796
Related party receivables		1,730		15,402
Other receivables		63,427		50,759
Deferred financing costs, net		2,730		62,996
Other current assets, net		76,812		95,340
Total current assets		828,646		865,551
Long-term assets				
Property, plant and equipment, net		3,342,743		3,640,211
Goodwill		2,519,831		1,250,333
Intangible assets, net		252,236		13,776
Other assets, net		156,215		161,723
Total assets	$	7,099,671	$	5,931,594
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities				
Not subject to compromise:				
Accounts payable	$	224,092	$	190,710
Accounts payable, related party		1,448		1,704
Accrued liabilities		405,546		328,927
Subscriber prepayments and deposits		141,108		127,553
Short-term debt		–		205,145
Notes payable, related party		102,728		102,728
Current portion of long-term debt		310,804		3,366,235
Other current liabilities		82,149		16,448
Total current liabilities not subject to compromise		1,267,875		4,339,450
Subject to compromise:				
Accounts payable and accrued liabilities		14,445		271,250
Short-term debt		5,099		–
Current portion of long-term debt		317,372		2,812,988
Total current liabilities subject to compromise		336,916		3,084,238
Long-term liabilities				
Not subject to compromise:				
Long-term debt		3,615,902		472,671
Net negative investment in deconsolidated subsidiaries		–		644,471
Deferred taxes		124,232		107,596
Other long-term liabilities		259,493		165,896
Total long-term liabilities not subject to compromise		3,999,627		1,390,634
Guarantees, commitments and contingencies (Note 13)				
Minority interests in subsidiaries		22,761		1,402,146
Stockholders' equity (deficit)				
Preferred stock, $0.01 par value, 10,000,000 shares authorized, nil shares issued and outstanding		–		–
Class A common stock, $0.01 par value, 1,000,000,000 shares authorized, 287,350,970 and 110,392,692 shares issued, respectively		2,873		1,104
Class B common stock, $0.01 par value, 1,000,000,000 shares authorized, 8,870,332 shares issued		89		89
Class C common stock, $0.01 par value, 400,000,000 shares authorized, 303,123,542 shares issued and outstanding		3,031		3,031
Additional paid-in capital		5,852,896		3,683,644
Deferred compensation		–		(28,473)
Treasury stock, at cost		(70,495)		(34,162)
Accumulated deficit		(3,372,737)		(6,797,762)
Accumulated other comprehensive income (loss)		(943,165)		(1,112,345)
Total stockholders' equity (deficit)		1,472,492		(4,284,874)
Total liabilities and stockholders' equity (deficit)	$	7,099,671	$	5,931,594

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Year Ended December 31,

	2003	2002	2001
Statements of Operations			
Revenue	$ 1,891,530	$ 1,515,021	$ 1,561,894
Operating expense	(768,838)	(772,398)	(1,062,394)
Selling, general and administrative expense	(493,810)	(446,249)	(690,743)
Depreciation and amortization – Operating expense	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets – Operating expense	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other – Operating expense	(35,970)	(1,274)	(204,127)
Stock-based compensation – Selling, general and administrative expense	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest income, including related party income of $985, $2,722 and $35,336, respectively	13,054	38,315	104,696
Interest expense, including related party expense of $8,218, $24,805 and $58,834, respectively	(327,132)	(680,101)	(1,070,830)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Provision for loss on investments	–	(27,083)	(342,419)
Other (expense) income, net	(14,884)	(93,749)	76,907
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Reorganization expense, net	(32,009)	(75,243)	–
Income tax (expense) benefit, net	(50,344)	(201,182)	40,661
Minority interests in subsidiaries, net	183,182	(67,103)	496,515
Share in results of affiliates, net	294,464	(72,142)	(386,441)
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Earnings per share (Note 20):			
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	–	(3.13)	0.18
Basic net income (loss) per share	$ 7.41	$ (0.84)	$ (41.29)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	–	(3.12)	0.18
Diluted net income (loss) per share	$ 7.41	$ (0.83)	$ (41.29)
Statements of Comprehensive Income			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	61,440	(864,104)	11,157
Change in fair value of derivative assets	10,616	13,443	(24,059)
Change in unrealized gain on available-for-sale securities	97,318	4,029	37,526
Other	(194)	(77)	271
Comprehensive income (loss)	$ 2,164,548	$ (1,203,163)	$ (4,469,814)

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

UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Deferred Compensation	Class A Treasury Stock		Class B Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount	Shares	Amount			
December 31, 2002	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (34,162)	–	$ –	$ (6,797,762)	$ (1,112,345)	$(4,284,874)
Issuance of Class A common stock for subsidiary preference shares	2,155,905	21	–	–	–	–	6,082	–	–	–	–	–	1,423,102	–	1,429,205

Issuance of Class A common stock in connection with stock option plans	311,454	3	–	–	–	–	1,351	–	–	–	–	–	–	–	1,354
Issuance of Class A common stock in connection with 401(k) plan	58,272	1	–	–	–	–	258	–	–	–	–	–	–	–	259
Issuance of common stock by UGC Europe for debt and other liabilities	–	–	–	–	–	–	966,362	–	–	–	–	–	–	–	966,362
Equity transactions of subsidiaries	–	–	–	–	–	–	(129,904)	1,896	–	–	–	–	6,555	–	(121,453)
Amortization of deferred compensation	–	–	–	–	–	–	–	26,577	–	–	–	–	–	–	26,577
Receipt of common stock in satisfaction of executive loans	–	–	–	–	–	–	–	–	188,792	–	672,316	–	–	–	–
Issuance of Class A common stock in connection with the UGC Europe exchange offer	174,432,647	1,744	–	–	–	–	1,325,103	–	4,780,611	(36,333)	–	–	–	–	1,290,514
Net income	–	–	–	–	–	–	–	–	–	–	–	–	1,995,368	–	1,995,368
Foreign currency translation adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	61,440	61,440
Change in fair value of derivative assets	–	–	–	–	–	–	–	–	–	–	–	–	–	10,616	10,616
Unrealized gain (loss) on available-for-sale securities	–	–	–	–	–	–	–	–	–	–	–	–	–	97,318	97,318
Amortization of cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	(194)	(194)
December 31, 2003	287,350,970	$ 2,873	8,870,332	$ 89	303,123,542	$ 3,031	$ 5,852,896	$ –	12,373,643	$ (70,495)	672,316	$ –	$ (3,372,737)	$ (943,165)	$ 1,472,492

Accumulated Other Comprehensive Income (Loss)

	December 31,	
	2003	2002
	(In thousands)	
Foreign currency translation adjustments	$ (1,057,074)	$ (1,118,514)
Fair value of derivative assets	–	(10,616)
Other	113,909	16,785
Total	$ (943,165)	$ (1,112,345)

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

UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)
(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock				Treasury Stock				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Deferred Compensation	Shares	Amount	Accumulated Deficit	Other Comprehensive Income (Loss)	Total
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	–	$ –	$ 1,537,944	$ (74,185)	5,604,948	$(29,984)	$ (6,437,290)	$ (265,636)	$(4,555,480)
Accrual of dividends on Series B, C and D convertible preferred stock	–	–	–	–	–	–	–	–	–	–	(156)	–	–	–	(4,018)	–	(4,174)
Merger/reorganization transaction	(425,000)	(425,000)	(287,500)	(287,500)	11,628,674	116	(10,156,802)	(101)	21,835,384	218	770,448	–	(35,708)	923	–	–	59,104
Issuance of Class C common stock for financial assets	–	–	–	–	–	–	–	–	281,288,158	2,813	1,396,469	–	–	–	–	–	1,399,282
Issuance of Class A common stock in exchange for remaining interest in Old UGC	–	–	–	–	600,000	6	–	–	–	–	(6)	–	–	–	–	–	–
Issuance of Class A common stock in connection with 401(k) plan	–	–	–	–	121,813	1	–	–	–	–	340	–	–	–	–	–	341
Equity transactions of	–	–	–	–	–	–	–	–	–	–	(21,395)	12,794	–	–	–	–	(8,601)

subsidiaries and other																	
Amortization of deferred compensation	–	–	–	–	–	–	–	–	–	–	–	32,918	–	–	–	–	32,918
Purchase of treasury shares	–	–	–	–	–	–	–	–	–	–	–	–	1,835,000	(5,101)	–	–	(5,101)
Net income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(356,454)	–	(356,454)
Foreign currency translation adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(864,104)	(864,104)
Change in fair value of derivative assets	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,443	13,443
Change in unrealized gain on available-for-sale securities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,029	4,029
Amortization of cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(77)	(77)
Balances, December 31, 2002	–	$ –	–	$ –	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$(34,162)	$ (6,797,762)	$ (1,112,345)	$(4,284,874)

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

UNITEDGLOBALCOM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)
(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Deferred Compensation	Treasury Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount			
Balances, December 31, 2000	425,000	$ 425,000	287,500	$ 287,500	83,820,633	$ 838	19,221,940	$ 192	$ 1,531,593	$ (117,136)	5,604,948	$ (29,984)	$ (1,892,706)	$ (290,531)	$ (85,234)
Exchange of Class B common stock for Class A common stock	–	–	–	–	194,806	2	(194,806)	(2)	–	–	–	–	–	–	–
Issuance of Class A common stock in connection with stock option plans and 401(k) plan	–	–	–	–	76,504	1	–	–	386	–	–	–	–	–	387
Issuance of Class A common stock for cash	–	–	–	–	11,991,018	120	–	–	19,905	–	–	–	–	–	20,025
Accrual of dividends on Series B, C and D convertible preferred stock	–	14,875	–	10,063	–	–	–	–	(1,873)	–	–	–	(49,875)	–	(26,810)
Issuance of Class A common stock in lieu of cash dividends on Series C and D convertible preferred stock	–	(14,875)	–	(10,063)	1,959,244	20	–	–	24,918	–	–	–	–	–	–
Equity transactions of subsidiaries and others	–	–	–	–	–	–	–	–	(29,122)	22,159	–	–	–	–	(6,963)
Amortization of deferred compensation	–	–	–	–	–	–	–	–	(1,292)	20,792	–	–	–	–	19,500
Loans to related parties, collateralized with common shares and options	–	–	–	–	–	–	–	–	(6,571)	–	–	–	–	–	(6,571)
Net loss	–	–	–	–	–	–	–	–	–	–	–	–	(4,494,709)	–	(4,494,709)
Foreign currency translation adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	11,157	11,157
Change in fair value of derivative assets	–	–	–	–	–	–	–	–	–	–	–	–	–	(24,059)	(24,059)
Unrealized gain (loss) on available-for-sale securities	–	–	–	–	–	–	–	–	–	–	–	–	–	37,526	37,526
Cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	523	523
Amortization of cumulative effect of change in accounting principle	–	–	–	–	–	–	–	–	–	–	–	–	–	(252)	(252)
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	$ 1,537,944	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,290)	$ (265,636)	$ (4,555,480)

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Year Ended December 31,		
	2003	2002	2001
Cash Flows from Operating Activities			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Stock-based compensation	38,024	28,228	8,818
Depreciation and amortization	808,663	730,001	1,147,176
Impairment of long-lived assets	402,239	437,427	1,525,069
Accretion of interest on senior notes and amortization of deferred financing costs	50,733	234,247	492,387
Unrealized foreign exchange (gains) losses, net	(84,258)	(745,169)	125,722
Loss on derivative securities	12,508	115,458	–
Gain on extinguishment of debt	(2,183,997)	(2,208,782)	3,447
(Gain) loss on sale of investments in affiliates and other assets, net	(279,442)	(117,262)	416,803
Provision for loss on investments	–	27,083	342,419
Reorganization expenses, net	32,009	75,243	–
Deferred tax provision	(18,161)	104,068	(43,167)
Minority interests in subsidiaries, net	(183,182)	67,103	(496,515)
Share in results of affiliates, net	(294,464)	72,142	386,441
Cumulative effect of change in accounting principle	–	1,344,722	(20,056)
Change in assets and liabilities:			
Change in receivables, net	49,238	42,175	68,137
Change in other assets	(8,368)	4,628	2,489
Change in accounts payable, accrued liabilities and other	55,182	(148,466)	(135,604)
Net cash flows from operating activities	392,092	(293,608)	(671,143)
Cash Flows from Investing Activities			
Purchase of short-term liquid investments	(1,000)	(117,221)	(1,691,751)
Proceeds from sale of short-term liquid investments	45,561	152,405	1,907,171
Restricted cash released (deposited), net	24,825	40,357	(74,996)
Investments in affiliates and other investments	(20,931)	(2,590)	(60,654)
Proceeds from sale of investments in affiliated companies	45,447	–	120,416
New acquisitions, net of cash acquired	(2,150)	(22,617)	(39,950)
Capital expenditures	(333,124)	(335,192)	(996,411)
Purchase of interest rate caps	(9,750)	–	–
Settlement of interest rate caps	(58,038)	–	–
Other	7,806	27,595	(45,192)
Net cash flows from investing activities	(301,354)	(257,263)	(881,367)
Cash Flows from Financing Activities			
Issuance of common stock	1,354	200,006	24,054
Proceeds from notes payable to shareholder	–	102,728	–
Proceeds from short-term and long-term borrowings	23,161	42,742	1,673,981
Retirement of existing senior notes	–	(231,630)	(261,309)
Financing costs	(2,233)	(18,293)	(17,771)
Repayments of short-term and long-term borrowings	(233,506)	(90,331)	(766,950)
Other	–	–	(6,571)
Net cash flows from financing activities	(211,224)	5,222	645,434
Effects of Exchange Rates on Cash	20,662	35,694	(49,612)
Decrease in Cash and Cash Equivalents	(99,824)	(509,955)	(956,688)
Cash and Cash Equivalents, Beginning of Year	410,185	920,140	1,876,828
Cash and Cash Equivalents, End of Year	$ 310,361	$ 410,185	$ 920,140
Supplemental Cash Flow Disclosure			
Cash paid for reorganization expenses	$ 27,084	$ 33,488	$ –
Cash paid for interest	$ 185,591	$ 304,274	$ 519,221
Cash paid for income taxes	$ 1,947	$ 14,260	$ –
Non-Cash Investing and Financing Activities			
Issuance of subsidiary common stock for financial assets	$ 966,362	$ –	$ –
Issuance of common stock for acquisitions	$ 1,326,847	$ 1,206,441	$ –

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

UnitedGlobalCom, Inc. (together with its subsidiaries the "Company", "UGC", "we", "us", "our" or similar terms) was formed in February 2001 as part of a series of planned transactions with Old UGC, Inc. ("Old UGC", formerly known as UGC Holdings, Inc., now our wholly owned subsidiary) and Liberty Media Corporation (together with its subsidiaries and affiliates "Liberty"), which restructured and recapitalized our business. We are an international broadband communications provider of video, voice and Internet services with operations in 15 countries outside the United States. UGC Europe, Inc. (together with its subsidiaries "UGC Europe"), our largest consolidated operation, is a pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. UGC Europe's operations are currently organized into two principal divisions – UPC Broadband and chellomedia. UPC Broadband delivers video, high-speed Internet access and telephone services to residential customers. chellomedia provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates our digital media center and operates a competitive local exchange carrier business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Our primary Latin American operation, VTR GlobalCom S.A. ("VTR"), provides multi-channel television, high-speed Internet access and residential telephone services in Chile. We also have an approximate 19% interest in SBS Broadcasting S.A. ("SBS"), a European commercial television and radio broadcasting company, and an approximate 34% interest in Austar United Communications Ltd. ("Austar United"), a pay-TV provider in Australia.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, deferred tax valuation allowances, loss contingencies, fair values of financial instruments, asset impairments, useful lives of property, plant and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents, Restricted Cash, Marketable Equity Securities and Other Investments

Cash and cash equivalents include cash and highly liquid investments with original maturities of less than three months. Restricted cash includes cash held as collateral for letters of credit and other loans, and is classified based on the expected expiration of such facilities. Cash held in escrow and restricted to a specific use is classified based on the expected timing of such disbursement. Marketable equity securities and other investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

Marketable equity securities and other investments are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these marketable equity securities and other investments are reported as a separate component of stockholders' equity. Declines in the fair value of marketable equity securities and other investments that are other than temporary are recognized in the statement of operations, thus establishing a new cost basis for such investment. These marketable equity securities and other investments are evaluated on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the historical volatility of the price of each security and any market and company specific factors related to each security. Declines in the fair value of investments below cost basis for a period of less than six months are considered to be temporary. Declines in the fair value of investments for a period of six to nine months are evaluated on a case-by-case basis to determine whether any company or market-specific factors exist that would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for greater than nine months are considered other than temporary and are recorded as charges to the statement of operations, absent specific factors to the contrary.

We estimate fair value amounts using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. Generally, upon disconnection of a subscriber, the account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer pursued. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, replacements and improvements that extend asset lives are capitalized and costs for normal repair and maintenance are charged to expense as incurred. Costs associated with the construction of cable networks, transmission and distribution facilities are capitalized (including capital leases). Depreciation is calculated using the straight-line method over the economic useful life of the asset. Costs associated with new cable, telephone and Internet access subscriber installations are capitalized and depreciated over the average expected subscriber life. Subscriber installation costs include direct labor, materials (such as cabling, wiring, wall plates and fittings) and related overhead (such as indirect labor, logistics and inventory handling).

The economic lives of property, plant and equipment at acquisition are as follows:

Customer premise equipment	4-10 years
Commercial	3-20 years
Scaleable infrastructure	3-20 years
Line extensions	5-20 years
Upgrade/rebuild	3-20 years
Support capital	1-33 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets we intend to use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets.

Goodwill and Other Intangible Assets

Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Other intangible assets consist principally of customer relationships, trademarks and computer software. Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. We adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), effective January 1, 2002. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is performed on a reporting unit level on an annual basis. Goodwill and other indefinite-lived intangible assets are tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Investments in Affiliates, Accounted for under the Equity Method

For those investments in unconsolidated subsidiaries and companies in which our voting interest is 20% to 50%, our investments are held through a combination of voting common stock, preferred stock, debentures or convertible debt and we exert significant influence through Board representation and management authority, the equity method of accounting is used. The cost method of accounting is used for our investments in affiliates in which our ownership interest is less than 20% and where we do not exert significant influence. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize our proportionate share of net earnings or losses of the affiliate, limited to the extent of our investment in and advances to the affiliate, including any debt guarantees or other contractual funding commitments. We evaluate our investments in publicly traded securities accounted for under the equity method periodically for impairment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. A decline in value of an investment which is other than temporary is recognized as a realized loss, establishing a new carrying amount for the investment. Factors considered in making this evaluation include the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, including cash flows of the investee and any specific events which may influence the operations of the issuer, and our intent and ability to retain our investments for a period of time sufficient to allow for any anticipated recovery in market value.

Derivative Financial Instruments

We use derivative financial instruments from time to time to manage exposure to movements in foreign currency exchange rates and interest rates. We account for derivative financial instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, ("SFAS 133"), which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the statement of operations, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivative financial instruments designated and that qualify as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are recorded as a component of other comprehensive income or loss in stockholders' equity until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. The change in fair value of the hedged item is recorded as an adjustment to its carrying value on the balance sheet. For derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings.

Subscriber Prepayments and Deposits

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

Cable Network Revenue and Related Costs

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

Other Revenue and Related Costs

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

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of subscriber receivables. Concentration of credit risk with respect to subscriber receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

Stock-Based Compensation

We account for our stock-based compensation plans and the stock-based compensation plans of our subsidiaries using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). We have provided pro forma disclosures of net income (loss) under the fair value method of accounting for these plans, as prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure and Amendment of SFAS No. 123* ("SFAS 148"), as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share amounts)		
Net income (loss), as reported	$ 1,995,368	$ (356,454)	$ (4,494,709)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects(1)	29,242	28,228	8,818
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(57,101)	(102,837)	(98,638)

Pro forma net income (loss)	$ 1,967,509	$ (431,063)	$ (4,584,529)
Basic net income (loss) per common share:			
As reported	$ 7.41	$ (0.84)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)
Diluted net income (loss) per common share:			
As reported	$ 7.41	$ (0.83)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)

(1) Not including SARs. Compensation expense for SARs is the same under APB 25 and SFAS 123.

Stock-based compensation is recorded as a result of applying variable-plan accounting to stock appreciation rights ("SARs") granted to employees and vesting of certain of our fixed stock-based compensation plans. Under variable-plan accounting, compensation expense (credit) is recognized at each financial statement date for vested SARs based on the difference between the grant price and the estimated fair value of our Class A common stock, until the SARs are exercised or expire, or until the fair value is less than the original grant price. Under fixed-plan accounting, deferred compensation is recorded for the excess of fair value over the exercise price of such options at the date of grant. This deferred compensation is then recognized in the statement of operations ratably over the vesting period of the options.

Income Taxes

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

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share is determined by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during each period. Net income (loss) attributable to common stockholders includes the accrual of dividends on convertible preferred stock which is charged directly to additional paid-in capital and/or accumulated deficit. Diluted net income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive.

Foreign Operations and Foreign Currency Exchange Rate Risk

Our consolidated financial statements are prepared in U.S. dollars. Almost all of our operations are conducted in a currency other than the U.S. dollar. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at period-end exchange rates and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity (deficit). Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line below cash flows from financing activities. Certain items such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) and certain other charges are denominated in a currency other than the respective company's functional currency, which results in foreign exchange gains and losses recorded in the consolidated statement of operations. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. We adopted SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Among other things, SFAS 145 required us to reclassify gains and losses associated with the extinguishment of debt (including the related tax effects) from extraordinary classification to other income in the accompanying consolidated statements of operations.

3. Acquisitions, Dispositions and Other

2003

Acquisition of UPC Preference Shares

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 1,165,352 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $610.9 million was recognized from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of these preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

On April 4, 2003, we issued 879,041 shares of our Class A common stock in a private transaction pursuant to a transaction agreement dated March 31, 2003, among us, a subsidiary of ours, Motorola Inc. and Motorola UPC Holdings, Inc. In consideration for the 879,041 shares of our Class A common stock, we acquired 3,500 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 1,669,457 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On April 14, 2003, we issued 426,360 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated April 8, 2003, between us and Liberty International B-L LLC. In consideration for the 426,360 shares of our Class A common stock, we acquired 2,122 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 971,118 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $812.2 million was recognized during the second quarter of 2003 from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of the preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

United Pan-Europe Communications N.V. Reorganization

In September 2003, as a result of the consummation of UPC's plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and insolvency proceedings under Dutch law, UGC Europe acquired all of the stock of, and became the successor issuer to, UPC. Prior to UPC's reorganization, we were the majority stockholder and largest single creditor of UPC. We became the holder of approximately 66.6% of UGC Europe's common stock in exchange for the equity and debt of UPC that we owned prior to UPC's reorganization. UPC's other bondholders and third-party holders of UPC's ordinary shares and preference shares exchanged their securities for the remaining 33.4% of UGC Europe's common stock.

We accounted for this restructuring as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we have consolidated the financial position and results of operations of UGC Europe as if the reorganization had been consummated at inception. We previously recognized a gain on the effective retirement of UPC's senior notes, senior discount notes and UPC's exchangeable loan held by us when those securities were acquired directly and indirectly by us in connection with our merger transaction with Liberty in January 2002. The issuance of common stock by UGC Europe to third-party holders of the remaining UPC senior notes and senior discount notes was recorded at fair value. This fair value was significantly less than the accreted value of such debt securities as reflected in our historical consolidated financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of $2.1 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt ($3.076 billion) over the fair value of UGC Europe common stock issued ($966.4 million).

UGC Europe Exchange Offer and Merger

On December 18, 2003, we completed an exchange offer pursuant to which we offered to exchange 10.3 shares of our Class A common stock for each outstanding share of UGC Europe common stock not owned by us. On December 19, 2003, we effected a short-form merger between UGC Europe and one of our subsidiaries on the same terms offered in the exchange offer. We issued 172,248,306 shares of our Class A common stock to third parties in connection with the exchange offer and merger (including 2,596,270 shares subject to appraisal rights that were withdrawn subsequent to December 31, 2003), as well as 4,780,611 shares to Old UGC to acquire its UGC Europe common stock. We now own all of the outstanding equity securities of UGC Europe.

We valued the exchange offer and merger for accounting purposes at $1.315 billion, based on the issuance of our Class A common stock at the average closing price of such stock for the five days surrounding November 12, 2003, the date we announced the revised and final terms of the exchange offer, and our estimated transaction costs, consisting primarily of dealer-manager, legal and accounting fees, printing costs, other external costs and other purchase consideration directly related to the exchange offer and merger. This total value includes $19.7 million related to the value of shares subject to appraisal rights that were withdrawn in January 2004. This amount is included in other current liabilities in the accompanying consolidated balance sheet.

We accounted for the exchange offer and merger using the purchase method of accounting, in accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"). Under the purchase method of accounting, the total estimated purchase price was allocated to the minority shareholders' proportionate interest in UGC Europe's identifiable tangible and intangible assets and liabilities acquired by us based upon their estimated fair values upon completion of the transaction. Purchase price in excess of the book value of these identifiable tangible and intangible assets and liabilities acquired was allocated as follows (in thousands):

Property, plant and equipment	$	717
Goodwill		1,005,148
Customer relationships and tradename		243,212
Other assets		10,556
Other liabilities		55,271
Total consideration	$	1,314,904

The excess purchase price over the net identifiable tangible and intangible assets and liabilities acquired was recorded as goodwill, which is not deductible for tax purposes. This goodwill was attributable to the following:

- Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;
- Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and
- Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe's and our separate corporate functions into a better integrated, unitary corporate organization.

The following unaudited pro forma condensed consolidated operating results give effect to this transaction as if it had been completed as of January 1, 2003 (for 2003 results) and as of January 1, 2002 (for 2002 results). This unaudited pro forma condensed consolidated financial information does not purport to represent what our results of operations would actually have been if this transaction had in fact occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

	Year Ended December 31,	
	2003	**2002**
	(In thousands, except share and per share amounts)	
Revenue	$ 1,891,530	$ 1,515,021
Income before cumulative effect of change in accounting principle	$ 1,805,225	$ 1,014,908
Net income (loss)	$ 1,805,225	$ (329,814)

Earnings per share:		
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 4.99	$ 1.63
Cumulative effect of change in accounting principle	–	(2.17)
Basic net income (loss) per share	$ 4.99	$ (0.54)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 4.98	$ 1.63
Cumulative effect of change in accounting principle	–	(2.17)
Diluted net income (loss) per share	$ 4.98	$ (0.54)

2002

Merger Transaction

On January 30, 2002, we completed a transaction with Liberty and Old UGC, pursuant to which the following occurred.

