

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☒
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

OR  
☐
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from        to

Commission File Number 000-51360



**State of Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*  
  
**12300 Liberty Boulevard**  
**Englewood, Colorado**  
*(Address of principal executive offices)*

**20-2197030**  
*(I.R.S. Employer  
Identification No.)*  
  
**80112**  
*(Zip Code)*

**Registrant's telephone number, including area code:**  
**(303) 220-6600**

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Series A Common Stock, par value \$0.01 per share	NASDAQ Global Select Market
Series B Common Stock, par value \$0.01 per share	NASDAQ Global Select Market
Series C Common Stock, par value \$0.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:  
none

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer, accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

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

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$9.1 billion.

The number of outstanding shares of Liberty Global, Inc.'s common stock as of February 16, 2009 was:

136,345,142 shares of Series A common stock;  
7,191,210 shares of Series B common stock; and  
132,004,725 shares of Series C common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Registrant's 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

LIBERTY GLOBAL, INC.  
2008 ANNUAL REPORT ON FORM 10-K  
TABLE OF CONTENTS

	<u>Page</u>	
<b><u>PART I</u></b>		
<a href="#">Item 1.</a>	<a href="#">Business</a>	I-1
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	I-42
<a href="#">Item 1B.</a>	<a href="#">Unresolved Staff Comments</a>	I-51
<a href="#">Item 2.</a>	<a href="#">Properties</a>	I-51
<a href="#">Item 3.</a>	<a href="#">Legal Proceedings</a>	I-51
<a href="#">Item 4.</a>	<a href="#">Submission of Matters to a Vote of Security Holders</a>	I-52
<b><u>PART II</u></b>		
<a href="#">Item 5.</a>	<a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	II-1
<a href="#">Item 6.</a>	<a href="#">Selected Financial Data</a>	II-4
<a href="#">Item 7.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	II-5
<a href="#">Item 7A.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	II-52
<a href="#">Item 8.</a>	<a href="#">Financial Statements and Supplementary Data</a>	II-57
<a href="#">Item 9.</a>	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	II-58
<a href="#">Item 9A.</a>	<a href="#">Controls and Procedures</a>	II-58
<a href="#">Item 9B.</a>	<a href="#">Other Information</a>	II-58
<b><u>PART III</u></b>		
<a href="#">Item 10.</a>	<a href="#">Directors, Executive Officers and Corporate Governance</a>	III-1
<a href="#">Item 11.</a>	<a href="#">Executive Compensation</a>	III-1
<a href="#">Item 12.</a>	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	III-1
<a href="#">Item 13.</a>	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	III-1
<a href="#">Item 14.</a>	<a href="#">Principal Accountant Fees and Services</a>	III-1
<b><u>PART IV</u></b>		
<a href="#">Item 15.</a>	<a href="#">Exhibits and Financial Statement Schedules</a>	IV-1
<a href="#">EX-10.19</a>		
<a href="#">EX-10.20</a>		
<a href="#">EX-10.29</a>		
<a href="#">EX-21</a>		
<a href="#">EX-23.1</a>		
<a href="#">EX-23.2</a>		
<a href="#">EX-23.3</a>		
<a href="#">EX-23.4</a>		
<a href="#">EX-31.1</a>		
<a href="#">EX-31.2</a>		
<a href="#">EX-31.3</a>		
<a href="#">EX-32</a>		

**PART I****Item 1. BUSINESS****General Development of Business**

Liberty Global, Inc. (LGI) is an international provider of video, voice and broadband internet services, with consolidated broadband communications and/or direct-to-home (DTH) satellite operations at December 31, 2008, in 15 countries, primarily in Europe, Japan and Chile. Through our indirect wholly-owned subsidiary, UPC Holding BV (UPC Holding), we provide video, voice and broadband internet services in 10 European countries and in Chile. The European broadband communications operations of UPC Broadband Holding BV, a subsidiary of UPC Holding (UPC Broadband Holding), are collectively referred to as the UPC Broadband Division. UPC Broadband Holding's broadband communication operations in Chile are provided through VTR Global Com S.A. (VTR). Through our 50.6% indirect majority ownership interest in Telenet Group Holding NV (Telenet), we provide broadband communications services in Belgium. Through our indirect 37.8% controlling ownership interest in Jupiter Telecommunications Co., Ltd. (J:COM), we provide broadband communications services in Japan. Through our 54.0% indirect majority owned subsidiary, Austar United Communications Limited (Austar), we provide DTH satellite services in Australia. We also have (1) consolidated broadband communications operations in Puerto Rico and (2) consolidated interests in certain programming businesses in Europe, Japan (through J:COM) and Argentina. Our consolidated programming interests in Europe are primarily held through Chellomedia BV (Chellomedia), which owns or manages investments in various businesses, primarily in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming services to our broadband communications operations, primarily in Europe.

In the following text, the terms "we", "our", "our company", and "us" may refer, as the context requires, to LGI and its predecessors and subsidiaries.

Unless indicated otherwise, convenience translations into U.S. dollars are calculated as of December 31, 2008, and operational data, including subscriber statistics and ownership percentages, are as of December 31, 2008.

**Recent Developments****Acquisitions**

*Mediatti.* On December 25, 2008, the shareholders of Mediatti Communications, Inc. (Mediatti), a provider of cable television and broadband internet services in Japan, including our subsidiary Liberty Japan MC, LLC (Liberty Japan MC), sold all of the issued and outstanding shares of Mediatti to J:COM for cash consideration (before direct acquisition costs) of ¥28,350.6 million (\$310.5 million at the transaction date) of which Liberty Japan MC received ¥12,887.0 million (\$141.1 million at the transaction date). Our indirect majority-owned subsidiary, LGI/Sumisho Super Media LLC (Super Media) owns a controlling interest in J:COM. See "Operations — Asia/Pacific — Jupiter Telecommunications Co. Ltd." below. On the day preceding the sale of Mediatti to J:COM, we purchased Sumitomo Corporation's (Sumitomo) entire 4.8% interest in Liberty Japan MC for ¥615.8 million (\$6.8 million at the transaction date), resulting in Liberty Japan MC becoming our indirect wholly-owned subsidiary.

*Interkabel Acquisition.* On October 1, 2008, pursuant to an agreement with four associations of municipalities in Belgium (referred to as the pure intercommunales or PICs) executed on June 28, 2008 (the 2008 PICs Agreement), Telenet acquired from the PICs certain cable television assets (Interkabel), including (1) substantially all of the rights that Telenet did not already hold to use the broadband communications network owned by the PICs (the Telenet PICs Network) and (2) the analog and digital television activities of the PICs, including the entire subscriber base (together with the acquisition of the rights to use the Telenet PICs Network, the Interkabel Acquisition). In connection with the Interkabel Acquisition, (1) Telenet paid net cash consideration of €224.9 million (\$315.9 million at the transaction date) before working capital adjustments and direct acquisition costs and (2) entered into a long-term lease of the Telenet PICs Network. The €224.9 million of cash consideration includes €8.3 million (\$11.6 million at the transaction date) representing compensation to the PICs for the acquisition of certain equipment and other rights, net of compensation to Telenet for the transfer of certain liabilities to Telenet. In

addition, the PICs paid Telenet cash of €27.0 million (\$37.9 million at the transaction date) during the fourth quarter of 2008 in connection with certain working capital adjustments. Telenet borrowed an additional €85.0 million (\$124.2 million at the transaction date) under the Telenet senior credit facility in September 2008 to fund a portion of the €224.9 million of net cash consideration paid to the PICs. The remaining net cash consideration was funded by existing cash and cash equivalent balances.

For information on the long-term lease and other provisions of the 2008 PICs Agreement see "Operations — Europe — Liberty Global Europe — Telenet (Belgium)" below and note 4 to our consolidated financial statements included in Part II of this report. For information concerning the litigation related to the Interkabel Acquisition, see note 20 to our consolidated financial statements included in Part II of this report.

**Spektrum.** On September 1, 2008, Chellomedia Programming BV, a wholly-owned subsidiary of Chellomedia, acquired 100% of the ownership interests in Spektrum-TV Zrt and Ceska programova spolecnost s.r.o. (together, Spektrum) for cash consideration of \$94.2 million, before considering cash acquired, post-closing working capital adjustments and direct acquisition costs. Spektrum operates a documentary channel in the Czech Republic, Slovakia and Hungary.

For additional information on the foregoing acquisitions, see note 4 to our consolidated financial statements included in Part II of this report. In addition, during 2008, we completed various other smaller acquisitions in the normal course of business.

#### **Financings**

**UPC Broadband Holding Bank Facility Refinancing Transactions.** In August and September 2008, UPC Holding's subsidiaries, UPC Financing Partnership and UPC Broadband Holding, as the Borrowers, entered into two additional facility accession agreements (Facility O and Facility P, respectively) pursuant to UPC Broadband Holding's senior secured credit agreement (as amended and restated, the UPC Broadband Holding Bank Facility). Facility O is an additional term loan facility comprised of (1) a HUF 5,962.5 million (\$31.3 million) sub-tranche and (2) a PLN 115.1 million (\$38.7 million) sub-tranche. Both sub-tranches were drawn in full in August 2008. Facility P is an additional term loan facility in the principal amount of \$521.2 million, of which only \$511.5 million was received due to the failure of one of the lenders to fund a \$9.7 million commitment. The lenders under LGI's \$215.0 million Senior Revolving Facility Agreement (the LGI Credit Facility) rolled their commitments into Facility P, and the LGI Credit Facility was cancelled. Certain of the lenders under Facility I, a €250.0 million (\$348.8 million) repayable and redrawable term loan facility under the UPC Broadband Holding Bank Facility, have novated €202.0 million (\$281.8 million) of their undrawn commitments to Liberty Global Europe BV, which is a direct subsidiary of UPC Broadband Holding, and have entered into Facility P. The remaining third-party lenders under Facility I remain committed to lend their €48.0 million (\$67.0 million) share of Facility I. Facility P was drawn on September 12, 2008. The proceeds of Facilities O and P have been applied towards general corporate and working capital purposes.

**Telenet Credit Facility Amendment.** Effective May 23, 2008, Telenet's senior credit facility (the Telenet Credit Facility) was amended to (1) include an increased basket for permitted financial indebtedness incurred pursuant to finance leases, (2) include a new definition of "Interkabel Acquisition", (3) carve-out indebtedness incurred under the network lease entered into in connection with the Interkabel Acquisition up to a maximum aggregate amount of €195.0 million (\$272.1 million) from the definition of Total Debt (as defined in the Telenet Credit Facility) and (4) extend the availability period for the €225.0 million (\$313.9 million) Term Loan B2 Facility from July 31, 2008 to June 30, 2009. Furthermore, the margins for the respective facilities were confirmed as follows: (1) the applicable margin for the €530.0 million (\$739.5 million) Term Loan A Facility is 2.25% per annum over EURIBOR, (2) the applicable margin for the €307.5 million (\$429.0 million) Term Loan B1 Facility and Term Loan B2 Facility is 2.50% per annum over EURIBOR, (3) the applicable margin for the €1,062.5 million (\$1,482.5 million) Term Loan C Facility is 2.75% per annum over EURIBOR and (4) the applicable margin for the €175.0 million (\$244.2 million) Revolving Facility is 2.125% per annum over EURIBOR.

For a further description of the terms of the above financings and certain other transactions affecting our consolidated debt in 2008, see note 10 to our consolidated financial statements included in Part II of this report.

### **Stock Repurchases**

Pursuant to our various stock repurchase programs, we repurchased during 2008 a total of 39,065,387 shares of LGI Series A common stock at a weighted average price of \$30.24 per share and 35,084,656 shares of LGI Series C common stock at a weighted average price of \$29.52 per share, for an aggregate cash purchase price of \$2,217.1 million, including direct acquisition costs. At December 31, 2008, we were authorized under our current stock repurchase program to acquire an additional \$94.8 million of LGI Series A and Series C common stock through open market transactions or privately negotiated transactions, which may include derivative transactions. The timing of the repurchase of shares pursuant to this program is dependent on a variety of factors, including market conditions. This program may be suspended or discontinued at any time. At February 23, 2009, the remaining amount authorized under this program was \$1.0 million.

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

- economic and business conditions and industry trends in the countries in which we, and the entities in which we have interests, operate;
- the competitive environment in the broadband communications and programming industries in the countries in which we, and the entities in which we have interests, operate;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- fluctuations in currency exchange rates and interest rates;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of existing service offerings, including our digital video, voice and broadband internet services;
- consumer acceptance of new technology, programming alternatives and broadband services that we may offer;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our digital video, voice and broadband internet services and our average revenue per household;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;

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

The broadband communications services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this Annual Report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

#### ***Financial Information About Operating Segments***

Financial information about our reportable segments appears in note 21 to our consolidated financial statements included in Part II of this report.

#### ***Narrative Description of Business***

##### **Overview**

##### ***Broadband Distribution***

We offer a variety of broadband services over our cable television systems, including video, broadband internet and telephony. Available service offerings depend on the bandwidth capacity of our systems and whether they have been upgraded for two-way communications. In select markets, we also offer video services through DTH or through multi-channel multipoint (microwave) distribution systems (MMDS). Our analog video service offerings include basic programming and in some markets expanded basic programming. We tailor both our basic channel line-up and our additional channel offerings to each system according to culture, demographics, programming

preferences and local regulation. Our digital video service offerings include basic and premium programming and, in most markets, incremental product and service offerings such as enhanced pay-per-view programming, including video-on-demand (VoD) and near-video-on-demand (NVoD), digital video recorders (DVR) and high definition (HD) television services. We offer broadband internet services in all of our broadband communications markets. Our residential subscribers generally access the internet via cable modems connected to their personal computers at various speeds depending on the tier of service selected. We determine pricing for each different tier of internet service through analysis of speed, data limits, market conditions and other factors.

We offer telephony services in all of our broadband communications markets. In Austria, Belgium, Chile, Hungary, Japan and the Netherlands, we provide circuit-switched telephony services and voice-over-internet-protocol (VoIP) telephony services. Telephony services in the remaining markets are provided using VoIP technology. In select markets, including Australia, we also offer mobile telephony services using third-party networks.

We operate our broadband distribution businesses in Europe through the UPC Broadband Division of Liberty Global Europe, NV. (Liberty Global Europe), the parent company of UPC Holding, and through Liberty Global Europe's indirect subsidiary, Telenet; in Japan through J:COM, a subsidiary of Super Media; and in the Americas through VTR and Liberty Cablevision of Puerto Rico Ltd. (Liberty Puerto Rico); and our satellite distribution business in Australia through Austar. Each of Liberty Global Europe, UPC Holding, Telenet, J:COM, Super Media, VTR, Liberty Puerto Rico and Austar is a consolidated subsidiary. Except as otherwise noted, we refer to Liberty Puerto Rico and the countries of South America collectively as the Americas.

The following table presents certain operating data, as of December 31, 2008, with respect to the broadband communications and DTH systems of our subsidiaries in Europe, Japan, the Americas and Australia. This table reflects 100% of the operational data applicable to each subsidiary regardless of our ownership percentage.

**Consolidated Operating Data  
December 31, 2008**

	Homes Passed (1)	Two-way Homes Passed (2)	Customer Relationships (3)	Total RGUs (4)	Video				Total Video	Internet		Telephone	
					Analog Cable Subscribers (5)	Digital Cable Subscribers (6)	DTH Subscribers (7)	MMDS Subscribers (8)		Homes Serviceable (9)	Subscribers (10)	Homes Serviceable (11)	Subscribers (12)
UPC Broadband Division:													
The Netherlands	2,740,000	2,633,900	2,047,200	3,299,300	1,396,400	648,000	—	—	2,044,400	2,633,900	682,500	2,569,900	572,400
Switzerland (13)	1,867,300	1,335,700	1,557,300	2,350,900	1,209,100	347,000	—	—	1,556,100	1,525,700	485,500	1,523,700	309,300
Austria	1,146,500	1,146,500	748,700	1,231,000	383,300	171,700	—	—	555,000	1,146,500	433,900	1,146,500	242,100
Ireland	877,000	513,300	554,900	667,000	217,000	233,100	—	87,200	537,300	513,300	101,900	401,000	27,800
Total Western Europe	6,630,800	5,629,400	4,908,100	7,548,200	3,205,800	1,399,800	—	87,200	4,692,800	5,819,400	1,703,800	5,641,100	1,151,600
Hungary	1,199,800	1,165,900	963,300	1,403,700	593,900	79,400	183,000	—	856,300	1,165,900	321,500	1,168,400	225,900
Romania	2,069,800	1,700,400	1,263,400	1,624,900	998,200	109,900	155,300	—	1,263,400	1,575,000	237,300	1,513,200	124,200
Poland	1,996,700	1,795,800	1,084,300	1,555,800	941,400	79,100	—	—	1,020,500	1,795,800	388,000	1,734,500	147,300
Czech Republic	1,303,200	1,193,400	789,700	1,119,900	265,200	294,000	121,700	—	680,900	1,193,400	312,200	1,180,800	126,800
Slovakia	495,100	394,900	298,900	364,400	225,400	29,300	31,500	5,500	291,700	361,100	53,100	361,100	19,600
Slovenia	224,300	169,000	161,200	241,400	147,200	10,000	—	4,000	161,200	169,000	55,600	169,000	24,600
Total Central and Eastern Europe	7,278,900	6,419,400	4,560,800	6,310,100	3,171,300	601,700	491,500	9,500	4,274,000	6,260,200	1,367,700	6,127,000	668,400
Total UPC Broadband Division	13,909,700	12,048,800	9,468,900	13,858,300	6,377,100	2,001,500	491,500	96,700	8,966,800	12,079,600	3,071,500	11,768,100	1,820,000
Telenet (Belgium)	2,768,800	2,768,800	2,402,500	4,016,500	1,728,900	673,600	—	—	2,402,500	2,768,800	985,300	2,768,800	628,700
J.COM (Japan)	12,241,500	12,241,500	3,167,400	5,613,600	560,000	1,997,000	—	—	2,557,000	12,241,500	1,486,800	11,393,200	1,569,800
The Americas:													
VTR (Chile)	2,523,000	1,779,200	1,029,100	2,057,200	532,700	345,200	—	—	877,900	1,779,200	588,700	1,764,400	590,600
Puerto Rico	345,300	345,300	120,600	187,700	—	83,800	—	—	83,800	345,300	68,700	345,300	35,200
Total The Americas	2,868,300	2,124,500	1,149,700	2,244,900	532,700	429,000	—	—	961,700	2,124,500	657,400	2,109,700	625,800
Austar (Australia)	2,486,800	—	720,500	720,500	—	2,700	717,500	—	720,200	30,400	300	—	—
<b>Grand Total</b>	<b>34,275,100</b>	<b>29,183,600</b>	<b>16,905,000</b>	<b>26,453,800</b>	<b>9,198,700</b>	<b>5,103,800</b>	<b>1,209,000</b>	<b>96,700</b>	<b>15,608,200</b>	<b>29,244,800</b>	<b>6,201,300</b>	<b>28,039,800</b>	<b>4,644,300</b>



- 
- (1) Homes Passed are homes that can be connected to our networks without further extending the distribution plant, except for DTH and MMDS homes. Our Homes Passed counts are based on census data that can change based on either revisions to the data or from new census results. With the exception of Austar, we do not count homes passed for DTH. With respect to Austar, we count all homes in the areas that Austar is authorized to serve as Homes Passed. With respect to MMDS, one MMDS customer is equal to one Home Passed. Due to the fact that we do not own the partner networks (defined below) used by Cablecom Holdings GmbH (Cablecom) in Switzerland (see note 13) or the unbundled loop and shared access network used by one of our Austrian subsidiaries, UPC Austria GmbH (Austria GmbH), we do not report homes passed for Cablecom's partner networks or the unbundled loop and shared access network used by Austria GmbH.
  - (2) Two-way Homes Passed are Homes Passed by our networks where customers can request and receive the installation of a two-way addressable set-top converter, cable modem, transceiver and/or voice port which, in most cases, allows for the provision of video and internet services and, in some cases, telephony services. Due to the fact that we do not own the partner networks used by Cablecom in Switzerland or the unbundled loop and shared access network used by Austria GmbH, we do not report two-way homes passed for Cablecom's partner networks or the unbundled loop and shared access network used by Austria GmbH.
  - (3) Customer Relationships are the number of customers who receive at least one of our video, internet or voice services that we count as Revenue Generating Units (RGUs), without regard to which, or to how many, services they subscribe. To the extent that RGU counts include equivalent billing unit (EBU) adjustments, we reflect corresponding adjustments to our Customer Relationship counts. Customer Relationships generally are counted on a unique premise basis. Accordingly, if an individual receives our services in two premises (e.g. primary home and vacation home), that individual will count as two Customer Relationships. We exclude mobile customers from Customer Relationships.
  - (4) An RGU is separately an Analog Cable Subscriber, Digital Cable Subscriber, DTH Subscriber, MMDS Subscriber, Internet Subscriber or Telephony Subscriber. A home, residential multiple dwelling unit or commercial unit may contain one or more RGUs. For example, if a residential customer in our Austrian system subscribed to our digital cable service, telephony service and broadband internet service, the customer would constitute three RGUs. Total RGUs is the sum of Analog Cable, Digital Cable, DTH, MMDS, Internet and Telephony Subscribers. RGUs generally are counted on a unique premise basis such that a given premise does not count as more than one RGU for any given service. On the other hand, if an individual receives our service in two premises (e.g., a primary home and a vacation home), that individual will count as two RGUs. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period. Services offered without charge on a permanent basis (e.g. VIP subscribers, free service to employees) are not counted as RGUs.
  - (5) Analog Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our analog cable service over our broadband network. In Europe, we have approximately 535,300 "lifeline" customers that are counted on a per connection basis, representing the least expensive regulated tier of basic cable service, with only a few channels.
  - (6) Digital Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our digital cable service over our broadband network or through a partner network. We count a subscriber with one or more digital converter boxes that receives our digital cable service as just one subscriber. A Digital Cable Subscriber is not counted as an Analog Cable Subscriber. As we migrate customers from analog to digital cable services, we report a decrease in our Analog Cable Subscribers equal to the increase in our Digital Cable Subscribers. Individuals who receive digital cable service through a purchased digital set-top box but do not pay a monthly digital service fee are only counted as Digital Cable Subscribers to the extent we can verify that such individuals are subscribing to our analog cable service. We include this group of subscribers in Telenet's and Cablecom's Digital Cable Subscribers. Subscribers to digital cable services provided by Cablecom over partner networks receive analog cable services from the partner networks as opposed to Cablecom.
  - (7) DTH Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our video programming broadcast directly via a geosynchronous satellite.

- (8) MMDS Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our video programming via MMDS.
- (9) Internet Homes Serviceable is a home, residential multiple dwelling unit or commercial unit that can be connected to our networks, or a partner network with which we have a service agreement, where customers can request and receive broadband internet services. With respect to Austria GmbH, we do not report as Internet Homes Serviceable those homes served either over an unbundled loop or over a shared access network.
- (10) Internet Subscriber is a home, residential multiple dwelling unit or commercial unit that receives internet services over our networks, or that we service through a partner network. Our Internet Subscribers in Austria include 84,400 residential digital subscriber line (DSL) subscribers of Austria GmbH that are not serviced over our networks. Our Internet Subscribers do not include customers that receive services from dial-up connections.
- (11) Telephony Homes Serviceable is a home, residential multiple dwelling unit or commercial unit that can be connected to our networks, or a partner network with which we have a service agreement, where customers can request and receive voice services. With respect to Austria GmbH, we do not report as Telephony Homes Serviceable those homes served over an unbundled loop rather than our network.
- (12) Telephony Subscriber is a home, residential multiple dwelling unit or commercial unit that receives voice services over our networks, or that we service through a partner network. Telephony Subscribers exclude mobile telephony subscribers. Our Telephony Subscribers in Austria include 38,500 residential subscribers of Austria GmbH that are not serviced over our networks.
- (13) Pursuant to service agreements, Cablecom offers digital cable, broadband internet and telephony services over networks owned by third-party cable operators (partner networks). A partner network RGU is only recognized if Cablecom has a direct billing relationship with the customer. Homes Serviceable for partner networks represent the estimated number of homes that are technologically capable of receiving the applicable service within the geographic regions covered by Cablecom's service agreements. Internet and Telephony Homes Serviceable with respect to partner networks have been estimated by Cablecom. These estimates may change in future periods as more accurate information becomes available. Cablecom's partner network information generally is presented one quarter in arrears such that information included in our December 31, 2008 subscriber table is based on September 30, 2008 data. In our December 31, 2008 subscriber table, Cablecom's partner networks account for 78,900 Customer Relationships, 112,600 RGUs, 45,500 Digital Cable Subscribers, 190,000 Internet Homes Serviceable, 188,000 Telephony Homes Serviceable, 40,900 Internet Subscribers, and 26,200 Telephony Subscribers. In addition, partner networks account for 373,800 digital cable homes serviceable that are not included in Homes Passed or Two-way Homes Passed in our December 31, 2008 subscriber table.

*Additional General Notes to Table:*

With respect to Chile, Japan and Puerto Rico, residential multiple dwelling units with a discounted pricing structure for video, broadband internet or telephony services are counted on an EBU basis. With respect to commercial establishments, such as bars, hotels and hospitals, to which we provide video and other services primarily for the patrons of such establishments, the subscriber count is generally calculated on an EBU basis by our subsidiaries (with the exception of Telenet, which counts commercial establishments on a per connection 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. Telenet leases a portion of its network under a long-term capital lease arrangement. This table includes operating statistics for Telenet's owned and leased networks. On a business-to-business basis, certain of our subsidiaries provide data, telephony and other services to businesses, primarily in the Netherlands, Switzerland, Austria, Ireland, Belgium and Romania. We generally do not count customers of these services as subscribers, customers or RGUs.

While we take appropriate steps to ensure that subscriber statistics are presented on a consistent and accurate basis at any given balance sheet date, the variability from country to country in (1) the nature and pricing of products and services, (2) the distribution platform, (3) billing systems, (4) bad debt collection experience and (5) other

factors add complexity to the subscriber counting process. We periodically review our subscriber counting policies and underlying systems to improve the accuracy and consistency of the data reported. Accordingly, we may from time to time make appropriate adjustments to our subscriber statistics based on those reviews.

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

#### *Programming Services*

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

#### **Operations**

##### ***Europe — Liberty Global Europe***

Our European operations are conducted through our wholly-owned subsidiary, Liberty Global Europe, which provides video, voice and broadband internet services in 11 countries in Europe. Liberty Global Europe's operations are currently organized into the UPC Broadband Division, Telenet and the Chellomedia Division. Through the UPC Broadband Division and Telenet, Liberty Global Europe provides video, broadband internet, and fixed line and mobile telephony services. In terms of video subscribers, Liberty Global Europe operates the largest cable network in each of Austria, Belgium, Czech Republic, Hungary, Ireland, Poland, Slovakia, Slovenia and Switzerland and the second largest cable network in the Netherlands and in Romania. For information concerning the Chellomedia Division, see "*Chellomedia*" below.

Provided below is country-specific information with respect to the broadband communications services of our UPC Broadband Division and Telenet.

##### *The Netherlands*

The UPC Broadband Division's operations in the Netherlands, which we refer to as UPC Netherlands, are located in six broad regional clusters, including the major cities of Amsterdam and Rotterdam. Its cable networks are 96% upgraded to two-way capability, and almost all of its cable homes passed are served by a network with a bandwidth of at least 860 MHz. UPC Netherlands makes its digital video, broadband internet and fixed line telephony services available to over 90% of its homes passed.

For its analog cable customers, UPC Netherlands offers a basic service of approximately 30 video channels and approximately 40 radio channels, depending on a customer's location. For its digital cable customers, UPC Netherlands offers two digital cable packages in either a standard definition (SD) version or an HD version. Its digital entry level service currently includes 50 video channels and over 70 radio channels (including the channels in its basic analog service). For an additional monthly charge, the digital subscriber may upgrade to a digital basic

tier subscription. The digital basic tier includes all the channels of the digital entry level service, plus an extra channel package of approximately 40 general entertainment, sports, movies, documentary, music and ethnic channels. Both digital cable packages include an electronic program guide, interactive services and the functionality for VoD service. The VoD service includes both subscription-based VoD and transaction-based VoD. The subscription-based VoD service includes various programming, such as *Grey's Anatomy*, *Desperate Housewives* and *Sex and the City*. Digital cable customers may also subscribe to premium channels, such as *Film 1*, *Sport 1 NL* and the premium football league channel, *Eredivisie Live*, alone or in combination, for additional monthly charges. *Eredivisie Live* is also available on a pay-per-view basis. A customer also has the option for an incremental monthly charge to upgrade the digital box to one with DVR functionality. UPC Netherlands introduced digital boxes with HD DVR functionality for an incremental monthly charge in April 2008 and currently offers up to eight HD channels, depending on the digital service selected.

UPC Netherlands offers six tiers of broadband internet service with download speeds ranging from 384 Kbps to 120 Mbps, including UPC Fiber Power, an ultra high-speed internet service with download speeds of either 60 Mbps or 120 Mbps. UPC Fiber Power, which UPC Netherlands launched in September 2008, is based on Euro DOCSIS 3.0 technology. UPC Netherlands is one of the first companies in Europe to offer this ultra high-speed internet service. As of December 31, 2008, UPC Fiber Power is available to approximately 40% of UPC Netherlands' two-way homes passed and is expected to be available to all two-way homes passed by year end 2009. Multi-feature telephony services are also available from UPC Netherlands through either circuit-switched telephony or VoIP. Of UPC Netherlands' total customers (excluding mobile customers), 9% subscribe to two services (double-play customers) and 26% subscribe to three services (triple-play customers) offered by UPC Netherlands (video, broadband internet and telephony).

UPC Netherlands offers mobile service to all consumers in the Netherlands. The product is a pre-paid mobile offering. UPC Netherlands is operating as a mobile virtual network operator, reselling leased network capacity.

In addition, UPC Netherlands offers a range of voice, broadband internet, private data networks and customized network services to business customers primarily in its core metropolitan networks.

#### *Switzerland*

The UPC Broadband Division's operations in Switzerland are operated by Cablecom and are located in three regional clusters, including the major cities of Bern, Zürich, Lausanne and Geneva. Cablecom's cable networks are 72% upgraded to two-way capability and 77% of its cable homes passed are served by a network with a bandwidth of at least 650 MHz. Cablecom makes its digital video, broadband internet and fixed line telephony services available to over 80% of its homes passed.

For its analog cable customers, Cablecom offers a basic service of approximately 40 video channels and approximately 45 radio channels. For 64% of its analog cable subscribers, Cablecom maintains billing relationships with landlords or housing associations, which typically provide analog cable service for an entire building and do not terminate service each time there is a change of tenant in the landlord's or housing association's premises.

For its digital cable customers, Cablecom offers a digital cable package of over 100 video channels and over 100 radio channels (including the channels in its basic analog service), a range of additional pay television programming in a variety of foreign language program packages and the functionality for NVoD services. The channel package includes general entertainment, sports, movies and ethnic channels. Cablecom offers digital boxes with DVR functionality and/or HD functionality to its customers for an incremental monthly charge and it currently offers six HD channels. Cablecom introduced digital boxes with HD DVR functionality in November 2008, and under current promotional pricing provides these boxes for free for the first two months.

Cablecom offers eight tiers of broadband internet service with download speeds ranging from 500 Kbps to 25 Mbps. In addition, Cablecom continues to offer dial-up internet services on a limited basis. In mid-2009, Cablecom plans to launch UPC Fiber Power in Zurich. Multi-feature telephony services are also available from Cablecom using VoIP. Cablecom offers a pre-paid mobile service to all customers in Switzerland. Of Cablecom's total customers (excluding mobile customers), 16% are double-play customers and 17% are triple-play customers.

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

In addition, Cablecom offers advanced data services to the Swiss business market throughout Switzerland. Cablecom provides broadband internet, multi-site data connectivity, virtual private network, security, messaging and hosting and other value added services to business customers on a retail basis.

#### *Austria*

The UPC Broadband Division's operations in Austria (excluding the Austrian portion of Cablecom's network), which we refer to as UPC Austria, are comprised of both cable and DSL operations. The cable operations are located in regional clusters encompassing the capital city of Vienna, three other regional capitals and two smaller cities. Four of these cities (Vienna, Klagenfurt, Wr. Neustadt and Baden), directly or indirectly, own 5% of the local operating subsidiary of UPC Austria serving the applicable city. The DSL services are provided over an unbundled loop or, in certain cases, over a shared access network. The DSL operations are available in the majority of the country, wherever the incumbent telecommunications operator has implemented DSL technology. UPC Austria's entire cable network is upgraded to two-way capability and approximately 90% of its cable homes passed are served by a network with a bandwidth of at least 860 MHz. UPC Austria makes its digital video available to almost all of its homes passed and broadband internet and fixed line telephony services available to all of its homes passed.

For its analog cable subscribers, UPC Austria offers a package of 38 video channels, mostly in the German language, plus over 30 radio channels. Customers desiring digital service may request a digital interactive television box from UPC Austria. For its digital cable customers, UPC Austria offers two digital cable packages. Its digital entry level service currently includes over 60 video channels and over 70 radio channels (including the channels in its analog package), an electronic program guide, interactive services and the functionality for NVoD service. UPC Austria provides this digital entry level service at no incremental charge over the standard analog rate. For an incremental monthly charge, the digital cable subscriber may upgrade to a digital basic tier subscription, which includes all the channels and features of the digital entry level service, plus an extra channel package of approximately 30 general entertainment, sports, movies, music and ethnic channels. Digital cable customers may also subscribe to premium channels (including ethnic channels, for example Serb and Turkish offerings), alone or in combination, for additional monthly charges. The NVoD service may be accessed for a separate fee for each movie or event ordered. A customer also has the option for an incremental monthly charge to upgrade the digital box to one with DVR functionality. UPC Austria introduced digital boxes with HD DVR functionality for an incremental monthly charge during the second quarter of 2008 and currently offers up to five HD channels, depending on the digital service selected. In the second quarter of 2009, UPC Austria plans to launch VoD services.

UPC Austria offers four tiers of broadband internet service over cable with download speeds ranging from two Mbps to 30 Mbps (as of February 2, 2008), and a student package. UPC Austria plans to launch UPC Fiber Power in Vienna and surrounding areas in mid-2009. Over DSL technology, UPC Austria offers two tiers of unbundled DSL broadband internet, plus additional tiers via wholesale offerings. It also offers a double-play package of broadband internet and telephony over DSL.

Multi-feature telephony services are also available from UPC Austria. UPC Austria also offers a bundle of fixed line and mobile telephony in a co-branding arrangement with the telephony operator Orange Austria Telecommunication GmbH. UPC Austria offers its telephony services through VoIP, which is available to all customers (DSL and cable). It also continues to offer telephony services through circuit-switched telephony. Of UPC Austria's total customers (excluding mobile customers), 28% are double-play customers and 18% are triple-play customers.

UPC Austria offers a range of voice, data, lease line and asymmetric digital subscriber line (ADSL) services to business customers throughout Austria with a primary focus on business customers in cities, including Vienna, Graz, Klagenfurt, Villach, St. Polten, Dornbirn, Leibnitz, Leoben, Salzburg, Linz and Innsbruck.

#### *Ireland*

The UPC Broadband Division's operations in Ireland, which we refer to as UPC Ireland, are located in five regional clusters, including the cities of Dublin and Cork. Its cable network is 59% upgraded to two-way capability, and 57% of its cable homes passed are served by a network with a bandwidth of at least 550 MHz. UPC Ireland makes its digital video, broadband internet and fixed line telephony services available to 94%, 59% and 46%, respectively, of its homes passed. UPC Ireland continues to proactively migrate its remaining analog cable, analog premium and analog MMDS customers to its digital service to provide its customers with a wider range of channels and to release additional bandwidth for other digital services.

For its analog cable customers, UPC Ireland offers an analog cable package with up to 22 channels. For its digital cable customers, UPC Ireland offers three digital cable packages (all of which include the channels in its analog package). Its digital entry package consists of 49 video channels and 35 radio channels. Similar digital packages are also offered to certain of its subscribers via MMDS. Under the current promotional pricing, the digital entry package is priced lower than the analog service. For an incremental monthly charge, the digital cable subscriber may upgrade to one of two other digital packages, which offer up to 107 video channels and 35 radio channels, depending on the service selected and whether provided via cable or MMDS. The program offerings for each type of service include domestic, foreign, sport and premium movie channels. In addition, digital customers can receive event channels such as seasonal sport and real life entertainment events. UPC Ireland distributes up to 10 Irish channels, depending on the package selected, as part of its analog and digital packages. To complement its digital offering, UPC Ireland also offers its digital subscribers 31 channels of premium service and a pay-per-view service. A customer also has the option to upgrade the digital box to one with DVR functionality for an incremental monthly charge. In the third quarter of 2009, UPC Ireland plans to launch HD television services with approximately six HD channels.

UPC Ireland offers four tiers of broadband internet service with download speeds ranging from one Mbps to 20 Mbps. UPC Ireland also offers VoIP multi-feature telephony services. Of UPC Ireland's total customers, 12% are double-play customers and 4% are triple-play customers.

In addition, UPC Ireland offers to business customers a complete range of telecommunications solutions from standard voice and internet services to more advanced services such as Ethernet LAN extensions, corporate voice services and high-speed internet. These services are offered to large corporations, public organizations and small to medium size businesses in Ireland, primarily in Cork, Dublin, Galway, Limerick and Waterford.

#### *Hungary*

The cable networks of the UPC Broadband Division's operations in Hungary, which we refer to as UPC Hungary, are located in 18 major Hungarian towns and cities, including Budapest. Its cable networks are 97% upgraded to two-way capability, and 65% of its cable homes passed are served by a network with a bandwidth of at least 750 MHz. UPC Hungary makes its digital video service available to over 70% of its homes passed and broadband internet and fixed line telephony services available to almost all of its homes passed.

For its analog cable customers, UPC Hungary offers up to four tiers of analog programming services (between 5 and 55 channels) and one premium movie package, depending on the technical capability of the network. In April 2008, UPC Hungary began offering digital programming services and by year end 2008, digital programming services were available to 879,000 homes passed. For its digital cable customers, UPC Hungary offers a basic package of up to 73 channels (including the channels in its analog service). For an incremental monthly charge, the digital cable subscriber may upgrade to up to two of three premium packages. The premium packages offer additional channels with up to three HD channels, as well as three specialty packages. For an incremental monthly charge, UPC Hungary offers digital boxes with DVR functionality or HD DVR functionality. Programming for both analog and digital services consists of the national Hungarian terrestrial broadcast channels and selected European satellite and local programming that consist of proprietary and third-party channels. As part of the digital services

launch, existing analog customers, who subscribe to the more expensive analog tiers, are being targeted to migrate to digital. UPC Hungary plans to expand its digital services to its remaining large systems and launch a VoD service in 2009.

UPC Hungary offers four tiers of broadband internet service with download speeds ranging from 512 Kbps to 20 Mbps. UPC Hungary provides these broadband internet services to subscribers on its cable network in 18 cities, including Budapest. In mid-2009, UPC Hungary plans to launch UPC Fiber Power in Budapest and other cities. It also had 28,300 ADSL subscribers at December 31, 2008, on its twisted copper pair network located in the southeast part of Pest County. Multi-feature telephony services are also available from UPC Hungary. It offers its telephony services through circuit-switched telephony to subscribers on its copper pair network and through VoIP over its two-way capable cable network throughout Hungary. Of UPC Hungary's total customers, 22% are double-play customers and 12% are triple-play customers.

UPC Hungary offers business customers located in its service areas a variety of internet and telephony packages, managed leased lines and virtual private network services primarily to its small office at home (SOHO) customers and small to medium size business customers.

#### *Other Central and Eastern Europe*

The UPC Broadband Division also operates cable networks in Czech Republic (UPC Czech), Poland (UPC Poland) and Romania (UPC Romania), and cable and MMDS networks in Slovakia (UPC Slovakia) and Slovenia (UPC Slovenia). In each of these operations, at least 75% of the cable networks are upgraded to two-way capability, and at least 70% of the homes passed are served by a network with a bandwidth of at least 750 MHz. In each of these cable operations, for an incremental monthly fee, digital cable customers may upgrade the digital box to one with DVR functionality and/or HD functionality, except for UPC Romania which currently offers only DVR functionality. For those operations with HD available, the number of HD channels offered ranges from one in Slovenia to eight in Poland. The UPC Broadband Division also has DTH operations in certain of these countries, which it provides primarily through UPC Direct Programming II, BV (UPC Direct), a subsidiary of Liberty Global Europe.

- *Czech Republic.* UPC Czech's operations are located in more than 92 cities and towns in the Czech Republic, including Prague, Brno, Ostrava, Pilsen and Northern Bohemia. For its analog cable customers, UPC Czech offers two tiers of analog programming services (lifeline and basic) with up to 44 channels, depending on the package selected, and two premium channels. Of UPC Czech's analog cable subscribers, 63% subscribe to the lower priced lifeline package of analog service. For its digital cable subscribers, UPC Czech offers two packages of digital programming services (lifeline and basic) with up to 64 channels (including the channels in its analog service), depending on the package selected. Two packages of premium services are also available. UPC Czech offers eight tiers of broadband internet service with download speeds ranging from two Mbps to 20 Mbps. UPC Czech also offers VoIP multi-featured telephony services. UPC Czech makes its digital video, broadband internet and fixed line telephony services available to 88%, 92% and 91%, respectively, of its homes passed. Of UPC Czech's total customers, 26% are double-play customers and 8% are triple-play customers.
- *Poland.* UPC Poland's operations are located in regional clusters encompassing eight of the 10 largest cities in Poland, including Warsaw and Katowice. For its analog cable subscribers, UPC Poland offers three tiers of analog service. Its lowest tier, the lifeline package, includes six to 10 channels and the intermediate package includes 14 to 31 channels. Almost 35% of UPC Poland's analog cable subscribers receive the lifeline and intermediate packages. For the highest tier (basic tier), the full package includes the channels in the lifeline package, plus up to 51 additional channels with such themes as sports, children, science/educational, news, film and music. For an additional monthly charge, UPC Poland offers two premium television services, the HBO Poland and Canal+ Multiplex packages of five movie, sport and general entertainment channels. In May 2008, UPC Poland introduced digital programming services, offering two packages of digital service (with each package including the channels in its analog service). Its lifeline package includes 14-30 channels and its basic package has over 100 channels. Four packages of digital premium services are also available. UPC Poland offers four tiers of broadband internet service in portions of its network with download speeds ranging from 512 Kbps to 20 Mbps. UPC Poland also offers VoIP multi-

feature telephony services. UPC Poland makes its digital video, broadband internet and fixed line telephony services available to 70%, 90% and 87%, respectively, of its homes passed. Of UPC Poland's total customers, 21% are double-play customers and 11% are triple-play customers.

- **Romania.** UPC Romania's operations are located in nine of the 12 largest cities (with more than 200,000 inhabitants) in Romania, including Bucharest, Timisoara, Cluj and Constanta. For its analog cable customers, UPC Romania offers in all of its cities a lifeline package of 15 channels and a basic package of 30 to 56 channels (depending on location), which include Romanian terrestrial broadcast channels, European satellite programming and other programming. In the main cities, it also offers four extra basic packages of five to 12 channels each and premium pay television (*HBO Romania* and *Adult*). UPC Romania also offers three packages of digital cable service to customers in 23 cities with up to 109 channels (including the channels in its analog service), depending on the package selected, and one package of digital premium services. UPC Romania offers three tiers of broadband internet service, with download speeds ranging from one Mbps to 20 Mbps, and VoIP multi-feature telephony services. UPC Romania makes its digital video, broadband internet and fixed line telephony services available to 48%, 76% and 73%, respectively, of its homes passed. Of UPC Romania's total customers in Romania, 9% are double-play customers and 10% are triple-play customers. In addition, UPC Romania offers a wide range of land line telephony, data transfer, internet access and hosting services to business customers, retail and wholesale, from SOHO customers to multinational companies.
- **Slovakia.** UPC Slovakia offers analog cable service in 30 cities and towns in Slovakia, including the five largest cities of Bratislava, Kosice, Presov, Banska Bystrica and Zilina. UPC Slovakia offers its analog cable and MMDS subscribers two tiers of analog service. Its lower tier, the lifeline package, includes four to eight channels. Of UPC Slovakia's analog cable subscribers, 26% subscribe to the lifeline analog service. UPC Slovakia's most popular tier, the basic package, includes 12 to 51 channels that generally offer all Slovakian terrestrial, cable and local channels, selected European satellite programming and other programming. For an additional monthly charge, UPC Slovakia offers an HBO premium service. For its digital cable subscribers, UPC Slovakia offers two packages of digital programming service with up to 72 channels (including the channels in its analog service), depending on the package selected, and five packages of premium services. UPC Slovakia offers five tiers of broadband internet service with download speeds ranging from 512 Kbps to 20 Mbps. UPC Slovakia also offers VoIP multi-featured telephony services. UPC Slovakia makes its digital video, broadband internet and fixed line telephony services available to 49%, 74% and 74%, respectively, of its homes passed. Of UPC Slovakia's total customers, 10% are double-play customers and 6% are triple-play customers.
- **Slovenia.** UPC Slovenia's operations are located in seven of the 10 largest cities in Slovenia, including Ljubljana and Maribor. UPC Slovenia's most popular video tier, the analog basic package, includes on average 58 video and 30 radio channels and generally offers all Slovenian terrestrial, cable and local channels, selected European satellite programming and other programming. In September 2008, UPC Slovenia began offering its subscribers digital programming services. For its digital cable subscribers, UPC Slovenia offers two packages of digital programming services with up to 100 channels (including the channels in its analog service), depending on the package selected, and two packages of premium service. UPC Slovenia also offers certain of its subscribers digital programming services via MMDS with 60 video and 30 radio channels. Two premium MMDS services are also available. UPC Slovenia offers five tiers of broadband internet service with download speeds ranging from 512 Kbps to 25 Mbps. UPC Slovenia also offers VoIP multi-featured telephony services. UPC Slovenia makes its digital video, broadband internet and fixed line telephony services available to 94%, 75% and 75%, respectively, of its homes passed. Of UPC Slovenia's total customers, 20% are double-play customers and 15% are triple-play customers.
- **UPC Direct.** UPC Direct provides DTH services to customers in Czech Republic, Hungary and Slovakia. Depending on location, subscribers receive 64 to 71 channels for basic service. For an additional monthly charge, a subscriber may upgrade to an extended basic tier package, plus various premium package options for specialty channels. UPC Direct provides DTH services to 18% of our total video subscribers in Czech



Republic, 21% of our total video subscribers in Hungary and 11% of our total video subscribers in Slovakia. Through another subsidiary, the UPC Broadband Division also provides DTH services to 12% of our total video subscribers in Romania.