Immediately prior to the merger transaction on January 30, 2002:

- Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;
- Certain long-term stockholders of Old UGC (the "Founders") transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and
- Four of the Founders (the "Principal Founders") contributed $3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC's directors.

As a result of the merger transaction:

- Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;
- Each share of Old UGC's Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;
- The shares of Old UGC's Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC's preferred stock would have received had they converted their preferred stock immediately prior to the merger;
- Liberty had the right to elect four of our 12 directors;
- The Founders had the effective voting power to elect eight of our 12 directors; and
- We had the right to elect half of Old UGC's directors and the Principal Founders had the right to elect the other half of Old UGC's directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

- Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of $891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;
- Liberty contributed $200.0 million in cash to us;
- Liberty contributed to us certain UPC bonds (the "United UPC Bonds") and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and
- In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

In December 2001, IDT United, Inc. ("IDT United") commenced a cash tender offer for, and related consent solicitation with respect to, the entire $1.375 billion face amount of senior discount notes of Old UGC (the "Old UGC Senior Notes"). As of the expiration of the tender offer on February 1, 2002, holders of the notes had validly tendered and not withdrawn notes representing approximately $1.350 billion aggregate principal amount at maturity. At the time of the tender offer, Liberty had an equity and debt interest in IDT United. IDT United's sole purpose was to tender for the Old UGC Senior Notes.

Prior to the merger on January 30, 2002, we acquired from Liberty $751.2 million aggregate principal amount at maturity of the Old UGC Senior Notes (which had previously been distributed to Liberty by IDT United in redemption of a portion of Liberty's equity interest and in prepayment of a portion of IDT United's debt to Liberty), as well as all of Liberty's remaining interest in IDT United. The purchase price for the Old UGC Senior Notes and Liberty's interest in IDT United was:

- Our assumption of approximately $304.6 million of indebtedness owed by Liberty to Old UGC; and
- Cash in the amount of approximately $143.9 million.

On January 30, 2002, Liberty loaned us approximately $17.3 million, of which approximately $2.3 million was used to purchase shares of redeemable preferred stock and convertible promissory notes issued by IDT United. Following January 30, 2002, Liberty loaned us an additional approximately $85.4 million. We used the proceeds of these loans to purchase additional shares of redeemable preferred stock and convertible promissory notes issued by IDT United. These notes to Liberty accrued interest at 8.0% annually, compounded and payable quarterly, and were cancelled in January 2004 (see Note 22). Subsequent to these transactions, IDT United held Old UGC Senior Notes with a principal amount at maturity of $599.2 million. Although we only retain a 33.3% common equity interest in IDT United, we consolidate IDT United as a "variable interest entity", as we are the primary beneficiary of an entity that has insufficient equity at risk.

On May 14, 2002, the Principal Founders transferred all of the shares of Old UGC common stock held by them to us in exchange for an aggregate of 600,000 shares of our Class A common stock pursuant to an exchange agreement dated May 14, 2002, among such individuals and us. This exchange agreement superseded the exchange agreement entered into at the time of the merger transaction. As a result of this exchange, Old UGC became our wholly-owned subsidiary, and we were entitled to elect the entire board of directors of Old UGC. This transaction was the final step in the recapitalization of Old UGC.

We accounted for the merger transaction on January 30, 2002 as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we consolidated the financial position and results of operations of Old UGC as if the merger transaction had been consummated at the inception of Old UGC. The purchase of the Old UGC Senior Notes directly from Liberty and the purchase of Liberty's interest in IDT United were recorded at fair value. The issuance of our new shares of Class C common stock to Liberty for cash, the United UPC Bonds and the UPC Exchangeable Loan was recorded at the fair value of our common stock at closing. The estimated fair value of these financial assets (with the exception of the UPC Exchangeable Loan) was significantly less than the accreted value of such debt securities as reflected in Old UGC's historical financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of approximately $1.757 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt over our cost, as follows:

	Fair Value at Acquisition	Book Value	Gain/(Loss)
		(In thousands)	
Old UGC Senior Notes	$ 540,149	$ 1,210,974	$ 670,825
United UPC Bonds	312,831	1,451,519	1,138,688
UPC Exchangeable Loan	891,671	891,671	–
Write-off of deferred financing costs	–	(52,224)	(52,224)
Total gain on extinguishment of debt	$ 1,744,651	$ 3,501,940	$ 1,757,289

We also recorded a deferred income tax provision of $110.6 million related to a portion of the gain on extinguishment of the Old UGC Senior Notes.

Transfer of German Shares

Until July 30, 2002, UPC had a 51% ownership interest in EWT/TSS Group through its 51% owned subsidiary, UPC Germany. Pursuant to the agreement by which UPC acquired EWT/TSS Group, UPC was required to fulfill a contribution obligation no later than March 2003, by contributing certain assets amounting to approximately €358.8 million. If UPC failed to make the contribution by such date or in certain circumstances such as a material default by UPC under its financing agreements, the minority shareholders of UPC Germany could call for 22.3% of the ownership interest in UPC Germany in exchange for the euro equivalent of 1 Deutsche Mark. On March 5, 2002, UPC received the holders' notice of exercise. On July 30, 2002, UPC completed the transfer of 22.3% of UPC Germany to the minority shareholders in return for the cancellation of the contribution obligation. UPC now owns 28.7% of UPC Germany, with the former minority shareholders owning the remaining 71.3%. UPC Germany is governed by a new shareholders agreement. For accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective August 1, 2002, and recognition of a gain from the reversal of the net negative investment in UPC Germany. Details of the assets and liabilities of UPC Germany as of August 1, 2002 were as follows (in thousands):

Working capital	$ (74,809)
Property, plant and equipment	74,169
Goodwill and other intangible assets	69,912
Long-term liabilities	(84,288)
Minority interest	(142,158)
Gain on reversal of net negative investment	147,925
Net cash deconsolidated	$ (9,249)

Other

In January 2002, we recognized a gain of $109.2 million from the restructuring and cancellation of capital lease obligations associated with excess capacity of certain Priority Telecom vendor contracts.

In June 2002, we recognized a gain of $342.3 million from the delivery by certain banks of $399.2 million in aggregate principal amount of UPC's senior notes and senior discount notes as settlement of certain interest rate and cross currency derivative contracts between the banks and UPC.

2001

In December 2001, UPC and Canal+ Group, the television and film division of Vivendi Universal ("Canal+") merged their respective Polish DTH satellite television platforms, as well as the Canal+ Polska premium channel, to form a common Polish DTH platform. UPC Polska contributed its Polish and United Kingdom DTH assets to Telewizyjna Korporacja Partycypacyjna S.A., a subsidiary of Canal+ ("TKP"), and placed €30.0 million ($26.8 million) cash into an escrow account, which was used to fund TKP with a loan of €30.0 million in January 2002 (the "JV Loan"). In return, UPC Polska received a 25% ownership interest in TKP and €150.0 ($134.1) million in cash. UPC Polska's investment in TKP was recorded at fair value as of the date of the transaction, resulting in a loss of $416.9 million upon consummation of the merger.

4. Marketable Equity Securities and Other Investments

	December 31, 2003		December 31, 2002	
	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
	(In thousands)		(In thousands)	
SBS common stock	$ 195,600	$ 105,790	$ –	$ –
Other equity securities	10,725	6,098	–	–
Corporate bonds and other	2,134	856	45,854	14

Total	$ 208,459	$ 112,744	$ 45,854	$ 14

We recorded an aggregate charge to earnings for other than temporary declines in the fair value of certain of our investments of approximately nil, $2.0 million and nil for the years ended December 31, 2003, 2002 and 2001, respectively.

We own 6.0 million shares of SBS. Historically, our common share ownership interest in SBS was accounted for under the equity method of accounting, as we were able to exert significant influence. On December 19, 2003, SBS redeemed certain of its outstanding debt and as a result issued new common shares to the note holders which reduced our ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

5. Property, Plant and Equipment

	December 31, 2002	Additions	Disposals	Impairments(1)	UGC Europe Exchange Offer(2)	Foreign Currency Translation Adjustments	December 31, 2003
	(In thousands)						
Customer premises equipment	$ 1,003,950	$ 95,834	$ (2,459)	$ (89,971)	$ 20,936	$ 201,941	$ 1,230,231
Commercial	5,670	–	–	–	–	235	5,905
Scaleable infrastructure	637,171	44,177	–	(23,806)	(8,973)	138,000	786,569
Line extensions	2,055,614	66,216	–	(302,280)	(3,806)	373,306	2,189,050
Upgrade/rebuild	846,406	30,287	–	(4,854)	(5,653)	151,127	1,017,313
Support capital	696,362	70,972	(473)	(30,874)	4,824	127,250	868,061
Priority Telecom(3)	306,233	17,074	–	(415)	(5,357)	43,521	361,056
UPC Media	83,598	5,833	–	(6,438)	(1,254)	16,447	98,186
Total	5,635,004	330,393	(2,932)	(458,638)	717	1,051,827	6,556,371
Accumulated depreciation	(1,994,793)	(804,937)	2,123	64,788	–	(480,809)	(3,213,628)
Net property, plant and equipment	$ 3,640,211	$ (474,544)	$ (809)	$ (393,850)	$ 717	$ 571,018	$ 3,342,743

(1) See Note 17.

(2) See Note 3.

(3) Consists primarily of network infrastructure and equipment.

6. Goodwill

The change in the carrying amount of goodwill by operating segment for the year ended December 31, 2003 is as follows:

	December 31, 2002	Acquisitions	UGC Europe Exchange Offer(1)	Foreign Currency Translation Adjustments	December 31, 2003
			(In thousands)		
Europe:					
Austria	$ 140,349	$ 383	$ 167,209	$ 31,640	$ 339,581
Belgium	14,284	–	24,467	1,747	40,498
Czech Republic	–	–	67,138	1,240	68,378
Hungary	73,878	229	142,809	11,723	228,639
The Netherlands	705,833	–	256,415	149,310	1,111,558
Norway	9,017	–	28,553	930	38,500
Poland	–	–	36,368	672	37,040
Romania	20,138	–	2,698	324	23,160
Slovak Republic	3,353	–	22,644	1,133	27,130
Sweden	142,771	–	30,823	31,270	204,864
chellomedia	–	–	122,304	2,258	124,562
UGC Europe, Inc.	–	–	103,720	1,915	105,635
Total	1,109,623	612	1,005,148	234,162	2,349,545
Latin America:					
Chile	140,710	–	–	29,576	170,286
Total	$ 1,250,333	$ 612	$ 1,005,148	$ 263,738	$ 2,519,831

(1) See Note 3.

We adopted SFAS 142 effective January 1, 2002. SFAS 142 required a transitional impairment assessment of goodwill as of January 1, 2002, in two steps. Under step one, the fair value of each of our reporting units was compared with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, goodwill of the reporting unit was considered not impaired. If the carrying amount of a reporting unit exceeded its fair value, the second step of the goodwill impairment test was performed to measure the amount of impairment loss. We completed step one in June 2002, and concluded the carrying value of certain reporting units as of January 1, 2002 exceeded fair value. The completion of step two resulted in an impairment adjustment of $1.34 billion. This amount has been reflected as a cumulative effect of a change in accounting principle in the consolidated statement of operations, effective January 1, 2002, in accordance with SFAS 142. We also recorded impairment charges totaling $362.8 million based on our annual impairment test effective December 31, 2002.

Pro Forma Information

Prior to January 1, 2002, goodwill and excess basis on equity method investments was generally amortized over 15 years. The following presents the pro forma effect on net loss for the year ended December 31, 2001, from the reduction of amortization expense on goodwill and the reduction of amortization of excess basis on equity method investments, as a result of the adoption of SFAS 142 (in thousands, except per share amounts):

	Year Ended December 31, 2001
Net loss as reported	$ (4,494,709)
Goodwill amortization	
UPC and subsidiaries	379,449
VTR	11,310
Austar United and subsidiaries	12,765
Other	2,881
Amortization of excess basis on equity investments	
UPC affiliates	35,940
Austar United affiliates	2,823
Other	2,027
Adjusted net loss	$ (4,047,514)
Basic and diluted net loss per common share as reported	$ (41.29)
Goodwill amortization	
UPC and subsidiaries	3.45
VTR	0.10
Austar United and subsidiaries	0.12
Other	0.03
Amortization of excess basis on equity investments	
UPC affiliates	0.33
Austar United affiliates	0.03
Other	0.02
Adjusted basic and diluted net loss per common share	$ (37.21)

7. Intangible Assets

Other intangible assets consist primarily of customer relationships, tradename, licenses and capitalized software. Customer relationships are amortized over the expected lives of our customers. The weighted-average amortization period of the customer relationship intangible is approximately 7.5 years. Tradename is an indefinite-lived intangible asset that is not subject to amortization. The following tables present certain information for other intangible assets. Actual amounts of amortization expense may differ from estimated amounts due to additional acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

	December 31, 2002	Additions	Impairments(1)	Disposals	UGC Europe Exchange Offer	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Intangible assets with definite lives:							
Customer relationships	$ –	$ –	$ –	$ –	$ 220,290	$ 4,068	$ 224,358
License fees	25,075	1,489	(13,871)	(3,815)	–	2,870	11,748
Other	10,493	233	–	(4,132)	–	1,925	8,519
Intangible assets with indefinite lives:							
Tradename	–	–	–	–	22,922	424	23,346
Total	35,568	1,722	(13,871)	(7,947)	243,212	9,287	267,971
Accumulated amortization	(21,792)	(3,726)	5,482	7,537	–	(3,236)	(15,735)
Net intangible assets	$ 13,776	$ (2,004)	$ (8,389)	$ (410)	$ 243,212	$ 6,051	$ 252,236

(1) See Note 17.

	Year ended December 31, 2003	2002	2001
		(In thousands)	
Amortization expense	$ 3,726	$ 16,632	$ 19,136

Year Ended December 31, 2004	2005	2006	2007	2008	Thereafter
		(In thousands)			

Estimated amortization expense	$ 33,043	$ 31,816	$ 30,515	$ 30,515	$ 30,515	$ 72,486

8. Long-Term Debt

	December 31,	
	2003	2002
	(In thousands)	
UPC Distribution Bank Facility	$ 3,698,586	$ 3,289,826
UPC Polska notes	317,372	377,110
VTR Bank Facility	123,000	–
Old UGC Senior Notes	24,627	24,313
Other	80,493	133,148
PCI notes	–	14,509
UPC July 1999 senior notes(1)	–	1,079,062
UPC January 2000 senior notes(1)	–	1,075,468
UPC October 1999 senior notes(1)	–	658,458
Total	4,244,078	6,651,894
Current portion	(628,176)	(6,179,223)
Long-term portion	$ 3,615,902	$ 472,671

(1) These senior notes and senior discount notes were converted into common stock of UGC Europe in connection with UPC's reorganization.

UPC Distribution Bank Facility

The UPC Distribution Bank Facility is guaranteed by UPC's majority owned cable operating companies, excluding Poland, and is senior to other long-term debt obligations of UPC. The UPC Distribution Bank Facility credit agreement contains certain financial covenants and restrictions on UPC's subsidiaries regarding payment of dividends, ability to incur indebtedness, dispose of assets, and merge and enter into affiliate transactions.

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

	Currency/Tranche Amount		Amount Outstanding December 31, 2003					
Tranche	Euros	US dollars	Euros	US dollars	Interest Rate(4)	Description	Payment Begins	Final Maturity
		(In thousands)						
Facility A(1)(2)(3)	€ 666,750	$ 840,529	€ 230,000	$ 289,946	EURIBOR +2.25%-4.0%	Revolving credit	June-06	June-08
Facility B(1)(2)	2,333,250	2,941,380	2,333,250	2,941,380	EURIBOR +2.25%-4.0%	Term loan	June-04	June-08
Facility C1(1)	95,000	119,760	95,000	119,760	EURIBOR +5.5%	Term loan	June-04	March-09
Facility C2(1)	405,000	347,500	275,654	347,500	LIBOR +5.5%	Term loan	June-04	March-09
Total			€2,933,904	$ 3,698,586				

(1) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.

(2) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.

(3) The availability under Facility A of €436.8 ($550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.

(4) As of December 31, 2003, six month EURIBOR and LIBOR rates were 2.2% and 1.2%, respectively.

In January 2004, the UPC Distribution Bank Facility was amended to:

- Permit indebtedness under a new facility ("Facility D"). The new facility has substantially the same terms as the existing facility and consists of five different tranches totaling €1.072 billion. The proceeds of Facility D are limited in use to fund the scheduled payments of Facility B under the existing facility between December 2004 and December 2006;
- Increase and extend the maximum permitted ratios of senior debt to annualized EBITDA (as defined in the bank facility) and lower and extend the minimum required ratios of EBITDA to senior interest and EBITDA to senior debt service;
- Include a total debt to annualized EBITDA ratio and EBITDA to total cash interest ratio;
- Include a mandatory prepayment from proceeds of debt issuance and net equity proceeds received by UGC Europe; and
- Permit acquisitions depending on certain leverage ratios and other restrictions.

UPC Polska Notes

On July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska's Chapter 11 plan of reorganization, which was consummated and became effective on February 18, 2004, when UPC Polska emerged from the Chapter 11 proceedings. In accordance with UPC Polska's plan of reorganization, third-party note holders received a total of $80.0 million in cash, $100.0 million in new 9.0% UPC Polska notes due 2007, and approximately 2.0 million shares of our Class A common stock in exchange for the cancellation of their claims. Two subsidiaries of UGC Europe, UPC Telecom B.V. and Belmarken Holding B.V., received $15.0 million in cash and 100% of the newly issued membership interests denominated as stock of the reorganized company in exchange for the cancellation of their claims.

VTR Bank Facility

In May 2003, VTR and VTR's senior lenders amended and restated VTR's existing senior secured credit facility. Principal payments are payable during the term of the facility on a quarterly basis beginning March 31, 2004, with final maturity on December 31, 2006. The VTR Bank Facility bears interest at LIBOR plus 5.50% (subject to adjustment under certain conditions) and is collateralized by tangible and intangible assets pledged by VTR and certain of its operating subsidiaries, as set forth in the credit agreement. The VTR Bank Facility is senior to other long-term debt obligations of VTR. The VTR Bank Facility credit agreement establishes certain covenants with respect to financial statements, existence of lawsuits, insurance, prohibition of material changes, limits to taxes, indebtedness, restriction of payments, capital expenditures, compliance ratios, governmental approvals, coverage agreements, lines of business, transactions with related parties, certain obligations with subsidiaries and collateral issues.

Old UGC Senior Notes

The Old UGC Senior Notes accreted to an aggregate principal amount of $1.375 billion on February 15, 2003, at which time cash interest began to accrue. Commencing August 15, 2003, cash interest on the Old UGC Senior Notes is payable on February 15 and August 15 of each year until maturity at a rate of 10.75% per annum. The Old UGC Senior Notes mature on February 15, 2008. As of December 31, 2003, the following entities held the Old UGC Senior Notes:

	Principal Amount at Maturity	
	(In thousands)	
UGC	$	638,008(1)
IDT United		599,173(1)
Third parties		24,627
Total	$	1,261,808

(1) Eliminated in consolidation.

The Old UGC Senior Notes began to accrue interest on a cash-pay basis on February 15, 2003, with the first payment due August 15, 2003. Old UGC did not make this interest payment. Because this failure to pay continued for a period of more than 30 days, an event of default exists under the terms of the Old UGC Senior Notes indenture. On November 24, 2003, Old UGC, which principally owns our interests in Latin America and Australia, reached an agreement with us, IDT United (in which we have a 94% fully diluted interest and a 33% common equity interest) and the unaffiliated stockholders of IDT United on terms for the restructuring of the Old UGC Senior Notes. Consistent with the restructuring agreement, on January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. The agreement and related transactions, if implemented, would result in the acquisition by Old UGC of the Old UGC Notes held by us (following cancellation of offsetting obligations) and IDT United for common stock of Old UGC. Old UGC Senior Notes held by third parties would either be left outstanding (after cure and reinstatement) or acquired for our Class A Common Stock (or, at our election, for cash). Subject to consummation of the transactions contemplated by the agreement, we expect to acquire the interests of the unaffiliated stockholders in IDT United for our Class A Common Stock and/or cash, at our election, in which case Old UGC would continue to be wholly owned by us. The value of any Class A Common Stock to be issued by us in these transactions is not expected to exceed $45 million. A claim was filed in the Chapter 11 proceeding by Excite@Home. See Note 13.

Long-Term Debt Maturities

The maturities of our long-term debt are as follows (in thousands):

Year Ended December 31, 2004	$	628,176
Year Ended December 31, 2005		718,903
Year Ended December 31, 2006		1,002,106
Year Ended December 31, 2007		671,704
Year Ended December 31, 2008		813,423
Thereafter		409,766
Total	$	4,244,078

9. Fair Value of Financial Instruments

	December 31, 2003				December 31, 2002			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	(In thousands)							
UPC Distribution Bank Facility	$	3,698,586	$	3,698,586(1)	$	3,289,826	$	3,289,826(2)
UPC Polska Notes		317,372		194,500(3)		377,110		99,133(4)
VTR Bank Facility		123,000		123,000(5)		144,000		144,000(5)
Note payable to Liberty		102,728		102,728(6)		102,728		102,728(6)
Old UGC Senior Notes		24,627		20,687(7)		24,313		8,619(4)
UPC July 1999 Senior Notes		–		–		1,079,062		64,687(4)
UPC October 1999 Senior Notes		–		–		658,458		41,146(4)
UPC January 2000 Senior Notes		–		–		1,075,468		68,152(4)
UPC FiBI Loan		–		–		57,033		–(8)
Other		85,592		85,592(9)		151,769		151,769(9)
Total	$	4,351,905	$	4,225,093	$	6,959,767	$	3,970,060

(1) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) Moody's Investor Service rated the facility at B+; and c) the credit agreement was amended in January 2004 to add a new €1.072 billion tranche on similar credit terms as the previous facility.

(2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount); b) the reorganization plan of UPC assumed, in liquidation, that the lenders of the facility would be paid back 100%, based on seniority in liquidation (i.e., the assets of UPC Distribution were sufficient to repay the facility in a liquidation scenario); c) certain lenders under the facility confirmed to us they did not mark down the facility on their books; and d) when the facility was amended in connection with the restructuring agreement on September 30, 2002, the revised terms included increased fees and margin (credit spread), resetting the terms of this variable-rate facility to market.

(3) Fair value represents the consideration UPC Polska note holders received from the consummation of UPC Polska's second amended Chapter 11 plan of reorganization.

(4) Fair value is based on quoted market prices.

(5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR's results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.

(6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.

(7) Fair value is based on an independent valuation analysis.

(8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel ("FiBI") and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.

(9) Fair value approximates carrying value.

The carrying value of cash and cash equivalents, subscriber receivables, other receivables, other current assets, accounts payable, accrued liabilities and subscriber prepayments and deposits approximates fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices at the reporting date.

10. Derivative Instruments

We had a cross currency swap related to the UPC Distribution Bank Facility where a $347.5 million notional amount was swapped at an average rate of 0.852 euros per U.S. dollar until November 29, 2002. On November 29, 2002, the swap was settled for €64.6 million. We also had an interest rate swap related to the UPC Distribution Bank Facility where a notional amount of €1.725 billion was fixed at 4.55% for the EURIBOR portion of the interest calculation through April 15, 2003. This swap qualified as an accounting cash flow hedge, accordingly, the changes in fair value of this instrument were recorded through other comprehensive income (loss) in the consolidated statement of stockholders' equity (deficit). This swap expired April 15, 2003. During the first quarter of 2003, we purchased an interest rate cap on the euro denominated UPC Distribution Bank Facility for 2003 and 2004. As a result, the net rate (without the applicable margin) is capped at 3.0% on a notional amount of €2.7 billion. The changes in fair value of these interest caps are recorded through other income in the consolidated statement of operations. In June 2003, we entered into a cross currency and interest rate swap pursuant to which a $347.5 million obligation under the UPC Distribution Bank Facility was swapped at an average rate of 1.113 euros per U.S. dollar until July 2005. The changes in fair value of these interest swaps are recorded through other income in the consolidated statement of operations. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of $56.3 million, $130.1 million and $105.8 million, respectively, in connection with the change in fair value of these derivative instruments. The fair value of these derivative contracts as of December 31, 2003 was $45.6 million (liability).

Certain of our operating companies' programming contracts are denominated in currencies that are not the functional currency or local currency of that operating company, nor that of the counter party. As a result, these contracts contain embedded foreign exchange derivatives that require separate accounting. We report these derivatives at fair value, with changes in fair value recognized in earnings.

11. Bankruptcy Proceedings

In September 2002, we and other creditors of UPC reached a binding agreement on a recapitalization and reorganization plan for UPC. In order to effect the restructuring, on December 3, 2002, UPC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated December 3, 2002. On that date, UPC also commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law and filed a proposed plan of compulsory composition with the Amsterdam Court under the Dutch bankruptcy code. The U.S. Bankruptcy Court confirmed the reorganization plan on February 20, 2003. The Dutch Bankruptcy Court ratified the plan of compulsory composition on March 13, 2003. Following appeals in the Dutch proceedings, the reorganization was completed as provided for in the pre-negotiated plan of reorganization in September 2003.

On June 19, 2003, UPC Polska executed a binding agreement with some of its creditors to restructure its balance sheet. In order to effect the restructuring, on July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated July 8, 2003. On October 27, 2003, UPC Polska filed a first amended plan of reorganization with the U.S. Bankruptcy Court. On December 17, 2003, UPC Polska entered into a "Stipulation and Order with Respect to Consensual Plan of Reorganization" which terminated the restructuring agreement. Pursuant to the Stipulation, UPC filed a second amended plan of reorganization with the U.S. Bankruptcy Court, which was consummated and became effective on February 18, 2004.

In connection with their bankruptcy proceedings, UPC and UPC Polska are required to prepare their consolidated financial statements in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"), issued by the American Institute of Certified Public Accountants. In accordance with SOP 90-7, all of UPC's and UPC Polska's pre-petition liabilities that were subject to compromise under their plans of reorganization are segregated in their consolidated balance sheet as liabilities and convertible preferred stock subject to compromise. These liabilities were recorded at the amounts expected to be allowed as claims in the bankruptcy proceedings rather than at the estimated amounts for which those allowed claims might be settled as a result of the approval of the plans of reorganization. Since we consolidate UPC and UPC Polska, financial information with respect to UPC and UPC Polska included in our accompanying consolidated financial statements has been prepared in accordance with SOP 90-7. The following presents condensed financial information for UPC Polska and UPC in accordance with SOP 90-7:

	UPC Polska	UPC
	December 31,	
	2003	2002
	(In thousands)	

Balance Sheet				
Assets				
Current assets	$	240,131	$	54,650
Long-term assets		–		328,422
Total assets	$	240,131	$	383,072
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities				
Not subject to compromise:				
Accounts payable, accrued liabilities, debt and other	$	10,794	$	631
Total current liabilities not subject to compromise		10,794		631
Subject to compromise:				
Accounts payable		14,445		38,647
Short-term debt		6,000		–
Accrued liabilities		–		232,603
Intercompany payable(1)		4,668		135,652
Current portion of long-term debt(1)		456,992		2,812,954
Debt(1)		481,737		1,533,707
Total current liabilities subject to compromise		963,842		4,753,563
Long-term liabilities not subject to compromise		–		725,008
Convertible preferred stock subject to compromise(2)		–		1,744,043
Stockholders' equity (deficit)		(734,505)		(6,840,173)
Total liabilities and stockholders' equity (deficit)	$	240,131	$	383,072

(1) Certain amounts are eliminated in consolidation.

(2) 99.6% is eliminated in consolidation.

	UPC Polska		UPC	
	2003(1)		2002(2)	
	(In thousands)			
Statement of Operations				
Revenue	$	–	$	19,037
Expense		–		(42,696)
Depreciation and amortization		–		(16,562)
Impairment and restructuring charges		(6,000)		(1,218)
Operating income (loss)		(6,000)		(41,439)
Share in results of affiliates and other expense, net		(6,669)		(1,870,430)
Net income (loss)	$	(12,669)	$	(1,911,869)

(1) For the period from July 7, 2003 (the petition date) to December 31, 2003.

(2) For the year ended December 31, 2002.

The following presents certain other disclosures required by SOP 90-7 for UPC Polska and UPC:

	2003		2002	
	(In thousands)			
Interest expense on liabilities subject to compromise(1)	$	55,270	$	–
Contractual interest expense on liabilities subject to compromise	$	106,858	$	709,571
Reorganization expense:				
Professional fees	$	43,248	$	37,898
Adjustment of debt to expected allowed amounts		(19,239)		–
Write-off of deferred finance costs		–		36,203
Other		8,000		1,142

Total reorganization expense	$ 32,009	$ 75,243

(1) In accordance with SOP 90-7, interest expense on liabilities subject to compromise is reported in the accompanying consolidated statement of operations only to the extent that it will be paid during the bankruptcy proceedings or to the extent it is considered an allowed claim.

12. Net Negative Investment in Deconsolidated Subsidiaries

On November 15, 2001, we transferred an approximate 50% interest in United Australia/Pacific, Inc. ("UAP") to an independent third party for nominal consideration. As a result, we deconsolidated UAP effective November 15, 2001. On March 29, 2002, UAP filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. On March 18, 2003, the U.S. Bankruptcy Court entered an order confirming UAP's plan of reorganization (the "UAP Plan"). The UAP Plan became effective in April 2003, and the UAP bankruptcy proceeding was completed in June 2003.

In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. ("CHAMP") acquired UAP's indirect approximate 63.2% interest in United Austar, Inc. ("UAI"), which owned approximately 80.7% of Austar United. The purchase price for UAP's indirect interest in UAI was $34.5 million in cash, which was distributed to the holders of UAP's senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of UAP's gain from the sale of its 63.2% interest in UAI ($26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes ($258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of $284.7 million associated with the sale of our indirect approximate 49.99% interest in UAP that occurred on November 15, 2001.

13. Guarantees, Commitments and Contingencies

Guarantees

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification guarantees typically extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and the likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

In connection with the acquisition of UPC's ordinary shares held by Philips Electronics N.V. ("Philips") on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria ("Vienna Obligations"), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence.

Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders' costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

We sub-lease transponder capacity to a third party and all guaranteed performance criteria is matched with the guaranteed performance criteria we receive from the lease transponder provider. We have third party contracts for the distribution of channels from our digital media center in Amsterdam that require us to perform according to industry standard practice, with penalties attached should performance drop below the agreed-upon criteria. Additionally, our interactive services group in Europe has third party contracts for the delivery of interactive content with certain performance criteria guarantees.

Commitments

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense under these lease agreements totaled $69.9 million, $48.5 million and $63.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

	Capital Leases	Operating Leases
Year ended December 31, 2004	$ 7,791	$ 60,501
Year ended December 31, 2005	8,790	39,376
Year ended December 31, 2006	7,887	32,020
Year ended December 31, 2007	7,899	26,109
Year ended December 31, 2008	7,917	21,511
Thereafter	61,826	42,092
Total minimum payments	$ 102,110	$ 221,609
Less amount representing interest and executory costs	(37,268)	
Net lease payments	64,842	
Lease obligations due within one year	(3,073)	
Long-term lease obligations	$ 61,769	

As of December 31, 2003, we have a commitment to purchase 265,000 set-top computers over the next two years. We expect to finance these purchases from existing unrestricted cash balances and future operating cash flow.

We have certain franchise obligations under which we must meet performance requirements to construct networks under certain circumstances. Non-performance of these obligations could result in penalties being levied against us. We continue to meet our obligations so as not to incur such penalties. In the ordinary course of business, we provide customers with certain performance guarantees. For example, should a service outage occur in excess of a certain period of time, we would compensate those customers for the outage. Historically, we have not made any significant payments under any of these indemnifications or guarantees. In certain cases, due to the nature of the agreement, we have not been able to estimate our maximum potential loss or the maximum potential loss has not been specified.

Contingencies

The following is a description of certain legal proceedings to which we or one of our subsidiaries is a party. From time to time we may become involved in litigation relating to claims arising out of our operations in the normal course of business. In our opinion, the ultimate resolution of these legal proceedings would not likely have a material adverse effect on our business, results of operations, financial condition or liquidity.

Cignal

On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications ("Cignal") filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200.0 million alleging that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful consummation of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders' claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering.

Excite@Home

In 2000, certain of our subsidiaries, including UPC, pursued a transaction with Excite@Home, which if completed, would have merged UPC's chello broadband subsidiary with Excite@Home's international broadband operations to form a European Internet business. The transaction was not completed, and discussions between the parties ended in late 2000. On November 3, 2003, we received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors' Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation*, *Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleges breach of contract and fiduciary duty by UGC and Old UGC. The action has been stayed as to Old UGC by the Bankruptcy Court in the Old UGC bankruptcy proceeding. The plaintiff has filed a claim in the bankruptcy proceedings of approximately $2.2 billion. We deny the material allegations and intend to defend the litigation vigorously.

HBO

UPC Polska was involved in a dispute with HBO Communications (UK) Ltd., Polska Programming B.V. and HBO Poland Partners (collectively "HBO") concerning its cable carriage agreement and its D-DTH carriage agreement for the HBO premium movie channel. In February 2004, the matter was settled and UPC Polska paid $6.0 million to HBO.

ICH

On July 4, 2001, ICH, InterComm France CVOHA ("ICF I"), lnterComm France II CVOHA ("ICF II"), and Reflex Participations ("Reflex," collectively with ICF I and ICF II, the "ICF Party") served a demand for arbitration on UPC, Old UGC, and its subsidiaries, Belmarken Holding B.V. ("Belmarken") and UPC France Holding B.V. The claimants allege breaches of obligations allegedly owed by UPC in connection with the ICF Party's position as a minority shareholder in Médiaréseaux S.A. In February 2004, the parties entered into a settlement agreement pursuant to which UPC purchased the shares owned by the ICF Party in Médiaréseaux S.A. for consideration of 1,800,000 shares of our Class A common stock.

Movieco

On December 3, 2002, Europe Movieco Partners Limited ("Movieco") filed a request for arbitration (the "Request") against UPC with the International Court of Arbitration of the International Chamber of Commerce. The Request contains claims that are based on a cable affiliation agreement entered into between the parties on December 21, 1999 (the "CAA"). The arbitral proceedings were suspended from December 17, 2002 to March 18, 2003. They have subsequently been reactivated and directions have been given by the Arbitral Tribunal. In the proceedings, Movieco claims (i) unpaid license fees due under the CAA, plus interest, (ii) an order for specific performance of the CAA or, in the alternative, damages for breach of that agreement, and (iii) legal and arbitration costs plus interest. Of the unpaid license fees, approximately $11.0 million had been accrued prior to UPC commencing insolvency proceedings in the Netherlands on December 3, 2002 (the "Pre-Petition Claim"). Movieco made a claim in the Dutch insolvency proceedings for the Pre-Petition Claim and shares of the appropriate value were delivered to Movieco in December 2003. UPC filed a counterclaim in the arbitral proceeding, stating that the CAA is null and void because it breaches Article 81 of the EC Treaty. UPC also relies on the Order of the Southern District of New York dated January 7, 2003 in which the New York Court ordered that the rejection of the CAA was approved effective March 1, 2003, and that UPC shall have no further liability under the CAA.

Philips

On October 22, 2002, Philips Digital Networks B.V. ("Philips") commenced legal proceedings against UPC, UPC Nederland B.V. and UPC Distribution (together the "UPC Defendants") alleging failure to perform by the UPC Defendants under a Set Top Computer Supply Agreement between the parties dated November 19, 2001, as amended (the "STC Agreement"). The action was commenced by Philips following a termination of the STC Agreement by the UPC Defendants as a consequence of Philips' failure to deliver STCs conforming to the material technical specifications required by the terms of the STC Agreement. The parties have entered into a settlement agreement conditioned upon UPC Defendants entering into a purchase agreement for STCs by June 30, 2004.

UGC Europe Exchange Offer

On October 8, 2003, an action was filed in the Court of Chancery of the State of Delaware in New Castle County, in which the plaintiff named as defendants UGC Europe, UGC and certain of our directors. The complaint purports to assert claims on behalf of all public shareholders of UGC Europe. On October 21, 2003, the plaintiff filed an amended complaint in the Delaware Court of Chancery. The complaint alleges that UGC Europe and the defendant directors have breached their fiduciary duties to the public shareholders of UGC Europe in connection with an offer by UGC to exchange shares of its common stock for outstanding common stock of UGC Europe. Among the remedies demanded, the complaint seeks to enjoin the exchange offer and obtain declaratory relief, unspecified damages and rescission. On November 12, 2003, we and the plaintiff, through respective counsel, entered into a memorandum of understanding agreeing to settle the litigation and to pay up to $975,000 in attorney fees, subject to court approval of the settlement.

14. Minority Interests in Subsidiaries

	December 31,	
	2003	2002
	(In thousands)	
UPC convertible preference shares held by third parties(1)	$ –	$ 1,094,668

UPC convertible preference shares held by Liberty(2)		–		297,753
IDT United		20,858		7,986
Other		1,903		1,739
Total	$	22,761	$	1,402,146

(1) We acquired 99.4% of these convertible preference shares in February and April 2003. The remainder was exchanged for UGC Europe common stock in connection with UPC's restructuring.

(2) Acquired by us in April 2003.

The minority interests' share of results of operations is as follows:

	Year Ended December 31,					
	2003		2002		2001	
			(In thousands)			
Minority interest share of UGC Europe net loss	$	181,046	$	–	$	–
Accrual of dividends on UPC's convertible preference shares held by third parties		–		(78,355)		(70,089)
Accrual of dividends on UPC's convertible preference shares held by Liberty		–		(18,728)		(19,113)
Minority interest share of UPC net loss		–		–		54,050
Subsidiaries of UGC Europe		(91)		28,080		484,780
Other		2,227		1,900		46,887
Total	$	183,182	$	(67,103)	$	496,515

15. Stockholders' Equity (Deficit)

Description of Capital Stock

Our authorized capital stock currently consists of:

- 1,000,000,000 shares of Class A common stock;
- 1,000,000,000 shares of Class B common stock;
- 400,000,000 shares of Class C common stock; and
- 10,000,000 shares of preferred stock, all $0.01 par value per share.

Common Stock

Our Class A common stock, Class B common stock and Class C common stock have identical economic rights. They do, however, differ in the following respects:

- Each share of Class A common stock, Class B common stock and Class C common stock entitles the holders thereof to one, ten and ten votes, respectively, on each matter to be voted on by our stockholders, excluding, until our next annual meeting of stockholders, the election of directors, at which time the holders of Class A common stock, Class B common stock and Class C common stock will vote together as a single class on each matter to be voted on by our stockholders, including the election of directors; and
- Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock at any time. Each share of Class C common stock is convertible, at the option of the holder, into one share of Class A common stock or Class B common stock at any time.

Holders of our Class A, Class B and Class C common stock are entitled to receive any dividends that are declared by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our Class A, Class B and Class C common stock will be entitled to share in all assets available for distribution to holders of common stock. Holders of our Class A, Class B and Class C common stock have no preemptive right under our certificate of incorporation. Our certificate of incorporation provides that if there is any dividend, subdivision, combination or reclassification of any class of common stock, a proportionate dividend, subdivision, combination or reclassification of one other class of common stock will be made at the same time.

Preferred Stock

We are authorized to issue 10 million shares of preferred stock. Our board of directors is authorized, without any further action by the stockholders, to determine the following for any unissued series of preferred stock:

- voting rights;
- dividend rights;
- dividend rates;
- liquidation preferences;
- redemption provisions;
-

sinking fund terms;

- conversion or exchange rights;
- the number of shares in the series; and
- other rights, preferences, privileges and restrictions.

In addition, the preferred stock could have other rights, including economic rights senior to common stock, so that the issuance of the preferred stock could adversely affect the market value of common stock. The issuance of preferred stock may also have the effect of delaying, deferring or preventing a change in control of us without any action by the stockholders.

UGC Equity Incentive Plan

On August 19, 2003, our Board of Directors adopted an Equity Incentive Plan (the "Incentive Plan") effective September 1, 2003. Our stockholders approved the Incentive Plan on September 30, 2003. After such stockholder approval of the Incentive Plan, the Board of Directors recommended certain changes to the Incentive Plan that give us the ability to issue stock appreciation rights with a grant price at, above, or less than the fair market value of our common stock on the date the stock appreciation right is granted. Those changes, along with certain other technical changes, were incorporated into an amended UGC Equity Incentive Plan (the "Amended Incentive Plan"), which was approved by our stockholders on December 17, 2003. The Board of Directors have reserved 39,000,000 shares of common stock, plus an additional number of shares on January 1 of each year equal to 1% of the aggregate shares of Class A and Class B common stock outstanding, for the Amended Incentive Plan. No more than 5,000,000 shares of Class A or Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the Amended Incentive Plan as Class B common stock. The Amended Incentive Plan permits the grant of the following awards (the "Awards"): stock options ("Options"), restricted stock awards ("Restricted Stock"), SARs, stock bonuses ("Stock Bonuses"), stock units ("Stock Units") and other grants of stock. Our employees, consultants and non-employee directors and affiliated entities designated by the Board of Directors are entitled to receive any Awards under the Amended Incentive Plan, provided, however, that only non-qualified Options may be granted to non-employee directors. In accordance with the provisions of the Plan, our compensation committee (the "Committee") has the discretion to: select participants from among eligible employees and eligible consultants; determine the Awards to be made; determine the number of Stock Units, SARs or shares of stock to be issued and the time at which such Awards are to be made; fix the option price, period and manner in which an Option becomes exercisable; establish the duration and nature of Restricted Stock Award restrictions; establish the terms and conditions applicable to Stock Bonuses and Stock Units; and establish such other terms and requirements of the various compensation incentives under the Amended Incentive Plan as the Committee may deem necessary or desirable and consistent with the terms of the Amended Incentive Plan. The Committee may, under certain circumstances, delegate to our officers the authority to grant Awards to specified groups of employees and consultants. The Board has the sole authority to grant Options under the Amended Incentive Plan to non-employee directors. The maximum term of Options granted under the Amended Incentive Plan is ten years. The Committee shall determine, at the time of the award of SARs, the time period during which the SARs may be exercised and other terms that shall apply to the SARs. The Amended Incentive Plan terminates August 31, 2013.

A summary of activity for the Amended Incentive Plan is as follows:

	Number of SARs		Weighted-Average Base Price
Outstanding at beginning of year	–	$	–
Granted during the year	32,165,550	$	4.69
Cancelled during the year	(78,280)	$	4.59
Exercised during the year	–	$	–
Outstanding at end of year	32,087,270	$	4.69
Exercisable at end of year	–	$	–

The weighted-average fair values and weighted average base prices of SARs granted under the Amended Incentive Plan are as follows:

Base Price	Number		Fair Value		Base Price
Less than market price(1)	15,081,775	$	5.44	$	3.74
Equal to market price(2)	15,081,775	$	6.88	$	5.44
Equal to market price	2,002,000	$	4.91	$	6.13
Greater than market price	–	$	–	$	–
Total(3)	32,165,550	$	4.33	$	4.69

(1) We originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will receive only the difference between the base price and the lesser of $5.44 or the fair market value of our Class A common stock on the date of exercise.

(2) We originally granted these SARs at fair market value on date of grant. As a result of the UGC Europe Exchange Offer and merger transaction in December 2003, we substituted UGC SARs for UGC Europe SARs.

(3) All the SARs granted during Fiscal 2003 vest in five equal annual increments. Vesting of the SARs granted would be accelerated upon a change of control of UGC as defined in the Amended Incentive Plan. The table does not reflect the adjustment to the base prices on all outstanding SARs in January 2004. As a result of the dilution caused by our subscription rights offering that closed in February 2004, all base prices have since been reduced by $0.87.

The following summarizes information about SARs outstanding and exercisable at December 31, 2003:

Outstanding			Exercisable
	Weighted-Average Remaining	Weighted-Average	Weighted-Average

Base Price Range	Number	Contractual Life (Years)	Base Price		Number	Base Price	
$3.74	15,042,635	9.97	$	3.74	–	$	–
$5.44	15,042,635	9.97	$	5.44	–	$	–
$6.13	1,997,000	9.75	$	6.13	–	$	–
$7.20	5,000	9.90	$	7.20	–	$	–
Total	32,087,270	9.95	$	4.69	–	$	–

The Amended Incentive Plan is accounted for as a variable plan and accordingly, compensation expense is recognized at each financial statement date based on the difference between the grant price and the estimated fair value of our Class A common stock. Compensation expense of $8.8 million was recognized in the statement of operations for the year ended December 31, 2003.

UGC Stock Option Plans

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by us on January 30, 2002 (the "Employee Plan"). The Employee Plan was construed, interpreted and administered by the Committee, consisting of all members of the Board of Directors who were not our employees. The Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of Class A common stock, of which options for up to 3,000,000 shares of Class B common stock were available to be granted in lieu of options for shares of Class A common stock. The Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In general, for grants prior to December 1, 2000, options vested in equal monthly increments over 48 months, and for grants subsequent to December 1, 2000, options vested 12.5% six months from the date of grant and then in equal monthly increments over the next 42 months. Vesting would be accelerated upon a change of control of us as defined in the Employee Plan. At December 31, 2003, employees had options to purchase an aggregate of 10,745,692 shares of Class A common stock outstanding under The Employee Plan and options to purchase an aggregate of 3,000,000 shares of Class B common stock. The Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made.

Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by us on January 30, 2002 (the "1993 Director Plan"). The 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of our Class A common stock to each member of the Board of Directors who was not also an employee of ours (a "non-employee director") on June 1, 1993, and to each person who was newly elected to the Board of Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by us on January 30, 2002 (the "1998 Director Plan", and together with the 1993 Director Plan, the "Director Plans"). Options under the 1998 Director Plan were granted at the discretion of our Board of Directors. The maximum term of options granted under the Director Plans was ten years. Under the 1993 Director Plan, options vested 25.0% on the first anniversary of the date of grant and then evenly over the next 36-month period. Under the 1998 Director Plan, options vested in equal monthly increments over the four-year period following the date of grant. Vesting under the Director Plans would be accelerated upon a change in control of us as defined in the respective Director Plans. Effective March 14, 2003, the Board of Directors terminated the 1993 Director Plan. At the time of termination, we had granted options for an aggregate of 860,000 shares of Class A common stock, of which 271,667 shares have been cancelled. Options outstanding prior to the date of termination continue to be recognized, but no new grants of options will be made.

Pro forma information regarding net income (loss) and net income (loss) per share is required to be determined as if we had accounted for our Employee Plan's and Director Plans' options granted on or after March 1, 1995 under the fair value method prescribed by SFAS 123. The fair value of options granted for the years ended December 31, 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,		
	2003	2002	2001
Risk-free interest rate	3.40%	4.62%	4.78%
Expected lives	6 years	6 years	6 years
Expected volatility	100%	100%	95.13%
Expected dividend yield	0%	0%	0%

Based on the above assumptions, the total fair value of options granted was nil, $47.6 million and $5.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of stock option activity for the Employee Plan is as follows:

	Year Ended December 31,								
	2003			2002			2001		
	Number	Weighted-Average Exercise Price		Number	Weighted-Average Exercise Price		Number	Weighted-Average Exercise Price	
Outstanding at beginning of year	16,964,230	$	7.88	5,141,807	$	16.16	4,770,216	$	16.95
Granted during the year	—	$	—	11,970,000	$	4.43	543,107	$	10.08
Cancelled during the year	(3,067,084)	$	5.90	(147,577)	$	16.66	(157,741)	$	20.12
Exercised during the year	(151,454)	$	3.92	—	$	—	(13,775)	$	5.30
Outstanding at end of year	13,745,692	$	8.36	16,964,230	$	7.88	5,141,807	$	16.16
Exercisable at end of year	8,977,124	$	9.91	7,371,369	$	10.28	3,125,596	$	13.70

A summary of stock option activity for the Director Plans is as follows:

Year Ended December 31,

	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	1,080,000	$ 10.52	1,110,416	$ 11.24	630,000	$ 18.13
Granted during the year	—	$ —	200,000	$ 5.00	500,000	$ 5.00
Cancelled during the year	—	$ —	(230,416)	$ 9.20	(19,584)	$ 73.45
Exercised during the year	(160,000)	$ 4.75	—	$ —	—	$ —
Outstanding at end of year	920,000	$ 11.53	1,080,000	$ 10.52	1,110,416	$ 11.24
Exercisable at end of year	702,290	$ 13.48	569,999	$ 12.81	487,290	$ 12.99

The combined weighted-average fair values and weighted-average exercise prices of options granted under the Employee Plan and the Director Plans are as follows:

	Year Ended December 31,					
	2002			2001		
Exercise Price	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price
Less than market price	2,900,000	$ 4.53	$ 2.64	3,149	$ 9.65	$ 5.96
Equal to market price	—	$ —	$ —	100,000	$ 13.71	$ 17.38
Greater than market price	9,270,000	$ 3.71	$ 5.00	939,958	$ 4.10	$ 6.62
Total	12,170,000	$ 3.91	$ 4.44	1,043,107	$ 5.03	$ 7.64

The following table summarizes information about employee and director stock options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$4.16 – $ 4.75	407,000	3.75	$ 4.29	407,000	$ 4.29
$5.00 – $ 5.00	10,977,808	8.09	$ 5.00	6,203,710	$ 5.00
$5.11 – $ 7.13	996,182	3.89	$ 5.75	974,677	$ 5.77
$7.75 – $86.50	2,284,702	5.84	$ 27.66	2,094,027	$ 28.68
Total	14,665,692	7.33	$ 8.56	9,679,414	$ 10.17

UPC Stock Option Plans

UPC adopted a stock option plan on June 13, 1996, as amended (the "UPC Plan"), for certain of its employees and those of its subsidiaries. Options under the UPC Plan were granted at fair market value at the time of the grant, unless determined otherwise by UPC's Supervisory Board. The maximum term that the options were exerciseable was five years from the date of the grant. In order to introduce the element of "vesting" of the options, the UPC Plan provided that even though the options were exercisable upon grant, the options were subject to repurchase rights reduced by equal monthly amounts over a vesting period of 36 months for options granted in 1996 and 48 months for all other options. Upon termination of an employee (except in the case of death, disability or the like), all unvested options previously exercised were resold to UPC at the exercise price and all vested options were exercised within 30 days of the termination date. UPC's Supervisory Board was allowed to alter these vesting schedules at its discretion. The UPC Plan also contained anti-dilution protection and provided that, in the case of a change of control, the acquiring company had the right to require UPC to acquire all of the options outstanding at the per share value determined in the transaction giving rise to the change of control. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled.

Pro forma information regarding net income (loss) and net income (loss) per share is presented below as if UPC had accounted for the UPC Plan under the fair value method of SFAS 123. The fair value of options granted for the years ended December 31, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,	
	2002	2001
Risk-free interest rate	3.16%	4.15%
Expected lives	5 years	5 years
Expected volatility	118.33%	112.19%
Expected dividend yield	0%	0%

Based on the above assumptions, the total fair value of options granted was approximately $0.1 million and $140.5 million for the years ended December 31, 2002 and 2001, respectively.

The UPC Plan was accounted for as a variable plan prior to UPC's initial public offering in February 1999. Accordingly, compensation expense was recognized at each financial statement date based on the difference between the grant price and the estimated fair value of UPC's common stock. Thereafter, the UPC Plan was accounted for as a fixed plan. Compensation expense of $29.2 million, $31.9 million and $30.6 million was recognized in the statement of operations for the years ended December 31, 2003, 2002 and 2001, respectively.

In March 1998, UPC adopted a phantom stock option plan (the "UPC Phantom Plan") which permitted the grant of phantom stock rights in up to 7,200,000 shares of UPC's common stock. The UPC Phantom Plan gave the employee the right to receive payment equal to the difference between the fair value of a share of UPC common stock and the option base price for the portion of the rights vested. The rights were granted at fair value at the time of grant, and generally vested in equal monthly increments over the four-year period following the effective date of grant and were exerciseable for ten years following the effective date of grant. UPC had the option of payment in (i) cash, (ii) freely tradable shares of our Class A common stock or (iii) freely tradable shares of UPC's common stock. The UPC Phantom Plan contained anti-dilution protection and provided that, in certain cases of a change of control, all phantom options outstanding become fully exercisable. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled. The UPC Phantom Plan was accounted for as a variable plan in accordance with its terms, resulting in compensation expense for the difference between the grant price and the fair market value at each financial statement date. Compensation expense (credit) of nil and $(22.8) million was recognized in the statement of operations for the years ended December 31, 2002 and 2001, respectively.