#### *Telenet (Belgium)*

Liberty Global Europe's operations in Belgium are operated by Telenet. We indirectly own 50.6% of Telenet's outstanding ordinary shares. Telenet offers video, broadband internet and fixed and mobile telephony services in Belgium, primarily to residential customers in the Flanders region and the city of Brussels. Its cable networks and the Telenet PICs Network are all upgraded to two-way capability and all of its cable homes passed are served by a network with a bandwidth of at least 450 MHz. As a result of the Interkabel Acquisition, Telenet makes its quadruple-play services, including digital video, broadband internet and fixed line and mobile telephony services, available to all of its homes passed.

For its analog cable customers, Telenet offers a basic package of at least 26 video channels and 25 radio channels, depending on the region. For its digital cable subscribers, Telenet offers two packages of digital programming service. Its digital basic package consists of at least 51 video channels, 24 radio channels and 10 music channels (including channels from the basic analog package), interactive services and the functionality for VoD service. For an additional monthly charge, the digital subscriber may upgrade to a premium package, which includes all the channels and features of the digital basic package, plus 12 general entertainment, sports and movie channels. In addition, digital cable customers may also subscribe to premium channels, including documentary, foreign language, kids, music, sports, adult and movies, alone or in combination, for an additional monthly charge. Telenet's digital customers who subscribe to interactive digital services can receive over 100 channels, depending on the package selected. A customer has the option to upgrade the digital box to one with DVR functionality for an incremental monthly charge. Telenet also offers HD and HD DVR boxes and at least eight HD channels, depending on the region.

Telenet offers four tiers of broadband internet service with download speeds ranging from one Mbps to 25 Mbps. In addition, Telenet continues to offer dial-up internet services on a limited basis.

Telenet offers digital telephony services through VoIP and circuit-switched telephony services, as well as value-added services. In addition, Telenet offers, individually and as a bundle, fixed line telephony services over its network and mobile telephony services as a mobile virtual network operator, reselling leased network capacity. Of Telenet's total customers (excluding mobile customers), 22% are double-play customers and 22% are triple-play customers.

Telenet also offers a range of voice, data and broadband internet services to business customers throughout Belgium under the brand "Telenet Solutions".

Pursuant to the 2008 PICs Agreement, Telenet completed the Interkabel Acquisition on October 1, 2008. Prior to the completion of the Interkabel Acquisition, Telenet offered premium video, internet and telephony services over the Telenet PICs Network pursuant to certain pre-existing agreements. Upon completion of the Interkabel Acquisition, Telenet assumed the direct customer relationship with the analog and digital video subscribers on the Telenet PICs Network and thereafter launched interactive digital video services on the network. Pursuant to the 2008 PICs Agreement, Telenet has full rights to use substantially all of the Telenet PICs Network under a long-term lease for a period of 38 years, for which it is required to pay recurring fees in addition to the fees paid under certain of the pre-existing agreements. The PICs remain the legal owners of the Telenet PICs Network. All capital expenditures associated with the Telenet PICs Network will be initiated by Telenet but executed and pre-financed by the PICs through an addition to the long-term capital lease, and will follow a 15-year reimbursement schedule. The 2008 PICs Agreement has the form of an emphyotic lease agreement, which under Belgian law is the legal form that is closest to ownership of a real estate asset without actually having the full legal ownership. Unless extended, the 2008 PICs Agreement will expire on September 23, 2046, and cannot be terminated earlier (except in the case of non-payment or bankruptcy of the lessee). For additional information on the provisions of the 2008 PICs Agreement, see note 4 to our consolidated financial statements included in Part II of this report.

Liberty Global Europe's interest in Telenet is held by certain indirect subsidiaries of Chellomedia. Pursuant to an agreement for a syndicate that controls Telenet through its collective ownership of outstanding Telenet shares and of which the Chellomedia subsidiaries own a majority of the syndicate shares, these subsidiaries have rights of first offer in respect of market sales and offerings of Telenet shares by the other Telenet syndicate shareholder to certain persons. These subsidiaries and the other syndicate shareholder are subject to mutual rights of first offer in respect of transfers to third parties of Telenet shares that are not effected through market sales. Also, certain Telenet Board decisions must receive the affirmative vote of specified directors in order to be effective while this syndicate agreement is in effect. These decisions include the sale of certain cable assets or termination of cable services.

#### *Chellomedia*

Liberty Global Europe's Chellomedia Division provides interactive digital products and services, produces and markets 28 thematic channels, operates a digital media center and manages our investments in various businesses in Europe. Below is a description of the business unit operations of our Chellomedia Division:

- *Chello Programming.*

Chello Zone. Chellomedia produces and markets a number of widely distributed multi-territory thematic channels in over 100 countries in 22 languages. These channels target the following genres: extreme sports and lifestyles (the *Extreme Sports Channel*), horror films (*Zone Horror*), real life stories (*Zone Reality*), women's information and entertainment (*Zone Club* and *Zone Romantica*), art house basic movies (*Zone Europa*), science fiction and fantasy (*Zone Fantasy*), prime time movies (*Zone Thriller*) and children's pre-school (*Jim Jam*). Chellomedia also provides international drama series to China Central Television for transmission in China. In addition, Chellomedia has a channel representation business, which represents both wholly-owned and third-party channels across Europe.

Chello Benelux. Chellomedia owns and manages a premium sports channel (*Sport 1 NL*) and a premium movie channel (*Film 1*) in the Netherlands. *Sport 1 NL* has exclusive pay television rights for a variety of sports, but it is primarily football oriented. These exclusive pay television rights expire at various dates through 2009. For *Film 1*, Chellomedia has exclusive pay television output deals with key Hollywood studios that expire at various dates through 2014. It also distributes *Weer & Verkeer* (Weather & Traffic Channel) to cable networks and satellite operators.

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

Chello Central & Eastern Europe. Chellomedia has a controlling 80% interest in a joint venture with an unrelated third party that owns the children's channel *Minimax* and manages the sports channels *Sport1* and *Sport2*. The programming on the sport channels varies by country, but is predominately football oriented. Chellomedia also owns the thematic channels *Filmmuzeum* (a Hungarian library film channel), *TV Paprika* (a cooking channel), *Deko* (a home and lifestyle channel) and *Spektrum* (a documentary channel). *Sport1* and *Minimax* are distributed to the UPC Broadband Division and other broadband operators in Hungary, Czech Republic, Slovakia, Romania and Serbia. *Filmmuzeum* is distributed to the UPC Broadband Division and other broadband operators in Hungary. *TV Paprika*, *Sport2*, *Deko* and *Spektrum* are distributed to the UPC Broadband Division and other broadband operators in Hungary, Czech Republic and Slovakia. *TV Paprika* is also distributed in Romania. Chellomedia also operates At Media, an advertising sales representation business in Poland and the Czech Republic.

Chello Multicanal. Through its subsidiaries IPS C.V. and Multicanal S.L. (collectively, IPS), Chellomedia owns and manages a suite of eight thematic channels carried on a number of major pay television platforms

in Spain and Portugal. IPS has six wholly-owned thematic channels (*Canal Hollywood*, *Odisea*, *Sol Musica*, *Canal Panda*, *Canal Cocina* and *Decasa*) and two joint venture channels with A&E Television Networks (*Canal de Historia* and *The Biography Channel*).

- **Chello On Demand (Transactional Television).** Chello On Demand aggregates and delivers entertainment content into VoD offers (transactional and subscription based) primarily for the UPC Broadband Division. During 2008, Chello On Demand enhanced its VoD services launched in 2007 through the UPC Broadband Division in the Netherlands. This service offers movies, international comedy and drama, documentaries, music, children's entertainment and local content on the subscriber's request. Chello On Demand continues to offer NVoD services for feature movies in Austria and Switzerland, and anticipates offering VoD services in these countries as well as in Central and Eastern Europe in 2009.
- **Investments.** Chellomedia is an investor in equity ventures, among others, for the development of country-specific Pan European programming, including *The MGM Channel Central Europe*, *Jetix Poland*, *Weer & Verkeer* (Weather & Traffic Channel), *City Channel* and *Shorts International*. Chellomedia also owns a 25% interest in Canal+ Cyfrowy Sp zoo, a DTH platform in Poland, a 15% interest in O3B Networks Limited, a startup company that plans to operate a satellite-based data backhaul business across the developing world (predominately Africa), and it is the subsidiary through which Liberty Global Europe owns its interest in Telenet.

#### **Asia/Pacific**

We have operations in Japan and Australia. Our Japanese operations are conducted primarily through Super Media and its subsidiary J:COM. We have an indirect controlling ownership interest in J:COM of 37.8%. Our Australian operations are conducted primarily through Austar in which we own a 54.0% indirect majority ownership interest.

##### *Jupiter Telecommunications Co., Ltd.*

J:COM is a leading broadband provider of video, broadband internet and fixed telephony services in Japan. As of December 31, 2008, J:COM is the largest multiple-system operator (MSO) in Japan, as measured by the total number of homes passed and customers. J:COM's operations are primarily clustered around three metropolitan areas of Japan, consisting of the Kanto region (which includes Tokyo), the Kansai region (which includes Osaka, Kobe and Kyoto) and the Kyushu region (which includes Fukuoka and Kita-Kyushu). In addition, J:COM owns cable operations in the Sendai and Sapporo areas of Japan that are not part of a cluster.

All of J:COM's cable networks are upgraded to two-way capability, with all of its cable homes passed served by a system with a bandwidth of at least 750 MHz. J:COM makes its digital video and broadband internet services available to all of its homes passed and its fixed line telephony services available to 93% of its homes passed. Of its total customers (excluding mobile customers), approximately 28% are double-play customers and approximately 25% are triple-play customers.

For its analog cable customers, J:COM offers an analog programming service of approximately 45 channels of cable programming and analog terrestrial broadcasting and broadcast satellite channels, not including premium services. A typical channel line-up includes popular channels in the Japanese market such as *Movie Plus*, a top foreign movie channel, *LaLa TV*, a women's entertainment channel, *J sports 1*, *J sports 2* and *J sports ESPN*, three popular sports channels, the *Discovery Channel*, the *Golf Network*, the *Disney Channel* and *Animal Planet*, in addition to retransmission of analog terrestrial and satellite television broadcasts. For its digital cable subscribers, J:COM offers a digital programming service of approximately 66 channels (including channels from its analog service) of cable programming, digital terrestrial broadcasting, and broadcast satellite channels, not including radio and data (news and weather forecasts) channels and premium services. The channel line-up for the digital service includes 21 HD channels. J:COM provides its digital cable subscribers VoD and pay-per-view functionality, allowing those subscribers, generally for an additional fee, to receive programming that is not available to J:COM's analog cable subscribers. For an incremental monthly fee, digital cable subscribers may also receive a digital set-top box with HD DVR functionality.

For an additional fee, J:COM offers both its analog and digital subscribers optional subscriptions to premium channels, including movies, sports, horseracing and other special entertainment programming, either individually or in packages. In addition to the services offered to its cable television subscribers, J:COM also provides terrestrial broadcast retransmission services to more than 5 million (excluding December 2008 acquisitions) additional households as of December 31, 2008, including "compensation" households for which J:COM receives up-front fees pursuant to long-term contracts to provide such retransmission services. J:COM does not count such additional households as customers or RGUs.

J:COM offers five tiers of broadband internet services. These broadband internet services offer download speeds ranging from 256 Kbps to an ultra high-speed of up to 160 Mbps. The ultra high-speed internet, branded J:COM Net Ultra 160M Course, is based on DOCSIS 3.0 technology and has upload speeds of up to 10 Mbps. The J:COM NET Ultra 160M Course is available to 87% of J:COM's homes passed.

Multi-feature telephony services are also available from J:COM through circuit-switched telephony and, in certain areas, VoIP. In partnership with WILLCOM, Inc, a personal handpone system service provider in Japan, J:COM also offers a mobile phone service called J:COM MOBILE. J:COM MOBILE customers receive discounted phone service when bundled with J:COM's other telephony service, including free and discounted calling plans.

J:COM sources its programming through multiple suppliers, including its programming division Jupiter TV. Through Jupiter TV, J:COM develops, manages and distributes pay television services in Japan on a platform-neutral basis through various distribution infrastructures, principally cable and DTH service providers, and more recently, alternative broadband service providers using fiber-to-the-home (FTTH) and ADSL platforms. As of December 31, 2008, J:COM owned four channels through wholly- or majority-owned subsidiaries and had investments ranging from 10% to 50% in nine additional channels. J:COM's majority owned channels are a movie channel (*Movie Plus*), a golf channel (*Golf Network*), a women's entertainment channel (*LaLa TV*) and an all-around entertainment channel targeting seniors launched in April 2008 (*Channel Ginga*). Channels in which J:COM holds investments include four sports channels owned by J SPORTS Broadcasting Corporation, a one-third owned joint venture; *Animal Planet Japan*, a one-third owned joint venture; *Discovery Channel Japan* and *Discovery Hi-Vision* through a 50% owned joint venture; and *AXN Japan*, a 35% owned joint venture. J:COM provides affiliate sales services and in some cases advertising sales and other services to channels in which it has an investment for a fee.

Our interest in J:COM is held primarily through Super Media, an entity that is owned 58.7% by us and 41.3% by Sumitomo. We also own, through a wholly-owned subsidiary, an additional 3.7% of J:COM's shares. Pursuant to the operating agreement of Super Media, most of our interest and most of Sumitomo's interest in J:COM is held through Super Media. Sumitomo and our subsidiary are generally required to contribute to Super Media any additional shares of J:COM that either of us acquires and to permit the other party to participate in any additional acquisition of J:COM shares during the term of Super Media. Pursuant to an amendment to such operating agreement, the J:COM shares we currently hold through another subsidiary and an equivalent number of J:COM shares held by Sumitomo will not be contributed to Super Media but we each agreed to vote such shares in the same manner that Super Media votes its shares of J:COM and to restrictions on transfer.

Our interest in Super Media is held through two separate corporations, one of which is wholly owned. Three individuals, including one of our executive officers and an officer of one of our subsidiaries, own common stock representing an aggregate of 14.3% of the common equity in the second corporation, which owns a 4.0% indirect interest in J:COM. We also own preferred stock of such corporation with an aggregate liquidation preference at December 31, 2008, of \$161.9 million. Pursuant to an amended and restated shareholders agreement, such individuals can require us to purchase all of their common stock in such corporation, and we can require them to sell us all or part of their common stock, in exchange for LGI common stock with an aggregate market value equal to the fair market value of the common stock so exchanged. Information about our rights to acquire the common stock of such corporation appears in note 20 to our consolidated financial statements included in Part II of this report.

Super Media is managed by a management committee consisting of two members, one appointed by us and one appointed by Sumitomo. The management committee member appointed by us has a casting or tie-breaking vote with respect to any management committee decision that we and Sumitomo are unable to agree on, which casting vote will remain in effect for the term of Super Media. Certain decisions with respect to Super Media require the

consent of both members rather than the management committee. These include a decision to engage in any business other than holding J:COM shares, sell J:COM shares, issue additional units in Super Media, make in-kind distributions or dissolve Super Media, in each case other than as contemplated by the Super Media operating agreement. While Super Media effectively has the ability to elect J:COM's entire board, pursuant to the Super Media operating agreement, Super Media is required to vote its J:COM shares in favor of the election to J:COM's board of three non-executive directors designated by Sumitomo and three non-executive directors designated by us.

Because of our casting vote, we indirectly control J:COM through our control of Super Media, which owns a controlling interest in J:COM, and therefore consolidate J:COM's results of operations for financial reporting purposes. Super Media will be dissolved on February 18, 2010, unless Sumitomo and we mutually agree to extend the term. Super Media may also be dissolved earlier under certain circumstances.

#### *Australia*

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

Austar's DTH service is available to 2.5 million households, which is approximately one-third of Australian homes. Austar's territory covers all of Tasmania and the Northern Territory and the regional areas outside of the capital cities in South Australia, Victoria, New South Wales and Queensland. Austar does not provide DTH service to Western Australia. FOXTEL's service area is concentrated in metropolitan areas and covers the balance of the other two thirds of Australian homes. FOXTEL and Austar do not compete with each other with the exception of the Gold Coast area in Queensland. Austar also operates a small digital cable network in Darwin.

For the base level service, a DTH subscriber receives 44 channels, including six time shifted channels. Austar's DTH service also offers over 80 premium channels, as well as NVoD, interactive services and DVR functionality. Austar's channel offerings include movies, sport, lifestyle programs, children's programs, documentaries, drama and news. The NVoD service is comprised of 30 channels, dedicated to recently released movies. The interactive services include *Sports Active*, *Weather Active* and *SKY News Active*, three game services and more than 30 digital radio channels. In addition to residential subscribers, Austar also provides its television services to commercial premises, including hotels, retailers and licensed venues.

Austar owns a 50% interest in XYZ Networks. XYZ Networks has an ownership interest in or distributes the following channels: *Discovery Channel*, *Nickelodeon*, *Nick Jr.*, *arena*, *The LifeStyle Channel*, *LifeStyle Food*, *Channel [v]*, *[v]2*, *MAX*, *Country Music Channel* and *The Weather Channel*. These channels are distributed throughout Australia. Austar's partner in XYZ Networks is FOXTEL. Through agreements with XYZ Networks and other programmers, Austar has a number of long-term key exclusive programming agreements for its regional territory.

In addition, Austar offers mobile telephony services through a reseller agreement. Since 2000, Austar has owned significant holdings of the 2.3 GHz and 3.5 GHz spectrum bands throughout its regional territory. These bands are ideally suited for new Worldwide Interoperability for Microwave Access (WiMax) based telecommunications services. Austar operates two trial markets for broadband internet services over a WiMax network using Austar's spectrum. Although it has no current plans to expand the WiMax network further, Austar continues to explore spectrum opportunities.

#### *The Americas*

Our operations in the Americas are conducted primarily through our 80% owned subsidiary VTR in Chile and our wholly-owned subsidiary Liberty Puerto Rico. We also have a joint venture interest in MGM Networks Latin America and a subsidiary in Argentina, both of which offer programming content to the Latin America market. Our

partner in VTR, Cristalerías de Chile S.A. (Cristalerías), has a put right which allows Cristalerías to require us to purchase all, but not less than all, of its 20% interest in VTR at fair value, subject to a minimum price. This put right is exercisable until April 13, 2015.

#### VTR

VTR provides video, broadband internet and fixed telephony services in Santiago, Chile's largest city, the large regional cities of Iquique, Antofagasta, Concepción, Viña del Mar, Valparaíso and Rancagua, and smaller cities across Chile. VTR is Chile's largest multi-channel television provider in terms of homes passed and number of subscribers, and a leading provider of broadband internet and residential telephony services. VTR's cable network is 71% upgraded to two-way capability and 78% of cable homes passed are served by a network with a bandwidth of at least 750 MHz. The vast majority of VTR's network is aerial plant. VTR makes its digital video, broadband internet and fixed line telephony services available to 80%, 71% and 70%, respectively, of its homes passed.

For its analog cable customers, VTR offers two tiers of analog programming service: a low tier analog service with 19 to 62 channels and a basic tier analog service with 40 to 70 channels. The basic tier programming for analog cable customers is similar to the basic tier program lineup in the United States, but includes more premium channels such as *HBO*, *Cinemax* and *Cinecanal* on the basic tier. VTR obtains programming from the United States, Europe, Argentina and Mexico. There is also domestic cable programming in Chile, based on local events such as soccer matches and regional content. For its digital cable customers, VTR offers a digital programming service with 87 video channels and 40 radio channels (including the channels in its analog service), four pay-per-view channels and more than 1,400 titles in VoD. It also has a digital premium service with additional programming options of 41 premium channels and two HD channels. DVR functionality is also available. Commencing in February 2009, for new cable subscribers in the areas where VTR's digital platform is available, VTR offers only the digital programming service. As a result of a joint venture with Turner Broadcasting System Latin America, Inc., in December 2008, VTR launched CNN Chile, the first 24-hour Chilean news channel, which is available through VTR's basic analog and digital programming services.

VTR offers five tiers of broadband internet services with download speeds ranging from 300 Kbps to 15 Mbps (as of January 2009) in 28 communities within Santiago and 21 cities outside Santiago. VTR also offers multi-feature telephony service over its cable network to customers in 28 communities within Santiago and 21 cities outside Santiago via either circuit-switched telephony or VoIP, depending on location. In the fourth quarter of 2008, VTR launched a new telephony service that allows customers to see the caller ID on their television. Of VTR's total customers, 20% are double-play customers and 40% are triple-play customers.

VTR offers a range of voice and broadband internet services to SOHO customers in its core communities within Santiago and its core metropolitan networks outside of Santiago.

In December 2005, the Subsecretaría de Telecomunicaciones de Chile awarded VTR regional concessions for wireless fixed telephony service in the frequency band of 3400-3600 MHz. Using this spectrum, VTR deployed broadband telephony and internet services through WiMax technology on a trial basis in parts of Santiago and plans a soft launch in Santiago during the first quarter of 2009. WiMax is a wireless alternative to cable and DSL for the last mile of broadband access. VTR anticipates WiMax will allow it to expand its service area by an estimated 1.3 million homes and increase the number of two-way homes passed by an estimated 540,000 on a more cost-effective basis than if it had to install cable.