16. Segment Information

Our European operations are currently organized into two principal divisions–UPC Broadband and chellomedia. UPC Broadband provides video services, telephone services and high-speed Internet access services to residential customers, and manages its business by country. chellomedia provides broadband Internet and interactive digital products and services, operates a competitive local exchange carrier business providing telephone and data network solutions to the business market (Priority Telecom) and holds certain investments. In Latin America we also have a Broadband division that provides video services, telephone services and high-speed Internet access services to residential and business customers, and manages its business by country. We evaluate performance and allocate resources based on the results of these segments. The key operating performance criteria used in this evaluation include revenue and "Adjusted EBITDA". Adjusted EBITDA is the primary measure used by our chief operating decision makers to evaluate segment-operating performance and to decide how to allocate resources to segments. "EBITDA" is an acronym for earnings before interest, taxes, depreciation and amortization. As we use the term, Adjusted EBITDA further removes the effects of cumulative effects of accounting changes, share in results of affiliates, minority interests in subsidiaries, reorganization expense, other income and expense, provision for loss on investments, gain (loss) on sale of investments in affiliates, gain on extinguishment of debt, foreign currency exchange gain (loss), impairment and restructuring charges, certain litigation expenses and stock-based compensation. We believe Adjusted EBITDA is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe Adjusted EBITDA is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within Adjusted EBITDA distorts their ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of Adjusted EBITDA is important because analysts and other investors use it to compare our performance to other companies in our industry. We reconcile the total of the reportable segments' Adjusted EBITDA to our consolidated net income as presented in the accompanying consolidated statements of operations, because we believe consolidated net income is the most directly comparable financial measure to total segment operating performance. Investors should view Adjusted EBITDA as a supplement to, and not a substitute for, other GAAP measures of income as a measure of operating performance. As discussed above, Adjusted EBITDA excludes, among other items, frequently occurring impairment, restructuring and other charges that would be included in GAAP measures of operating performance.

Revenue

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 592,223	$ 459,044	$ 365,988
Austria	260,162	198,189	163,073
Belgium	31,586	24,646	22,318
Czech Republic	63,348	44,337	38,588
Norway	95,284	76,430	59,707
Hungary	165,450	124,046	93,206
France	113,946	92,441	83,811
Poland	85,356	76,090	132,669
Sweden	75,057	52,560	40,493
Slovak Republic	25,467	18,852	17,607
Romania	20,189	16,119	12,710
Total	1,528,068	1,182,754	1,030,170
Germany	–	28,069	45,848
Corporate and other(1)	32,563	35,139	51,762
Total	1,560,631	1,245,962	1,127,780
chellomedia			
Priority Telecom(1)	121,330	112,637	206,149
Media(1)	98,463	69,372	75,676
Investments	528	465	–
Total	220,321	182,474	281,825
Intercompany Eliminations	(127,055)	(108,695)	(176,417)
Total	1,653,897	1,319,741	1,233,188
Latin America:			
Broadband			
Chile	229,835	186,426	166,590
Brazil, Peru, Uruguay	7,798	7,054	6,044
Total	237,633	193,480	172,634

Australia			
Broadband	–	–	145,423
Content	–	–	9,973
Other	–	–	235
Total	–	–	155,631
Corporate and other (United States)	–	1,800	441
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

(1) Primarily The Netherlands.

Adjusted EBITDA

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Europe:			
UPC Broadband			
The Netherlands	$ 267,075	$ 119,329	$ 40,913
Austria	98,278	64,662	40,583
Belgium	12,306	8,340	4,367
Czech Republic	24,657	9,241	9,048
Norway	27,913	17,035	5,337
Hungary	63,357	41,487	26,555
France	13,920	(10,446)	(25,678)
Poland	24,886	15,794	(8,633)
Sweden	31,827	15,904	6,993
Slovak Republic	10,618	4,940	2,802
Romania	7,545	6,044	3,165
Other	386	535	1,434
Total	582,768	292,865	106,886
Germany	–	12,562	22,197
Corporate and other(1)	(46,091)	(25,727)	(93,781)
Total	536,677	279,700	35,302
chellomedia			
Priority Telecom(1)	14,530	(3,809)	(79,758)
Media(1)	22,874	(4,851)	(100,599)
Investments	(1,033)	(374)	–
Total	36,371	(9,034)	(180,357)
Total	573,048	270,666	(145,055)
Latin America:			
Broadband			
Chile	69,951	41,959	26,860
Brazil, Peru, Uruguay	8	(3,475)	(4,016)
Total	69,959	38,484	22,844
Australia			
Broadband	–	–	(32,338)
Content	–	–	(6,849)
Other	–	(282)	(832)
Total	–	(282)	(40,019)
Corporate and other (United States)	(14,125)	(12,494)	(29,013)
Total	$ 628,882	$ 296,374	$ (191,243)

(1) Primarily The Netherlands.

Total segment Adjusted EBITDA reconciles to consolidated net income (loss) as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Total segment Adjusted EBITDA	$ 628,882	$ 296,374	$ (191,243)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other	(35,970)	(1,274)	(204,127)
Stock-based compensation	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest expense, net	(314,078)	(641,786)	(966,134)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Other expense, net	(14,884)	(120,832)	(265,512)
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Other, net	395,293	(415,670)	150,735
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)

	Investments in Affiliates		Long-Lived Assets		Total Assets	
	December 31,		December 31,		December 31,	
	2003	2002	2003	2002	2003	2002
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ 222	$ 215	$ 1,334,294	$ 1,310,783	$ 2,493,134	$ 1,884,044
Austria	–	–	307,758	282,628	700,209	450,526
Belgium	–	–	22,596	22,395	88,725	44,444
Czech Republic	–	–	117,527	120,863	201,103	127,691
Norway	–	–	219,651	226,981	280,528	249,761
Hungary	1,708	–	249,515	251,120	541,139	343,287
France	–	–	246,307	573,167	274,180	608,650
Poland	15,049	3,277	118,586	124,088	302,216	245,122
Sweden	–	–	94,414	87,339	321,961	237,619
Slovak Republic	–	–	35,697	26,896	67,027	33,428
Romania	–	–	15,235	9,403	42,503	31,078
Total	16,979	3,492	2,761,580	3,035,663	5,312,725	4,255,650
Corporate and other(1)	65,279	112,507	14,154	39,455	374,876	576,568
Total	82,258	115,999	2,775,734	3,075,118	5,687,601	4,832,218
chellomedia						
Priority Telecom(1)	3,232	–	182,491	202,986	241,909	261,301
Media(1)	2,257	4,037	43,578	48,625	232,527	72,554
Total	5,489	4,037	226,069	251,611	474,436	333,855
Total	87,747	120,036	3,001,803	3,326,729	6,162,037	5,166,073
Latin America:						
Broadband						
Chile	–	–	322,606	293,941	602,762	509,376
Brazil, Peru, Uruguay	3,522	33,817	9,584	9,448	18,388	55,381
Total	3,522	33,817	332,190	303,389	621,150	564,757
Corporate and other (United States)	3,969	–	8,750	10,093	316,484	200,764
Total	$ 95,238	$ 153,853	$ 3,342,743	$ 3,640,211	$ 7,099,671	$ 5,931,594

(1) Primarily The Netherlands.

	Depreciation and Amortization			Capital Expenditures		
	Year Ended December 31,			Year Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ (225,638)	$ (230,852)	$ (252,356)	$ (63,451)	$ (97,841)	$ (213,846)
Austria	(85,589)	(71,924)	(68,513)	(43,751)	(38,388)	(92,679)
Belgium	(6,877)	(5,952)	(7,531)	(3,473)	(2,884)	(8,367)
Czech Republic	(18,665)	(16,317)	(24,577)	(12,294)	(4,706)	(26,287)
Norway	(36,765)	(37,288)	(35,918)	(9,714)	(7,050)	(60,562)
Hungary	(39,102)	(34,889)	(35,202)	(23,004)	(16,659)	(31,599)
France	(99,913)	(85,940)	(78,732)	(48,810)	(19,688)	(114,596)
Poland	(28,487)	(28,517)	(126,855)	(8,476)	(4,464)	(35,628)
Sweden	(19,668)	(13,519)	(37,098)	(9,778)	(8,974)	(28,767)
Slovak Republic	(8,939)	(7,478)	(13,124)	(3,848)	(501)	(5,005)
Romania	(2,984)	(2,494)	(1,578)	(5,286)	(4,547)	(3,433)
Total	(572,627)	(535,170)	(681,484)	(231,885)	(205,702)	(620,769)
Germany	–	(9,240)	(107,799)	–	(3,357)	(12,788)
Corporate and other(1)	(86,939)	(61,543)	(74,420)	(35,666)	(6,491)	(47,773)
Total	(659,566)	(605,953)	(863,703)	(267,551)	(215,550)	(681,330)
chellomedia						
Priority Telecom (1)	(60,952)	(45,239)	(80,887)	(16,727)	(30,658)	(69,710)
UPC Media(1)	(17,706)	(20,565)	(37,305)	(5,779)	(6,241)	(50,051)
Total	(78,658)	(65,804)	(118,192)	(22,506)	(36,899)	(119,761)
Total	(738,224)	(671,757)	(981,895)	(290,057)	(252,449)	(801,091)
Latin America:						
Broadband						
Chile	(66,928)	(54,458)	(54,027)	(41,391)	(80,006)	(135,821)
Brazil, Peru, Uruguay	(2,206)	(2,371)	(7,824)	(1,582)	(2,679)	(10,418)
Total	(69,134)	(56,829)	(61,851)	(42,973)	(82,685)	(146,239)
Australia						
Broadband	–	–	(100,489)	–	–	(48,291)
Other	–	–	(1,282)	–	–	–
Total	–	–	(101,771)	–	–	(48,291)
Corporate and other (United States)	(1,305)	(1,415)	(1,659)	(94)	(58)	(790)
Total	$ (808,663)	$ (730,001)	$ (1,147,176)	$ (333,124)	$ (335,192)	$ (996,411)

(1) Primarily The Netherlands.

17. Impairment of Long-Lived Assets

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
UPC Broadband	$ (402,239)	$ (75,305)	$ (682,633)
Priority Telecom	–	(359,237)	(418,413)
Swiss wireless license	–	–	(91,260)
Microsoft contract acquisition rights	–	–	(59,831)
Other	–	(1,611)	(68,805)
Total	$ (402,239)	$ (436,153)	$ (1,320,942)

2003

During the fourth quarter of 2003, various events took place that indicated the long-lived assets in our French asset group were potentially impaired: 1) We entered into preliminary discussions regarding the merger of our French assets into a new company, which indicated a potential decline in the fair value of these assets; 2) We made downward revisions to the revenue and Adjusted EBITDA projections for France in our long-range plan, due to actual results continuing to fall short of expectations; and 3) We performed a fair value analysis of all the assets of UGC Europe in connection with the UGC Europe Exchange Offer that confirmed a decrease in fair value of our French assets. As a result, we determined a triggering event had occurred in the fourth quarter of 2003. We performed a cash flow analysis, which indicated the carrying amount of our long-lived assets in France exceeded the sum of the undiscounted cash flows expected to result from the use of these assets. Accordingly, we performed a discounted cash flow analysis (supported by the independent valuation from the UGC Europe Exchange Offer), and recorded an impairment of $384.9 million and $8.4 million for the difference between the fair value and the carrying amount of property, plant and equipment and other long-lived assets, respectively. We also recorded a total of $8.9 million for other impairments in 2003.

2002

Based on our annual impairment test as of December 31, 2002 in accordance with SFAS 142, we recorded an impairment charge of $344.8 million and $18.0 million on goodwill related to Priority Telecom and UPC Romania, respectively. In addition, we wrote off other tangible assets in The Netherlands, Norway, France, Poland, Slovak Republic, Czech Republic and Priority Telecom amounting to $73.4 million for the year ended December 31, 2002.

2001

Due to the lack of financial resources to fully develop the triple play in Germany, and due to our inability to find a partner to help implement this strategy, the long range plans of UPC Germany were revised in 2001 to provide for a "care and maintenance" program, meaning that the business plan would be primarily focused on current customers and product offerings instead of a planned roll out of new service offerings. As a result of this revised business plan, we determined that a triggering event had occurred with respect to this investment in the fourth quarter of 2001, as defined in SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* ("SFAS 121"). After analyzing the projected undiscounted free cash flows (without interest), an impairment charge was deemed necessary. The amount of the charge was determined by evaluating the estimated fair value of our investment in UPC Germany using a discounted cash flow approach, resulting in an impairment charge of $682.6 million for the year ended December 31, 2001.

During the second quarter of 2001, we identified indicators of possible impairment of long-lived assets, principally indefeasible rights of use and related goodwill within our subsidiary Priority Telecom. Such indicators included significant declines in the market value of publicly traded telecommunications providers and a change, subsequent to the acquisition of Cignal, in the way that certain assets from the Cignal acquisition were being used within Priority Telecom. We revised our strategic plans for using these assets because of reduced levels of private equity funding activity for these businesses and our decision to complete a public listing of Priority Telecom in the second half of 2001. The changes in strategic plans included a decision to phase out the legacy international wholesale voice operations of Cignal. When we and Priority Telecom reached agreement to acquire Cignal in the second quarter of 2000, the companies originally intended to continue the international wholesale voice operations of Cignal for the foreseeable future. This original plan for the international wholesale voice operations was considered in the determination of the consideration paid for Cignal. In 2001, using the strategic plan prepared in connection with the public listing of Priority Telecom, an impairment assessment test and measurement in accordance with SFAS 121 was completed, resulting in a write down of tangible assets, related goodwill and other impairment charges of $418.4 million for the year ended December 31, 2001.

In 2000 we acquired a license to operate a wireless telecommunications system in Switzerland. During the fourth quarter of 2001, in connection with our overall strategic review, we determined that we were not in a position to develop this asset as a result of both funding constraints and a change in strategic focus away from the wireless business, resulting in a write down of the value of this asset to nil and a charge of $91.3 million for the year ended December 31, 2001.

As a result of issuing warrants to acquire common stock of UPC during 1999 and 2000, we recorded €150.2 million in contract acquisition rights. These rights were being amortized over the three-year term of an interim technology agreement. During the fourth quarter of 2001, this interim technology agreement was terminated, and the remaining unamortized contract acquisition rights totaling $59.8 million were written off.

18. Restructuring Charges and Other

In 2001, UPC implemented a restructuring plan to both lower operating expenses and strengthen its competitive and financial position. This included eliminating certain employee positions, reducing office space and related overhead expenses, rationalization of certain corporate assets, recognizing losses related to excess capacity under certain contracts and canceling certain programming contracts. The total workforce reduction was effected through attrition, involuntary terminations and reorganization of UPC's operations to permanently eliminate open positions resulting from normal employee attrition. The following table summarizes these costs by type as of December 31, 2003:

	Employee Severence and Termination(2)	Office Closures	Programming and Lease Contract Termination	Asset Disposal Losses and Other	Total
			(In thousands)		
Restructuring charges	$ 46,935	$ 16,304	$ 93,553	$ 47,335	$ 204,127
Cash paid and other releases	(13,497)	(6,386)	(14,814)	(3,294)	(37,991)
Foreign currency translation adjustments	127	38	12,468	(29,537)	(16,904)
Restructuring liability as of December 31, 2001	33,565	9,956	91,207	14,504	149,232
Restructuring charges (credits)	13,675	7,884	(32,035)	11,750	1,274
Cash paid and other releases	(30,944)	(4,622)	(32,231)	(24,449)	(92,246)
Foreign currency translation adjustments	3,133	978	9,920	2,590	16,621
Restructuring liability as of December 31, 2002	19,429	14,196	36,861	4,395	74,881
Restructuring charges (credits)(1)	177	7,506	–	(605)	7,078
Cash paid and other releases	(13,628)	(5,934)	(5,981)	(1,991)	(27,534)
Foreign currency translation adjustments	2,427	1,053	3,519	643	7,642
Restructuring liability as of December 31, 2003	$ 8,405	$ 16,821	$ 34,399	$ 2,442	$ 62,067
Short-term portion	$ 3,682	$ 6,002	$ 3,795	$ 794	$ 14,273
Long-term portion	4,723	10,819	30,604	1,648	47,794

Total	$	8,405	$	16,821	$	34,399	$	2,442	$	62,067

(1) Restructuring charges and other in 2003 also includes other litigation settlements totaling $22.2 million and costs incurred by UGC Europe related to the UGC Europe Exchange Offer and merger of $6.7 million.

(2) Included nil and 45 employees scheduled for termination as of December 31, 2003 and 2002, respectively.

19. Income Taxes

The significant components of our consolidated deferred tax assets and liabilities are as follows:

	December 31,			
	2003		2002	
	(In thousands)			
Deferred tax assets:				
Tax net operating loss carryforward of consolidated foreign subsidiaries	$	1,017,895	$	1,431,785
U.S. tax net operating loss carryforward		9,258		–
Accrued interest expense		20,985		91,036
Investment valuation allowance and other		33,619		22,442
Property, plant and equipment, net		310,657		40,063
Intangible assets, net		20,701		–
Other		48,743		38,213
Total deferred tax assets		1,461,858		1,623,539
Valuation allowance		(1,331,778)		(1,607,089)
Deferred tax assets, net of valuation allowance		130,080		16,450
Deferred tax liabilities:				
Cancellation of debt and other		(110,583)		(110,583)
Intangible assets		(82,679)		(12,056)
Other		(25,937)		(41)
Total deferred tax liabilities		(219,199)		(122,680)
Deferred tax liabilities, net	$	(89,119)	$	(106,230)

The difference between income tax expense (benefit) provided in the accompanying consolidated financial statements and the expected income tax expense (benefit) at statutory rates is reconciled as follows:

	Year Ended December 31,					
	2003		2002		2001	
	(In thousands)					
Expected income tax expense (benefit) at the U.S. statutory rate of 35%	$	560,026	$	491,379	$	(1,632,925)
Tax effect of permanent and other differences:						
Change in valuation allowance		(516,810)		173,604		814,612
Gain on sale of investment in affiliate		(133,211)		(51,774)		–
Tax ruling regarding UPC reorganization		107,922		–		–
Enacted tax law changes, case law and rate changes		(92,584)		–		–
Revenue for book not for tax		75,308		–		–
Other		26,122		(11,415)		(5,063)
Financial instruments		15,280		95,178		–
Non-deductible interest accretion		8,680		110,974		81,149
State tax, net of federal benefit		7,193		42,118		(139,965)
International rate differences		(5,857)		58,407		187,027
Non-deductible foreign currency exchange results		(3,595)		(104,598)		–
Non-deductible expenses		1,870		12,024		14,740
Gain on extinguishment of debt		–		(728,754)		(1,310)
Goodwill impairment		–		114,039		559,028
Amortization of goodwill		–		–		84,020
Gain on issuance of common equity securities by subsidiaries		–		–		(1,974)
Total income tax expense (benefit)	$	50,344	$	201,182	$	(40,661)

Income tax expense (benefit) consists of:

Year ended December 31,		
2003	2002	2001

		(In thousands)	
Current:			
U.S. Federal	$ 1,008	$ 23,801	$ –
State and local	1,674	4,966	–
Foreign jurisdiction	2,916	5,592	2,506
	5,598	34,359	2,506
Deferred:			
U.S. Federal	$ 61,768	$ 138,746	$ –
State and local	8,519	19,136	–
Foreign jurisdiction	(25,541)	8,941	(43,167)
	44,746	166,823	(43,167)
Income tax expense (benefit)	$ 50,344	$ 201,182	$ (40,661)

The significant components of our foreign tax loss carryforwards are as follows:

Country	Tax Loss Carryforward	Tax Asset	Expiration Date
The Netherlands	$ 1,293,157	$ 446,139	Indefinite
France	786,516	278,662	Indefinite
Norway	302,860	84,801	2007 – 2012
Chile	273,619	45,147	Indefinite
Austria	226,173	76,899	Indefinite
Hungary	142,158	22,746	2004 – 2009
Poland	88,286	16,774	2004 – 2008
Other	163,602	46,727	Various
Total	$ 3,276,371	$ 1,017,895	

Foreign Tax Issues

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be "controlled foreign corporations" ("CFC") under U.S. tax law (the "Code"). In general, a U.S. corporation that is a shareholder in a CFC may be required to include in its income 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. In addition, certain income earned by most of our foreign subsidiaries during a taxable year when our subsidiaries have positive 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. Since we and a majority of our subsidiaries are investors in, or are involved in, foreign businesses, we could have significant amounts of Subpart F income. 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. Because we must calculate our foreign tax credit separately for dividends received from certain of our foreign subsidiaries from those of other foreign subsidiaries and because of certain other limitations, our ability to claim a foreign tax credit may be limited. Some of our operating companies are located in countries with which the U.S. does not have income tax treaties. Because we lack treaty protection in these countries, we may be subject to high rates of withholding taxes on distributions and other payments from these operating companies and may be subject to double taxation on our income. Limitations on the ability to claim a foreign tax credit, lack of treaty protection in some countries, and the inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal tax rate on our earnings. Since substantially all of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the U.S., these risks are proportionately greater for us than for companies that generate most of their revenue in the U.S. or in jurisdictions that have these treaties.

We through our subsidiaries maintain a presence in 15 countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the U.S., such as a value added tax system. 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 U.S. 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.

UPC discharged a substantial amount of debt in connection with its reorganization. Under Dutch tax law, the discharge of UPC's indebtedness in connection with its reorganization would generally constitute taxable income to UPC in the period of discharge. UPC has reached an agreement with the Dutch tax authorities whereby UPC is able to utilize net operating loss carry forwards to offset any Dutch income taxes arising from the discharge of debt in 2003. UPC, together with its "fiscal unity" companies, expects that for the year ended December 31, 2003 it will have sufficient current year and carry forward losses to fully offset any income to be recognized on the discharge of the debt.

20. Earnings Per Share

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Numerator (Basic):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	–	–

Equity transactions of subsidiaries	6,555	–	–
Accrual of dividends on Series B convertible preferred stock	–	(156)	(1,873)
Accrual of dividends on Series C convertible preferred stock	–	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	–	(1,621)	(20,125)
Basic income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,094	(4,566,513)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Basic net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,628)	$ (4,546,457)
Denominator (Basic):			
Basic weighted-average number of common shares outstanding, before adjustment	418,874,941	390,087,623	99,834,387
Adjustment for rights offering in February 2004	43,149,291	40,183,842	10,284,175
Basic weighted-average number of common shares outstanding	462,024,232	430,271,465	110,118,562
Numerator (Diluted):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	–	–
Equity transactions of subsidiaries	6,555	–	–
Accrual of dividends on Series B convertible preferred stock	–	–	(1,873)
Accrual of dividends on Series C convertible preferred stock	–	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	–	(1,621)	(20,125)
Diluted income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,250	(4,566,513)
Cumulative effect of change in accounting principle	–	(1,344,722)	20,056
Diluted net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,472)	$ (4,546,457)
Denominator (Diluted):			
Basic weighted-average number of common shares outstanding, as adjusted	462,024,232	430,271,465	110,118,562
Incremental shares attributable to the assumed exercise of outstanding stock appreciation rights	109,544	–	–
Incremental shares attributable to the assumed exercise of contingently issuable shares	92,470	–	–
Incremental shares attributable to the assumed exercise of outstanding options (treasury stock method)	220,115	9,701	–
Incremental shares attributable to the assumed conversion of Series B convertible preferred stock	–	224,256	–
Diluted weighted-average number of common shares outstanding	462,446,361	430,505,422	110,118,562

21. Related Party Transactions

Loans to Officers and Directors

In 2000 and 2001, Old UGC made loans through a subsidiary to Michael T. Fries, Mark L. Schneider and John F. Riordan, each of whom at the time was a director or an executive officer of Old UGC. The loans, totaling approximately $16.6 million, accrued interest at 90-day LIBOR plus 2.5% or 3.5%, as determined in accordance with the terms of each note. The purpose of the loans was to enable these individuals to repay margin debt secured by common stock of Old UGC or its subsidiaries without having to liquidate their stock ownership positions in Old UGC or its subsidiaries. Each loan was secured by certain outstanding stock options and phantom stock options issued by Old UGC and its subsidiaries to the borrower, and certain of the loans were also secured by common stock of Old UGC and its subsidiaries held by the borrower. Initially the loans were recourse to the borrower, however, in April 2001, the Old UGC board of directors revised the loans to be non-recourse to the borrower, except to the extent of any pledged collateral. Accordingly, such amounts have been reflected as a reduction of stockholders' equity. The written documentation for these loans provided that they were payable on demand, or, if not paid sooner, on November 22, 2002. On January 22, 2003, we notified Mr. Fries and Mr. Schneider of foreclosure on all of the collateral securing the loans, which loans had an outstanding balance on such date, including interest, of approximately $8.8 million. Our board of directors authorized payment to Mr. Fries and Mr. Schneider a bonus in the aggregate amount of approximately $1.7 million to pay the taxes resulting from the foreclosure and the bonus. On January 6, 2004, we notified Mr. Riordan of foreclosure on all of the collateral securing his loans, which loans had an outstanding balance on such date, including interest, of approximately $10.1 million.

Merger Transaction Loans

When Old UGC issued shares of its Series E preferred stock in connection with the merger transaction with Liberty in January 2002, the Principal Founders delivered full-recourse promissory notes to Old UGC in the aggregate amount of $3.0 million in partial payment of their subscriptions for the Series E preferred stock. The loans evidenced by these promissory notes bear interest at 6.5% per annum and are due and payable on demand on or after January 30, 2003, or on January 30, 2007 if no demand has been made by then. Such amounts have been reflected as a reduction of stockholders' equity, as such transactions are accounted for as variable option awards because the loans do not meet the criteria of recourse loans for accounting purposes.

Mark L. Schneider Transactions

In 1999, chello broadband loaned Mr. Schneider €2,268,901 so that he could acquire certificates evidencing the economic value of stock options granted to Mr. Schneider in 1999 for chello broadband ordinary shares B. This recourse loan, which is due and payable upon the sale of the certificates or the expiration of the stock options, bears no interest. Interest, however, is imputed and the tax payable on the imputed interest is added to the principal amount of the loan. In 2000, Mr. Schneider exercised chello broadband options through the sale of the certificates acquired with the loans proceeds. Of the funds received, €823,824 was withheld for payment of the portion of the loan associated with the options exercised. In addition, chello broadband cancelled the unvested options and related loan amount in May 2003. The outstanding loan balance was €380,197 at December 31, 2003.

Gene W. Schneider Employment Agreement

On January 5, 2004, we entered into a five-year employment agreement with Mr. Gene W. Schneider. Pursuant to the employment agreement, Mr. Schneider shall continue to serve as the non-executive chairman of our Board for so long as requested by our Board, and is subject to a five year non-competition obligation (regardless of when his employment under the employment agreement is terminated). In exchange, Mr. Schneider shall receive an annual base salary of not less than his current base salary, is eligible to participate in all welfare benefit plans or programs covering UGC's senior executives generally, and is entitled to receive certain additional fringe benefits. The employment agreement terminates upon Mr. Schneider's death. We may terminate him for certain disabilities and for cause. Mr. Schneider may terminate the employment agreement for any reason on thirty days notice to UGC. If the employment agreement is terminated for death or disability, we shall make certain payments to Mr. Schneider or his personal representatives, as appropriate, for his annual base salary accrued through the termination date, the amount of any annual base salary that would have accrued from the termination date through the end of the employment period had Mr. Schneider's employment continued through the end of the five year term, and compensation previously deferred by Mr. Schneider, if any, but not paid to him. Certain stock options and other equity-based incentives granted to Mr. Schneider shall remain exercisable until the third anniversary of the termination date (but not beyond the term of the award). Upon Mr. Schneider's election to terminate the employment agreement early, he is entitled to certain payments from us. If the employment agreement is terminated for cause by us, we have no further obligations to Mr. Schneider under the agreement, except with respect to certain compensation accrued through the date of termination and compensation previously deferred, if any, by Mr. Schneider.

Spinhalf Contract

In 2002, a subsidiary of UPC entered into a contract with Spinhalf Ltd for the provision of network services. This company is owned by a family member of John F. Riordan, a former director and former Chief Executive Officer of UPC. Amounts incurred with respect to such contracted services to date are approximately €7.8 million. We terminated the network support contract with Spinhalf during 2003.

Gene W. Schneider Life Insurance

In 2001, Old UGC's board of directors approved a "split-dollar" policy on the lives of Gene W. Schneider and his spouse for $30 million. Old UGC agreed to pay an annual premium of approximately $1.8 million for this policy, which has a roll-out period of approximately 15 years. Old UGC's board of directors believed that this policy was a reasonable addition to Mr. Schneider's compensation package in view of his many years of service to Old UGC. Following the enactment of the Sarbanes-Oxley Act of 2002, no additional premiums have been paid by Old UGC. The policy is being continued by payments made out of the cash surrender value of the policy. In the event the law is subsequently clarified to permit Old UGC to again make the premium payments on the policy, Old UGC will pay the premiums annually until the first to occur of the death of both insureds, the lapse of the roll-out period, or at such time as The Gene W. Schneider Trust (the "2001 Trust") fails to make its contribution to Old UGC for the premiums due on the policy. The 2001 Trust is the sole owner and beneficiary of the policy, but has assigned to Old UGC policy benefits in the amount of premiums paid by Old UGC. The Trust will contribute to Old UGC an amount equal to the annual economic benefit provided by the policy. The trustees of the Trust are the children of Mr. Schneider. Upon termination of the policy, Old UGC will recoup the premiums that it has paid.

Programming Agreements

In the ordinary course of business, we acquire programming from various vendors, including Discovery Communications, Inc. ("Discovery"), Pramer S.C.A. ("Pramer") and Torneos y Competencias, S.A. ("TyC"). Liberty has a 50% equity interest in Discovery and a 40% equity interest in TyC. Pramer is an indirect wholly-owned subsidiary of Liberty. VTR has programming agreements with Discovery, TyC and Pramer. The cost of these agreements with VTR is approximately $4.2 million per year. UGC Europe has programming agreements with Discovery and the cost of these agreements is approximately $9.8 million per year. All of the agreements have a fixed term with maturities ranging from August 2004 to year-end 2006, however, most of the agreements will automatically renew for an additional year unless terminated upon prior notice.

22. Subsequent Events

Liberty Acquisition of Controlling Interest

On January 5, 2004, Liberty acquired approximately 8.2 million shares of Class B common stock from our founding stockholders in exchange for securities of Liberty and cash (the "Founders Transaction"). Upon the completion of this exchange and subsequent acquisitions of our stock, Liberty owns approximately 55% of our common stock, representing approximately 92% of the voting power. Beginning with the next annual meeting of our stockholders, the holders of our Class A, Class B and Class C common stock will vote together as a single class in the election of our directors. Liberty now has the ability to elect our entire board of directors and otherwise to generally control us. The closing of the Founders Transaction resulted in a change of control of us.

Upon closing of the Founders Transaction, our existing standstill agreement with Liberty terminated, except for provisions of that agreement granting Liberty preemptive rights to acquire shares of our Class A common stock. These preemptive rights will survive indefinitely, as modified by an agreement dated November 12, 2003, between Liberty and us. The former standstill agreement restricted the amount of our stock that Liberty could acquire and restricted the way Liberty could vote our stock. On January 5, 2004, Liberty entered into a new standstill agreement with us that generally limits Liberty's ownership of our common stock to 90% or less, unless Liberty makes an offer or effects another transaction to acquire all of our common stock. Except in the case of a short-form merger in which our stockholders are entitled to statutory appraisal rights, such offer or transaction must be at a price at or above a fair value of our shares determined through an appraisal process if a majority of our independent directors has voted against approval or acceptance of such transaction.

Prior to January 5, 2004, we understand that Liberty accounted for its investment in us under the equity method of accounting, as certain voting and standstill agreements entered into between them and the Founders precluded Liberty's ability to control us. Liberty's acquisition of the Founders' shares on January 5, 2004 caused those voting restrictions to terminate and allows Liberty to fully exercise their voting rights and control us. As a result, Liberty began consolidating us from the date of that transaction. Liberty has elected to push down its investment basis in us (and the related purchase accounting adjustments) as part of its consolidation process. The effects of this pushdown accounting will likely reduce our total assets and stockholders' equity by a material amount and could have a material effect on our statement of operations.

Liberty Exercise of Preemptive Right

Pursuant to the terms of a standstill agreement, if we propose to issue any of our Class A common stock or rights to acquire our Class A common stock, Liberty has the right, but not the obligation, to purchase a portion of such issuance sufficient to maintain its then existing equity percentage in us on terms at least as favorable as those given to any third party purchasers. This preemptive right does not apply to (i) the issuance of our Class A common stock or rights to acquire our Class A common stock in connection with the acquisition of a business from a third party not affiliated with us or any founder that is directly related to the existing business of us and our subsidiaries, (ii) the issuance of options to acquire our Class A common stock to employees pursuant to employee benefit plans approved by our board (such options and all shares issued pursuant thereto not to exceed 10% of our outstanding common stock), (iii) equity securities issued as a dividend on all equity securities or upon a subdivision or combination of all outstanding equity securities, or (iv) equity securities issued upon the exercise of rights outstanding as of the closing of the merger or as to the issuance of which Liberty had the right to exercise preemptive rights. Based on the foregoing provisions, in January 2004, Liberty exercised its preemptive right, based on shares of Class A common stock issued by us in the UGC Europe Exchange Offer. As a result, Liberty acquired approximately 18.3 million shares of our Class A common stock at $7.6929 per share. Liberty paid for the shares through the cancellation of $102.7 million of notes we owed Liberty, the cancellation of $1.7 million of accrued but unpaid interest on those notes and $36.3 million in cash.

Rights Offering

We distributed to our stockholders of record on January 21, 2004, transferable subscription rights to purchase shares of our Class A, Class B and Class C common stock at a per share subscription price of $6.00. The rights offering, which expired on February 12, 2004, was fully subscribed, resulting in gross proceeds to us of approximately $1.0 billion. We issued approximately 83.0 million shares of our Class A common stock, 2.3 million shares of Class B common stock and 84.9 million shares of our Class C common stock in the rights offering.

Independent Auditors' Report

To the Shareholders and the Board of Directors of
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Jupiter Telecommunications Co., Ltd. (a Japanese corporation) and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 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 Jupiter Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG

Tokyo, Japan
February 16, 2004, except for Note 15 as to which the date is March 25, 2004

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(YEN IN THOUSANDS)

	December 31,	
	2002	2003
	(unaudited)	
Current assets:		
Cash and cash equivalents	¥ 7,546,758	¥ 7,785,978
Restricted cash (Note 6)	—	1,773,060
Accounts receivable, less allowance for doubtful accounts of ¥228,977 thousand in 2002 and ¥229,793 thousand in 2003	9,620,228	7,907,324
Prepaid expenses	1,945,297	1,596,150
Total current assets	19,112,283	19,062,512
Investments:		
Investments in affiliates (Notes 3 and 5)	2,210,132	2,794,533
Investments in other securities, at cost	2,881,560	2,891,973
	5,091,692	5,686,506
Property and equipment, at cost (Notes 5 and 7):		
Land	1,826,787	1,826,787
Distribution system and equipment	282,571,883	312,330,187
Support equipment and buildings	10,556,468	11,593,849
	294,955,138	325,750,823
Less accumulated depreciation	(54,419,102)	(81,523,580)
	240,536,036	244,227,243
Other assets:		
Goodwill, net (Notes 1, 2 and 4)	139,827,277	139,853,596
Other (Note 4)	10,193,763	13,047,229
	150,021,040	152,900,825
	¥ 414,761,051	¥ 421,877,086
Current liabilities:		
Long-term debt—current portion (Notes 6 and 12)	¥ 2,273,140	¥ 2,438,480
Capital lease obligations—current portion (Notes 5, 7 and 12):		
Related party	7,137,203	7,673,978
Other	2,080,614	1,800,456
Accounts payable	17,122,227	17,293,932
Accrued expenses and other liabilities	3,372,494	3,576,708
Total current liabilities	31,985,678	32,783,554

Long-term debt, less current portion (Notes 6 and 12)		
Related party	80,985,000	149,739,250
Other	172,064,785	72,092,465
Capital lease obligations, less current portion (Notes 5, 7 and 12):		
Related party	20,143,299	17,704,295
Other	5,992,046	3,951,900
Deferred revenue	41,177,111	41,635,426
Severance and retirement allowance (Note 9)	1,606,371	2,023,706
Redeemable preferred stock of consolidated subsidiary (Note 10)	—	500,000
Other liabilities	255,871	3,411,564
Total liabilities	354,210,161	323,842,160
Minority interest	816,865	1,266,287
Commitments and contingencies (Note 14)		
Shareholders' equity (Note 11):		
Ordinary shares no par value	47,002,623	63,132,998
Authorized 15,000,000 shares; issued and outstanding 3,934,285.74 shares at December 31, 2002 and 4,684,535.74 shares at December 31, 2003		
Additional paid-in capital	106,589,539	122,837,273
Accumulated deficit	(93,858,137)	(88,506,887)
Accumulated other comprehensive loss	—	(694,745)
Total shareholders' equity	59,734,025	96,768,639
	¥ 414,761,051	¥ 421,877,086

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

(YEN IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Year ended December 31,		
	2001 (unaudited)	2002 (unaudited)	2003
Revenue (Note 5):			
Subscription fees	¥ 58,747,280	¥ 97,144,356	¥ 123,214,958
Construction-related sales principally to related parties	2,775,477	3,484,288	2,888,046
Programming fees principally from related parties	2,232,317	1,429,511	2,032,162
Other	12,806,267	14,572,371	15,023,866
	76,561,341	116,630,526	143,159,032
Operating costs and expenses:			
Construction-related costs	2,477,323	3,308,512	2,651,713
Programming costs (Note 5)	11,016,894	14,006,564	16,728,930
Other operating costs (Note 5)	23,841,434	29,642,689	31,484,073
Selling, general and administrative (inclusive of stock compensation expense of ¥56,510 thousand in 2001, ¥61,902 thousand in 2002 and ¥120,214 thousand in 2003) (Notes 5 and 11)	32,328,794	43,275,899	42,681,303
Depreciation and amortization	30,645,211	30,079,753	36,410,894
	100,309,656	120,313,417	129,956,913
Operating income (loss)	(23,748,315)	(3,682,891)	13,202,119
Other income (expense):			
Interest expense, net:			
Related parties (Note 5)	(2,432,295)	(2,847,551)	(4,562,594)
Other	(889,133)	(1,335,400)	(3,360,674)
Other income, net	94,912	147,639	316,116
Income (loss) before income taxes and other items	(26,974,831)	(7,718,203)	5,594,967
Equity in earnings (losses) of affiliates (inclusive of stock compensation expense of ¥44,883 thousand in 2001, ¥2,156 thousand in 2002 and ¥(2,855) thousand in 2003) (Note 11)	(886,808)	235,792	414,756
Minority interest in net (income) losses of consolidated subsidiaries	897,842	196,498	(448,668)
Income (loss) before income taxes	(26,963,797)	(7,285,913)	5,561,055
Income taxes (Note 8)	—	(256,763)	(209,805)
Net income (loss)	¥ (26,963,797)	¥ (7,542,676)	¥ 5,351,250

Per share data:			
Net income (loss) per share—basic and diluted	¥ (6,854)	¥ (1,917)	¥ 1,214
Weighted average number of ordinary shares outstanding—basic and diluted	3,934,286	3,934,286	4,407,046

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

(YEN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Ordinary Shares	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2001 (Unaudited)	¥ 47,002,623	¥ 106,424,088		¥ (59,351,664)	¥ —	¥ 94,075,047
Net loss	—	—	¥ (26,963,797)	(26,963,797)	—	(26,963,797)
Other comprehensive income			—			
Comprehensive loss			¥ (26,963,797)			
Stock compensation (Notes 1 and 11)	—	101,393		—	—	101,393
Balance at December 31, 2001 (Unaudited)	¥ 47,002,623	¥ 106,525,481		¥ (86,315,461)	¥ —	¥ 67,212,643
Net loss	—	—	¥ (7,542,676)	(7,542,676)	—	(7,542,676)
Other comprehensive income			—			
Comprehensive loss			¥ (7,542,676)			
Stock compensation (Notes 1 and 11)	—	64,058		—	—	64,058
Balance at December 31, 2002 (Unaudited)	¥ 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 (Notes 1 and 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

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

(YEN IN THOUSANDS)

	Year ended December 31,		
	2001	2002	2003
	(unaudited)	(unaudited)	
Cash flows from operating activities:			
Net income (loss)	¥ (26,963,797)	¥ (7,542,676)	¥ 5,351,250
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on forgiveness of subsidiary debt	—	—	(400,000)
Depreciation and amortization	30,645,211	30,079,753	36,410,894
Equity in (earnings) losses of affiliates	886,808	(235,792)	(414,756)
Minority interest in net income (losses) of consolidated subsidiaries	(897,842)	(196,498)	448,668
Stock compensation expense	56,510	61,902	120,214
Provision for retirement allowance	105,150	412,692	417,335
Changes in operating assets and liabilities, excluding effects of business combinations:			
(Increase)/decrease in accounts receivable, net	(1,148,301)	1,368,081	1,712,904
(Increase)/decrease in prepaid expenses	(297,963)	553,192	349,147
Increase in other assets	(614,492)	(1,651,599)	(325,769)
Increase/(decrease) in accounts payable	(1,461,832)	(3,124,486)	171,705
Increase/(decrease) in accrued expenses and other liabilities	(210,574)	188,537	2,665,162

Increase in deferred revenue	3,219,019	2,768,512	458,315
Net cash provided by operating activities	3,317,897	22,681,618	46,965,069
Cash flows from investing activities:			
Capital expenditures	(48,385,735)	(48,108,176)	(32,478,389)
Acquisition of new subsidiaries, net of cash acquired	(6,503,363)	1,856,230	—
Investments in and advances to affiliates	(13,431,847)	(665,575)	(172,500)
Increase in restricted cash	—	—	(1,773,060)
Other investing activities	(2,540,561)	(815,319)	(102,456)
Net cash used in investing activities	(70,861,506)	(47,732,840)	(34,526,405)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans from related party and others	76,919,649	36,984,965	(228,785,000)
Proceeds from long-term debt	4,155,000	2,620,000	239,078,000
Principal payments of long-term debt	(4,561,725)	(2,082,335)	(8,184,980)
Principal payments under capital lease obligations	(6,183,109)	(9,293,487)	(10,843,024)
Other financing activities	(687,994)	(738,854)	(3,464,440)
Net cash provided by (used in) financing activities	69,641,821	27,490,289	(12,199,444)
Net increase in cash and cash equivalents	2,098,212	2,439,067	239,220
Cash and cash equivalents at beginning of year	3,009,479	5,107,691	7,546,758
Cash and cash equivalents at end of year	¥ 5,107,691	¥ 7,546,758	¥ 7,785,978

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. (the "Company") and its subsidiaries 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 Public Management, Home Affairs, Posts and Telecommunications ("MPHPT"). In general, franchise rights granted by the MPHPT 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 and its subsidiaries' business as telephony and Internet services are still in their early stages. Telephony operations accounted for approximately 8%, 10% and 13% of total revenue for the years ended December 31, 2001, 2002 and 2003, respectively. Internet operations accounted for approximately 18%, 23% and 24% of total revenue for the years ended December 31, 2001, 2002 and 2003, respectively.

The Company's beneficial ownership at December 31, 2003 was as follows:

Liberty Media Corporation ("LMC")	45.2%
Sumitomo Corporation ("SC")	31.8%
Microsoft Corporation ("Microsoft")	19.4%
Mitsui & Co., Ltd.	1.7%
Matsushita Electric Industrial Co., Ltd.	1.7%
Other	0.2%

In March 2003, LMC acquired from SC and another shareholder, by means of a tender offer, an additional 8% equity interest in the Company for approximately ¥17 billion. Thereafter, LMC's beneficial ownership increased to approximately 44% and SC's ownership decreased to approximately 28%. In May 2003, LMC and SC increased their ownership in the Company by converting ¥32,260,750 thousand of their subordinated debt for 750,250 shares of the Company (see Note 6). LMC and SC each received 375,125 shares, increasing their ownership to approximately 45% and 32%, respectively.

The Company and its subsidiaries have historically relied on financing from its principal shareholders for their liquidity requirements. The Company anticipates that it may continue to rely on its principal shareholders for credit enhancement to meet future liquidity requirements (see Note 6).

Basis of Financial Statements

The accompanying consolidated financial statements for the years ended December 31, 2001 and 2002 and the related notes herein are unaudited and, in the opinion of management, include all necessary adjustments for the fair presentation of the Company's financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are consistent in all material respects with those applied in the Company's consolidated financial statements for the year ended December 31, 2003. The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that may affect the amounts reported in the accompanying financial statements. Despite the Company's best efforts to make these good faith estimates and assumptions, actual results may differ. Certain prior period amounts have been reclassified to conform to the current presentation.

The Company and its subsidiaries maintain their 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 them with U.S. GAAP. The major adjustments include those related to scope of consolidation, accounting for business combinations, accounting for leases, accounting for stock-based compensation, 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 each a cable system operator ("SO"). All significant intercompany balances and transactions have been eliminated in consolidation. For the consolidated subsidiaries with 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 originally recorded at cost is adjusted to recognize the Company's share of the net earnings or losses of its affiliates, including amortization of the excess of the Company's cost over its percentage interest in the net assets of each affiliate (see Note 1(f)). 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 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 and from 10 to 29 years for support equipment and buildings. 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 3 to 9 years.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment are 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 ¥1,560,939 thousand, ¥1,315,484 thousand and ¥2,041,347 thousand for the years ended December 31, 2001, 2002 and 2003, respectively.

During the first quarter of 2000, the Company and its subsidiaries approved a plan to upgrade substantially all of its 450 MHz distribution systems to 750 MHz during the years ending December 31, 2000 and 2001. The Company identified certain electronic components of their distribution systems that were replaced in connection with the upgrade and, accordingly, adjusted the remaining useful lives of such electronics in accordance with the upgrade schedule. The effect of such changes in the remaining useful lives resulted in additional depreciation expense of approximately ¥2,168 million and ¥484 million for the years ended December 31, 2001 and 2002, respectively. Additionally, after giving effect to the accelerated depreciation, the net loss per share increased by approximately ¥(551) per share, and ¥(123) per share for the years ended December 31, 2001 and 2002, respectively. Such upgrades had been substantially completed by December 31, 2002.

(f) *Goodwill*

Goodwill, which represents the difference between the cost of acquired cable television companies and amounts allocated to the estimated fair value of their net assets, was amortized on a straight-line basis over 20 years.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounts Standard ("SFAS") No. 141, *Business Combinations*, which supercedes Accounting Principles Board Opinion No. 16. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. In addition, SFAS No. 141 establishes criteria for the recognition of intangible assets separately from goodwill. These requirements are effective for fiscal years beginning after December 15, 2001. The Company and its subsidiaries adopted SFAS No. 141 on July 1, 2001 and the adoption did not have a material effect on the consolidated results of operations, financial position or cash flows.

Also in July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, unamortized goodwill and certain other intangible assets are no longer subject to amortization over their useful lives, but are subject to annual assessments for impairment. Effective January 1, 2002, the Company adopted SFAS No. 142. As a result, amortization on the Company's goodwill and equity method goodwill has ceased and such amounts are measured annually for impairment. The Company had no impairment charges of unamortized goodwill on any of its reporting units as of the January 1, 2002 measurement date or for the years ended December 31, 2002 and 2003. The following is a reconciliation of the Company's net loss and net loss per share for the year ended December 31, 2001 had the provisions of SFAS No. 142 been applied effective January 1, 2001, (Yen in thousands, except per share amounts):

		2001 (unaudited)
Net loss	¥	(26,963,797)
Add back: Goodwill amortization		7,154,560
Add back: Equity method goodwill amortization		203,116
Adjusted net loss	¥	(19,606,121)
Basic and diluted per share:		
Net loss per share	¥	(6,854)

Add back: Goodwill amortization		1,819
Add back: Equity method goodwill amortization		52
Adjusted net loss per share	¥	(4,983)

(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 a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) 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 exceed 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 cost 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 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 (see Note 6). These costs are amortized to interest expense using the effective interest method over the term of the facility.

(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 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 had several outstanding forward contracts with a commercial bank to hedge foreign currency exposures related to US dollar denominated equipment purchases and other firm commitments. As of December 31, 2001, 2002 and 2003, such forward contracts had an aggregate notional amount of ¥620,322 thousand, ¥1,553,053 thousand and ¥3,134,242 thousand, respectively, and are expiring on various dates through January 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 US dollar, thus managing associated currency risk. Forward contracts not designated as hedges are marked to market each period. Included in other income (expenses), net, in the accompanying consolidated statements of operations are gains (losses) for forward contracts not designated as hedges of ¥51,228 thousand, (¥11,589 thousand) and (¥65,195 thousand) for the years ended December 31, 2001, 2002 and 2003, 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.

(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 provisions of SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred income taxes are recognized by the asset and liability method for estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the difference are expected to reverse. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rate is recognized in earnings 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. Other operating 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—Construction-related sales and Revenue—Programming fees in the accompanying consolidated statements of operations, which are primarily from affiliates.

(n) *Advertising Expense*

Advertising expense is charged to income as incurred. Advertising expense amounted to ¥2,256,997 thousand, ¥4,425,004 thousand and ¥3,921,229 thousand for the years ended December 31, 2001, 2002 and 2003, respectively, and are 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 income (losses) 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 (loss) and net income (loss) per share for the years ended December 31, 2001, 2002 and 2003, if the Company had applied the fair value recognition provisions of SFAS No. 123 (Yen in thousands):

	2001 (unaudited)	2002 (unaudited)	2003
Net income (loss), as reported	¥ (26,963,797)	¥ (7,542,676)	¥ 5,351,250
Add stock-based compensation expense included in reported net income (loss)	101,393	64,058	117,359
Deduct stock-based compensation expense determined under fair value based method for all awards	(1,158,360)	(574,304)	(571,531)
Pro forma net income (loss)	¥ (28,020,764)	¥ (8,052,922)	¥ 4,897,078
Basic and diluted per share data:			
Net income (loss) per share, as reported	(6,854)	(1,917)	1,214
Net income (loss) per share, pro forma	(7,122)	(2,047)	1,111

(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 2001, 2002 and 2003, 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 mangaged 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 accounting principles generally accepted in the United States of America. Significant judgments and estimates include capitalization of labor and overhead costs, derivative financial instruments, depreciation and amortization costs, impairments of property, plant and equipment and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

(s) *Recent Accounting Pronouncements*

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* In December 2003, the FASB issued a revision to FIN 46, or Revised Interpretation, to clarify some of the provisions of FIN 46. FIN 46 provides guidance on how to identify a variable interest entity, or VIE, and determine 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 VIEs expected losses and/or receive a majority of the entity's expected residual returns, if any. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the first quarter of fiscal year 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. There has been no material effect to the Company's consolidated financial statements from potential VIEs entered into after January 31, 2003 and there is not expected to be a material impact from the adoption of the deferred provisions in the first quarter of fiscal year 2004.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of this standard did not have a material effect on the Company's consolidated financial statements (see Note 10).

2. Acquisitions

The Company has acquired varying interests in cable television companies during the periods presented. The Company has used 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.

On January 1, 2001, the Company merged its 49.6% managed affiliate, J-COM Sakai, into its 99.8% consolidated SO, J-COM Broadband Kansai. The Company's new ownership in the combined SO is 89.8%. The Company accounted for the acquisition of J-COM Sakai equity interest as a step-acquisition, with the consideration given equal to the fair value of the decrease in equity interest in J-COM Kansai. The merged entity operates under the name J-COM Broadband Kansai.

In February 2001, the Company entered into an agreement to purchase a controlling interest in Yachiyo from certain of its shareholders. The total purchase price of such Yachiyo shares was ¥934,500 thousand and gave the Company a 58.4% interest. The purchase was completed in March 2001 and operates under the name J-Com Broadband Yachiyo.