VTR is subject to certain regulatory conditions as a result of the combination with Metrópolis Intercom S.A. in April 2005. The most significant conditions require that the combined entity (1) re-sell broadband capacity to third-party internet service providers on a wholesale basis; and (2) activate two-way service to two million homes passed within five years from the consummation date of the combination. For three years after the consummation date of the combination, the combined entity was also required to limit basic tier price increases to the rate of inflation, plus a programming cost escalator. This condition expired in May 2008. Another condition expressly prohibits us, as the controlling shareholder of VTR, from owning an interest, directly or indirectly through related parties, in any company that provides microwave or satellite television services in Chile. The DirecTV Group, Inc. (DirecTV) owns a satellite television distribution service that operates in Chile and elsewhere in the Americas. On December 12, 2006, Liberty Media Corporation (Liberty Media) announced publicly that it had agreed to acquire an

approximate 39% interest in DirecTV. On August 1, 2007, VTR received formal written notice from the Chilean Federal Economic Prosecutor (FNE) stating that Liberty Media's acquisition of the DirecTV interest would violate the regulatory condition prohibiting us from owning an interest in Chilean satellite or microwave television businesses. On March 19, 2008, following the closing of Liberty Media's investment in DirecTV, the FNE commenced an action before the Chilean Antitrust Court against John C. Malone, the chairman of our board of directors and of Liberty Media's board of directors. In this action, the FNE alleges that Mr. Malone is a controller of VTR and either controls or indirectly participates in DirecTV's satellite operations in Chile, thus violating the condition. The FNE requested the Antitrust Court to impose a fine on Mr. Malone and order him to effect the transfer of the shares, interests or other assets that are necessary to restore the independence, in ownership and administration, of VTR and DirecTV. We currently are unable to predict the outcome of this matter or its impact on VTR.

## **Regulatory Matters**

### **Overview**

Video distribution, internet, telephony and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in European markets, with the exception of Switzerland, is harmonized under the regulatory structure of the European Union (EU).

Adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and capital expenditures. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content. Failure to comply with current or future regulation could expose our businesses to penalties.

### **Europe**

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom are the Member States of the EU. As such, these countries are required to harmonize certain of their laws with certain EU rules. In addition, other EU rules are directly enforceable in those countries. Certain EU rules are also applicable across the European Economic Area, whose Member States are the EU Member States as well as Iceland, Liechtenstein and Norway.

In the broadcasting and communications sectors there has been extensive EU-level legislative action. As a result, most of the markets in Europe in which our businesses operate have been significantly affected by the regulatory framework that has been developed by the EU. The exception to this is Switzerland, which is not a Member State of the EU or the European Economic Area and is currently not seeking any such membership. We discuss separately below regulation in Switzerland, as well as regulation in certain Member States, in which we face regulatory issues that may have a material impact on our business in that country.

### **EU Communications Regulation**

The body of EU law that deals with communications regulation consists of a variety of legal instruments and policies (collectively referred to as the EU Communications Regulatory Framework or Regulatory Framework). The key elements of the Regulatory Framework are six Directives that require Member States to harmonize their laws.

These are:

- Directive for a New Regulatory Framework for Electronic Communications Networks and Services (referred to as the Framework Directive);
- Directive on the Authorization of Electronic Communications Networks and Services (referred to as the Authorization Directive);

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

The Regulatory Framework primarily seeks to open European markets for communications services. It harmonizes the rules for the establishment and operation of electronic communications networks, including cable television and traditional telephony networks, and the offer of electronic communications services, such as telephony, internet and, to some degree, television services. The Regulatory Framework does not generally address issues of content.

Since 2005, the EU Commission has been engaged in a process of reviewing the Regulatory Framework. On November 13, 2007, the EU Commission published revised legislative proposals. Among other things, the proposals included (1) a suggestion for a European level communications regulator, (2) the possibility for national regulators to impose functional separation on operators (which would only apply to the incumbent telecommunications operators as a means to increase competition), and (3) changes to radio spectrum licensing.

The proposals have been extensively considered both by the European Parliament and the European Council and any revised Directive can only be adopted by them, although the EU Commission will continue to make suggestions and continues to have influence over the legislative process.

By November 27, 2008, there existed three separate versions of draft Directives: one each from the EU Commission, the European Parliament and the European Council. On December 16, 2008, the EU Commission, the European Parliament and the European Council met for their first trilateral discussion on reaching a compromise. Five more meetings are scheduled for the first quarter of 2009. The most contentious issues remaining are the proposal for a European level communications regulator as well as additional powers for the EU Commission to overrule regulatory proposals from the Member States. The goal of the parties is to reach agreement before the election of a new European Parliament in June 2009.

There can, however, be no assurance when, if ever, any new Directives will be adopted, what the final form of such Directives will be nor how they will affect us. Pending the adoption and entry into force of any new Directives, and their transposition by the Member States, the existing legal situation is unchanged.

Certain key provisions included in the current Regulatory Framework are set forth below. This description is not intended to be a comprehensive description of all regulation in this area.

*Licensing and Exclusivity.* The Regulatory Framework requires Member States to abolish exclusivities on communication networks and services in their territory and allow operators into their markets based on a simple registration. The Regulatory Framework sets forth an exhaustive list of conditions that may be imposed on communication networks and services. Possible obligations include, among other things, financial charges for universal service or for the costs of regulation, environmental requirements, data privacy and other consumer protection rules, "must carry" obligations, provision of customer information to law enforcement agencies and access obligations.

*Significant Market Power.* Certain of the obligations allowed by the Regulatory Framework apply only to operators or service providers with "Significant Market Power" in a relevant market. For example, the provisions of the Access Directive allow EU Member States to mandate certain access obligations only for those operators and service providers that are deemed to have Significant Market Power. For purposes of the Regulatory Framework, an operator or service provider 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.



As part of the implementation of certain provisions of the Regulatory Framework, each Member State's National Regulatory Authority (NRA), is required to analyze certain markets predefined by the EU Commission to determine if any operator or service provider has Significant Market Power. Until November 2007, there were 18 such markets but on November 13, 2007, the EU Commission adopted a new recommendation reducing the list of markets to seven. Such markets are referred to as the predefined markets. The effect of the new recommendation is that those Member States who had not analyzed one of the deleted markets, or who had analyzed such a market and found no Significant Market Power are no longer required to carry out any analysis in that market. Member States who have analyzed one of the deleted markets and found Significant Market Power will have to re-analyze that market and, if they still find Significant Market Power, notify the EU Commission of the finding of Significant Market Power outside the seven predefined markets. Pending such re-analysis, the prior finding of Significant Market Power will remain in effect until the end of its duration (typically for three years). There is no specific timetable for such re-analysis, although the EU Commission may pressure Member States if it sees them as being slow in performing market analyses.

We have been found to have Significant Market Power in some markets in some countries and further such findings are possible. In particular, in those markets where we offer telephony services, we have been found to have Significant Market Power in the termination of calls on our own network. In addition, we have been found to have Significant Market Power in the market for wholesale broadcasting transmission services (which is no longer a pre-defined market) in the Netherlands as described below.

NRAs might seek to define us as having Significant Market Power in any of the seven predefined markets or they may define and analyze additional markets. In the event that we are found to have Significant Market Power in any particular market, a NRA could impose certain conditions on us. Under the Regulatory Framework, the EU Commission has the power to veto a finding by an NRA of Significant Market Power in any market whether or not it is included in the seven predefined markets.

*Video Services.* The distribution, but not the content, of television services to the public is harmonized by the Regulatory Framework. Member States are allowed to impose reasonable "must carry" obligations for the transmission of specified radio and television broadcast channels and on certain operators under their jurisdiction. Such obligations should be based on clearly defined general interest objectives, be proportionate and transparent and be subject to periodic review. We are subject to some degree of "must carry" regulation in all European markets in which we operate. In some cases, these obligations go beyond what we believe is allowable under the Regulatory Framework. To date, however, the EU Commission has taken very limited steps to enforce EU law in this area, leaving intact "must carry" obligations that are in excess of what we believe to be allowed. Moreover, on December 22, 2008, the European Court of Justice took a very narrow view of the restriction on must carry under the Regulatory Framework, treating it as a procedural formality. Therefore, it is unlikely that there will be any reduction in the must carry regulations in the foreseeable future.

#### *EU Broadcasting Law*

Although the distribution of video channels by a cable operator is within the scope of the Regulatory Framework, the activities of a broadcaster are harmonized by other elements of EU law, in particular the Audiovisual Media Services Directive (AVMS). AVMS, which was adopted on December 11, 2007, amended the EU's existing Television Without Frontiers Directive (TVWF). Member States must transpose the requirements of AVMS into national law by December 19, 2009.

Generally, broadcasts originating in and intended for reception within an EU Member State must respect the laws of that Member State. Pursuant to both AVMS and TVWF, however, EU Member States are required to allow broadcast signals of broadcasters established in another EU Member State to be freely transmitted within their territory so long as the broadcaster complies with the law of their home state. This is referred to as the country of origin principle.

In respect of channels originating in many European countries, The European Convention on Transfrontier Television extends the country of origin principle beyond the EU's borders into certain other European territories into which we sell our channels, including Switzerland. The Convention is an instrument of the Council of Europe, with 47 member countries including the 27 EU Member States, and is similar to TVWF in its aims of free movement

of channels, although it only achieves that with member countries that have ratified its text and not all have so ratified. The Council of Europe is currently considering modifying the Convention along the lines of AVMS but there can be no assurance as to what the outcome of this will be.

Both TVWF and AVMS establish quotas for the transmission of European-produced programming and programs made by European producers who are independent of broadcasters. From our perspective, the key difference between AVMS and TVWF is that the former extends the scope of EU broadcasting regulation and its country of origin principle to certain on-demand television-like services such as VoD. Accordingly, we should be able, if we choose to do so, offer our own VoD services across the European Economic Area based on the regulation of the country of origin. Thus, it is possible for us to structure our business to have a single regulatory regime for all of our VoD services offered in Europe. In addition, when we offer third party VoD services on our network, it should be the business of the third party, in its capacity as provider of the services, and not ours as the local distributor, that is regulated in respect of these services.

The process of AVMS transposition is now ongoing in most Member States and there can be no assurance that the requirements on VoD will, in fact, operate in the manner described above in any individual Member State. Thus we may face inconsistent and uncertain regulation when we offer VoD services in Europe.

#### *Other European Level Regulation*

In addition to the industry-specific regimes discussed above, our European operating companies must comply with both specific and general legislation concerning, among other matters, data protection, data retention, content provider liability and electronic commerce.

They are also subject to both national and European level regulations on competition and on consumer protection, which are broadly harmonized at the EU level. For example, while our operating companies may offer their services in bundled packages in European markets, they are sometimes not permitted to make a subscription to one service, such as cable television, conditional upon a subscription to another service, such as telephony. They may also face restrictions on the degree to which they may discount certain products included in the bundled packages.

Currently the telecommunications equipment we provide our customers, such as digital set-top boxes, is not subject to regulation regarding energy consumption. The EU Commission is, however, considering the need for mandatory requirements regarding energy consumption of such equipment. Similar discussions are already underway in Switzerland. We have been participating in discussions and studies regarding energy consumption with various parts of the EU Commission, with experts working on their behalf, and with the Swiss authorities. In addition, we are working with suppliers of our digital set-top boxes to lower power consumption, as well as looking at possibilities through software to lower the power consumption of the existing fleet of digital set-top boxes. Legislation in this area may be adopted in 2009 and could adversely affect the cost and/or the functionality of equipment we deploy in customer homes.

#### *The Netherlands*

The Netherlands has an electronic communications law that broadly transposes the Regulatory Framework. According to this electronic communications law, Onafhankelijke Post en Telecommunicatie Autoriteit (OPTA), the Netherlands NRA, should perform the market analysis to determine which, if any, operator or service provider has Significant Market Power. OPTA has completed its first round of market analysis and, for the majority of predefined markets, a second round of analysis as well.

All providers of call termination on fixed networks in the Netherlands have been found to have Significant Market Power, including our subsidiary UPC Nederland BV (UPC NL). College van Beroep voor het bedrijfsleven (CBB), the administrative supreme court, annulled on May 11, 2007, the Significant Market Power designation of UPC NL in this market with the consequence that there were no legal grounds for imposing obligations. OPTA published an amended decision effective May 6, 2008, which imposed all previous obligations regarding access, transparency and tariff regulation and included a non-discrimination obligation. UPC NL has challenged this

decision at CBB, which appeal is still pending. In December 2008, OPTA completed further market analyses, including a new decision on call termination for UPC NL. This decision became effective January 1, 2009, requiring UPC NL to reduce its call termination rates.

In relation to television services, in its first round analysis, OPTA found UPC NL to have Significant Market Power in the market for wholesale broadcasting transmission services, which was on the original but not the current list of predefined markets, and in an additional market not on either list relating to the retail transmission of radio and television signals. The OPTA decision with respect to the wholesale market imposed various obligations on UPC NL, including the obligation to provide access to content providers and packagers that seek to distribute content over UPC NL's network using their own conditional access platforms. OPTA's revised decision in relation to the wholesale market, which was issued after an initial successful appeal by UPC NL but imposed substantially the same obligations as the initial decision, will expire on March 17, 2009. The OPTA decision with respect to the retail market expired on March 17, 2007.

On August 5, 2008, OPTA issued a draft decision on its second round market analysis with respect to television services, again finding UPC NL, as well as other cable operators, to have Significant Market Power in the market for wholesale broadcasting transmission services and imposing new obligations. Following a national consultation procedure, OPTA issued a revised decision and submitted it to the EU Commission on January 9, 2009. On February 9, 2009, the EU Commission informed OPTA of its approval of the draft decision. The decision is expected to become effective on March 17, 2009. The new market analysis decision, once effective, will impose on the four largest cable operators in the Netherlands a number of access obligations in respect of television services. The two largest cable operators, including UPC NL, will have a number of additional access obligations.

The access obligations consist of (1) access to capacity for the transmission of the television signal (both analog and digital); (2) resale of the analog television signal and, in conjunction with any such resale, the provision of customer connection; and (3) access to UPC NL's digital conditional access system, including access to its operational supporting systems and co-location. OPTA has stated that any operator with its own infrastructure, such as Royal KPN NV, the incumbent telecommunications operator in the Netherlands (KPN), will not be allowed to resell the analog television signal or avail itself of access to UPC NL's digital platform.

The resale obligation will enable third parties to take over the customer relationship as far as the analog television signal is concerned. The decision includes the possibility for resale of an analog package that is not identical to the analog packages offered by UPC NL. Potential resellers will need to negotiate the relevant copyrights directly with program providers in order to resell the identical or almost identical analog television signals. In case of non-identical resale, the decision imposes a number of preconditions, including that the reseller must bear the costs of filtering and that OPTA will determine the reasonableness of such request on a case by case basis.

In respect of transmission of the analog television signal, a number of preconditions were established to ensure that such transmission will not cause unreasonable use of scarce capacity. A request for transmission of analog signals that are not included in UPC NL's analog television package, as well as parallel transmission of analog signals that are already part of the analog package, will in principle be deemed unreasonable.

Regarding digital, the new market analysis decision requires UPC NL to enable providers of digital television signals to supply their digital signals using their own or UPC NL's digital conditional access system. This allows the third parties to have their own customer relationship for those digital television signals and to bundle their offer with the resale of the analog television signal.

Pricing of the wholesale offer for analog and digital transmission capacity will be at cost-oriented prices. Pricing of the wholesale offer for resale of the analog package, including access to UPC NL's transmission platform for purposes of resale, will be based on a discount to UPC NL's retail rates, at a level to be determined by OPTA and, if no retail offer of UPC NL is available, on cost-oriented basis. Both access obligations come with the obligation to provide access to the relevant network elements and facilities, including set-top boxes, co-location, software systems and operational supporting systems, at cost-oriented prices if no relevant retail tariff is available to define the retail minus tariff.

UPC NL will also be required to make its tariffs publicly available on a rate card. Furthermore, UPC NL will not be allowed to discriminate between third parties and its own retail business in making these services available. This includes for example a prohibition on offering loyalty discounts to its own customers.

We believe that the proposed measures are unnecessary and disproportionate and are evaluating our legal options. Pending the outcome of any legal action UPC NL may determine to take, it will be required to comply with the decision.

The Netherlands has yet to commence formal transposition of AVMS, although we expect draft legislation to be published in the coming months.

#### *Switzerland*

Switzerland has a regulatory system which partially reflects the principles of the EU, but otherwise is distinct from the European regulatory system of telecommunications. The Telecommunications Act (Fernmeldegesetz) regulates, in general, the transmission of information, including the transmission of radio and television signals. Most aspects of the distribution of radio and television, however, are regulated under the Radio and Television Act (Radio und Fernsehgesetz). In addition, the Competition Act and the Act on Price Surveillance are potentially relevant to our business. With respect to energy consumption of electronic home devices, the Energy Act and the Energy Ordinance are expected to be applicable to television set-top boxes as described below.

Under the Telecommunications Act, any provider of telecommunications services needs to register with the Federal Office of Communications (OfCom). Dominant providers have to grant access to third parties, including unbundled access to the local loop and, until 2011, bitstream access. Access regulation is restricted to the copper wire network of the incumbent, Swisscom AG (Swisscom), and therefore, such unbundling obligations do not apply to Cablecom and other cable operators. Also, any dominant provider has to grant access to its ducts, subject to sufficient capacity being available in the relevant duct. At this time, Cablecom has not been determined to be dominant in this regard. All operators are obliged to provide interconnection and have to ensure interoperability of services.

In 2008, Swisscom announced its intention to roll out a national FTTH network in Switzerland. Whether this will require legislative action on regulating access to such new network by third parties is under discussion. In addition, several municipality-owned utility companies have announced or started to roll out local fiber networks. As no general state aid regulation exists in Switzerland, such initiatives could only be deemed illegal if a clear case of cross subsidization could be made. Any such fiber roll out could lead to increased competition for Cablecom.

Under the Radio and Television Act and the corresponding ordinance, cable network operators are obliged to distribute certain programs that contribute in a particular manner to media diversity (must carry programs). The Federal government and OfCom can select up to 25 programs that have to be distributed in analog without the cable operator being entitled to compensation. Currently 17 programs have must carry status.

Encryption of Cablecom's digital offering and its exclusive offering of proprietary set-top boxes are permissible under the Radio and Television Act. There is, however, an initiative pending in parliament, which would prohibit the encryption of the digital basic offering. In addition, in November 2007, the competent commission of the Swiss parliament requested the Federal government to propose a change of the Radio and Television Act with the aim to grant consumers freedom of choice regarding their set-top boxes. The initiative is subject to further discussion in parliament in 2009. We do not yet know what, if any, proposal will be accepted and implemented by the legislators or what affect it will have on our business. Such changes in the Radio and Television Act are not, however, expected to become effective before 2011.

Regarding the energy consumption of set-top boxes, the Federal government has launched a consultation process regarding a revision of the Energy Ordinance. According to the proposed legislation, as of January 1, 2010, set-top boxes would need to comply with the European Code of Conduct (Version 4) and non-compliant boxes could no longer be used in Switzerland. Although non-compliant boxes already in use by end customers would most likely not have to be exchanged, Cablecom will not be allowed to import or sell any non-compliant boxes after January 1,

2010. The enactment of this revision of the Energy Ordinance is still subject to the consultation process and we are unable to predict the final outcome on this revision. Any changes to the Energy Ordinance will not, however, become effective before January 1, 2010.

In the past, Cablecom's retail customer prices have been subject to review by the Swiss Price Regulator. As of 2007, we are no longer subject to an agreement with the Swiss Price Regulator. The Swiss Price Regulator has, however, defined certain criteria regarding Cablecom's products and prices. As long as Cablecom respects those criteria, no further regulatory action will be taken by the Swiss Price Regulator. Whether Cablecom will continue to be subject to price regulation going forward will depend on the assessment of its market position going forward.

#### *Hungary*

Hungary has broadly transposed the Regulatory Framework into law. According to this electronic communication law, Nemzeti Hírközlési Hatóság (NHH), the Hungarian NRA, should perform the market analysis to determine which, if any, operator or service provider has Significant Market Power.

UPC Hungary offers telephony services through either its cable network or its copper wire network. Although these networks are regulated differently, UPC Hungary's telephony operations have been found to have Significant Market Power in the call termination market by NHH.

With respect to the cable telephony services over the cable network, UPC Hungary is required to publish its general contractual terms and call termination prices. UPC Hungary's telephony services over the copper wire network has also been found to have Significant Market Power in the origination market in its own telecommunications network, as well as in the markets for wholesale unbundled access, together with all other similar network operators. This has led to a variety of requirements, including the need to provide interconnection and access to, and use of, specific network facilities, non-discrimination, transparency, accounting separation and building of cost models for the wholesale services. Such network has further been found to have Significant Market Power in a variety of retail markets relating to the provision of network access to business and to residential customers where UPC Hungary's price increases have been limited to the rise in the consumer price index minus an implied productivity ratio (3%) and in the markets for long distance and international calls for residential and business customers where UPC Hungary has been required to offer carrier pre-selection services.

Together with all other similar network operators, UPC Hungary has also been found to have Significant Market Power in the wholesale broadband access market with respect to broadband services over the copper wire network, but not the cable network. As a result, UPC Hungary is required to produce a wholesale ADSL offer on the copper wire telephony network based on a discount from its retail prices (retail minus price regulation).

With respect to broadcasting regulation, the Hungarian Parliament adopted the Act on Programme Distribution and Digital Switchover (the Act) in July 2007. The Act defines certain distributors, including UPC Hungary, as having significant influence from a media policy point of view, thereby creating a quasi-Significant Market Power status, which should, under EU rules, be subject to specific procedural rules, including the notification of the relevant market to the EU Commission. Also, the new Act imposed certain obligations on the quasi-Significant Market Power distributors, the most significant being an obligation, in addition to existing must-carry rules, to contract with at least 40 channels, guided by media policy criteria as set forth in the Act. The distributor may not differentiate between these channels based on content. In addition, the general terms and conditions of the distribution agreements for such 40 channels shall be made public.

The Act also places limits on the amount of programs from a single group of companies that any one distributor may carry. Hungarian legislation thus has the potential to limit the flexibility or future growth of both our distribution and content businesses in Hungary. Currently, the future direction of relevant Hungarian legislation is uncertain and it may develop in directions that adversely affect our businesses. In that regard, UPC Hungary faces both political and regulatory challenges.

#### *Other Central and Eastern Europe*

In contrast to the majority of our European operations, a large part of our cable network in Romania is above ground, as are the networks of most other utility providers, including other cable operators. For aesthetic and

environmental reasons, cities in Romania want these companies, including UPC Romania, to move their networks underground. The issue has become most pressing in Bucharest, where the city council issued a decision requiring all existing networks to be placed underground within a period of years and engaged a single privately-owned company to build an underground duct and optical fiber network in that city (the NetCity Project). Legal challenges in Romania to the NetCity Project have thus far been unsuccessful and the network has recently been completed under five streets. As a result, the city is pressuring UPC Romania to move its network in the completed area to the underground network. UPC Romania is seeking permission from the city to build its own underground ducts in Bucharest which would be operationally and technically more compatible with its hybrid fiber coaxial network than the all optical fiber network of the NetCity Project. No assurance can be given that UPC Romania's efforts will be successful or that building its own duct network would be more cost effective in the long term than making use of the ducts and/or infrastructure of the NetCity Project. We anticipate the pressure to move aerial networks underground to continue to grow in both Bucharest and elsewhere in Romania. Ultimately we expect that this will lead to an increase in network costs for our Romanian operations and, possibly, a decrease in operational flexibility.