The Company and certain minority shareholders entered into an agreement to merge the Company's 69.5% consolidated SO, J-COM Broadband Shonan, with the Company's 47.0% managed affiliate, J-COM Broadband CATY, and the Company's 20.0% non-managed investment, Fujisawa CATV. During March 2001, prior to the merger, the Company purchased additional shares from existing shareholders in each of J-COM Broadband Shonan, J-COM Broadband CATY and Fujisawa CATV for an aggregate ¥4,580,536 thousand. The acquisitions of J-COM CATY and Fujisawa CATV were treated as step-acquisitions. The Company merged these three franchises on April 1, 2001 and has an approximate 79% interest in the newly combined entity, which operates under the name J-COM Broadband Shonan.

In July 2001, the Company acquired a 67.31% interest in Izumi CATV Co., Ltd. for ¥455,000 thousand. The new entity operates under the name of J-COM Broadband Izumi.

In August 2001, the Company acquired a 59.1% equity interest in Super Network U for ¥2,006,250 thousand. The new entity operates under the name of J-COM Broadband Urayasu.

On September 30, 2001, the Company acquired additional equity interest in its 42.3% managed affiliate, J-COM Broadband Kobe-Ashiya. The Company purchased from selling shareholders of Cable Net Kobe Ashiya for ¥480,000 thousand to increase its equity ownership in J-COM Broadband Kobe-Ashiya to 52.6%.

In January 2002, the Company purchased additional shares of its affiliate J-COM Broadband Media Saitama during a capital call for ¥500,000 thousand and purchased shares from existing shareholders of its affiliate J-COM Broadband Urawa-Yono for ¥10,080 thousand. After the purchases, the Company's equity ownership increased to a 50.2% controlling interest in J-COM Broadband Media Saitama and a 50.10% controlling interest in J-COM Broadband Urawa-Yono. These transactions have been treated as step acquisitions. The results of operations for both J-COM Broadband Media Saitama and J-COM Broadband Urawa-Yono have been included as a consolidated entity from January 1, 2002.

In March 2002, the Company purchased additional shares in its affiliate, @Home Japan, from SC at a price per share of ¥55,000 or ¥527,670 thousand and all of the shares held by At Home Asia-Pacific for ¥1.4 billion. After the purchases, the Company has an 87.4% equity interest in @Home Japan. The purchases have been accounted for as a step-acquisition. The operations for @Home Japan have been included as a consolidated entity from April 1, 2002.

The aggregate purchase price of the business combinations during the year ended December 31, 2002 was allocated based upon fair values as follows (Yen in thousands):

		2002 (unaudited)
Cash, receivables and other assets	¥	7,039,726
Property and equipment		16,565,501
Goodwill		3,690,538
Debt and capital lease obligations		(15,881,589)
Other liabilities		(6,110,058)
	¥	5,304,118

The impact to revenue, net loss and net loss per share for the years ended December 31, 2001 and 2002, considering pro forma adjustments, as if the 2002 transactions were completed as of the beginning of those fiscal years, is not significant.

3. Investments in Affiliates

The Company's affiliates are engaged primarily in the broadband services business in Japan. At December 31, 2003, the Company held investments in J-COM Broadband Shimonoseki (50.0%), J-COM Broadband Fukuoka (45.0%), Kansai Multimedia (25.8%), CATV Kobe (20.4%) and Green City Cable TV (20.0%).

The carrying value of investments in affiliates as of December 31, 2002 and 2003 includes ¥730,910 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, 2002 and 2003, includes ¥1,795,000 thousand and ¥2,019,000 thousand respectively, of short-term loans the Company made to certain managed affiliates. The interest rate on these loans was 1.32% and 3.23% as of December 31, 2002 and 2003, respectively.

Condensed financial information of the Company's unconsolidated affiliates at December 31, 2002 and 2003 and for each of the three years ended December 31, 2003 are as follows (Yen in thousands):

	2002	2003
	(unaudited)	
Combined Financial Position:		
Property and equipment, net	¥ 28,929,850	¥ 29,696,602
Other assets, net	6,873,681	6,201,251
Total assets	¥ 35,803,531	¥ 35,897,853
Debt	¥ 17,728,565	¥ 17,998,825
Other liabilities	17,178,202	16,030,950
Shareholders' equity	896,764	1,868,078
Total liabilities and equity	¥ 35,803,531	¥ 35,897,853

	2001	2002	2003
	(unaudited)	(unaudited)	
Combined Operations:			
Total revenue	¥ 28,331,978	¥ 18,218,205	¥ 19,776,603
Operating, selling, general and administrative expenses	(23,464,975)	(13,001,409)	(13,430,881)
Depreciation and amortization	(5,167,140)	(3,180,977)	(3,682,641)
Operating income (loss)	(300,137)	2,035,819	2,663,081
Interest expense, net	(563,768)	(410,278)	(478,609)
Other expense, net	(393,238)	(558,636)	(1,013,158)
Net income (loss)	¥ (1,257,143)	¥ 1,066,905	¥ 1,171,314

4. Goodwill and Other Assets

The changes in the carrying amount of goodwill, net, for the years ended December 31, 2002 and 2003, consisted of the following (Yen in thousands):

	2002	2003
	(unaudited)	
Goodwill, net, beginning of year	¥ 135,972,584	¥ 139,827,277
Goodwill acquired during the year	3,854,693	26,319
Goodwill, net, end of year	¥ 139,827,277	¥ 139,853,596

Other assets, excluding goodwill, at December 31, 2002 and 2003, consisted of the following (Yen in thousands):

	2002	2003
	(unaudited)	
Lease and other deposits	¥ 3,933,469	¥ 4,295,947
Deferred financing costs	1,426,847	3,763,785
Capitalized computer software, net	2,632,155	3,022,557
Long-term loans receivable, net	520,173	300,380
Other	1,681,119	1,664,560
Total other assets	¥ 10,193,763	¥ 13,047,229

5. Related Party Transactions

The Company purchases cable system materials and supplies from third-party suppliers and resells them to its subsidiaries and affiliates. Construction-related sales in the accompanying consolidated statements of operations represent revenues from unconsolidated affiliates for such sales.

The Company provides programming services to its subsidiaries and affiliates. Programming fees in the accompanying consolidated statements of operations represent revenues from unconsolidated affiliates for such services provided and the related products sold.

The Company provides management services to its subsidiaries and managed affiliates. Fees for such services related to managed affiliates amounted to ¥670,185 thousand, ¥390,434 thousand and ¥468,219 thousand for the years ended December 31, 2001, 2002 and 2003, 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 k.k. ("Chofu"), an affiliated company that is 92% jointly owned by LMC, Microsoft and SC. Fees for such services amounted to ¥29,590 thousand and ¥107,607 thousand for the years ended December 31, 2002 and 2003, respectively, and are included in revenue—other in the accompanying consolidated statements of operations.

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 LMC. Such purchases, including purchased from JPC's affiliates, amounted to ¥2,220,856 thousand, ¥2,879,616 thousand and ¥3,155,139 thousand for the years ended December 31, 2001, 2002 and 2003, respectively, and are included in 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 ¥343,667 thousand, ¥614,224 thousand and ¥939,438 thousand for the years ended December 31, 2001, 2002 and 2003, respectively, and are included as revenue in programming fees in the accompanying consolidated statements of operations.

The Company purchased stock of affiliated companies from SC in the amounts of ¥555,000 thousand and ¥1,112,750 thousand in the years ended December 31, 2001 and 2002, 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 also subsidiaries of SC and provide to the Company various office equipment and vehicles. The Company and its subsidiaries' purchases of such goods, primarily as capital leases, from both AJCC and Sumisho leasing, amounted to ¥10,421,213 thousand, ¥10,074,639 thousand and ¥6,087,645 thousand for the years ended December 31, 2001, 2002 and 2003, respectively.

The Company pays a monthly fee to its affiliates, @Home Japan and Kansai Multimedia Services ("Kansai Multimedia"), based on an agreed upon percentage of subscription revenue collected by the Company from its customers for the @Home Japan and Kansai Multimedia services. Payments made to @Home Japan under these arrangements, prior to it becoming a consolidated subsidiary, amounted to ¥3,839,973 thousand and ¥1,585,691 thousand for the years ended December 31, 2001 and 2002, respectively. Payments made to Kansai Multimedia under these arrangements amounted to ¥1,938,716 thousand, ¥2,882,494 thousand and ¥3,226,764 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. Such payments are included in other operating costs in the accompanying consolidated statements of operations. In March 2002, @Home Japan became a consolidated subsidiary of the Company (see Note 2). Therefore, since April 1, 2002, through @Home Japan, the Company receives the monthly fee from its unconsolidated affiliates. Such service fees amounted to ¥480,356 thousand and ¥1,071,891 thousand for the years ended December 31, 2002 and 2003, respectively, and are included in revenue-subscription fees in the accompanying consolidated statements of operations.

The Company has management service agreements with SC and LMC under which officers and management level employees are seconded from SC and LMC 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 ¥473,474 thousand, ¥571,319 thousand and ¥706,303 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. The service fees paid to LMC amounted to ¥620,285 thousand, ¥761,009 thousand and ¥714,986 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Sumitomo Shoji Financial Management Co., Ltd. ("SFM") is a wholly owned subsidiary of SC and its primary business is to provide financing and accounting services to subsidiaries and affiliated companies of SC. The Company had short-term borrowings from SFM in the amounts of ¥34,722,000 thousand at December 31, 2002. Additionally, the Company had short-term borrowings from LMC and Microsoft of ¥39,650,000 thousand and ¥6,613,000 thousand, respectively, at December 31, 2002. Such loans were refinanced under the ¥140 billion bank syndicated facility. As a result, SC, LMC and Microsoft have long-term subordinated loans of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. See Note 6.

The Company pays a fee on debt guaranteed by SC, LMC and Microsoft. The guarantee fees incurred were ¥413,102 thousand to SC, ¥361,627 thousand to LMC and ¥285,042 thousand to Microsoft for the year ended December 31, 2002. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMC and ¥51,890 thousand to Microsoft for the year ended December 31, 2003. Such fees are included in interest expense, net-related parties in the accompanying consolidated statements of operations.

6. Long-term Debt

A summary of long-term debt as of December 31, 2002 and 2003 is as follows (Yen in thousands):

	2002 (unaudited)	2003
Facility Agreement term loans, due fiscal 2005—2009	¥ —	¥ 53,000,000
8yr Shareholder Subordinated loans, due fiscal 2011	—	117,739,250
8yr Shareholder Tranche B Subordinated loans, due fiscal 2011	—	32,000,000
0% unsecured loans from Development Bank of Japan, due fiscal 2004—2018	15,435,100	12,223,720
Unsecured loans from Development Bank of Japan, due fiscal 2004—2018, interest from 0.65% to 6.8%	3,614,000	3,895,400
0% secured loans from Development Bank of Japan, due fiscal 2004—2016	3,572,615	5,354,735
Unsecured loans from commercial banks, due fiscal 2003—2016, interest at 1.0%	3,744,200	—
Secured loans from Development Bank of Japan, due fiscal 2003—2004, interest at 5.3%	108,000	—
0% unsecured loans from others, due fiscal 2012	64,010	57,090
Total	26,537,925	224,270,195
Less: current portion	(2,273,140)	(2,438,480)
Long-term debt, less current portion	¥ 24,264,785	¥ 221,831,715

Short-term Loans

Prior to 2003 refinancing, the Company had short-term bridge loan facilities and existing shareholder short-term loans that were subsequently repaid and replaced with the facility and new shareholder loans described under 2003 Refinancing below. As permitted by SFAS No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*, the short-term borrowings as of December 31, 2002 have been reclassified as long-term debt on the face of the consolidated balance sheets. A summary of short-term loans at December 31, 2002 is as follows (Yen in thousands):

		2002
		(unaudited)
Short-term loans from related party	¥	80,985,000
Short-term loans from Banks		147,800,000
	¥	228,785,000

Short-term loans from related party include borrowings from SFM, LMC and Microsoft as described in Note 5. The SFM borrowings represent the Company's borrowings on the lines of credit provided by SFM to the Company. The interest rates on the Company's short-term borrowings from related party were ranging from 0.63% to 1.23% at December 31, 2002.

Short-term loans from Banks represent the Company and its subsidiaries' borrowings from commercial banks. The interest rates on the borrowings from Banks were ranging from 0.62% to 1.32% at December 31, 2002.

2003 Refinancing

On January 31, 2003, the Company entered into a ¥140 billion bank syndicated facility for certain of its managed subsidiaries and affiliates ("Facility Agreement"). In connection with the Facility Agreement, on February 6, 2003, the Company entered into 8 year subordinated loans with each of SC, LMC and Microsoft ("Principal Shareholders"), which initially aggregated ¥69,025 million from SC, ¥69,025 million from LMC and ¥43,950 million from Microsoft ("Shareholder Subordinated Loans"). See Note 5 for Shareholder Subordinated Loans outstanding by Principal Shareholders as of December 31, 2003. On February 12, 2003, ¥53 billion was drawn down on the Facility Agreement and remains outstanding at December 31, 2003. With the financing in February 2003, all of the Company's previous short-term borrowings were repaid and replaced.

The Facility Agreement was initially for the financing of Jupiter, fifteen of its consolidated managed affiliates and one managed affiliate, which is accounted for under the equity method of accounting ("Jupiter Combined Group"). The financing will be used for permitted general corporate purposes, capital expenditures, financing costs and limited purchase of minority shares and capital calls of the affiliates in the Jupiter Combined Group. As further described below, one additional consolidated subsidiary became party to the Facility Agreement in 2003. Currently, one other consolidated subsidiary and one managed equity method affiliate are not party to the Facility Agreement and will continue to rely on capital contributions and financing from shareholders for their liquidity requirements.

The Facility Agreement provides for term loans of up to ¥120 billion and a revolving loan facility up to ¥20 billion. ¥32 billion of the total term loan portion of the Facility Agreement was considered provided by the shareholders under the Tranche B Subordinated Loans discussed below. Therefore, the remaining ¥88 billion of term loan is available for drawn down until September 2004 at which time no additional term loans will be available to the Jupiter Combined Group. As noted in the table above, ¥53 billion of term loans have been borrowed as of December 31, 2003 resulting in additional term loan borrowing availability of ¥35 billion at December 31, 2003. The revolving loan facility available for draw down is ¥20 billion until June 30, 2007; ¥17.5 billon from July 1, 2007 to June 30, 2008; and reducing to ¥15 billion from July 1, 2008 through June 30, 2009. Upon request for draw down, the Company designates an interest period of one, two or three months for that revolving loan. Repayments of outstanding revolving loans are due at the end of its respective interest period. The Company has the ability to rollover outstanding revolving loans. All revolving loans outstanding on the final maturity date shall be repaid in full on that date. As of December 31, 2003, there were no outstanding borrowings under the revolving loan facility. Therefore, at December 31, 2003, a total of ¥55 billion was available for draw down under the Facility Agreement.

Final maturity of the Facility Agreement is June 30, 2009. Loan repayment starts on September 30, 2005 based on a defined rate reduction each year thereafter. As a percentage of the term loans outstanding at September 30, 2004, 8.34% to be repaid in the year ended December 31, 2005; 16.68% in 2006; 25.00% in 2007; 33.32% in 2008; and the final 16.66% by June 30, 2009. Additionally, the Facility Agreement has requirements to make mandatory prepayments under specific circumstances and formulas regarding third party contributions; group free cash flow, as defined in the Facility Agreement; asset sales; insurance proceeds; and hedging agreement termination payments. Such mandatory prepayments will be funded from excess cash flow as defined in the Facility Agreement, which requires a portion of excess cash flow to be deposited into an account for future mandatory prepayments. Such deposits are designated as restricted cash on the face of the consolidated balance sheet.

Interest is based on TIBOR, as defined in the Facility Agreement, plus a reducing margin based upon a leverage ratio of Total Debt to EBITDA as such terms are defined in the Facility Agreement. When such leverage ratio is more than 7.00:1.00, the margin is 2.75%; more than 5.00:1.00 but less than or equal to 7.00:1.00, the margin is 2.25%; more than 3.00:1.00 but less than or equal to 5.00:1.00, the margin is 1.75%; and less than or equal to 3.00:1.00, the margin is 1.50%. As of December 31, 2003 the interest rate was 2.83%. The Facility Agreement requires the Jupiter Combined Group to comply with various financial and other covenants, including the maintenance of certain operating and financial ratios. These include EBITDA and subscriber targets during the term loan availability period. Ongoing financial covenants consist of leverage ratios Total Debt to EBITDA and Senior Debt to EBITDA, as such terms are defined in the Facility Agreement, maximum capital expenditures in a period, minimum interest coverage ratios and minimum debt service coverage ratios. In addition, the Facility Agreement contains substantial limitations on, or prohibitions of, distributions, additional indebtedness, liens, asset sales and certain other items for the Jupiter Combined Group. A quarterly commitment fee of 0.75% per annum is payable on the unused available term loans and revolving facility during their respective availability periods. In the case of the revolving facility, such commitment fee will be reduced to 0.50% per annum after the end of the term loans availability period if at least two-thirds of the revolving facility is utilized. Additionally, the Facility Agreement requires the Company to maintain interest rate hedge agreements, on at least 50% of the outstanding amounts under the term loans (see Note 1).

The Shareholder Subordinated Loans, which are subordinated to the Facility Agreement, consist of 8 year subordinated loans initially aggregating ¥150 billion ("Subordinated Loans") and 8 year tranche B subordinated loans aggregating ¥32 billion ("Tranche B Subordinated Loans"). These Shareholder Subordinated Loans contain a bullet repayment of principal and accrued interest at maturity, which is February 6, 2011; conversion at fair value under Japanese Commercial Code into the Company's common shares up to the amounts of loans; and allows for the Principal Shareholders to sell, assign or transfer the Shareholder Subordinated Loans as permitted under the Facility Agreement. The Subordinated Loans effectively bear interest at 2.00% plus TIBOR, as defined in the Facility Agreement, per annum, restricted to a maximum of 5.00% per annum. As of December 31, 2003 the interest rate was 2.08%. In addition, restrictions are contained in the Subordinated Loans on when cash interest can be paid. Cash interest on the Subordinate Loans can only be paid from Company proceeds derived by i) Principal Shareholder contributions, as defined in the Facility Agreement; or ii) up to 85% of aggregated third party contributions; or iii) excess cash flow as defined in the Facility Agreement, if certain leverage ratios are maintained. The Tranche B Subordinated Loans bear interest at the same rate as the Facility Agreement debt as described in the preceding paragraph. The Tranche B Subordinated Loans do not have the restriction on the payment of interest as with the Subordinated Loans. There are no covenants or performance requirements for the Company on these Shareholder Subordinated Loans.

Upon occurrence of specified events, the Principal Shareholders have agreed to pledge their respective share ownership in the Company. The specified events include events of default; acceleration of loan repayments; change of control; and the failure to maintain financial ratios as defined in the Facility Agreement. These conditions requiring the pledge of common stock are in place until the earlier of i) a public offering where at least 15% of the issued and outstanding common stock of the Company is sold, or the net proceeds are at least ¥40 billion, or ii) the specified leverage ratio as defined in the Facility Agreement is 3.00:1.00 or lower. However, the Facility Agreement allows for the disposition of shares by Principal Shareholders provided it will not result in a change of control. Additionally, the Principal Shareholders have an agreement to provide up to an additional ¥40 billion maximum of contingent support to the Company. The contingent support is triggered by a shortfall to an approved business plan EBITDA, as defined in the Facility Agreement, and only if the revolving loan facility is fully drawn or is not otherwise available for drawing. The required support is the amount of the shortfall to the approved business plan EBITDA, unless there is an acceleration of the Facility Agreement, which would require the maximum amount to be funded. The required funding may take the form of additional subordinated loans or additional equity in the Company. If certain criteria are met, the maximum ¥40 billion is reduced to ¥20 billion by either December 31, 2003 or January 31, 2004 and to zero by September 30, 2004.

In May 2003, LMC and SC increased their ownership in the Company by converting ¥32,260,750 thousand of the Subordinated Loans for 750,250 shares of the Company. LMC and SC each converted ¥16,130,375 thousand of their respective Subordinated Loans to the Company and each received 375,125 shares of the Company, increasing their ownership to approximately 45% and 32%, respectively.

In December 2003, a consolidated subsidiary of the Company became party to the Facility Agreement and, therefore, a consolidated managed affiliate of the Jupiter Combined Group. 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 Facility Agreement.

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 MPHPT 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 are primarily guaranteed, directly or indirectly, by SC, LMC and Microsoft.

Property and equipment with a book value of ¥9,564,553 thousand at December 31, 2003 were pledged to secure certain loans from the Development Bank of Japan.

The aggregate annual maturities of long-term debt outstanding at December 31, 2003 are as follows (Yen in thousands):

Year ending December 31,		
2004	¥	2,438,480
2005		7,076,780
2006		11,449,920
2007		15,662,820
2008		19,835,370
Thereafter		167,806,825
	¥	224,270,195

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 of SC.

At December 31, 2002 and 2003, the amount of equipment and related accumulated depreciation recorded under capital leases were as follows (Yen in thousands):

		2002 (unaudited)		2003
Distribution system and equipment	¥	44,176,577	¥	45,170,512
Support equipment and buildings		6,366,743		6,656,913
Less: accumulated depreciation		(16,596,352)		(22,111,664)
Other assets, at cost, net of depreciation		310,296		292,511
	¥	34,257,264	¥	30,008,272

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, 2003 are as follows (Yen in thousands):

Year ending December 31,		Capital Leases		Operating Leases
2004	¥	10,504,908	¥	816,123
2005		8,610,836		732,994
2006		6,345,070		611,031
2007		3,912,775		478,744
2008		2,040,360		379,443
More than five years		2,332,502		982,694
Total minimum lease payments		33,746,451	¥	4,001,029
Less: amount representing interest (rates ranging from 1.10% to 6.84%)		(2,615,822)		
Present value of net minimum payments		31,130,629		
Less: current portion		(9,474,434)		
Noncurrent portion	¥	21,656,195		

The Company and its subsidiaries occupy certain offices under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2001, 2002 and 2003, totaled ¥3,185,780 thousand, ¥4,115,628 thousand and ¥4,134,249 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, 2001, 2002 and 2003, totaled ¥5,314,676 thousand, ¥7,323,538 thousand and ¥8,542,845 thousand, respectively, and are included in operating costs and expenses 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.

All pretax income/loss and related tax expense/benefit are derived solely from Japanese operations.

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, 2001, 2002 and 2003 is as follows:

	2001	2002	2003
	(unaudited)	(unaudited)	
Normal effective statutory tax rate	(42.0)%	(42.0)%	42.0%
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	—	0.0
Tax benefit from utilization of previously unrecognized operating loss carryforwards	—	—	(44.6)
Increase in valuation allowance	42.0	42.0	3.4
Other	0.0	3.5	3.0
Effective tax rate	0.0%	3.5%	3.8%

The effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2002 and 2003 are as follows (Yen in thousands):

	2002	2003
	(unaudited)	
Deferred tax assets:		
Operating loss carryforwards	¥ 35,924,308	¥ 29,921,448
Deferred revenue	14,544,426	14,165,581
Lease obligation	14,848,328	12,452,252
Retirement and other allowances	3,007,010	1,390,741
Investment in affiliates	986,010	794,896
Accrued expenses and other	2,570,387	2,485,228
Total gross deferred tax assets	71,880,469	61,210,146
Less: valuation allowance	(52,389,248)	(45,846,086)
Deferred tax assets	19,491,221	15,364,060
Deferred tax liabilities:		
Property and equipment	15,129,743	12,680,631
Tax deductible goodwill	3,353,874	633,155
Other	1,007,604	2,050,274
Total gross deferred tax liabilities	19,491,221	15,364,060
Net deferred tax assets	¥ —	¥ —

The net changes in the total valuation allowance for the years ended December 31, 2001, 2002 and 2003 were an increase of ¥18,569,046 thousand, and decreases of ¥8,985,905 thousand and ¥6,543,162 thousand, respectively.

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, the net deferred tax assets at December 31, 2002 and 2003 are fully offset by a valuation allowance.

The amount of valuation allowance at December 31, 2003 that was recorded during a business combination and will be released to goodwill if it is reversed or if the deferred tax asset is realized is approximately ¥12,000 million.

At December 31, 2003, the Company and its subsidiaries had net operating loss carryforwards for income tax purposes of ¥74,026,967 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,	

2004	¥	15,532,960
2005		20,584,382
2006		21,464,696
2007		10,923,194
2008		5,521,735
	¥	74,026,967

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.

Net periodic cost of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 for the years ended December 31, 2001, 2002 and 2003, included the following components (Yen in thousands):

	2001 (unaudited)	2002 (unaudited)	2003
Service cost—benefits earned during the year	¥ 266,526	¥ 205,094	¥ 257,230
Interest cost on projected benefit obligation	38,346	35,074	40,159
Recognized actuarial loss	45,074	232,507	158,371
Net periodic cost	¥ 349,946	¥ 472,675	¥ 455,760

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):

	2002 (unaudited)	2003
Change in benefit obligation:		
Benefit obligation, beginning of year	¥ 1,169,139	¥ 1,606,371
Service cost	205,094	257,230
Interest cost	35,074	40,159
Acquisitions (Note 2)	24,540	—
Actuarial loss	207,967	158,371
Benefits paid	(35,443)	(56,120)
Benefit obligation, end of year	¥ 1,606,371	¥ 2,006,011

The weighted-average discount rate used in determining costs of the Company and its subsidiaries' plans was 3.00%, 2.50% and 2.00% for the years ended December 31, 2001, 2002 and 2003, respectively.

In addition, employees of the Company and certain of its subsidiaries participate in a multiemployer defined benefit plan. The Company contributions to this plan amounted to ¥246,146 thousand, ¥324,521 thousand, and ¥342,521 thousand for the years ended December 31, 2001, 2002 and 2003, 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 Facility Agreement (see Note 6), a consolidated subsidiary of the Company issued ¥500,000 thousand of preferred stock in exchange for debt owed to a third party holder. 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 holders of the preferred stock have 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, 2003, the accumulated deficit recorded on the Company's books of account was ¥14,454,577 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 nonemployees (collectively the "Jupiter Option Plans"). The Company's board of directors and shareholders approve 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 initial public offering ("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. Nonmanagement 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. Jupiter Options 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 and its consolidated managed franchises' directors, corporate auditors and employees under APB No. 25 and FIN No. 44. Based on using 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, 2001, 2002 and 2003, the market value of the Company's ordinary shares did not exceed the exercise price and no compensation expense was recognized on such options during the years ended December 31, 2001, 2002 and 2003, respectively.

The Company has accounted for awards granted to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and to other nonemployees, 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 nonemployees were 14,320 ordinary shares, 23,338 ordinary shares and 21,916 ordinary shares at December 31, 2001, 2002 and 2003, respectively. The Company recorded compensation expense related to the directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other nonemployees of ¥101,393 thousand, ¥64,058 thousand and ¥117,359 thousand for the years ended December 31, 2001, 2002 and 2003, respectively, which has been included in selling, general and administrative expense for the Company's nonemployees and in equity in earnings (losses) of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

The following table summarizes the activity of the Jupiter Option Plans:

	2001 (unaudited)	2002 (unaudited)	2003
Outstanding at beginning of the year	129,972	132,712	158,128
Granted	5,398	29,424	40,722
Canceled	(2,658)	(4,008)	(9,210)
Outstanding at end of the year	132,712	158,128	189,640
Weighted average exercise price	¥ 92,000	¥ 92,000	¥ 92,000
Weighted average remaining contractual life	8.7 years	8.0 years	7.4 years
Options exercisable, end of period	—	—	—
Weighted average fair value of options granted	¥ 17,562	¥ 14,604	¥ 18,340

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, 2002 and 2003 are as follows (Yen in thousands):

	2002 (unaudited)		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	¥ 26,537,925	¥ 25,896,918	¥ 224,270,195	¥ 220,114,532
Lease obligation	35,353,162	36,941,731	31,130,629	32,328,048
Interest rate swap agreements	—	—	694,745	694,745

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

	2001 (unaudited)	2002 (unaudited)	2003
		(Yen in thousands)	
Cash paid during the year for:			
Interest	¥ 2,948,421	¥ 4,696,332	¥ 4,408,426
Income tax	¥ —	¥ —	¥ 378,116
Cash acquisitions of new subsidiaries:			
Fair value of assets acquired	¥ 42,101,359	¥ 20,135,417	¥ —
Liabilities assumed	35,597,996	21,991,647	—
Cash paid, net of cash acquired	¥ 6,503,363	¥ (1,856,230)	¥ —

Property acquired under capital leases during the year	¥ 14,139,744	¥ 10,990,909	¥ 6,057,250

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 also entered into an agreement to purchase certain of Microsoft's equity interests in Chofu and all of Microsoft's interests in TU-KA Cellular Tokyo Inc. and TU-KA Cellular Tokai Inc. for approximately $24 million. Additionally, per the shareholder agreement between SC, LMC and Microsoft, the remaining equity interests of Chofu owned by Microsoft, LMC, and SC will be purchased by the Company at the then-current fair market value. The closing of such purchases is intended to take place after a successful IPO of more than 10% of the Company's shares and the listing of such shares on a recognized securities exchange.

The Company has guaranteed payment of certain bank loans of its equity method affiliate investee, CATV Kobe and a cost method investee, Kansai Cable Net, both 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 CATV Kobe guarantee amounts were ¥101,818 thousand, ¥145,455 thousand and ¥143,127 thousand for the years ended December 31, 2001, 2002 and 2003, respectively. The Kansai Cable Net guarantee amounts were ¥715,961 thousand, ¥650,778 thousand and ¥579,404 thousand for the years ended December 31, 2001, 2002 and 2003, 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.

The Company has committed to purchase approximately ¥3,380,000 thousand of equipment in connection with its expansion of digital services.

15. Subsequent Events

On March 16, 2004, the Company's Board of Directors unanimously approved the following transactions:

1) Additional borrowings from LMC and SC in the amount of ¥2,431 million each under the same terms and conditions as the existing Shareholder Subordinated Loans (see note 6);

2) Acquisition of the remaining outstanding shares of common stock in @Home Japan currently owned by SC in exchange for ¥4,860,180 thousand in cash consideration;

On March 25, 2004, the acquisition of the remaining outstanding shares of common stock of @Home Japan was consummated. Upon consummation the Company has a 100% equity ownership interest in @Home Japan.

Independent Auditors' Report

The Board of Directors and Shareholders
Jupiter Programming Co. Ltd.:

We have audited the accompanying consolidated balance sheet of Jupiter Programming Co. Ltd. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 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 Jupiter Programming Co. Ltd. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended December 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

KPMG

Tokyo, Japan
March 23, 2004

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2003

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
ASSETS			
Current assets:			
Cash and cash equivalents:			
Related party	¥ 550,000	¥ 2,350,000	$ 21,962,617
Other	2,050,983	2,554,768	23,876,336
Accounts receivable (less allowance for doubtful accounts of ¥16,651 thousand in 2002 and ¥10,618			

thousand ($99,234) in 2003):

Related party		281,491		307,160		2,870,654
Other		2,315,176		3,036,190		28,375,608
Retail inventories (Note 3)		2,488,821		2,235,952		20,896,748
Program rights and language versioning, current portion (Note 4)		593,195		646,758		6,044,467
Deferred tax assets (Note 12)		720,087		1,165,550		10,892,991
Prepaid and other current assets		327,574		378,606		3,538,373
Total current assets		9,327,327		12,674,984		118,457,794
Investments (Note 5)		2,190,724		3,359,563		31,397,785
Property and equipment, net (Note 6)		1,920,498		2,012,286		18,806,411
Software development costs, net (Note 7)		1,355,792		1,450,388		13,555,028
Program rights and language versioning, excluding current portion (Note 4)		156,213		140,372		1,311,888
Goodwill (Note 8)		191,482		188,945		1,765,841
Other intangible assets		14,068		59,393		555,075
Deferred tax assets, excluding current portion (Note 12)		129,399		236,975		2,214,720
Other assets, net		449,598		506,321		4,731,972
Total assets	¥	15,735,101	¥	20,629,227	$	192,796,514
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Short-term debt (Note 11)	¥	—	¥	46,000	$	429,907
Long-term debt, current portion (Note 11)		600,000		—		—
Obligations under capital leases, current portion (related party) (Note 10)		431,133		329,764		3,081,907
Accounts payable:						
Related party		660,085		717,588		6,706,430
Other		2,770,278		3,490,284		32,619,476
Accrued liabilities		834,031		1,259,705		11,772,944
Income taxes payable		1,146,614		1,516,200		14,170,093
Other current liabilities		410,372		718,940		6,719,068
Total current liabilities		6,852,513		8,078,481		75,499,825
Long-term debt, excluding current portion (note 11):						
Related party		1,976,000		2,016,000		18,841,121
Other		3,400,000		4,000,000		37,383,178
Obligations under capital leases, excluding current installments (related party) (Note 10)		391,195		174,946		1,635,006
Accrued pension and severance cost (Note 13)		158,031		216,611		2,024,402
Other liabilities		92,702		—		—
Total liabilities		12,870,441		14,486,038		135,383,532
Minority interests		926,661		1,539,900		14,391,589
Shareholders' equity (Note 14):						
Ordinary shares, no par value; authorized 450,000 shares; issued and outstanding 336,680 shares in 2002 and 2003		16,834,000		16,834,000		157,327,103
Accumulated deficit		(14,896,001)		(12,230,711)		(114,305,710)
Total shareholders' equity		1,937,999		4,603,289		43,021,393
Total liabilities and shareholders' equity	¥	15,735,101	¥	20,629,227	$	192,796,514

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2001, 2002 and 2003

		2001		2002		2003		2003
		(unaudited) Yen (Thousands)		(unaudited) Yen (Thousands)		Yen (Thousands)		U.S. Dollars (Note 2)
Revenues (Note 1 (n)):								
Retail sales, net	¥	19,725,415	¥	27,432,871	¥	38,699,329	$	361,675,972
Television programming revenue:								
Related party		1,036,437		1,457,731		1,655,215		15,469,299
Other		3,428,998		4,247,036		5,802,030		54,224,579
Services and other revenue:								
Related party		492,418		524,849		755,244		7,058,355
Other		517,339		634,336		906,453		8,471,524
Total revenues		25,200,607		34,296,823		47,818,271		446,899,729
Operating costs and expenses:								
Cost of retail sales		11,824,917		16,392,589		23,256,782		217,353,103
Cost of programming and distribution:								
Related party		371,731		851,475		2,487,545		23,248,084
Other		4,353,103		5,417,193		6,271,783		58,614,794
Selling, general and administrative expenses:								
Related party		1,738,095		2,131,499		2,473,349		23,115,411

	2001	2002	2003	2003
Other	4,543,677	5,493,090	7,003,042	65,448,991
Depreciation and amortization	922,200	1,107,040	1,210,163	11,309,935
Total operating expenses	23,753,723	31,392,886	42,702,664	399,090,318
Operating income	1,446,884	2,903,937	5,115,607	47,809,411
Other income (expense):				
Interest expense:				
Related party	(131,181)	(77,899)	(60,073)	(561,430)
Other	(34,609)	(74,482)	(66,204)	(618,729)
Gain (loss) on forward exchange contracts	327,343	(309,017)	(141,368)	(1,321,196)
Equity in losses of equity method affiliates (Note 5)	(335,566)	(163,758)	(64,472)	(602,542)
Other income (expense), net	(32,407)	(214,087)	9,763	91,243
Total other income (expense)	(206,420)	(839,243)	(322,354)	(3,012,654)
Income before income taxes and minority interests	1,240,464	2,064,694	4,793,253	44,796,757
Income tax benefit (expense) (Note 12)	55,613	(703,947)	(1,519,225)	(14,198,365)
Minority interests	(345,152)	(343,027)	(608,738)	(5,689,140)
Net income	¥ 950,925	¥ 1,017,720	¥ 2,665,290	$ 24,909,252

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 31, 2001, 2002 and 2003

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Common stock:				
Balance at beginning and end of year	¥ 16,834,000	¥ 16,834,000	¥ 16,834,000	$ 157,327,103
Accumulated deficit:				
Balance at beginning of year	(16,864,646)	(15,913,721)	(14,896,001)	(139,214,962)
Net income	950,925	1,017,720	2,665,290	24,909,252
Balance at end of year	(15,913,721)	(14,896,001)	(12,230,711)	(114,305,710)
Total shareholders' equity	¥ 920,279	¥ 1,937,999	¥ 4,603,289	$ 43,021,393
Comprehensive income:				
Net income	¥ 950,925	¥ 1,017,720	¥ 2,665,290	$ 24,909,252
Cumulative effect adjustment on adoption of SFAS No. 133, net of tax effect	230,015	—	—	—
Reclassification adjustment for gains reclassified into operations	(230,015)	—	—	—
Other comprehensive income	—	—	—	—
Comprehensive income	¥ 950,925	¥ 1,017,720	¥ 2,665,290	$ 24,909,252

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001, 2002 and 2003

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Cash flows from operating activities:				
Net income	¥ 950,925	¥ 1,017,720	¥ 2,665,290	$ 24,909,252
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	922,200	1,107,040	1,210,163	11,309,935
Provision for doubtful accounts	(433)	1,501	1,975	18,458

Equity in losses of equity method affiliates	335,566	163,758	64,472	602,542
Write-down of cost method investment	—	215,650	—	—
Deferred income taxes	(304,951)	(536,017)	(553,039)	(5,168,590)
Minority interest in earnings	345,152	343,027	608,738	5,689,140
Changes in assets and liabilities, net of effects of acquisitions:				
(Increase)/decrease in accounts receivable	35,277	(515,809)	(740,650)	(6,921,962)
(Increase)/decrease in retail inventories, net	(343,869)	(777,383)	252,870	2,363,271
Increase in program rights and language versioning	(158,892)	(135,165)	(37,722)	(352,542)
Increase in accounts payable	17,348	1,242,235	777,510	7,266,449
Increase in accrued liabilities	68,948	169,642	425,674	3,978,262
Increase in income taxes payable	206,649	939,964	369,587	3,454,084
Increase/(decrease) in other, net	(80,939)	457,341	210,947	1,971,467
Net cash provided by operating activities	1,992,981	3,693,504	5,255,815	49,119,766
Cash flows from investing activities:				
Capital expenditures	(1,243,574)	(1,378,218)	(1,299,228)	(12,142,318)
Acquisition of subsidiary, net of cash acquired	(5,641)	(188,844)	—	—
Investments in affiliates	(152,500)	(626,050)	(1,259,945)	(11,775,187)
Other, net	—	(113,998)	4,500	42,056
Net cash used in investing activities	(1,401,715)	(2,307,110)	(2,554,673)	(23,875,449)
Cash flows from financing activities:				
Proceeds from issuance of short-term debt	—	—	46,000	429,907
Proceeds from issuance of long-term debt	5,070,000	60,000	4,040,000	37,757,009
Principal payments on short-term debt	(60,000)	—	—	—
Principal payments on long-term debt	(3,840,000)	—	(4,000,000)	(37,383,178)
Principal payments on obligations under capital leases	(572,006)	(527,935)	(460,262)	(4,301,514)
Net cash provided by (used in) financing activities	597,994	(467,935)	(374,262)	(3,497,776)
Net effect of exchange rate changes on cash and cash equivalents	41,480	(25,895)	(23,095)	(215,840)
Net change in cash and cash equivalents	1,230,740	892,564	2,303,785	21,530,701
Cash and cash equivalents at beginning of year	477,679	1,708,419	2,600,983	24,308,252
Cash and cash equivalents at end of year	¥ 1,708,419	¥ 2,600,983	¥ 4,904,768	$ 45,838,953
Supplemental data:				
Cash paid during the year for:				
Income taxes	¥ 42,686	¥ 299,999	¥ 1,702,678	$ 15,912,879
Interest	165,790	152,381	126,277	1,180,159
Non-cash activities				
Assets acquired under capital leases	560,166	5,457	142,644	1,333,123

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

Jupiter Programming Co. Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as "JPC") invest in, develop, manage and distribute television programming to cable and satellite systems in Japan. Jupiter Shop Channel Co., Ltd ("Shop Channel"), through which JPC markets and sells a wide variety of consumer products and accessories, is JPC's largest channel in terms of revenue, comprising approximately 78%, 80%, and 81%, of total revenues for the years ended December 31, 2001, 2002 and 2003, respectively. JPC's business activities are conducted in Japan and serve the Japanese market.

The Company is owned 50% by Liberty Programming Japan, Inc., an indirect wholly owned subsidiary of Liberty Media Corporation, and 50% by Sumitomo Corporation. The Company was incorporated in 1996 in Japan under the name Kabushiki Kaisha Jupiter Programming, Jupiter Programming Co. Ltd. in English.

(b) Basis of Consolidated Financial Statements

The consolidated balance sheet as of December 31, 2002 and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the two year period ended December 31, 2002, as well as the related footnote disclosures for those periods, are unaudited. The consolidated financial statements for 2001 and 2002 have been prepared on a consistent basis with the 2003 consolidated financial statements and reflect all adjustments that in the opinion of management are necessary to present the results of operations, financial position and cash flows for the 2001 and 2002 periods in accordance with the accounting principles generally accepted in the United States of America.

The Company and its subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform them to accounting principles generally accepted in the United States of America. The major areas requiring such adjustment are accounting for derivative instruments and hedging activities, accounting for assets held under finance lease arrangements, accounting for goodwill and other intangible assets, employers' accounting for pensions, accounting for vacation pay liabilities, and accounting for cooperative marketing arrangements and certain customer discounts.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with an initial maturity of three month or less from the date of purchase.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectable amounts based on an analysis of certain individual accounts, including claims in bankruptcy.

(e) 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.

(f) Program Rights and Language Versioning

Rights to programming acquired for broadcast on the programming channels and language versioning are stated at cost. 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 generally 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.

(g) Investments

For those investments in affiliates in which JPC's voting interest is 20% to 50% and JPC has the ability to exercise significant influence over the affiliates' operation and financial policies, the equity method of accounting is used. Under this method, the investment originally recorded at cost is adjusted to recognize JPC's share of the net earnings or losses of its affiliates. JPC recognizes its share of losses of an equity method affiliate until its investment and net advances, if any, is 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. All significant intercompany profits from affiliates have been eliminated. (see Note 5).

The difference between the carrying value of JPC's investment in the affiliate and the underlying equity in the net assets of the affiliate is recorded as equity method goodwill. Prior to the adoption of SFAS No. 142 on January 1, 2002, equity method goodwill was required to be amortized over its estimated useful life. There was no such equity method goodwill as of January 1, 2002. Under SFAS No. 142, equity method goodwill is not amortized but continues to be reviewed for impairment in accordance with APB No. 18, which requires that an other than temporary decline in value of an investment be recognized as an impairment loss.

Investments in other securities carried at cost represent non-marketable equity securities in which JPC's ownership is less than 20% and JPC does not have the ability to exercise significant influence over the entities' operation and financial policies.

JPC evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, JPC utilizes various 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 earnings is recorded for the loss, and a new cost basis in the investment is established.

(h) Derivative Financial Instruments

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", in June 1998, and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" in June 2000. SFAS No. 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under SFAS No. 133, 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 earnings in the period of change.

JPC adopted SFAS No. 133, as amended, on January 1, 2001. The cumulative effect adjustment upon adoption, net of the related income tax effect, resulted in an increase to other comprehensive income of ¥230,015 thousand. All of that amount was reclassified into earnings during the year ended December 31, 2001.

JPC uses foreign exchange forward contracts to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. Dollars. JPC enters into these contracts to hedge its U.S. Dollar denominated net monetary exposures. Hedges relating to purchase commitments for contracted programming rights and other contract costs may qualify for hedge accounting under the hedging criteria specified by SFAS No. 133. However, JPC has elected not to designate the transactions as hedges. Accordingly, changes in the fair value of derivatives are recorded in the consolidated statement of operations in the period of the change.

JPC does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

(i) 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:

Leasehold improvements	3-16 years
Equipment and vehicles	2-6 years
Furniture and fixtures	2-6 years

Equipment under capital leases is 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 ranges from three to six years.

(j) Software Development Costs

JPC capitalizes certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal-use are expensed as incurred during the preliminary project stage which includes, costs for making strategic decisions about the project, determining performance and system requirements and vendor demonstration cost. Costs incurred subsequent to the preliminary project stage through implementation are capitalized. JPC also expenses costs incurred for internal-use software projects in the post implementation stage such as costs for training and maintenance. The capitalized cost of software is amortized straight-line over the estimated useful life, which is generally three to five years.

(k) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

Upon adoption of SFAS No. 142, JPC reassessed the useful lives and residual values of all intangible assets and made any necessary amortization period adjustments with no significant effects. In connection with the transitional impairment evaluation, SFAS No. 142 required JPC to perform an assessment of whether there was an indication that goodwill was impaired as of January 1, 2002. JPC had no goodwill recorded as of January 1, 2002 and, therefore, was not required to perform a transitional impairment evaluation.

JPC performs its annual impairment test at the end of each year. JPC completed its annual impairment test at December 31, 2003, with no indication of impairment identified.

(l) Long-Lived Assets and Long-Lived Assets to Be Disposed Of

JPC accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net 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.

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 cost are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. JPC adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(m) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries provide a Retirement Allowance Plan ("RAP") for eligible employees. The RAP is an unfunded retirement allowance program in which benefits are based on years of service which in turn determine a multiple of final monthly compensation. JPC accounts for the RAP in accordance with the provisions of SFAS No., 87, *Employers' Accounting for Pensions*.

In addition, JPC employees participate in an Employees' Pension Fund ("EPF") Plan. The EPF Plan is a multi-employer plan consisting of approximately 120 participating companies, mainly affiliates of Sumitomo Corporation. The plan is composed of substitutional portions based on the pay-related part of the old age pension benefits prescribed by the Welfare Pension Insurance Law in Japan, and corporate portions based on contributory defined benefit pension arrangements established at the discretion of the Company and its subsidiaries. Benefits under the EPF Plan are based on years of service and the employee's compensation during the five years before retirement.

The assets of the EPF Plan are co-mingled and no assets are separately identifiable for any one participating company. JPC accounts for the EPF Plan in accordance with the provisions of SFAS No., 87, "Employers' Accounting for Pensions" governing multi-employer plans. Under these provisions, JPC recognizes 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.

(n) 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. JPC's retail sales policy allows merchandise to be returned at the customers' discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

Television Programming Revenue

Television programming revenue includes subscription and advertising revenue.

Subscription revenue is recognized in the periods in which programming services are provided to cable and satellite subscribers. JPC's channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual subscribers pay a monthly fee for programming channels under the terms of rolling one-month subscription contracts. Cable service providers generally pay a per-subscriber fee for the right to distribute JPC's programming on their systems under the terms of generally annual distribution contracts. Subscription revenue is recognized net of satellite platform commissions and certain cooperative marketing and advertising funds paid to cable system operators. Satellite platform commissions for the years ended December 31, 2001, 2002 and 2003 were ¥733,040 thousand, ¥843,335 thousand and ¥1,580,945 thousand ($14,775,187), respectively. Cooperative marketing and advertising funds paid to cable system operators for the years ended December 31, 2001, 2002 and 2003 were ¥98,967 thousand, ¥80,289 thousand and ¥174,432 thousand ($1,630,206), respectively.

The Company generates advertising revenue on all of its programming channels except Shop Channel. Advertising revenue is recognized, net of agency commissions, when advertisements are broadcast on JPC's programming channels.

Services and Other Revenue

Services and other revenue mainly comprises cable and advertising sales fees and commissions, and technical broadcast facility and production services provided by the Company and certain subsidiaries, and is recognized in the periods in which such services are provided to customers.

(o) 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.

(p) Cost of Programming and Distribution

Cost of programming and distribution consists of costs incurred to acquire or produce programs airing on the channels distributed to cable and satellite subscribers. Distribution costs include the costs of delivering the programming channels via satellite, including the costs incurred for uplink services and use of satellite transponders, and payments made to cable and satellite platforms for carriage of Shop Channel.

(q) 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 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, 2001, 2002 and 2003 was ¥805,527 thousand, ¥1,062,757 thousand and ¥1,003,836 thousand ($9,381,645), respectively.

(r) 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 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.

(s) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet date. 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 income.

(t) Use of Estimates

Management of JPC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, inventory, deferred tax assets and retail sales returns, and obligations related to employees' retirement plans. Actual results could differ from estimates.

(u) New Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* In December 2003, the FASB issued a revision to FIN 46, or Revised Interpretation, to clarify some of the provisions of FIN 46. FIN 46 provides guidance on how to identify a variable interest entity, or VIE, and determine 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 VIEs expected losses and/or receive a majority of the entity's expected residual returns, if any. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the first quarter of fiscal year 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. There has been no material effect to JPC's consolidated financial statements from potential VIEs entered into after January 31, 2003 and there is no expected impact from the adoption of the deferred provisions in the first quarter of fiscal year 2004.

(2) U.S. Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader. These translations should not be construed as representations as to what the yen amounts actually represent in, or have been or could be converted into, U.S. Dollars. For this purpose, the rate of ¥107 per U.S.$1, the approximate exchange rate at December 31, 2003, was used for translation of the accompanying consolidated financial statements of JPC as of and for the year ended December 31, 2003.

(3) Retail Inventories

Retail inventories comprise finished goods available for sale by Shop Channel.

(4) Program Rights and Language Versioning

Program rights and language versioning as of December 31, 2002 and 2003 are composed of the following:

	2002	2003	2003
	(unaudited) Yen	Yen (Thousands)	U.S. Dollars (Note 2)

	(Thousands)		
Program rights	¥ 1,346,151	¥ 1,616,603	$ 15,108,439
Language versioning	219,802	206,884	1,933,495
	1,565,953	1,823,487	17,041,934
Less accumulated amortization	(816,545)	(1,036,357)	(9,685,579)
	¥ 749,408	¥ 787,130	$ 7,356,355

Amortization expense related to program rights and language versioning for the years ended December 31, 2001, 2002 and 2003 was ¥1,102,808 thousand, ¥1,298,054 thousand and ¥1,570,670 thousand ($14,679,159), respectively, included in cost of programming and distribution in the consolidated statements of operations.

(5) Investments

Investments, including advances, as of December 31, 2002 and 2003 are composed of the following:

	2002		2003		2003
	Percentage ownership	Carrying amount	Percentage ownership	Carrying amount	Carrying amount
		(unaudited) Yen (Thousands)		Yen (Thousands)	U.S. Dollars (Note 2)
Investments accounted for under the equity method:					
Discovery Japan, Inc.	50.0%	¥ 138,247	50.0%	¥ 281,692	$ 2,632,636
Animal Planet Japan, Co. Ltd.	33.3%	284,095	33.3%	342,423	3,200,215
InteracTV Co., Ltd.	42.5%	40,077	42.5%	38,805	362,664
JSports Broadcasting Corporation	28.5%	967,205	28.5%	1,110,431	10,377,860
AXN Japan, Inc.	—	—	35.0%	825,112	7,711,327
Total equity method investments		1,429,624		2,598,463	24,284,702
Investments accounted for at cost:					
NikkeiCNBC Japan, Inc.	9.8%	100,000	9.8%	100,000	934,579
Kids Station, Inc.	15.0%	304,500	15.0%	304,500	2,845,794
AT-X, Inc.	12.3%	266,000	12.3%	266,000	2,485,981
Nihon Eiga Satellite Broadcasting Corporation	10.0%	66,600	10.0%	66,600	622,430
Satellite Service Co. Ltd.	12.0%	24,000	12.0%	24,000	224,299
Total cost method investments		761,100		761,100	7,113,083
		¥ 2,190,724		¥ 3,359,563	$ 31,397,785

The following investments represent participation in programming channel businesses:

Discovery Japan, Inc., a general documentary channel;
Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
JSports Broadcasting Corporation, a sports channel business currently operating three channels;
AXN Japan, Inc., an action and adventure channel;
NikkeiCNBC Japan, Inc., a news service channel;
Kids Station, Inc., a childrens' entertainment channel;
AT-X, Inc., an animation genre channel; and
Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels.