#### *Belgium (Telenet)*

Belgium has broadly transposed the Regulatory Framework into law. According to the electronic communications law of June 13, 2005, the Belgisch Instituut voor Post en Telecommunicatie (BIPT), the Belgian NRA, should perform the market analysis to determine which, if any, operator or service provider has Significant Market Power. BIPT has completed its first round of market analysis on most of the predefined markets and has initiated, for the majority of predefined markets, a second round of analysis. In its market analysis, BIPT did not address the wholesale broadcast market, which is no longer a predefined market.

Telenet has been declared an operator with Significant Market Power on the market for call termination on an individual fixed public telephone network. With respect to the market for call termination on individual fixed networks, an on-going three year reduction of termination rates was imposed on Telenet beginning January 1, 2007. After the rate reduction in January 2009, this reduction resulted in near reciprocal termination tariffs (Telenet will charge the interconnection rate of the incumbent telecommunications operator, Belgacom NV/SA (Belgacom), plus 15%).

In Belgium, both the BIPT and the regional media regulators (Vlaamse Media Regulator (Flanders), Conseil Supérieur de l'Audiotvisuel (Wallonia), and Medienrat (in the German speaking community)) have to approve the wholesale broadband market analysis. The first round of decision regarding this market was issued on January 10, 2008. Belgacom was declared to have Significant Market Power on this market and cable networks were left out of the analysis. Due to market and technological developments, the second round of analysis for this market is expected to be launched by the BIPT during the first quarter of 2009.

With regard to the transposition of AVMS, we expect that a decree proposal will be introduced into the Flemish Parliament for debate in the coming months. Because VoD services were already regulated under media law by Belgium and, in particular, by Flanders prior to the AVMS, we do not expect a major shift in the current regulatory approach for VoD services. There can be no assurance, however, as to when AVMS will be transposed or if the transposition will be accurate.

#### *Asia/Pacific*

##### *Japan*

*Overview.* In Japan, the Ministry of Internal Affairs and Communications, commonly referred to as the MIC, regulates the cable television industry and the telecommunication industry under different laws. With a view to convergence of broadcasting and telecommunication, the MIC has been discussing the enactment of a comprehensive law covering both the cable television industry and the telecommunications industry. MIC is targeting 2010 to present the bill to the Japanese national legislature. In MIC's view, any new regulations should cover all distribution platforms in a consistent manner.

In the terrestrial television industry, under the Japanese Radio Act, terrestrial analog broadcasting is scheduled to be terminated and switched to digital broadcasting on July 24, 2011. To make the terrestrial digital switch

smoother, the Government has sought the assistance of cable television operators and alternative broadband television providers. This provides J:COM the opportunity to establish a customer relationship with terrestrial analog television viewers by offering them a package of terrestrial digital broadcast channels and, for those who do not have digital-ready televisions and are unwilling to purchase digital reception equipment, the rental of a digital box. With respect to cable television operators, the Government has targeted the switch from analog to digital programming services to be completed as soon as possible and not later than December 2010. J:COM is targeting mid-2010 for the completion of its transition to all digital programming. In January 2009, however, the Government announced a proposal for cable television operators to provide transition services for analog television users after the termination of terrestrial analog signals in July 2011. Under the proposal, cable television operators would convert terrestrial digital signals to analog signals and transmit the analog signals to analog television users for a few years after the termination of terrestrial analog broadcasting. The Government and representatives of cable television operators are discussing this proposal.

In January 2007, the amended Copyright Act was enacted to remove obstacles for simultaneous retransmission on alternative broadband television platforms of broadcasted television programs. Before the amendment, such simultaneous retransmission on these platforms required licenses from performers appearing in the programs and holders of rights to recordings used in the programs, not just from holders of copyrights to the programs and from the original broadcaster. Under the amended Copyright Act, broadcasted programs can be simultaneously retransmitted on alternative broadband television platforms to the service areas of the original broadcasting without obtaining licenses from, and instead only by paying a prescribed royalty to, such performers and recording right holders. Following this regulatory change, one alternative broadband operator started retransmission of broadcasted television programs in limited urban areas in the second quarter of 2008. Retransmission outside the original broadcast area is not permitted but may be permitted in the future. Competition from such alternative broadband operators providing retransmission service may increase if the geographic restriction in the amended Copyright Act on retransmission outside the original broadcast area is lifted in the future.

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

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

Prior to the commencement of operations, a cable television provider must notify the MIC of all charges and tariffs for its cable television broadcast services. A cable television provider must also give prior notification to the MIC of all amendments to existing tariffs or charges. No approval from the MIC is required for the commencement of operations or amendments to existing tariffs or charges in general. However, all charges and tariffs for mandatory re-broadcasting of television content, including amendments thereto, require the approval of the MIC.

A cable television provider must comply with specific requirements, including: (1) conforming with technical standards stipulated by the MIC; (2) making its facilities available for third party use for cable television broadcasting services, subject to the availability of broadcast capacity; (3) providing service within its service

area to those who request it absent reasonable grounds for refusal; and (4) retransmitting television broadcasts in areas having difficulties receiving television signals (no consent from television broadcasters is required for retransmission in such areas).

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

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

Carriers who provide the Basic Telecommunications Services, defined as telecommunications that are indispensable to the lives of the citizenry as specified in MIC ordinances, are required to provide such services in an appropriate, fair and consistent manner. Carriers providing Basic Telecommunications Services must do so pursuant to terms and conditions and for rates that have been filed in advance with the MIC. The MIC may order modifications to contract terms and conditions it deems inappropriate for certain specified reasons. Currently Nippon Telephone & Telegraph East Corporation and Nippon Telephone & Telegraph West Corporation (collectively, NTT) are providing the Basic Telecommunications Services and the MIC requires other telecommunication service providers, including J:COM, to share the costs for NTT to provide the Basic Telecommunications Services. J:COM passes such costs to subscribers of its telecommunication service.

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

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

#### *Australia*

*Overview.* Subscription television, internet and broadband access and mobile telephony services are regulated in Australia by a number of Australian Commonwealth statutes. In addition, state and territory laws, including environmental and consumer protection legislation, influence aspects of Austar's business.

Broadly speaking, the regulatory framework in Australia distinguishes between the regulation of content services and the regulation of facilities used to transmit those services. The Australian Broadcasting Services Act 1992 (C'th) (BSA) regulates the ownership and operation of all categories of television and radio services in Australia and also aspects of internet and mobile content. The technical delivery of Austar services are separately licensed under the Radiocommunications Act 1992 (C'th) (Radiocommunications Act) or the Telecommunications Act 1997 (C'th) (Telecommunications Act), depending on the delivery technology utilized. Other legislation of key relevance to Austar is the Trade Practices Act 1974 (C'th), and state fair trading laws, which include competition and consumer protection regulation, and the Privacy Act 1988 (C'th).

*Licensing of Television Broadcasting.* The BSA regulates subscription television broadcasting services through a licensing regime managed by the Australian Communications and Media Authority (Media Authority). Austar and its related companies hold subscription television broadcasting licenses under the BSA. These licenses are for an indefinite period and are issued subject to general license conditions, which may be revoked or varied by the Australian Government and which may include specific additional conditions. License conditions include a prohibition on cigarette or other tobacco advertising; a requirement that subscription fees must be the predominant source of revenue for the service (over, for example, advertising); a requirement that the licensee must remain a "suitable" licensee under the BSA; a requirement that customers must have the option to rent domestic reception



equipment; and a requirement to comply with provisions relating to anti-siphoning (as described below) and the broadcast of R-rated material. Subscription television broadcasting licensees are not permitted to broadcast R-rated material until the Australian Parliament gives its approval following a recommendation from the Media Authority. Once approved, licensees must ensure that access is restricted by disabling devices. The Australian Parliament has not yet given approval for R-rated material on subscription television broadcasting. Certain of Austar's services are licensed under subscription television narrowcasting class licenses, which do not restrict the broadcast of R-rated material. An additional obligation on subscription television licensees, who provide a service predominantly devoted to drama programs, is to spend at least 10% of its annual program expenditure on new Australian drama programs. Austar has made and continues to make the required investments in such programming. Subscription television narrowcasting licenses include similar conditions to those of subscription television broadcasting licenses; however, they do not have an Australian content drama expenditure obligation.

*Sports Rights Regulation — Anti-siphoning.* The BSA prohibits subscription television broadcasting licensees from obtaining exclusive rights to certain events that the Australian Government considers should be freely available to the public. These events, which are specified on an "anti-siphoning list", include a number of highly popular sporting events in Australia and are currently protected until December 31, 2010. Since January 1, 2007, a "use it or lose it" scheme has applied to the anti-siphoning regime. Under this scheme, free-to-air (FTA) television's use of events will be monitored and listed events that do not receive adequate coverage, or which are not acquired by FTA broadcasters, may be considered for permanent (or partial) removal from the anti-siphoning list. To date, no events have been removed from the anti-siphoning list because the Australian Government has not actively enforced the "use it or lose it" scheme. Austar and other members of the subscription television industry continue to lobby the Australian Government to effectively enforce the scheme so as to remove events from the list.

In addition to the restriction on subscription television broadcasters, currently, no FTA channel can play events on the anti-siphoning list on their FTA multi-channels unless it has already been shown or is being simulcast on their SD primary channel.

The Australian Government will review the current list during 2009. This review will include an analysis of the operation of the anti-siphoning regime as a whole. As part of this review, the Australian Government may consider whether the FTA multi-channels will have restrictions lifted to allow them to show listed sporting events without simultaneously broadcasting on the SD primary channel. There can be no assurance, however, as to the final outcome of this review. If the review results in either an extension of the sporting events on the list or the lifting of such restrictions on the FTA multi-channels, each could have an adverse effect on Austar's growth.

*Digital Switchover.* Commercial FTA networks have been granted additional spectrum to assist in the transition to digital television. Such networks are required to simulcast their services in analog and digital television formats until the analog switch off. The Australian Government has confirmed that the switch off of analog broadcasting will be complete by the end of 2013 and has established a dedicated taskforce to ensure the switchover by such date. The Digital Television Switchover Bill 2008, passed in December 2008, allows the Australian Government to implement a staggered region by region approach to the analog switch off. As currently proposed, Austar's regional markets will be switched earlier than the metropolitan markets, starting in 2010 and finishing by the end of 2013. Currently, the Australian Government has not clarified whether subscription television subscribers with access to digital FTA channels will be counted in the penetration of digital ready households and communicated by the Australian Government as an option for consumers to convert to digital television. Austar currently provides an option to its subscribers for accessing digital FTA channels. The legislation also revises the dates for two statutory reviews (previously triggered by the end of analog switch off): (1) January 1, 2010: a review of the content and captioning rules applicable to FTA multi-channels; and (2) January 1, 2012: a review of the decision to implement a new commercial television network. Currently FTA multi-channels are not required to provide minimum levels of Australian content or caption a minimum number of hours. This is in contrast to the regulatory obligations on all subscription television channels which have an Australian drama content obligation and have voluntarily agreed on a captioning plan with the Australian disability discrimination commission. With respect to implementation of a new commercial television network, the Australian Government does not intend at this time to implement such a network. This position will, however, be reconsidered as part of the review. The introduction of a fourth commercial network would introduce an additional competitor into the television market, which would dilute the current FTA market and have an impact on the individual growth of FTA networks. It is anticipated that the

switchover will make spectrum available for alternate uses such as new mobile services, a fourth commercial television network and wireless broadband services; however, the Australian Government has not yet disclosed any firm proposals with regard to the use of the spectrum.

**FTA Multi-channeling.** The FTA networks are entitled to provide one SD multi-channel from January 1, 2009. Each network currently broadcasts one HD multi-channel. Additional multi-channels are prohibited until the end of the switch-off of analog broadcasting. Except for the anti-siphoning list restrictions, there are currently no content or captioning obligations on the FTA multi-channels. This, however, is now subject to statutory review by January 1, 2010.

**Foreign Media Ownership and Cross Media Ownership.** Foreign media ownership rules in Australia have been relaxed although media has been retained as a "sensitive" sector and foreign investment in the media sector remains subject to the approval of the Treasurer of the Commonwealth of Australia. Cross media ownership rules provide that an operator can own two of three types of media assets (newspapers, television and radio) in a market, subject to there being at least five commercial media groups in metropolitan markets and four commercial media groups in regional markets.

**Regulation of Internet and Mobile Content.** The Content Services Act 2007, which added a new Schedule 7 to the BSA, regulates the "commercial content service industry" by prohibiting the supply of certain content over convergent devices such as the internet and mobile handsets. Such regulated content includes Refused Classification, X18+, Restricted 18+, or Mature Audiences 15+ content that is not subject to restricted access (Prohibited Content). The legislation provides a complaints based scheme where the Media Authority can issue a notice to remove or disable access to the content, or to ensure that the content can only be accessed via a restricted access system. Notices are based on a complaint to the Media Authority or on the basis of Media Authority's own investigations. There are exceptions for licensed broadcasting services (including "ancillary subscription television content services" such as on demand services) and retransmitted services, and for operators who do no more than provide a carriage service. The legislation, however, (1) impacts Austar's internet service due to certain obligations on service providers hosting Prohibited Content (for example the obligation to take down Prohibited Content on notice from the Media Authority); and (2) may impact Austar's own portals and mobile services to the extent that Austar provides Prohibited Content via those platforms (for example, Austar would need to implement a restricted access system to provide Mature Audiences 15+ and R18+ content on its website or via its mobile service).

**Energy Efficiency.** Mandatory limits on the emission levels of basic set-top boxes (excluding DVRs) sold in Australia came into effect on December 1, 2008. Although not all of Austar's current set-top box population will comply with these levels, all applicable set-top boxes deployed by Austar from December 1, 2008 will meet these levels. The Australian Government has indicated, however, that it may extend these limits on emission levels to a wider range of set-top boxes, such as DVRs. Austar is discussing options with the Australian Government, including the implementation of a voluntary scheme, similar to a voluntary code being developed in Europe, in place of mandatory regulation.

**Austar Spectrum Licenses.** In addition to licenses issued under the BSA, Austar holds spectrum licenses issued under and regulated by the Radiocommunications Act. Austar currently holds 19 spectrum licenses in the 2.3GHz Band and 26 licenses in the 3.4GHz Band covering geographic areas similar to Austar's subscription television areas. These licenses expire in 2015. The spectrum licenses authorize the use of spectrum space rather than the use of a specific device or technology. Similar to the BSA, licenses issued under the Radiocommunications Act are subject to general license conditions and may be subject to specific license conditions, which can be added, revoked or modified by written notice during the term of the license. Spectrum licensees must comply with core conditions of the license and be compatible with the technical framework for the bands. There are no restrictions on ownership or control of spectrum licenses, except that the licensee must be a resident of Australia. The Media Authority is currently reviewing the framework for spectrum license trading and has requested comments regarding the secondary market for spectrum. In addition, the Media Authority has begun preliminary analysis and research into the issue of extending spectrum license terms, including the licenses held by Austar, prior to their expirations.

**Communications.** A subsidiary of Austar holds a carrier license issued under the Telecommunications Act. This license authorizes Austar to operate its cable network in Darwin and its WiMax broadband network and requires compliance with a set of carrier obligations under the Telecommunications Act. Other Austar subsidiaries

provide dial-up internet service, mobile telephony services, and broadband services operated as carriage service providers and are required to comply with certain aspects of Australian telecommunications legislation. These service providers must observe statutory obligations in relation to access, law enforcement and national security and interception, and must become members of the Telecommunications Industry Ombudsman scheme, which manages complaints.

The Australian Government released a National Broadband Network request for proposal requiring at least 12 Mbps speeds via FTTH; 98% national coverage; and the ability to support HD content. Australian Government funding of A\$4.7 billion is available for the National Broadband Network. Proposals were to be submitted by November 26, 2008. It is unlikely that a winning bidder will be announced until the end of the first quarter of 2009. The National Broadband Network request for proposal did not stipulate regulatory controls for the National Broadband Network. Telstra Corporation Limited (Telstra), the incumbent telecommunications provider in Australia, is demanding that the Australian Government provide a regulatory regime that would prevent the network builder from being subject to any form of separation. The Australian Government has recently excluded Telstra from the bid process because Telstra did not comply with the bid process requirements. Telstra's role in the National Broadband Network, if any, and the impact on Austar, which did not submit a proposal, is uncertain. Should Telstra be permitted to re-enter the bid process and win the bid without some form of structural or functional separation, access to the National Broadband Network to provide alternative and competitive services will be severely limited, which could negatively impact any service bundling strategy developed by Austar.

There is a prohibition on internet services providers (ISPs) from providing access to certain interactive gambling services to Australian-based customers or from providing certain Australian-based interactive gambling service to customers in designated countries. It is illegal to advertise interactive gambling services in Australia. In relation to content, ISPs are not primarily liable for the content of material carried on their service. Once notified of the existence of illegal or offensive material on their service, however, ISPs have a responsibility to remove or block access to such material. Mobile service providers must observe various regulations and industry codes of practice relating to mobile service provision, such as billing and mobile content.

The Australian Government is considering the implementation of a mandatory national web content filter at the ISP level. Having recently completed a lab trial, the Australian Government is currently conducting a field trial of mandatory filtering with a selection of ISPs. The trial will assess the impact on internet speeds and performance. Austar is not participating in the trial.

#### **The Americas**

##### *Chile*

As described under "*Operations — The Americas*", VTR is subject to certain regulatory conditions as a result of its combination with Metrópolis Intercom S.A. in April 2005. These conditions are in addition to the regulations described below.

*Video.* Cable television services are regulated in Chile by the Ministry of Transportation and Telecommunications (the Ministry). VTR has permits to provide wireline cable television services in the major cities, including Santiago, and in most of the medium-sized markets in Chile. Wireline cable television permits are granted for an indefinite term and are non-exclusive. As a result, more than one operator may be in the same geographic area. As these permits do not use the radio-electric spectrum, they are granted without ongoing duties or royalties. Wireless cable television services are also regulated by the Ministry and similar permits are granted for these services. With respect to digital terrestrial television (DTT) services, the Chilean Government is expected to adopt a technology standard in 2009.

Cable television service providers in Chile are not required to carry any specific programming, but some restrictions may apply with respect to allowable programming. The National Television Council has authority over programming content, and it may impose sanctions on providers who are found to have run programming containing excessive violence, pornography or other objectionable content. A bill is pending before the Chilean Congress, which may result in additional controls on broadcasters that provide programming not suitable for children.

Cable television providers have historically retransmitted programming from broadcast television, without paying any compensation to the broadcasters. Certain broadcasters, however, have filed lawsuits against VTR claiming that VTR breached their intellectual property rights by retransmitting their signals. These lawsuits are still pending before the Chilean courts and a final judicial decision is not expected until the third quarter of 2009.

*Internet.* Internet services are considered complementary telecommunication services and, therefore, do not require concessions, permits or licenses. Pursuant to a condition imposed on VTR as a result of its combination with Metrópolis Intercom S.A., VTR offers its broadband capacity for resale of internet services on a wholesale basis. The Chilean Government is reviewing new standards for internet services and the quality of such services. These standards could become law in 2009. Development of these standards may increase VTR's costs relating to the provision of internet service and the development of quality service monitoring and reporting systems.

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

VTR has been awarded wireless fixed telephony concessions under which it has an exclusive right to use a specific block of spectrum in 3,400 MHz in most of the Chilean regions. With these concessions, VTR plans to offer telephony and internet services using WiMax technology in Santiago during the first quarter of 2009. Wireless fixed telephony concessions have been granted for renewable terms of 30 years. Such concessions are non-exclusive and the rates are not regulated.

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

In January 2008, the Ministry requested the Chilean Antitrust Tribunal to review the telephony market. In February 2009, the Antitrust Tribunal concluded that, although the local service telephony market cannot be characterized as competitive, it has enhanced its level of competition since it was reviewed in 2003. As a result, the Antitrust Tribunal determined that incumbent local telephone operators will no longer be subject to price regulation at a retail level. The final interpretation the Ministry will give to this decision is pending. Notwithstanding, we believe that such decision requires the Ministry to set forth rules only for the incumbent operators (identifying Compañía de Telecomunicaciones de Chile SA (Telefónica), Telefónica de Sur (TelSur) and Entel Telefonía Local S.A.), forbidding, among other things, price discrimination, fixed/mobile bundles and differentiated prices for on net and off net traffic. Also, the Antitrust Tribunal ordered the Ministry to set forth rules, for all operators, forbidding tied sales of telecommunication services included in a bundle, and imposing an effective network unbundling and number portability. The Antitrust Tribunal also declared some ancillary services and network unbundling services to be subject to price regulation for all companies, including VTR. This decision could be revised by the Supreme Court during 2009.

Interconnect charges (including access charges and charges for network unbundling services) are determined by the regulatory authorities, which establish the maximum rates that may be charged by each operator for each type of service. This rate regulation is applicable to incumbent operators and all local and mobile telephony companies, including VTR. The maximum rates that may be charged by each operator for the corresponding service are made on a case-by-case basis, and are effective for five years. VTR's current interconnection and unbundling rates are effective until June 2012.

Chile plans to award high capacity mobile licenses through a bid process. On January 27, 2009, the Chilean Supreme Court ruled that, although incumbent mobile operators may participate in the process, any bidder that exceeds the limit of 60 MHz of spectrum rights for mobile telephony services must divest the excess spectrum through a public bidding process. Currently one incumbent mobile operator has 60 MHz of spectrum rights and two

others have 55 MHz of spectrum rights. Therefore this decision means there will be spectrum available for new entrants. The bidding process is expected for April 2009. VTR plans to submit a bid, but no assurance can be given that it will be granted a license for such services.

**Rate Adjustments.** With respect to VTR's ability to increase the price of its different telecommunication services to its subscribers, the general Consumer Protection Laws contain provisions that may be interpreted by the authorities to require that any increase in rates — over the inflation rate — to existing subscribers must be previously accepted and agreed to by those subscribers, impairing VTR's capacity to rationalize its price policy over current customers. VTR disagrees with this interpretation and is evaluating its options for adjusting or increasing its subscriber rates in compliance with applicable laws.

**Channel Lineup.** With respect to VTR's ability to modify its channel lineup without the previous consent of the subscribers, the National Consumer's Service (Sernac) expressed that such action may be against certain provisions of the applicable Consumer Protection Law, including those provisions prohibiting misleading advertisement, unilateral modification of the clients' contracts and abusive clauses. Sernac filed several lawsuits against VTR. In June 2008, the Court of Appeals of Santiago ruled against VTR in one of these lawsuits, and the Supreme Court rejected an appeal of this decision. Based on nine favorable rulings recently obtained by VTR, granting the company the right to modify its grid, VTR disagrees with Sernac's interpretation. To prevent future conflicts with Sernac, VTR is negotiating with Sernac to establish common acceptable criteria to enable modifications of VTR's channels grid.