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 CSN, Lala, Golf Network and Shop channels, among others;

Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

The following reflects JPC's share of earnings (losses) of investments accounted for under the equity method for the years ended December 31, 2001, 2002 and 2003:

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Discovery Japan, Inc.	¥ 190,831	¥ (92,949)	¥ 143,445	$ 1,340,607
Animal Planet Japan, Co. Ltd.	(187,568)	(260,929)	(311,673)	(2,912,832)
InteracTV Co., Ltd.	(1,281)	(1,142)	(1,272)	(11,888)
JSports Broadcasting Corporation	(337,548)	191,262	143,227	1,338,571
AXN Japan, Inc.	—	—	(38,199)	(357,000)
	¥ (335,566)	¥ (163,758)	¥ (64,472)	$ (602,542)

In August 2003, the Company invested ¥863,311 thousand ($8,068,327) to acquire a 35% interest in AXN Japan, Inc. AXN is an action and adventure entertainment channel that complements JPC's channel businesses.

The carrying amount of investments in affiliates as of December 31, 2002 and 2003, includes ¥nil and ¥751,940 thousand ($7,027,477), respectively, of excess cost of the investments over the company's equity in the net assets of the affiliates, the amount of that excess representing "equity method goodwill".

JPC holds 33% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company has funding obligations in accordance its ordinary shareholding ratio up to a maximum of ¥1,295,250 thousand ($12,105,140). During the years ended December 31, 2002 and 2003, the Company invested ¥620,000 thousand and ¥370,000 thousand ($3,457,944), respectively, and has made a total investment of ¥1,130,000 thousand ($10,560,748) at December 31, 2003, in Animal Planet Japan, Co. Ltd.

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:

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Combined financial position at December 31,			
Combined current assets	¥ 5,877,390	¥ 6,747,882	$ 63,064,318
Combined other assets	741,068	1,780,915	16,644,065
Total assets	6,618,458	8,528,797	79,708,383
Combined current liabilities	2,973,964	2,983,359	27,881,860
Combined other liabilities	1,286,696	2,543,293	23,769,093
Combined shareholders' equity	2,357,798	3,002,145	28,057,430
Total liabilities and shareholders' equity	6,618,458	8,528,797	79,708,383

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Combined operations for the year ended December 31,				
Combined revenues	¥ 9,572,502	¥ 16,034,608	¥ 15,256,112	$ 142,580,482
Combined operating expenses	12,283,705	15,720,997	15,270,229	142,712,420
Combined operating income (loss)	(2,711,203)	313,611	(14,117)	(131,938)
Other income, net, including income taxes	1,092,225	364,935	319,099	2,982,237
Net income	¥ (1,618,978)	¥ 678,546	¥ 304,982	$ 2,850,299

(6) Property and Equipment

Property and equipment as of December 31, 2002 and 2003 are comprised of the following:

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Furniture and fixtures	¥ 107,728	¥ 143,364	$ 1,339,848
Leasehold improvements	478,353	671,028	6,271,286
Equipment and vehicles	2,798,118	2,698,152	25,216,378
Land	437,147	437,147	4,085,482
Construction in progress	50,550	253,678	2,370,827
	3,871,896	4,203,369	39,283,821
Less accumulated depreciation and amortization	(1,951,398)	(2,191,083)	(20,477,410)
	¥ 1,920,498	¥ 2,012,286	$ 18,806,411

Property and equipment assets include assets held under capitalized lease arrangements (Note 10). Depreciation and amortization expense related to property and equipment for the years ended December 31, 2001, 2002 and 2003 was ¥671,354 thousand, ¥699,332 thousand and ¥734,930 thousand ($6,868,505), respectively.

(7) Software Development Costs

Software development costs as of December 31, 2002 and 2003 are as follows:

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)

Software development costs	¥	1,731,658	¥	1,938,261	$	18,114,590
Less accumulated amortization		(375,866)		(487,873)		(4,559,562)
	¥	1,355,792	¥	1,450,388	$	13,555,028

Significant software development additions during 2002 and 2003 included development of Shop Channel e-commerce infrastructure, and development of an affiliate sales receivables management system.

Aggregate amortization expense for the years ended December 31, 2001, 2002 and 2003 was ¥189,705 thousand, ¥355,727 thousand and ¥451,327 thousand ($4,218,009), respectively.

(8) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2001, 2002 and 2003 were as follows:

	2001		2002		2003		2003	
	(unaudited) Yen (Thousands)		(unaudited) Yen (Thousands)		Yen (Thousands)		U.S. Dollars (Note 2)	
Balance at beginning of year	¥	—	¥	—	¥	191,482	$	1,789,551
Acquisitions		—		191,482		—		—
Adjustment		—		—		(2,537)		(23,710)
Balance at end of year	¥	—	¥	191,482	¥	188,945	$	1,765,841

A breakdown of the goodwill recorded during 2002 is provided in note 18.

As the Company did not have any goodwill in 2001, comparability of the consolidated financial statements was not impacted by the adoption of SFAS No. 142 on January 1, 2002.

The Company does not have any other indefinite lived intangible assets.

(9) Fair Value of Financial Instruments

The carrying amounts for financial instruments in JPC's consolidated financial statements at December 31, 2002 and 2003 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 judgement 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, trade accounts receivable, trade accounts payable, income taxes payable, accrued expense, 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 the intrinsic value of each contract. As at December 31, 2002, fair value of foreign exchange forward contracts of ¥18,081 thousand was included in the consolidated balance sheet under the other current assets caption, and ¥92,702 thousand was included under the other current liabilities caption. As at December 31, 2003, fair value of foreign exchange forward contracts of ¥241,507 thousand ($2,257,072) was included in the consolidated balance sheet under the other current liabilities caption.

Long-term debt, including current portion: The fair value of JPC's long-term debt is estimated by discounting the future cash flows of each instrument by a proxy for rates expected to be incurred on similar borrowings at current rates. Borrowings bear interest based on certain financial ratios that determine a margin over Euroyen TIBOR, and are therefore variable. JPC believes the carrying amount approximates fair value based on the variable rates and currently available terms and conditions for similar debt.

Capital lease obligations, including current installments: The carrying amount is reflective of fair value. The fair value of JPC's capital lease obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to JPC by leasing companies.

(10) Leases

JPC is obligated under various capital leases for certain equipment and other assets that expire at various dates, generally during the next five years. At December 31, 2002 and 2003, the gross amount of equipment and the related accumulated depreciation recorded under capital leases were as follows:

	2002		2003		2003	
	(unaudited) Yen (Thousands)		Yen (Thousands)		U.S. Dollars (Note 2)	
Equipment	¥	2,130,030	¥	1,794,097	$	16,767,260
Others		150,872		99,667		931,464
Less accumulated depreciation		(1,504,804)		(1,417,805)		(13,250,512)
	¥	776,098	¥	475,959	$	4,448,212

Depreciation 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, 2003 are as follows:

Yen	U.S. Dollars (Note 2)

	(Thousands)	
Year ending December 31,		
2004	¥ 344,399	$ 3,218,682
2005	120,548	1,126,621
2006	38,335	358,270
2007	24,396	228,000
2008	7,702	71,977
Thereafter	9	80
Total minimum lease payments	535,389	5,003,630
Less amount representing interest (at rates ranging from 1.25% to 2.6%)	(30,679)	(286,717)
Present value of minimum capital lease payments	504,710	4,716,913
Less current installments	(329,764)	(3,081,907)
	¥ 174,946	$ 1,635,006

JPC also has several operating leases, primarily for office space, that expire over the next 10 years, and a lease for land that expires in 30 years. Rent expense for the years ended December 31, 2001, 2002 and 2003 was ¥228,121 thousand, ¥238,621 thousand and ¥275,264 thousand ($2,572,561), respectively.

The Company leases two principal office premises. JPC headquarters has a rolling two-year lease agreement that provides for annual rental costs of ¥184,109 thousand ($1,720,643). Shop Channel has a 10-year agreement expiring in October 2013 with an annual rental cost of ¥186,711 thousand ($1,744,961). These and other leases for office space are mainly cancelable upon six months notice. Accordingly, the schedule below detailing future minimum lease payments under noncancelable operating leases includes the lease costs for the Company's premises for only a six-month period.

Future minimum lease payments for the noncancelable portion of operating leases as of December 31, 2003 are as follows:

	Yen (Thousands)	U.S. Dollars (Note 2)
Year ending December 31,		
2004	¥ 291,118	$ 2,720,733
2005	4,980	46,542
2006	4,980	46,542
2007	4,980	46,542
2008	4,980	46,542
Thereafter	116,615	1,089,860
Total minimum lease payments	¥ 427,653	$ 3,996,761

(11) Debt

Short-term debt at December 31, 2002 and 2003 consists of the following:

	2002 (unaudited) Yen (Thousands)	2003 Yen (Thousands)	2003 U.S. Dollars (Note 2)
Promissory note	¥ —	¥ 46,000	$ 429,907

Short-term debt represents a Promissory note in the amount of ¥46,000 thousand ($429,907) due to Sony Pictures Entertainment (Japan) Inc. The borrowing bears interest at Japan Short Term Prime rate (1.375% at December 31, 2003) and is due on March 31, 2004.

Long-term debt at December 31, 2002 and 2003 consists of the following:

	2002 (unaudited) Yen (Thousands)	2003 Yen (Thousands)	2003 U.S. Dollars (Note 2)
Borrowings from banks	¥ 4,000,000	¥ 4,000,000	$ 37,383,178
Loans from shareholders	1,000,000	1,000,000	9,345,794
Loans from subsidiary minority shareholders	976,000	1,016,000	9,495,327
Total long term debt	5,976,000	6,016,000	56,224,299
Less: current portion	(600,000)	—	—
Long-term debt, excluding current portion	¥ 5,376,000	¥ 6,016,000	$ 56,224,299

At December 31, 2003, the Company had a ¥10,000,000 thousand ($93,457,944) credit facility ("the Facility") with a group of banks. The Facility, which is guaranteed by certain of the Company's subsidiaries, comprises an ¥8,000,000 thousand ($74,766,355) five-year term loan and a ¥2,000,000 thousand ($18,691,589) 364-day revolving facility. Outstanding borrowings under the five-year term loan at December 31, 2003 were ¥4,000,000 thousand ($37,383,178). There were no borrowings outstanding under the 364-day revolving facility as of December 31, 2003. The Company pays a commitment fee of 0.20% on undrawn borrowings of the Facility. Interest on outstanding borrowings is based on certain financial ratios and can range from Euroyen TIBOR + 0.75% to TIBOR + 2.00% for the five-year term loan and from TIBOR + 0.70% to TIBOR + 1.00% for the 364-day revolving facility. The interest rates charged at December 31, 2003 for the five-year term loan and for the 364-day revolving facility were 0.83% and 0.78%, respectively.

The term loan portion of the Facility is available to be drawn upon until December 25, 2005. Repayment by instalments begins on March 31, 2006, on a quarterly basis, equal to 10% of the outstanding balance at the end of the availability period, until fully repaid on June 25, 2008. The 364-day revolving facility is available until June 22, 2004, and repayment in full is due on that date.

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 Japan Commercial Code basis, shall be equal to or exceed, for fiscal year 2003, ¥2,500,000 thousand; for fiscal year 2004, ¥3,000,000 thousand; for fiscal year 2005, ¥3,500,000 thousand; for fiscal year 2006, ¥4,000,000 thousand; for fiscal 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 fiscal 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 fiscal 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.

The Facility was renegotiated in June 2003 and replaced a similar facility that was in place as at December 31, 2002. The previous facility comprised a ¥4,000,000 thousand five-year term loan and a ¥1,000,000 thousand 364-day revolving facility. Outstanding borrowings under the five-year term loan at December 31, 2002 were ¥4,000,000 thousand. There were no borrowings outstanding under the 364-day revolving facility as of December 31, 2002. The interest rates charged at December 31, 2002 for the five-year term loan and for the 364-day revolving facility were 0.82% and 0.77%, respectively. The previous credit facility contained similar financial and other restrictive covenants.

JPC is in the process of complying with the covenant restricting incursion of interest-bearing debt not contemplated in the Facility agreement, such that if JPC advances new loans to companies other than the guarantors of the Facility after the date of the Facility agreement, those loans must be assigned to the lenders under a loan receivable assignment agreement. JPC has formally informed the lenders that they expect to complete a loan receivable assignment by 30 April 2004 with regards to a promissory note in the amount of ¥46,000 thousand ($429,907) issued to AXN Japan Inc, a JPC affiliate company. Although there is no timeframe for assignment specified in the Facility agreement, the lenders have advised JPC that this is an acceptable timeframe and confirmed that JPC is not in default of the Facility agreement in respect of this matter.

The Company has outstanding term borrowings of ¥500,000 thousand ($4,672,897) from each of Liberty Media Corporation and Sumitomo Corporation. The borrowings are subordinated to the Facility described above. The borrowings bear interest at the higher of the rate applicable to the term loan portion of the Facility, and Japan Long Term Prime rate (1.70% and 1.85% at December 31, 2002 and 2003, respectively), and are due in full on July 26, 2008.

JPC has the following debt of certain subsidiaries due to minority shareholders in those subsidiaries:

Outstanding borrowings of ¥796,000 thousand and ¥836,000 thousand ($7,813,084) as of December 31, 2002 and 2003, respectively, by Jupiter Sports Inc. due to Liberty J Sports, Inc., an indirect wholly owned subsidiary of Liberty Media Corporation. The borrowings are subordinated to the Facility described above. The borrowings bear interest at the higher of the rate applicable to the term loan portion of the Facility, and Japan Long Term Prime rate (1.70% and 1.85% at December 31, 2002 and 2003, respectively), and are due in full on December 31, 2007.

Outstanding borrowings as of December 31, 2002 and 2003, of ¥180,000 thousand ($1,682,243) by Jupiter Shop Channel Co., Ltd. due to Home Shopping Network Inc. The borrowings are subordinated to the Facility described above. The borrowings bear interest at Japan Short Term Prime rate (1.375% at December 31, 2002 and 2003), and are due in full on December 31, 2005.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2003 are as follows:

	2003	2003
	Yen (Thousands)	U.S. Dollars (Note 2)
Year ending December 31,		
2004	¥ —	$ —
2005	180,000	1,682,243
2006	1,600,000	14,953,271
2007	2,436,000	22,766,355
2008	1,800,000	16,822,430
Total debt	¥ 6,016,000	$ 56,224,299

(12) Income Taxes

The components of the provision for income taxes for the years ended December 31, 2001, 2002 and 2003 recognized in the consolidated statements of operations are as follows:

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Current taxes	¥ 249,338	¥ 1,239,964	¥ 2,072,264	$ 19,366,955
Deferred taxes	(304,951)	(536,017)	(553,039)	(5,168,590)
Income tax expense (benefit)	¥ (55,613)	¥ 703,947	¥ 1,519,225	$ 14,198,365

All pre-tax income and income tax expense (benefit) is related to operations in Japan. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2003 are presented below.

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Deferred tax assets:			
Retail inventories	¥ 485,223	¥ 617,970	$ 5,775,416
Property and equipment	111,547	195,223	1,824,514
Accrued liabilities	213,238	372,529	3,481,578
Enterprise tax payable	112,454	142,709	1,333,729
Foreign exchange gain/loss	32,239	101,371	947,390
Equity method investments	776,675	711,645	6,650,891
Operating loss carryforwards	3,775,943	1,892,339	17,685,411
Others	214,489	270,394	2,527,053
	5,721,808	4,304,180	40,225,982
Less valuation allowance	(4,872,322)	(2,901,655)	(27,118,271)
Total deferred tax assets	849,486	1,402,525	13,107,711
Deferred tax liabilities	—	—	—
Net deferred tax assets	¥ 849,486	¥ 1,402,525	$ 13,107,711

The net changes in the total valuation allowance for the years ended December 31, 2001, 2002 and 2003 were decreases of ¥576,250 thousand, ¥1,003,452 thousand, and ¥1,970,667 thousand ($18,417,454), respectively.

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 believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

At December 31, 2003, JPC and its subsidiaries had total net operating loss carried forward for income tax purposes of approximately ¥4,650,623 thousand ($43,463,766), which are available to offset future taxable income, if any. JPC subsidiaries are subject to taxation on a stand-alone basis and net operating loss carried forwards may not be utilized against other group company profits. Aggregated net operating losses carried forward expire as follows:

	Yen	U.S. Dollars (Note 2)
	(Thousands)	
Year ending December 31,		
2004	¥ 3,043,370	$ 28,442,710
2005	895,871	8,372,626
2006	143,308	1,339,327
2007	339,630	3,174,112
2008	228,444	2,134,991
	¥ 4,650,623	$ 43,463,766

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 42.1%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates 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. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes for the years ended December 31, 2001, 2002 and 2003 is as follows:

	2001	2002	2003
	(unaudited)	(unaudited)	
Statutory tax rate	42.1%	42.1%	42.1%
Non-deductible expenses	1.9	2.8	1.9
Change in the beginning of the year balance of valuation allowance	(17.6)	—	—
Change in valuation allowance	(31.7)	(27.1)	(9.9)
Reduction of tax net operating loss due to intercompany transfer of assets	—	19.6	—
Additional tax deduction due to intercompany transfer of assets	—	(3.9)	(1.7)
Others	0.8	0.6	(0.7)
Effective income tax rate	(4.5)%	34.1%	31.7%

(13) Accrued Pension and Severance Cost

Net periodic cost of the Company and its subsidiaries' unfunded Retirement Allowance Plans ("RAP") accounted for in accordance with SFAS No. 87 for the years ended December 31, 2001, 2002 and 2003, included the following components:

	2001	2002	2003	2003
	(unaudited) Yen (Thousands)	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Service cost—benefits earned during the year	¥ 42,381	¥ 43,652	¥ 44,743	$ 418,163
Interest cost on projected benefit obligation	2,037	2,625	3,951	36,923
Recognized actuarial loss	—	10,341	15,972	149,273
Net periodic cost	¥ 44,418	¥ 56,618	¥ 64,666	$ 604,359

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:

	2002	2003	2003
	(unaudited) Yen (Thousands)	Yen (Thousands)	U.S. Dollars (Note 2)
Change in projected benefit obligation:			
Benefit obligation, beginning of year	¥ 105,012	¥ 158,031	$ 1,476,924
Service cost	43,652	44,743	418,163
Interest cost	2,625	3,951	36,923
Actuarial loss	10,342	15,973	149,279
Benefits paid	(3,600)	(6,087)	(56,887)
Projected benefit obligation, end of year	¥ 158,031	¥ 216,611	$ 2,024,402
Accumulated benefit obligation, end of year	¥ 118,932	¥ 164,662	$ 1,538,894

Actuarial gains and losses are recognized fully in the year in which they occur. The weighted-average discount rate used in determining costs of the Company and its subsidiaries' plans was 3.00%, 2.50% and 2.00% for the years ended December 31, 2001, 2002 and 2003, respectively. Assumed salary increases ranged from 1% to 4.11% depending on employees' age for the years ended December 31, 2001, 2002 and 2003.

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit Employees' Pension Fund ("EPF") plan. The Company contributions to this plan amounted to ¥44,607 thousand, ¥56,976 thousand, and ¥60,322 thousand ($563,757) for the years ended December 31, 2001, 2002 and 2003, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(14) Shareholders' Equity

The Commercial Code of Japan, provides that an amount equal to at least 10% of cash dividends and other cash appropriations paid be appropriated as a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the issued capital.

The Company paid no cash dividends for the years ended December 31, 2001, 2002 and 2003. The amount available for dividends under the Commercial Code of Japan is based on the unappropriated retained earnings recorded in the Company's books of account and amounted to nil at December 31, 2003.

(15) Related Party Transactions

JPC engages in a variety of transactions in the normal course of business, several of which are with related parties. Significant related party balances, income and expenditures have been separately identified in the consolidated balance sheets and statements of operations. In addition to those transactions, cost of retail sales transactions with related parties for the years ended December 31, 2001, 2002 and 2003 were ¥nil, ¥15,893 thousand and ¥67,970 thousand ($635,237), respectively.

A list of related parties and a description of main types of transactions with each party follows:

Sumitomo Corporation, shareholder, and its subsidiaries: television programming advertising revenues, cost of retail sales, costs of programming and distribution, selling, general and administrative expenses for staff secondment fees, cash deposits, property and equipment capital leases, subordinated loans and interest thereon;

Liberty Media Corporation, shareholder, and its subsidiaries: selling, general and administrative expenses for staff secondment fees, subordinated loans and interest thereon;

Discovery Japan, Inc., and Animal Planet Japan, Co. Ltd, affiliate companies: services and other revenues from cable and advertising sales activities and broadcasting, marketing and office support services; costs of programming and distribution relating to direct-to-home subscription revenue;

JSports Broadcasting Corporation, affiliate company: services and other revenues from cable and advertising sales activities and recovery of staff costs for seconded staff;

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to JPC, costs of programming and distribution payments for transponder services;

Minority interests in Jupiter Golf Network, Co. Ltd, four companies holding total of 10.6%: television programming advertising revenues;

Home Shopping Network Inc.: minority shareholder loans and interest thereon;

Jupiter Telecommunications Inc, an affiliated company jointly controlled by Sumitomo Corporation and a wholly owned subsidiary of Liberty Media Corporation: television programming cable subscription revenues, costs of programming and distribution for carriage of Shop Channel by cable systems.

(16) Concentration of credit risk

As of December 31, 2002 and 2003, SkyPerfect TV and Jupiter Telecommunications Co., Ltd ("JCom"), a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company. For the years ended December 31, 2001, 2002 and

2003, subscription revenues of ¥1,218,284 thousand, ¥1,688,119 thousand and ¥2,888,163 thousand ($26,992,178), respectively, received through SkyPerfect TV, accounted for approximately 33%, 35% and 45%, respectively, of subscription revenues, and 5%, 5% and 6%, respectively, of total revenues. As of December 31, 2001, 2002 and 2003, SkyPerfect TV accounted for approximately 6%, 7% and 5%, respectively, of accounts receivable. For the years ended December 31, 2001, 2002 and 2003, subscription revenues of ¥869,053 thousand, ¥1,207,749 thousand and ¥1,361,897 thousand ($12,728,009), respectively, received through JCom, accounted for approximately 23%, 25% and 21%, respectively, of subscription revenues, and 3%, 4% and 3%, respectively, of total revenues. As of December 31, 2001, 2002 and 2003, JCom accounted for approximately 8%, 7% and 6%, respectively, of accounts receivable.

(17) Commitments, other than leases

At December 31, 2003, JPC has commitments to purchase various programs as follows:

	Yen	U.S. Dollars (Note 2)
	(Thousands)	
Year ending December 31,		
2004	¥ 514,940	$ 4,812,523
2005	418,688	3,912,972
2006	474,190	4,431,682
Total program purchase commitments	¥ 1,407,818	$ 13,157,177

At December 31, 2003, JPC has commitments for transponder and uplink services as follows:

	Yen	U.S. Dollars (Note 2)
	(Thousands)	
Year ending December 31,		
2004	¥ 1,621,933	$ 15,158,249
2005	1,689,983	15,794,235
2006	1,708,063	15,963,202
2007	1,110,007	10,373,899
2008	1,115,895	10,428,922
Thereafter	4,436,468	41,462,325
Total transponder and uplink services commitments	¥ 11,682,349	$ 109,180,832

JPC contracts, through subsidiaries and affiliate licensed broadcasting companies, to lease capacity on three satellites from two transponder service providers. JPC channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Transponder service contracts are generally ten years in duration. Service fees are based on fixed rates or a fixed portion plus a variable portion based on platform subscriber numbers. Termination is possible on a channel-by-channel basis. One transponder service provider charges termination penalty fees, the other does not charge a fee until the last channel from one licensed broadcaster terminates. Due to the unclear nature of the responsibility for termination fees, commitments are disclosed for the full minimum commitment amounts under the service contracts.

JPC has capital equipment purchase commitments amounting to ¥2,953,930 thousand ($27,606,822) at December 31, 2003 that must be expended by December 31, 2005.

(18) Acquisition

On May 1, 2002, the Company acquired 100% of the outstanding common shares of Misawa Satellite Broadcasting Co., Ltd. (MSB), a television programming company. The aggregate purchase price was ¥188,844 thousand ($1,764,897) and was paid in cash. The acquisition was accounted for as a purchase. On January 1, 2003, the Company merged the business operations of MSB with its wholly-owned subsidiary, Jupiter Satellite Broadcasting Co., Ltd. MSB operated Home Channel and as a result of the acquisition, the Company is expected to increase direct-to-home revenue from the packages in which Home Channel was carried. The results of operations of MSB are included in the accompanying consolidated statements of operations from May 1, 2002 onward.

Had the operating results of MSB been included as if the transaction had been consummated on January 1, 2001, the Company's operating results for the years ended December 31, 2001 and 2002 would not have been materially different. Goodwill from the acquisition of MSB is not deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	Yen	U.S. Dollars (Note 2)
	(Thousands)	
Current assets	¥ 139,787	$ 1,306,420
Goodwill	183,655	1,716,402
Total assets acquired	323,442	3,022,822
Current liabilities assumed	134,598	1,257,925
Net assets acquired	¥ 188,844	$ 1,764,897

In addition to the goodwill recognized from the MSB transaction, ¥7,827 thousand of other goodwill was recorded in 2002.

(19) Subsequent events

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 7, 2004, the Company transferred ¥8,400,000 thousand ($78,504,673) of ordinary capital to accumulated deficit to eliminate the Company's accumulated deficit and generate positive retained earnings. On a consolidated basis, JPC will continue to show an accumulated deficit immediately after such transfer. This transfer was made in accordance with the Commercial Code of Japan, which requires a company to make any purchase of its own shares, as contemplated in the further transaction noted below, out of retained earnings. As a result of the transfer, the Company's ordinary share capital was reduced to ¥8,434,000 thousand ($78,822,430), with a corresponding increase of retained earnings. Such transfer did not impact the Company's total equity, cash position or liquidity.

On March 16, 2004, the Company's Board of Directors unanimously approved the following transactions, details of which are subject to agreement between the Company's shareholders, Sumitomo Corporation and Liberty Programming Japan, Inc., based on a third party valuation of the Company:

1) Issuance of new ordinary shares to Sumitomo Corporation;

2) Acquisition of a proportion of the Company's ordinary shares from each of Sumitomo Corporation and Liberty Programming Japan Inc. to be held as treasury shares;

3) Subject to completion of the aforementioned transactions, acquisition of all the issued and outstanding shares of a subsidiary of one of the Company's shareholders engaged in a related business area of the Company, in exchange for the Company's ordinary shares held as treasury shares.

The above transactions are expected to be completed in April 2004 and will have no impact on the Company's liquidity or the relative shareholdings of the Company's two ultimate shareholders.