## **Competition**

The markets for video, broadband internet and telephony services, and for video programming, generally are highly competitive and rapidly evolving. Consequently, our businesses have faced and are expected to continue to face increased competition in these markets in the countries in which they operate and specifically, as a result of deregulation, in the EU. The percentage information in this section is as of the date of the relevant sources listed in the following sentences. The percentage information provided below for UPC Broadband is based on information from either the website of DataXis for the third quarter of 2008 or Screen Digest for the month of January 2009. The percentage information for Telenet is based on information from the Internet Services Providers Association of Belgium for the third quarter of 2008 and on internal market studies for telephony as of September 30, 2008. For Japan, all percentage information is based on information obtained from the website of the Japanese Ministry of Internal Affairs and Communications, dated as of various dates from December 31, 2007 to September 30, 2008, and internal market studies as of December 31, 2008. For Chile, the percentage information is based on internal market studies as of December 31, 2008, and information obtained from public filings by competitors and market information provided by the Subsecretaría de Telecomunicaciones de Chile as of various dates from September 30, 2008 to December 31, 2008. The competition in certain countries in which we operate is described more specifically after the respective competition overview on video, broadband internet and telephony.

### **Broadband Communications**

#### *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) traditional over-the-air broadcast television services; (2) DTH satellite service providers; (3) DTT broadcasters, which transmit digital signals over the air providing a greater number of channels and better quality than traditional analog broadcasting; (4) other cable operators in the same communities that we serve; (5) other fixed line telecommunications carriers and broadband providers, including the incumbent telecommunications operators, offering video products (a) through broadband internet connections over networks using DSL or ADSL technology (which we refer to as DSL-TV), (b) through DTH satellite systems, or (c) over fiber optic lines of FTTH networks; (6) satellite master antenna television systems, commonly known as SMATVs, which generally serve condominiums, apartment and office complexes and residential developments; (7) MMDS operators; and (8) movie theaters, video stores and home video products. Our businesses also compete to varying degrees with other sources of information and entertainment, such as newspapers, magazines, books, live entertainment/concerts and sporting events.

- *Europe.* In Europe, historically our principal competition in the provision of video services came from traditional over-the-air broadcasters in all markets; DTH satellite providers in many markets, such as Austria and Ireland where we compete with long-established satellite platforms; and cable operators in certain markets, such as Poland and Romania where portions of our systems have been overbuilt. In some markets, competition from SMATV or MMDS could be a factor.

Over the last several years, competition has increased significantly from both new entrants and established competitors using advanced technologies and aggressively priced services. DTT is a significant part of the competitive market in Europe as a result of a number of different business models that range from full blown encrypted pay television to FTA television. Similarly DSL-TV, which is either provided directly by the owner of the network or by a third party, is fast becoming a significant part of the competitive environment. Further launches of DTT and DSL-TV are expected in 2009.

In most of our Central and Eastern European markets, we are also experiencing significant competition from Digi TV, the DTH platform of a Romanian cable, telephony and internet service provider that is targeting our analog cable, MMDS and DTH customers with aggressively priced DTH packages, in addition to overbuilding portions of our cable network in Hungary and Romania. The incumbent telecommunications operator in Romania also operates a competing DTH platform. Our DTH platforms, through UPC Direct and another subsidiary, offer advanced services and functionality, including HD and DVR, to four of our Central and Eastern Europe markets.

In most of our European markets, competitive video services are now being offered by the incumbent telecommunications operator, whose video strategies include DSL-TV, DTH, and DTT. The ability of incumbent operators to offer the so-called "triple-play" of video, broadband internet and telephony services is exerting growing competitive pressure on our operations, including the pricing and bundling of our video products. In order to gain video market share, the incumbent operators and alternative service providers in a number of our larger markets have been pricing their DTT and DSL-TV video packages at a discount to the retail price of the comparable digital cable service and, in the case of DSL-TV, including DVRs as a standard feature.

FTTH networks are not widespread in Europe, although they are present or planned in a number of countries. FTTH networks have been launched by Reggefiber FttH (a partnership between Reggefiber ttH bv and KPN) in the Netherlands, by Orange Slovensko, a.s. (part of France Télécom S.A.) and Slovak Telekom, a.s. in Slovakia, and by Telefónica 02 Czech Republic, a.s. in the Czech Republic. In Switzerland, Swisscom has announced plans to connect approximately 100,000 homes with FTTH by the end of 2009, with an anticipated investment of CHF 8 billion over the next six years. In Hungary, Magyar Telekom Rt has announced plans to increase its FTTH network to 780,000 homes passed by 2013. In addition, there is increasing willingness from government and quasi-government entities in Europe to invest in such networks, which would create a new source of competition.

To meet the challenges in this competitive environment, we tailor our packages in each country in line with one or more of three general strategies: a general price reduction, discounts for bundled services and loyalty contracts. Generally, discounts for bundled services are available in all our Europe operations. In addition, we seek to compete by accelerating the migration of our customers from analog to digital services, upgrading our digital television service to include the functionality for VoD, HD, DVRs and other advanced products and services, and offering attractive content packages and bundles of services at reasonable prices. As a result, 2008 saw the launch of new digital platforms in a number of our territories with additional launches of DVR functionality and HD services as part of the digital offering. Also, in Europe, the triple-play bundle is used as a means of driving video, as well as other products where convenience and price can be leveraged across the portfolio of services.

The Netherlands. The Netherlands has one of the highest cable penetration rates in Europe with 76% of all households subscribing to a cable service. Ziggo B.V. continues to be the largest cable provider with cable service supplied to 43% of the total video households in the Netherlands. UPC Netherlands provides video cable services to 28% of the total video households in the Netherlands. Satellite television penetration is 11% of the total video households and has historically been the main source of our competition in the

Netherlands. Also, competition from the DTT and DSL-TV services offered by KPN continues to be strong. KPN is the majority owner of the Netherlands DTT service, Digitenne. It also offers a DSL-TV service that includes VoD, an electronic program guide and DVR functionality. KPN is targeting our price sensitive analog customers and our digital customers with discounted Digitenne and DSL-TV video packages, respectively. With its nationwide telecommunications network and ability to offer bundled triple-play services, KPN is a significant competitor. In addition, FTTH networks may become more competitive with Reggefiber FttH's 2008 launch of FTTH networks in certain cities and any future expansion of these networks. To enhance its competitive position, UPC Netherlands offers VoD services, DVR functionality and HD set-top boxes to all UPC Netherlands digital cable customers. Such services allow UPC Netherlands subscribers to personalize their programming. Also, UPC Netherlands markets a variety of bundle options from which subscribers can select various combinations of services, including internet and telephony options, to meet their needs.

Switzerland. We are the largest cable television provider in Switzerland based on the number of video cable subscribers and are the sole provider in substantially all of our network area. Due to a small program offering, competition from terrestrial television in Switzerland is limited, although DTT is now available in most parts of Switzerland. DTH satellite services are also limited due to various legal restrictions such as construction and zoning regulations or rental agreements that prohibit or impede installation of satellite dishes. Given technical improvements, such as the availability of smaller satellite antennae, as well as the continuous improvements of DTH offerings, continued competition is expected from the satellite television operators. Our main competition is Swisscom, the incumbent telecommunications operator, which launched its DSL-TV service in late 2006 and has grown to 95,000 subscribers through the end of the third quarter of 2008. Swisscom offers VoD services as well as DVR functionality and HD services. To effectively compete, Cablecom enhanced its digital television platform with the rollout of DVR functionality and HD services in 2008 and plans to launch VoD in 2009.

Austria. In Austria, we are the largest cable television provider based on number of video cable subscribers. Our primary competition for video customers is from FTA television received via satellite and from the DSL-TV service provided by the incumbent telecommunications operator, Telekom Austria AG. In addition, the public broadcaster, Österreichischer Rundfunk, offers DTT services in Austria. Approximately 49% of Austrian households receive FTA television compared to approximately 39% of Austrian households receiving cable services. UPC Austria provides video cable services to approximately 40% of the cable households in Austria. Newer technologies such as DSL-TV from Telekom Austria represent an increasing threat with digital services incorporating premium services, such as VoD, offered at a heavy discount to the video subscription price within the market. To stay competitive, UPC Austria launched HD DVR functionality in 2008 and plans to launch a VoD service in 2009.

Ireland. Ireland has one of the highest digital and pay television penetration rates in Europe with almost 80% of the population subscribing to a video service. We are the largest cable television provider in Ireland based on number of video cable subscribers. Our primary competition for video customers is from British Sky Broadcasting plc, which provides DTH services in Ireland. We will also face competition from a new DTT entrant, Boxer DTT Limited (a joint venture between Boxer TV-Access AB and Communicorp Group Ltd.). Boxer DTT Limited has announced plans to launch DTT service in 2009, which will compete with our analog and MMDS services. In addition, a public service broadcaster is expected to launch a DTT service with FTA channels in late 2009. The FTA channels are expected to include a number of channels currently available to pay television operators, including UPC Ireland. Such FTA channels, however, are not expected to be high value channels and will overlap only a few channels in UPC Ireland's digital entry package.

Hungary. In Hungary, we are the largest cable television provider based on number of video cable subscribers. Of the Hungarian households receiving cable television, 34% receive their cable service from UPC Hungary. In addition, UPC Hungary provides satellite service, branded UPC Direct, to 26% of Hungarian DTH households. In providing DTH services, UPC Hungary competes with three other providers. One of these, Digi TV, is an aggressive competitor whose services can reach up to 20% of UPC Hungary's DTH service area. Digi TV is targeting UPC Hungary's analog cable and DTH subscribers with low-priced video packages. UPC Hungary also faces competition from Antenna Hungaria Rt., a digital DTT provider

that entered the market in December 2008, and from the incumbent telecommunications company Magyar Telekom Rt. (in which Deutsche Telekom has a majority stake). Magyar Telekom Rt. offers a DSL-TV service, including a VoD service to internet subscribers of its ISP subsidiary, and triple-play packages. Both Digi TV and Magyar Telekom Rt also provide services over FTTH networks. To meet such competition, UPC Hungary launched a digital television platform in the second quarter of 2008, including DVR functionality and HD services, and will be making further enhancements in 2009 with the launch of a VoD service. In addition, UPC Hungary provides discounts through long-term service arrangements to subscribers in certain parts of its service area.

Other Central and Eastern Europe. As in Hungary, Digi TV is also an aggressive DTH competitor in Romania, Czech Republic and Slovakia. In Romania, competition also comes from alternative distributors of television signals, including DTH satellite television providers (five service providers) and DTT service providers (four service providers). Currently, Czech Republic has four operators providing either DTH or DTT services, which makes the market for television subscribers extremely competitive with price often the deciding factor. In addition, over half of the Czech Republic can receive DTT services. In Poland, UPC Poland competes with three DTH service providers, including the incumbent telecommunications provider Telekomunikacja Polska S.A., which launched its DTH service in 2008 and offers a mobile broadband service. Also, competition from DTT providers is expected to increase significantly in 2009 and FTTH networks are being trialed or expanded. Subscribers in Central and Eastern Europe tend to be more price sensitive than in other European markets. To address such sensitivity and meet competition, our operations in Central and Eastern Europe offer a variety of bundled service packages and UPC Romania offers discounts for long-term service arrangements. Also, certain of our operations provide senior citizen and other social discounts.

Belgium. In Belgium, we are the largest cable television provider based on number of video cable subscribers. Telenet provides video cable services to approximately 53% of the total households in Belgium. Telenet's principal competitor is Belgacom, the incumbent telecommunications operator, which launched interactive digital television in June 2005 and HD service as part of its video offer in mid-2008. Belgacom also offers double-play and triple-play packages. We also face competition from TV Vlaanderen, which provides digital television via satellite. As a result of the Interkabel Acquisition, we have expanded our digital interactive services and other video cable service on the Telenet PICs Network. See "Operations — Europe — Liberty Global Europe — Telenet (Belgium)" above. We believe this expansion of services, together with our extensive cable network, the broad acceptance of our basic cable television services and our extensive additional features, such as HD and DVR functionality and VoD offering, will enhance our competitive position.

- Asia/Pacific. The market for multi-channel television services in Japan is highly complex with multiple cable systems, DTH satellite platforms and alternative broadband service providers. Cable systems in Japan served 21.9 million homes at March 31, 2008. A large percentage of these homes, however, are served by systems (referred to as compensation systems) whose service principally consists of retransmitting free television services to homes whose reception of such broadcast signals has been blocked. Higher capacity systems and larger cable systems that offer a full complement of cable and broadcast channels, of which J:COM is the largest in terms of subscribers, serving 7.4 million households as of December 31, 2008. Our current competitors in the satellite television industry include Japan Broadcasting Corporation and WOWOW Inc., which offer broadcast satellite analog and broadcast satellite digital television, and SKY PerfectTV for communications satellite digital television. Broadcast companies that do not have their own facilities may provide broadcasting services over lines owned by other telecommunications companies.

In addition, changes in the Copyright Act (which became effective in January 2007) have made it easier for alternative distributors using broadband networks to retransmit terrestrial television signals to the service areas of the original broadcasting. As a result, our Japanese operations are facing increasing competition from other broadband providers of video services. These competitors include fixed line telecommunications operators, such as NTT, the incumbent telecommunications operator, and KDDI Corporation (KDDI), each of whom currently offers video packages over their own FTTH networks that include popular cable and satellite and, in certain markets, broadcast channels. KDDI is also the majority shareholder of the second



largest MSO in Japan. K-OptiCom Corporation (K-OptiCom), a subsidiary of a power company in the Kansai region that distributes its video service over its own FTTH network, and Opticast, Inc., a SKY PerfectV affiliate that, in a marketing alliance with NTT, distributes its video service through NTT's FTTH network, offer the full complement of popular video channels, including broadcast. Other competitors such as Softbank Corporation (Softbank) and Usen Corporation provide video content, including VoD-type content, through a website that may be accessed through their own and third-party networks (both DSL and FTTH). Other cable television companies are not considered significant competitors in Japan due to the fact that their franchise areas rarely overlap with ours, and the investments required to install new cable would not be justified considering the competition in overlapping franchise areas. J:COM's share of the multi-channel video market in Japan is approximately 9.2%.

- *The Americas.* In Chile, we are the largest cable television provider based on number of video cable subscribers. VTR competes primarily with DTH service providers in Chile, including the incumbent Chilean telecommunications operator Telefónica, TelSur, Telmex Internacional SAB de CV (Telmex) and DirecTV Chile. Telefónica offers double-play and triple-play packages of video, voice and internet. Other competition comes from video services offered by or over the networks of fixed line telecommunications operators using DSL or ADSL technology (such as TelSur in the southern regions). GTD Manquehue offers triple-play packages over its hybrid fiber coaxial cable networks in localized areas of Santiago. Telmex is offering triple-play packages using DTH and, in certain areas of Santiago, through a hybrid fiber coaxial cable network. Telmex is also expanding its hybrid fiber coaxial cable network in certain regional cities of Chile. Telmex is an aggressive competitor targeting video subscribers, including VTR subscribers, with low price video packages. VTR's share of the video market in Chile is 59%, compared to 17% for Telefónica and 24% for all others. To effectively compete, VTR is expanding its digital platform to additional neighborhoods and has launched VoD, DVR and HD services.

#### *Internet*

With respect to broadband internet services and online content, our businesses face competition in a rapidly evolving marketplace from incumbent and non-incumbent telecommunications companies, mobile operators and cable-based ISPs, many of which have substantial resources. The internet services offered by these competitors include both traditional dial-up internet services, wireline broadband internet services using DSL or FTTH, and wireless broadband internet services, in a range of product offerings with varying speeds and pricing, as well as interactive computer-based services, data and other non-video services to homes and businesses. As the technology develops, competition from wireless services using various advanced technologies may become significant. We are seeing intense competition in Europe from mobile carriers that offer mobile data cards allowing a laptop user to access the carrier's broadband wireless data network with varying speeds and pricing.

We seek to compete on speed and price, including increasing the maximum speed of our connections and offering varying tiers of service and varying prices, as well as a bundled product offering and a range of value added services. In 2008, UPC Netherlands launched a new bundling strategy, along with (and including) its UPC Fiber Power internet products with speeds of up to 120 Mbps to compete with FTTH initiatives. UPC Fiber Power or similar products based on Euro DOCSIS 3.0 technology will be launched in most of our other European markets in 2009. The focus is to launch high-end internet products to safeguard our high-end customer base and allow us to become more aggressive at the low and medium-end of the internet market.

- *Europe.* Across Europe, our key competition in this product market is from the offering of broadband internet products using various DSL-based technologies both by the incumbent phone companies and third parties. The introduction of cheaper and ever faster broadband offerings is further increasing the competitive pressure in this market. Broadband wireless services, however, are taking a foothold in a number of countries using ultra high speed mobile networks and high-speed downlink packet access developments.

In the Netherlands, we face competition from KPN, the largest broadband internet provider, and operators using the unbundled local loop. As of September 30, 2008, UPC Netherlands provided broadband internet services to 12% of the total broadband internet market (or about 25% of our current footprint based on internal research).

In Switzerland, Swisscom is the largest provider of broadband internet services, with an estimated market share of half of all broadband internet customers. Cablecom serves 19% of all broadband internet customers.

UPC Austria's largest competitor with respect to internet services is the incumbent telecommunications company, Telekom Austria AG, with approximately 48% of the total broadband subscribers in Austria. In addition, UPC Austria faces competition from unbundled local loop access and mobile broadband operators, which has increased the competition in the broadband internet market significantly. Competitors in the Austrian broadband internet market are focusing on the low and medium priced markets due to a general price decrease in the Austrian market. To compete, UPC Austria has launched new bundled offers specifically aimed at these market segments. UPC Austria uses its triple-play bundling capabilities across all market segments to encourage customers from other providers to switch to UPC Austria's services and to reduce churn in the existing customer base.

Mobile data card providers are gaining market share in Ireland. The incumbent in Ireland, Telefónica O2 Ireland Limited, offers a range of mobile internet products at competitive prices. The trend towards mobile internet is visible throughout Europe, where market developments in Austria and Ireland (driven by "3", a brand name of Hutchison 3G Austria GmbH and Hutchinson 3G Ireland Ltd.) are most significant.

In Hungary, the internet market is growing rapidly. Our primary competitor is the incumbent telecommunications company, Magyar Telekom Rt. Strong competition from Digi TV and its triple play offerings as well as from mobile broadband operators has shifted the market further towards the lower tiers of service. The sales mix has changed, such that the existing low-end options have become more prominent in the market. UPC Hungary provides broadband internet services to 22% of the total broadband internet market. In Central and Eastern Europe competition is focused mostly on mobile broadband because fixed line penetration is limited. Mobile broadband is an increasing threat in the Czech Republic and Slovakia. With respect to Romania, subscribers use local area networks that provide higher access speeds in the local area. UPC Romania offers local networks with double the speed available when a subscriber requests internet services outside the local area. Pricing is also considered when attracting and retaining internet subscribers.

In Belgium, the internet market continues to grow at a significant pace. Telenet's primary competitor is Belgacom and other DSL service providers. Belgacom is currently upgrading its network to enable enhanced internet speeds. To compete, Telenet offers one of the fastest speeds available to residential customers. Telenet provides broadband internet service to 33% of the total broadband internet market in Belgium.

- *Asia/Pacific.* In Japan, we compete with FTTH providers, including NTT, Usen Corporation, KDDI and K-OptiCom, that offer broadband internet service through fiber-optic lines. Broadband internet using FTTH technology has become more widely available, and pricing for these services has declined. We also compete directly with ADSL providers, such as Softbank, that offer broadband internet to subscribers. ADSL providers often offer their broadband internet services at a cost lower than ours; however, we have recently trialed new tiers of broadband internet services at various speeds with more competitive prices and anticipate rolling out these new tiers nationwide in 2009. In 2007, we launched 160 Mbps services based on DOCSIS 3.0 technology that is competitively priced against both FTTH and ADSL. K-OptiCom has announced plans to launch a 200 Mbps service, which will compete with J:COM's high-speed internet service in the Kansai Region. If continued technological advances or investments by our competitors further improve the services offered through ADSL or FTTH, or make them more affordable or more widely available, cable modem internet may become less attractive to our existing or potential subscribers. J:COM's share of the high-speed (128 kbps and greater) broadband internet market in Japan is approximately 5.1%.
- *The Americas.* In Chile, VTR faces competition primarily from non-cable-based internet service providers such as Telefónica, Telmex and Telsur. In 2008, in response to the availability of mobile data in Chile, VTR more than doubled its internet speeds for customers as a differentiation strategy. VTR expects increased pricing and bandwidth pressure from Telefónica, Telmex and Telsur and more effective competition from these companies as they bundle their internet service with other services. VTR's share of the residential high-speed (300 kbps and greater) broadband internet market in Chile is 41%, compared to 49% for Telefónica

and 10% for all others. To effectively compete, VTR is expanding its two-way coverage and offering attractive bundling with telephony and digital video service. VTR will also launch broadband services through WiMax in Santiago during the first quarter of 2009.

#### Telephony

With respect to telephony services, our businesses face competition from the incumbent telecommunications operator in each country. These operators have substantially more experience in providing telephony services, greater resources to devote to the provision of telephony services and longstanding customer relationships. In many countries, our businesses also face competition from other cable telephony providers, wireless telephony providers, FTTH-based providers or other indirect access providers. Competition in both the residential and business telephony markets will increase with certain market trends and regulatory changes, such as general price competition, the offering of carrier pre-select services, number portability, continued deregulation of telephony markets, the replacement of fixed line with mobile telephony, and the growth of VoIP services. Carrier pre-select allows the end user to choose the voice services of operators other than the incumbent while using the incumbent's network. We seek to compete on pricing as well as product innovation, such as personal call manager and unified messaging. We also offer varying plans to meet customer needs and various bundle options.

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

Our telephony strategy in Europe is focused around price leadership, and we position our services as "unlimited", using our existing product portfolio. Our portfolio includes a basic telephony product for line rental (which includes unlimited network calling in some countries, like Romania), unlimited national off peak calling branded "Freetime" and unlimited national 24/7 calling branded "Anytime". In Poland, UPC Poland has offered an EU-wide telephony product on a trial basis. Such product provides unlimited international calls within the EU. We are currently evaluating this trial offer and may extend this EU telephony product to our other operations.

In the Netherlands, KPN is the dominant telephony provider, but all of the large MSOs, including UPC Netherlands, as well as ISPs, offer VoIP services and continue to gain market share from KPN. In Switzerland, we are the largest VoIP service provider, but Swisscom is the dominant fixed line telephony service provider followed by two carriers that offer pre-select services.

In Austria and in Hungary, the incumbent telephone companies dominate the telephony market. Most of the fixed line competition to the incumbent telephone operators in these countries is from entities that provide carrier pre-select services. We also compete with ISPs that offer VoIP services and mobile operators. In Austria, we serve our subscribers with circuit-switched telephony services, VoIP over our cable network, and DSL technology service over an unbundled loop. In Hungary, we provide circuit-switched telephony services over our copper wire telephony network and VoIP telephony services over our cable network. We continue to gain market share with our VoIP telephony service offerings in all of our Europe markets.

In Belgium, Belgacom is the dominant telephony provider with an estimated 82% of the fixed line telephony market in Flanders, excluding wholesale. To gain market share, we emphasize customer service and provide innovative plans to meet the needs of our customers, such as the new "Free Phone Europe" flat fee plan offered in the "shake"-bundles (free off-peak calls to fixed lines in Belgium and 35 European countries). We also compete with mobile operators, including Belgacom, in the provision of telephony service in Belgium.

- *Asia/Pacific.* In Japan, our principal competition in our telephony business comes from NTT and KDDI. We also face increasing competition from new common carriers in the telephony market, as well as ISPs, such as Softbank, and FTTH-based providers, including K-OptiCom. Further, Softbank Telecom Corp. and KDDI each offer low-cost fixed line telephony services. Many of these carriers offer VoIP telephony services. Call volume over our fixed line services has generally declined as mobile phone usage has

increased. If competition in the telephony market continues to intensify, we may lose existing or potential subscribers to our competitors. J:COM's share of the fixed line telephony market in Japan is approximately 3.1%.

- *The Americas.* In Chile, VTR faces competition from the incumbent telecommunications operator, Telefónica, and other telecommunications operators such as TelSur, GTD Manquehue and Telmex. Telmex launched a telephony service through WiMax in March 2007. Telefónica and TelSur have substantial experience in providing telephony services, resources to devote to the provision of telephony services and longstanding customer relationships. Claro Chile S.A., Telefonica Moviles Chile S.A. and Entel PCS Telecomunicaciones S.A. are the primary companies that offer mobile telephony in Chile. Competition in both the residential and business telephony markets is increasing as a result of market trends and regulatory changes affecting general price competition, number portability, and the growth of VoIP services. Also, mobile services are expected to be bundled with other services by competitors, thereby enhancing their competitive position. VTR offers circuit-switched and VoIP telephony services over its cable network. Although mobile phone use has increased, call volume over VTR's fixed line services has continued to increase because of the unlimited flat fee offers by VTR. VTR's share of the fixed line telephony market in Chile is 17%, compared to 62% for Telefónica and 21% for all others.

#### **Programming Services**

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

#### **Employees**

As of December 31, 2008, we, including our consolidated subsidiaries, had an aggregate of approximately 22,300 employees, certain of whom belong to organized unions and works councils. Certain of our subsidiaries also use contract and temporary employees, which are not included in this number, for various projects. We believe that our employee relations are good.

#### **Financial Information About Geographic Areas**

Financial information related to the geographic areas in which we do business appears in note 21 to our consolidated financial statements included in Part II of this report.

#### **Available Information**

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

#### **Item 1A. RISK FACTORS**

In addition to the other information contained in this Annual Report on Form 10-K, you should consider the following risk factors in evaluating our results of operations, financial condition, business and operations or an investment in our stock.

The risk factors described in this section have been separated into four groups:

- risks that relate to the competition we face and the technology used in our business;
- risks that relate to our operating in overseas markets and being subject to foreign regulation;
- risks that relate to certain financial matters; and

- other risks, including risks that relate to our capitalization and the obstacles faced by anyone who may seek to acquire us.

Although we describe below and elsewhere in this Annual Report on Form 10-K the risks we consider to be the most material, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our results of operations, financial condition, business or operations in the future. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the events described below, individually or in combination, were to occur, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected.

#### Factors Relating to Competition and Technology

**We operate in increasingly competitive markets, and there is a risk that we will not be able to effectively compete with other service providers.** The markets for cable television, broadband internet and telephony in many of the regions in which we operate are highly competitive. In the provision of video services we face competition from DTT broadcasters, video provided over satellite platforms, networks using DSL technology, FTTH networks and, in some countries where parts of our systems are overbuilt, cable networks, among others. Our operating businesses are facing increasing competition from video services provided by or over the networks of incumbent telecommunications operators and other service providers. In the provision of telephony and broadband internet services, we are experiencing increasing competition from the incumbent telecommunications operators and other service providers in each country in which we operate. The incumbent telecommunication operators typically dominate the market for these services and have the advantage of nationwide networks and greater resources than we have to devote to the provision of these services. Many of the incumbent operators are now offering double-play and triple-play bundles of services. In many countries, we also compete with other operators using the unbundled local loop of the incumbent telecommunications operator to provide these services, other facilities-based operators and wireless providers. Developments in the DSL technology used by the incumbent telecommunications operators and alternative providers have improved the attractiveness of our competitor's products and services and strengthened their competitive position. Developments in wireless technology, such as WiMax, may lead to additional competitive challenges.

In some European markets, national and local government agencies may seek to become involved, either directly or indirectly, in the establishment of FTTH networks, DTT systems or other communications systems. We intend to pursue available options to restrict such involvement or to ensure that such involvement is on commercially reasonable terms. There can be no assurance, however, that we will be successful in these pursuits. As a result, we may face competition from entities not requiring a normal commercial return on their investments. In addition, we may face more vigorous competition than would have been the case if the government was not involved.

The market for programming services is also highly competitive. Programming businesses compete with other programmers for distribution on a limited number of channels. Once distribution is obtained, 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, movies, live events, radio broadcasts and print media. Technology advances, such as download speeds, VoD, interactive and mobile broadband services, have increased audience fragmentation through the number of entertainment and information delivery choices while at the same time been beneficial to our programming businesses. Such increased choices could, however, adversely affect consumer demand for services and viewing preferences.

We expect the level and intensity of competition to continue to increase from both existing competitors and new market entrants as a result of changes in the regulatory framework of the industries in which we operate, advances in technology, the influx of new market entrants and strategic alliances and cooperative relationships among industry participants. Increased competition has resulted in increased customer churn, reductions in the rate of customer acquisition and significant price competition in most of our markets. In combination with difficult economic environments, these competitive pressures could adversely impact our ability to increase, or in certain cases, maintain the revenue, average revenue per unit (ARPU), RGUs, operating cash flows, operating cash flow margins and liquidity of our operating segments.

**Changes in technology may limit the competitiveness of and demand for our services, which may adversely impact our business and stock value.** Technology in the video, telecommunications and data services industries is changing rapidly. This significantly influences the demand for the products and services that are offered by our businesses. The ability to anticipate changes in technology and consumer tastes and to develop and introduce new and enhanced products on a timely basis will affect our ability to continue to grow, increase our revenue and number of subscribers and remain competitive. New products, once marketed, may not meet consumer expectations or demand, can be subject to delays in development and may fail to operate as intended. A lack of market acceptance of new products and services which we may offer, or the development of significant competitive products or services by others, could have a material adverse impact on our revenue and operating cash flow.

**Our capital expenditures may not generate a positive return.** The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. No assurance can be given that our future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

**If we are unable to obtain attractive programming or necessary equipment and software on satisfactory terms for our digital cable services, the demand for our services could be reduced, thereby lowering revenue and profitability.** We rely on digital programming suppliers for the bulk of our programming content. We may not be able to obtain sufficient high-quality programming for our digital cable services on satisfactory terms or at all in order to offer compelling digital cable services. This may also limit our ability to migrate customers from lower tier programming to higher tier programming, thereby inhibiting our ability to execute our business plans. Furthermore, we may not be able to obtain attractive country-specific programming for video services. In addition, must carry requirements may consume channel capacity otherwise available for other services. Any or all of these factors could result in reduced demand for, and lower revenue and profitability from, our digital video services. Further, we may not be able to obtain the equipment, software and services required for our businesses on a timely basis or on satisfactory terms. We depend on third-party suppliers and licensors to supply our equipment, software and certain services. If demand exceeds these suppliers' and licensors' capacity or if they experience financial difficulties, the ability of our businesses to provide some services may be materially adversely affected, which in turn could affect our businesses' ability to attract and retain customers. This could then have a negative impact on our business and financial operations.

**Failure in our technology or telecommunications systems could significantly disrupt our operations, which could reduce our customer base and result in lost revenues.** Our success depends, in part, on the continued and uninterrupted performance of our information technology and network systems as well as our customer service centers. The hardware supporting a large number of critical systems for our cable network in a particular country or geographic region is housed in a relatively small number of locations. Our systems are vulnerable to damage from a variety of sources, including telecommunications failures, power loss, malicious human acts and natural disasters. Moreover, despite security measures, our servers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Despite the precautions we have taken, unanticipated problems affecting our systems could cause failures in our information technology systems or disruption in the transmission of signals over our networks. Sustained or repeated system failures that interrupt our ability to provide service to our customers or otherwise meet our business obligations in a timely manner would adversely affect our reputation and result in a loss of customers and net revenue.

#### **Factors Relating to Overseas Operations and Foreign Regulation**

**Our businesses are conducted almost exclusively outside of the United States, which gives rise to numerous operational risks.** Our businesses operate almost exclusively in countries outside the United States and are thereby subject to the following inherent risks:

- difficulties in staffing and managing international operations;
- potentially adverse tax consequences;

- export and import restrictions, custom duties, tariffs and other trade barriers;
- increases in taxes and governmental fees;
- economic instability and related impacts on foreign currency exchange rates; and
- changes in foreign and domestic laws and policies that govern operations of foreign-based companies.

Operational risks that we experienced in certain countries in the past and may again experience in the future as we seek to expand our operations into new countries include disruptions of services or loss of property or equipment that are critical to overseas businesses due to expropriation, nationalization, war, insurrection, terrorism or general social or political unrest.

**We are exposed to various foreign currency exchange rate risks.** We are exposed to foreign currency exchange risk with respect to our debt in situations where our debt is denominated in a currency other than the functional currency of the operations whose cash flows support our ability to repay or refinance such debt. Although we generally seek to match the denomination of our and our subsidiaries' borrowings with the functional currency of the operations that are supporting the respective borrowings, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in the functional currency of the underlying operations (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using cross-currency interest rate swaps to synthetically convert unmatched debt into the applicable underlying currency.

In addition to the exposure that results from the mismatch of our borrowings and underlying functional currencies, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our or our subsidiaries' respective functional currencies, such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) that are denominated in a currency other than the applicable functional currency. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our respective functional currencies, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. In this regard, we expect that during 2009, (1) approximately 1% to 3% of our revenue, (2) approximately 5% to 7% of our aggregate operating and selling, general and administrative (SG&A) expenses (exclusive of stock-based compensation expense) and (3) approximately 20% to 23% of our capital expenditures (including capital lease additions) will be denominated in non-functional currencies, including amounts denominated in (a) U.S. dollars in Europe, Chile, Japan and Australia and (b) euros in Poland, Hungary, Romania and the Czech Republic. The actual levels of our non-functional currency transactions may differ from our expectations. Generally, we will consider hedging these currency risks when the foreign currency risk arises from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts. In this regard, we have entered into foreign currency exchange contracts covering the forward purchase of the U.S. dollar and the euro and the forward sale of the euro, the Japanese yen, the Chilean peso and the Australian dollar to hedge certain of these risks. Although certain currency risks related to our capital expenditures and operating and SG&A expenses were not hedged as of December 31, 2008, we expect to increase our use of hedging strategies with respect to these risks during 2009. For additional information concerning our foreign currency exchange contracts, see note 7 to our consolidated financial statements.

We also are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar (our reporting currency) against the currencies of our operating subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive earnings (loss) as a separate component of stockholders' equity. 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. As a

result of foreign currency risk, we may experience a negative impact on our comprehensive earnings and equity with respect to our holdings solely as a result of foreign currency translation. Our primary exposure to foreign currency risk from a foreign currency translation perspective is to the euro and the Japanese yen. In addition, we have significant exposure to changes in the exchange rates for the Swiss franc, the Chilean peso, the Hungarian forint, the Australian dollar and other local currencies in Europe. We generally do not hedge against the risk that we may incur non-cash losses upon the translation of the financial statements of our subsidiaries and affiliates into U.S. dollars.

**Our businesses are subject to risks of adverse regulation by foreign governments.** Our businesses are subject to the unique regulatory regimes of the countries in which they operate. Cable and telecommunications businesses are subject to licensing or registration eligibility rules and regulations, which 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 services being offered and developed by these businesses. In a number of countries, our ability to increase the prices we charge for our cable television service or make changes to the programming packages we offer is limited by regulation or conditions imposed by competition authorities or is subject to review by regulatory authorities. In addition, regulatory authorities may grant new licenses to third parties, or market entry may be possible without a license, resulting in greater competition in territories where our businesses may already be licensed. More significantly, regulatory authorities may require us to grant third parties access to our bandwidth, frequency capacity, facilities or services, as in the Netherlands. Programming businesses are subject to regulation on a country by country basis, including programming content requirements, requirements to make programming available on non-discriminatory terms, and service quality standards. In some cases, ownership restrictions may apply to broadband communications and/or programming businesses. Consequently, our businesses must adapt their ownership and organizational structure as well as their pricing and service offerings 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 such business or loss of required licenses or other adverse conditions.

Such adverse conditions could:

- Impair our ability to use our bandwidth in ways that would generate maximum revenue and operating cash flow
- Create a shortage of capacity on our network, which could limit the types and variety of services we seek to provide our customers;
- Strengthen our competitors by granting them access and lowering their costs to enter into our markets; and
- Have a significant adverse impact on our profitability.

When we acquire additional communications companies, these acquisitions may require the approval of governmental authorities (either at country or European level), which can block, impose conditions on, or delay an acquisition; thus hampering our opportunities for growth.

**We cannot be certain that we will be successful in acquiring new businesses or integrating acquired businesses with our existing operations.** Historically, our businesses have grown, in part, through selective acquisitions that enabled them to take advantage of existing networks, local service offerings and region-specific management expertise. We expect to seek to continue growing our businesses through acquisitions in selected markets. Our ability to acquire new businesses may be limited by many factors, including availability of financing, debt covenants, the prevalence of complex ownership structures among potential targets, government regulation and competition from other potential acquirers, primarily private equity funds. Even if we were successful in acquiring new businesses, the integration of new businesses may present significant costs and challenges, including: realizing economies of scale in interconnection, programming and network operations; eliminating duplicative overheads; and integrating personnel, networks, financial systems and operational systems. We cannot assure you that we will be successful in acquiring new businesses or realizing the anticipated benefits of any completed acquisition.



In addition, we anticipate that most, if not all, companies acquired by us 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 conduct appropriate due diligence and 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.

***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 substantially all of our revenue is generated through 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 positive 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. stockholder of a controlled foreign corporation may be required to include in income its pro rata share of the controlled foreign corporation's increase in the average adjusted tax basis of any investment in U.S. property held by the controlled foreign corporation to the extent the controlled foreign corporation has positive current or accumulated earnings and profits (other than Subpart F income). This is the case even though the U.S. stockholder may not have received any actual cash distributions from the controlled foreign corporation. Since we are investors 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 or that any of such measures will not be challenged.

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 certain foreign corporations paid to the U.S. corporation as a dividend. Our ability to claim a foreign tax credit for dividends received from our foreign subsidiaries is subject to various limitations. 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 substantially all 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.

#### **Factors Relating to Certain Financial Matters**

***Difficult economic conditions may reduce subscriber spending for our video, internet and telephony services and reduce our rate of growth of subscriber additions.*** Most of the countries in which we operate are experiencing difficult economic conditions. Because a substantial portion of our revenue is derived from residential subscribers who may be impacted by these conditions, it may be (1) more difficult to attract new subscribers, (2) more likely that certain of our subscribers will downgrade or disconnect their services and (3) more difficult to maintain ARPUs at existing levels. Accordingly, our ability to increase, or in certain cases, maintain the revenue, ARPU, RGUs, operating cash flow, operating cash flow margins and liquidity of our operating segments could be adversely affected to the extent that relevant economic environments remain weak or decline further. We currently are unable to predict the extent of any of these potential adverse effects.

***Disruptions in the worldwide credit and equity markets have increased the risk of default by the counterparties to our financial instruments, undrawn debt facilities and cash investments and may impact our future financial position.*** Disruptions in the credit and equity markets have impacted the creditworthiness of certain

financial institutions. Although we seek to manage the credit risks associated with our financial instruments, cash and cash equivalents and undrawn debt facilities, we are exposed to an increased risk that our counterparties may default on their obligations to us. At December 31, 2008, our exposure to credit risk included (1) derivative assets with a fair value of \$1,124.1 million (including \$616.7 million due from counterparties for which we had offsetting liability positions at December 31, 2008), (2) cash and cash equivalent balances of \$1,374.0 million and (3) aggregate undrawn debt facilities of \$1,084.3 million, including CLP 136.4 billion (\$213.6 million) of commitments under the VTR Credit Facility for which we would be required to set aside an equivalent amount of cash collateral. Were one or more of our counterparties to fail or otherwise be unable to meet its obligations to us, our cash flows, results of operations and financial condition could be adversely affected. It is not possible to predict how the recent disruption in the credit and equity markets and the associated difficult economic conditions could impact our future financial position. In this regard, (1) additional financial institution failures could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (2) sustained or further tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, the continuation or worsening of the weakness in the equity markets could make it less attractive to use our shares to satisfy contingent or other obligations, and sustained or increased competition, particularly in combination with weak economies, could adversely impact our cash flows and liquidity.

**We may not freely access the cash of our operating companies.** Our operations are conducted through our subsidiaries. Our current sources of corporate liquidity include (1) our cash and cash equivalents, (2) interest and dividend income received on our cash and cash equivalents and investments, and (3) proceeds received upon the exercise of stock options. From time to time, we also receive distributions, loans or loan repayments from our subsidiaries or affiliates and proceeds upon the disposition of investments and other assets. 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 and in some cases our receipt of such payments or advances may be subject to onerous tax consequences. Most of our operating subsidiaries are subject to credit agreements or indentures that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners, including us. In addition, because these subsidiaries are separate and distinct legal entities they have no obligation to provide us funds for payment obligations, whether by dividends, distributions, loans or other payments. 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 any of their partners or stockholders, including us.

**Certain of our subsidiaries are subject to various debt instruments that contain restrictions on how we finance our operations and operate our businesses, which could impede our ability to engage in beneficial transactions.** 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:

- incur or guarantee additional indebtedness;
- pay dividends or make other upstream distributions;
- make investments;
- transfer, sell or dispose of certain assets, including subsidiary stock;
- merge or consolidate with other entities;
- 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.

In addition, most of the credit agreements to which these subsidiaries are parties include financial covenants that require them to maintain certain financial ratios, including ratios of total debt to operating cash flow and operating cash flow to interest expense. Their ability to meet these financial covenants may be affected by adverse economic, competitive or regulatory developments and other events beyond their control, and we cannot assure you that these financial covenants will be met. In the event of a default under such subsidiaries' credit agreements or indentures, the lenders may accelerate the maturity of the indebtedness under those agreements or indentures, which could result in a default under other outstanding credit facilities. We cannot assure you that any of these subsidiaries will have sufficient assets to pay indebtedness outstanding under their credit agreements and indentures. Any refinancing of this indebtedness is likely to contain similar restrictive covenants.

***We are exposed to interest rate risks. Shifts in such rates may adversely affect the debt service obligation of our subsidiaries.*** We are exposed to the risk of fluctuations in interest rates, primarily through the credit facilities of certain of our subsidiaries, which are indexed to EURIBOR, LIBOR, TIBOR or other base rates. Although we enter into various derivative transactions to manage exposure to movements in interest rates, there can be no assurance that we will be able to continue to do so at a reasonable cost.

***Our substantial leverage could limit our ability to obtain additional financing and have other adverse effects.*** We seek to maintain our debt at levels that provide for attractive equity returns without assuming undue risk. In this regard, we strive to cause our operating subsidiaries to maintain their debt at levels that result in a consolidated debt balance that is between four and five times our consolidated operating cash flow (as defined in note 21 to our consolidated financial statements included in Part II of this report). At December 31, 2008, our total consolidated outstanding debt and capital lease obligations were \$20.5 billion, of which \$513.0 million is due over the next 12 months. We believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our debt maturities grow in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we would be able to refinance or otherwise extend our debt maturities in light of current market conditions. In this regard, it is not possible to predict how the recent disruption in the credit and equity markets and the associated difficult economic conditions could impact our future financial position. Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our cash provided by operations and to achieve adequate returns on our capital expenditures and acquisitions. Accordingly, if our cash provided by operations declines or we encounter other material liquidity requirements, we may be required to seek additional debt or equity financing in order to meet our debt obligations and other liquidity requirements as they come due. In addition, our current debt levels may limit our ability to incur additional debt financing to fund working capital needs, acquisitions, capital expenditures, or other general corporate requirements. We can give no assurance that any additional debt or equity financing will be available on terms that are as favorable as the terms of our existing debt or at all, particularly in light of current market conditions. During 2008, we purchased \$2,217.1 million of LGI Series A and Series C common stock. Any cash used by our company in connection with any future purchases of our common stock would not be available for other purposes, including the repayment of debt.

***We are subject to increasing operating costs and inflation risks which may adversely affect our earnings.*** While our operations attempt to increase our subscription rates to offset increases in operating costs, there is no assurance that they will be able to do so. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on our cash flow and net earnings (loss). We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs in certain of our markets.

***The liquidity and value of our interests in our subsidiaries 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 communications and video programming businesses. Certain of these equity interests 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 stockholders or partners. In certain cases, a change in control of the company or the subsidiary holding the equity interest will give rise to rights or remedies exercisable by other stockholders or partners. Some of our subsidiaries 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 the ability to sell those equity interests and may adversely affect the prices at which those interests may be sold.

***We may not report net earnings.*** We reported losses from continuing operations of \$788.9 million, \$422.6 million and \$334.0 million during 2008, 2007 and 2006, respectively. In light of our historical financial performance, we cannot assure you that we will report net earnings in the near future or at all.

#### Other Factors

***The loss of certain key personnel could harm our business.*** We have experienced employees at both the corporate and operational levels who possess substantial knowledge of our business and operations. We cannot assure you that we will be successful in retaining their services or that we would be successful in hiring and training suitable replacements without undue costs or delays. As a result, the loss of any of these key employees could cause significant disruptions in our business operations, which could materially adversely affect our results of operations.

***John C. Malone has significant voting power with respect to corporate matters considered by our stockholders.*** John C. Malone beneficially owns outstanding shares of our common stock representing 31.8% of our aggregate voting power as of February 16, 2008. Including stock options held by Mr. Malone, the voting power of the shares beneficially owned by him was 37.4% at that date. By virtue of Mr. Malone's voting power in our company, as well as his position as our Chairman of the Board, Mr. Malone may have significant influence over the outcome of any corporate transaction or other matters submitted to our stockholders for approval. Mr. Malone's rights to vote or dispose of his equity interests in our company are not subject to any restrictions in favor of us other than as may be required by applicable law and except for customary transfer restrictions pursuant to equity award agreements.

***It may be difficult for a third-party to acquire us, even if doing so may be beneficial to our stockholders.*** Certain provisions of our restated certificate of incorporation and bylaws may discourage, delay or prevent a change in control of our company that a stockholder 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 10 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 holder 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 stockholders;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders;
- 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 stockholders at stockholder meetings;

- requiring stockholder approval by holders of at least 80% of the voting power of our outstanding common stock 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 or bylaws; 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 our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of our company.

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 stockholders.

**Item 1.B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

During 2008, we leased our executive offices in Englewood, Colorado. All of our other real or personal property is owned or leased by our subsidiaries and affiliates.

Our subsidiaries and affiliates own or lease the fixed assets necessary for the operation of their respective businesses, including office space, transponder space, headend facilities, rights of way, cable television and telecommunications distribution equipment, telecommunications switches and customer premises equipment and other property necessary for their operations. The physical components of their broadband networks require maintenance and periodic upgrades to support the new services and products they introduce. Our management believes that our current facilities are suitable and adequate for our business operations for the foreseeable future.

**Item 3. 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 legal proceedings to which certain of our subsidiaries are parties outside the normal course of business that were material at the time originally reported.

*Cignal.* On April 26, 2002, Liberty Global Europe received a notice that certain former shareholders of Cignal Global Communications (Cignal) filed a lawsuit (the 2002 Cignal Action) against Liberty Global Europe in the District Court in Amsterdam, the Netherlands, claiming damages for Liberty Global Europe's alleged failure to honor certain option rights that were granted to those shareholders pursuant to a Shareholders Agreement entered into in connection with the acquisition of Cignal by Liberty Global Europe's subsidiary, Priority Telecom NV (Priority Telecom). The Shareholders Agreement provided that in the absence of an initial public offering (IPO), as defined in the Shareholders Agreement, of shares of Priority Telecom by October 1, 2001, the Cignal shareholders would be entitled until October 30, 2001, to exchange their Priority Telecom shares into shares of Liberty Global Europe, with a cash equivalent value of \$200 million in the aggregate, or cash at Liberty Global Europe's discretion. Liberty Global Europe believes that it complied in full with its obligations to the Cignal shareholders through the successful completion of the IPO of Priority Telecom on September 27, 2001, and accordingly, the option rights were not exercisable.

On May 4, 2005, the District Court rendered its decision in the 2002 Cignal Action dismissing all claims of the former Cignal shareholders. On August 2, 2005, an appeal against the District Court decision was filed. Subsequently, when the grounds of appeal were filed in November 2005, nine individual plaintiffs, rather than all former Cignal shareholders, continued to pursue their claims. Based on the share ownership information provided by the nine plaintiffs, the damage claims remaining subject to the 2002 Cignal Action are approximately \$28 million in the aggregate before statutory interest. A hearing on the appeal was held on May 22, 2007. On September 13, 2007, the Court of Appeals rendered its decision that no IPO within the meaning of the Shareholders Agreement had been realized and accordingly the plaintiffs should have been allowed to exercise their option rights. In the same decision, the Court of Appeals directed the plaintiffs to present more detailed calculations and substantiation of the damages

they claimed to have suffered as a result of Liberty Global Europe's nonperformance with respect to their option rights, and stated that Liberty Global Europe will be allowed to respond to the calculations submitted by the plaintiffs by separate statement. The Court of Appeals gave the parties leave to appeal to the Dutch Supreme Court and deferred all further decisions and actions, including the calculation and substantiation of the damages, pending such appeal. Liberty Global Europe filed the appeal with the Dutch Supreme Court on December 13, 2007. On February 15, 2008, the plaintiffs filed a conditional appeal with the Dutch Supreme Court, challenging certain aspects of the Court of Appeals decision in the event that Liberty Global Europe's appeal is not dismissed by the Dutch Supreme Court.

On June 13, 2006, Liberty Global Europe, Priority Telecom, Euronext NV and Euronext Amsterdam NV were each served with a summons for a new action (the 2006 Cignal Action) purportedly on behalf of all former Cignal shareholders and provisionally for the nine plaintiffs in the 2002 Cignal Action. The 2006 Cignal Action claims, among other things, that the listing of Priority Telecom on Euronext Amsterdam NV in September 2001 did not meet the requirements of the applicable listing rules and, accordingly, the IPO was not valid and did not satisfy Liberty Global Europe's obligations to the Cignal shareholders. Aggregate claims of \$200 million, plus statutory interest, are asserted in this action, which amount includes the amount provisionally claimed by the nine plaintiffs in the 2002 Cignal Action. A hearing in the 2006 Cignal Action took place on October 9, 2007, following which, on December 19, 2007, the District Court rendered its decision dismissing the plaintiff's claims against Liberty Global Europe and the other defendants. The plaintiffs filed an appeal to the Court of Appeals against the District Courts' decision on March 12, 2008. Oral pleadings in this appeal have been scheduled for April 17, 2009.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### General

The capitalized terms used in PART II of this Annual Report on Form 10-K have been defined in the notes to our consolidated financial statements. In the following text, the terms, "we," "our," "our company" and "us" may refer, as the context requires, to LGI or collectively to LGI and its predecessors and subsidiaries.

#### Market Information

We have three series of common stock, LGI Series A, LGI Series B and LGI Series C, which trade on the NASDAQ Global Select Market under the symbols "LBTYA," "LBTYB" and "LBTYK," respectively. The following table sets forth the range of high and low sales prices of shares of LGI Series A, Series B and Series C common stock for the periods indicated:

	Series A		Series B		Series C	
	High	Low	High	Low	High	Low
Year ended December 31, 2008						
First quarter	\$ 41.37	\$ 33.38	\$ 40.80	\$ 34.39	\$ 38.52	\$ 31.70
Second quarter	\$ 37.08	\$ 30.84	\$ 35.57	\$ 31.38	\$ 34.75	\$ 29.63
Third quarter	\$ 36.16	\$ 26.76	\$ 36.74	\$ 26.85	\$ 34.19	\$ 25.65
Fourth quarter	\$ 30.18	\$ 9.89	\$ 29.57	\$ 10.71	\$ 28.39	\$ 10.02
Year ended December 31, 2007						
First quarter	\$ 33.23	\$ 28.38	\$ 33.75	\$ 28.88	\$ 30.79	\$ 26.90
Second quarter	\$ 41.27	\$ 32.79	\$ 41.17	\$ 33.15	\$ 39.60	\$ 30.06
Third quarter	\$ 45.00	\$ 38.22	\$ 45.00	\$ 38.50	\$ 42.74	\$ 36.39
Fourth quarter	\$ 42.86	\$ 34.91	\$ 45.05	\$ 35.14	\$ 39.89	\$ 33.25

#### Holders

As of February 16, 2009, there were 2,478, 133 and 2,529 record holders of LGI Series A, Series B and Series C common stock, respectively (which amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one record holder).

#### Dividends

We have not paid any cash dividends on LGI Series A, Series B and Series C common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our Board of Directors in light of our earnings, financial condition and other relevant considerations including applicable Delaware law. There are currently no contractual restrictions on our ability to pay dividends in cash or stock, although credit facilities to which certain of our subsidiaries are parties would restrict our ability to access their cash for, among other things, our payment of cash dividends.

#### Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

**Issuer Purchase of Equity Securities**

The following table sets forth information concerning our company's purchase of its own equity securities during the three months ended December 31, 2008:

Period	Total number of shares purchased		Average price paid per share (a)	Total number of shares purchased as part of publicly announced plans or programs		Approximate dollar value of shares that may yet be purchased under the plans or programs
October 1, 2008 through October 31, 2008	Series A:	541,800	Series A: \$ 22.74	Series A:	541,800	
	Series C:	5,135,600	Series C: \$ 21.31	Series C:	5,135,600	\$ (b)
November 1, 2008 through November 30, 2008	Series A:	4,750,700	Series A: \$ 13.83	Series A:	4,750,700	
	Series C:	—	Series C: \$ —	Series C:	—	\$ (b)
December 1, 2008 through December 31, 2008	Series A:	3,635,900	Series A: \$ 12.91	Series A:	3,635,900	
	Series C:	3,386,300	Series C: \$ 12.92	Series C:	3,386,300	\$ (b)
Total — October 1, 2008 through December 31, 2008	Series A:	8,928,400	Series A: \$ 14.00	Series A:	8,928,400	
	Series C:	8,521,900	Series C: \$ 17.98	Series C:	8,521,900	\$ (b)

(a) Average price paid per share includes direct acquisition costs where applicable.

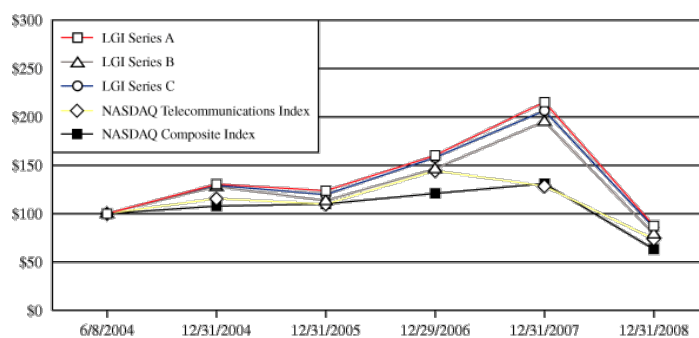
(b) During 2008, 2007 and 2006, our board of directors approved various stock repurchase programs. At December 31, 2008, the remaining amount authorized under our current stock repurchase plan was \$94.8 million. Subsequent to December 31, 2008, we acquired 6,216,300 shares of our LGI Series C common stock at a weighted average price of \$15.11, for an aggregate purchase price of \$93.9 million, including direct acquisition costs. As of February 23, 2009, the remaining authorized amount under our current stock repurchase plan was \$1.0 million.

In addition to the shares listed in the table above, 31,004 shares of LGI Series A common stock and 30,998 shares of LGI Series C common stock were surrendered during the fourth quarter of 2008 by certain of our officers and employees to pay withholding taxes and other deductions in connection with the release of restrictions on restricted stock.



### Stock Performance Graph

The following graph compares the percentage change from June 8, 2004, the date on which regular way trading in our common stock began, to December 31, 2008, in the cumulative total stockholder return (assuming reinvestment of dividends) on LGI Series A common stock, LGI Series B common stock, LGI Series C common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index. The graph assumes that \$100 was invested on June 8, 2004. The stock prices of our common stock on June 8, 2004 have been adjusted to give effect to our July 26, 2004 rights offering and our September 6, 2005 Series C dividend.



	6/8/2004	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008
LGI Series A	\$ 100.00	\$ 130.49	\$ 123.63	\$ 160.16	\$ 215.33	\$ 87.47
LGI Series B	\$ 100.00	\$ 128.02	\$ 113.31	\$ 146.31	\$ 195.31	\$ 78.86
LGI Series C	\$ 100.00	\$ 129.23	\$ 119.64	\$ 158.01	\$ 206.49	\$ 85.67
Nasdaq Telecommunications Index	\$ 100.00	\$ 115.52	\$ 109.78	\$ 144.36	\$ 128.40	\$ 73.79
Nasdaq Composite Index	\$ 100.00	\$ 107.71	\$ 110.01	\$ 120.85	\$ 131.06	\$ 63.15

**Item 6. SELECTED FINANCIAL DATA**

The following tables present selected historical financial information of (i) certain international cable television and programming subsidiaries and assets of LGI International's predecessor for periods prior to the June 7, 2004 spin-off transaction, whereby LGI International's common stock was distributed on a pro rata basis to Liberty Media's stockholders as a dividend, and (ii) LGI (as the successor to LGI International) and its consolidated subsidiaries for periods following such date. The following selected financial data was derived from the audited consolidated financial statements of LGI and its predecessors as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004. This information is only a summary, and should be read together with our consolidated financial statements included elsewhere herein.

	December 31,				
	2008 (a)	2007 (a)	2006 (a)	2005 (a)	2004
	in millions				
Summary Balance Sheet Data:					
Property and equipment, net	\$ 12,035.4	\$ 10,608.5	\$ 8,136.9	\$ 7,991.3	\$ 4,303.1
Intangible assets (including goodwill), net	\$ 15,773.4	\$ 15,315.4	\$ 11,698.0	\$ 10,839.9	\$ 3,280.6
Total assets	\$ 33,986.1	\$ 32,618.6	\$ 25,569.3	\$ 23,378.5	\$ 13,702.4
Debt and capital lease obligations, including current portion	\$ 20,502.9	\$ 18,353.4	\$ 12,230.1	\$ 10,115.0	\$ 4,992.7
Stockholders' equity	\$ 3,393.0	\$ 5,836.1	\$ 7,247.1	\$ 7,816.4	\$ 5,237.1

	Year ended December 31,				
	2008 (a)	2007 (a)	2006 (a)	2005 (a)	2004
	in millions, except per share amounts				
Summary Statement of Operations Data:					
Revenue	\$ 10,561.1	\$ 9,003.3	\$ 6,483.9	\$ 4,517.3	\$ 2,112.8
Operating income (loss)	\$ 1,363.4	\$ 666.8	\$ 352.3	\$ 250.1	\$ (275.8)
Earnings (loss) from continuing operations	\$ (788.9)	\$ (422.6)	\$ (334.0)	\$ (59.6)	\$ 7.0
Basic and diluted earnings (loss) from continuing operations per share — Series A, Series B and Series C common stock (pro forma for spin-off in 2004)					
	\$ (2.50)	\$ (1.11)	\$ (0.76)	\$ (0.14)	\$ 0.02

- (a) Prior to 2005, we accounted for our interest in Super Media/J:COM using the equity method. As a result of a change in the corporate governance of Super Media that occurred on February 18, 2005, we began accounting for Super Media/J:COM as consolidated subsidiaries effective January 1, 2005. In addition, on June 15, 2005, we completed the LGI Combination whereby LGI acquired all of the capital stock of UGC that LGI International did not already own and LGI International and UGC each became wholly-owned subsidiaries of LGI. Prior to 2007, we accounted for our interest in Telenet using the equity method. Effective January 1, 2007, we began accounting for Telenet as a consolidated subsidiary. We also completed a number of other acquisitions during 2008, 2007, 2006 and 2005. For information concerning our acquisitions during the past three years, see note 4 to our consolidated financial statements.

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

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

- *Overview.* This section provides a general description of our business and recent events.
- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2008, 2007 and 2006.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity, consolidated cash flow statements, off balance sheet arrangements and contractual commitments.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those material accounting policies that contain uncertainties and require significant judgment in their application.
- *Quantitative and Qualitative Disclosures about Market Risk.* This section provides discussion and analysis of the foreign currency, interest rate and other market risk that our company faces.

Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2008.

**Overview**

We are an international provider of video, voice and broadband internet services with consolidated broadband communications and/or DTH satellite operations at December 31, 2008 in 15 countries, primarily in Europe, Japan and Chile. Through our indirect wholly-owned subsidiary UPC Holding, we provide video, voice and broadband internet services in 10 European countries and in Chile. The European broadband communications operations of UPC Broadband Holding, a subsidiary of UPC Holding, are collectively referred to as the UPC Broadband Division. UPC Broadband Holding's broadband communications operations in Chile are provided through VTR. Through our indirect majority ownership interest in Telenet (50.6% at December 31, 2008), we provide broadband communications services in Belgium. Through our indirect controlling ownership interest in J:COM (37.8% at December 31, 2008), we provide broadband communications services in Japan. Through our indirect majority ownership interest in Austar (54.0% at December 31, 2008), we provide DTH satellite services in Australia. We also have (i) consolidated broadband communications operations in Puerto Rico and (ii) consolidated interests in certain programming businesses in Europe, Japan (through J:COM) and Argentina. Our consolidated programming interests in Europe are primarily held through Chellomedia, which owns or manages investments in various businesses, primarily in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming services to certain of our broadband communications operations, primarily in Europe.

As further described in note 4 to our consolidated financial statements, we have completed a number of transactions that impact the comparability of our 2008, 2007 and 2006 results of operations. Certain of the more significant of these transactions are listed below:

- (i) Telenet's completion of the Interkabel Acquisition on October 1, 2008;
- (ii) the acquisition of JTV Thematics, the thematics channel business of SC Media, through the September 1, 2007 merger of JTV Thematics with J:COM;
- (iii) the consolidation of Telenet effective January 1, 2007 for financial reporting purposes;
- (iv) J:COM's acquisition of a controlling interest in Cable West, a broadband communications provider in Japan, on September 28, 2006; and
- (v) the consolidation of Karneval, a broadband communications provider in the Czech Republic, effective September 18, 2006.

In addition to the transactions listed above, J:COM acquired Mediatti on December 25, 2008 and we completed a number of less significant acquisitions in Europe and Japan during 2008, 2007 and 2006.

As further discussed in note 5 to our consolidated financial statements, our consolidated financial statements have been reclassified to present UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations. Accordingly, in the following discussion and analysis, the operating statistics, results of operations and cash flows that we present and discuss are those of our continuing operations.

From a strategic perspective, we are seeking to build broadband communications and video programming businesses that have strong prospects for future growth in revenue and operating cash flow (as defined in note 21 to our consolidated financial statements). As discussed further under *Liquidity and Capital Resources — Capitalization* below, we also seek to maintain our debt at levels that provide for attractive equity returns without assuming undue risk.

From an operational perspective, we focus on achieving organic revenue and customer growth in our broadband communications operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our networks where appropriate. As we use the term, organic growth excludes foreign currency translation effects and acquisitions. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital cable, broadband internet and telephony services with existing customers through product bundling and upselling, or by migrating analog cable customers to digital cable services that include various incremental service offerings, such as video-on-demand, digital video recorders and high definition programming. We plan to continue to employ this strategy to achieve organic revenue and customer growth.

Through our subsidiaries and affiliates, we are the largest international broadband communications operator in terms of subscribers. At December 31, 2008, our consolidated subsidiaries owned and operated networks that passed 34,275,100 homes and served 26,453,800 revenue generating units (RGUs), consisting of 15,608,200 video subscribers, 6,201,300 broadband internet subscribers and 4,644,300 telephony subscribers.

Including the effects of acquisitions, we added a total of 2,419,100 RGUs during 2008. Excluding the effects of acquisitions (RGUs added on the acquisition date), but including post-acquisition RGU additions, we added 1,048,300 RGUs during 2008, as compared to 1,445,800 RGUs that were added on an organic basis during 2007. Our organic RGU growth during 2008 is attributable to the growth of our digital telephony services, which added 654,700 RGUs and our broadband internet services, which added 628,700 RGUs. We experienced a net organic decline of 235,100 video RGUs during 2008, as decreases in our analog cable RGUs of 1,730,300 and our multi-channel multi-point (microwave) distribution system (MMDS) video RGUs of 20,300 were not fully offset by increases in our digital cable RGUs of 1,405,300 and our DTH video RGUs of 110,200.

We are experiencing significant competition in all of our broadband communications markets, particularly in the Netherlands, Austria, Romania, Hungary, the Czech Republic and other parts of Europe. This significant competition has contributed to:

- (i) a decline in the organic growth rate for our consolidated revenue from 9.3% during 2007 to 5.7% during 2008, each as compared to the corresponding prior year period;
- (ii) a decrease in the number of our consolidated net organic RGU additions during 2008, as compared to 2007;
- (iii) a slight organic decline in RGUs in Ireland during 2008;
- (iv) slight organic declines in RGUs in Romania and Switzerland during the three months ended December 31, 2008;
- (v) organic declines in revenue in Austria and Romania during 2008, as compared to 2007;
- (vi) organic declines in revenue in Austria and Romania during the fourth quarter of 2008, as compared to the third quarter of 2008;
- (vii) organic declines in the average monthly subscription revenue earned per average RGU (ARPU) in Austria, Hungary, the Czech Republic, Romania and Slovenia during 2008, as compared to 2007;

- (viii) declines in subscriber retention rates in most of our European markets during 2008, as compared to 2007; and
- (ix) the impairment of a portion of the goodwill assigned to our Romanian operations, as further described in note 9 to our consolidated financial statements.

In general, our ability to increase or maintain the fees we receive for our services is limited by competitive, and to a lesser degree, regulatory factors. In this regard, many of our broadband communications markets experienced declines in ARPU from internet and telephony services during 2008, as compared to 2007. These declines were mitigated somewhat by the impact of increased digital cable RGUs and other improvements in our RGU mix and the implementation of rate increases for analog cable and, to a lesser extent, other product offerings in certain markets.

We believe that we will continue to be challenged to maintain or improve recent historical organic revenue and RGU growth rates in future periods as we expect that competition will continue to grow and that the markets for certain of our service offerings will continue to mature. Although we actively monitor and respond to competition in each of our markets, no assurance can be given that our efforts to improve our competitive position will be successful, and accordingly, that we will be able to reverse negative trends such as those described above. For additional information concerning the significant revenue trends of our reportable segments, see *Discussion and Analysis of our Reportable Segments* below.

Due largely to the recent disruption in the worldwide credit and equity markets, we are facing difficult economic environments in most of the countries in which we operate. These economic environments could make it (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect their services and (iii) more difficult to maintain ARPUs at existing levels. Accordingly, our ability to increase, or in certain cases, maintain the revenue, RGUs, operating cash flow and liquidity of our operating segments could be adversely affected to the extent that relevant economic environments remain weak or decline further. We currently are unable to predict the extent of any of these potential adverse effects.

During 2008, we were able to control our operating and SG&A expenses such that we experienced expansion in the operating cash flow margins (operating cash flow divided by revenue) of each of our reportable segments, as compared to the operating cash flow margins we achieved during the corresponding 2007 period. In light of the significant cost reductions and efficiencies that have already been achieved by our operating segments and the competitive and economic factors mentioned above, we expect (i) the pace of our operating cash flow margin expansion to slow in 2009, as compared to 2008, and (ii) the operating cash flows of most of our reportable segments to grow at lower organic rates in 2009, as compared to 2008. No assurance can be given that we will be able to maintain or continue to expand the operating cash flow margins of our operating segments. For additional information, see the discussion of the operating and SG&A expenses and the operating cash flow margins of our reportable segments under *Discussion and Analysis of our Reportable Segments* below.

Over the next few years, we believe that we will be challenged to maintain or improve our 2008 organic revenue and RGU growth rates as we expect that competition will continue to grow and that the markets for certain of our service offerings will continue to mature. During this time frame, we expect that (i) increases in our digital cable, telephony, broadband internet and DTH RGUs will more than offset decreases in our analog cable RGUs and (ii) the ARPU of our reportable segments will remain relatively unchanged, as the negative impact of competitive factors, particularly with respect to our broadband internet and telephony services, is expected to largely offset the positive impacts of (a) the continued migration of video subscribers from analog to digital cable services and (b) other improvements in the mix of services provided to our subscriber base. We also believe that during this time frame we will see (i) modest improvements in our operating cash flow margins and (ii) declines in our aggregate capital expenditures and capital lease additions, as a percentage of revenue. In addition, we expect that we will be challenged to maintain or improve our current subscriber retention rates as competition grows. To the extent that we experience higher subscriber disconnect rates, we expect that it will be more difficult to control certain components of our operating, marketing and capital costs. Our expectations with respect to the items discussed in this paragraph are subject to competitive, technological and regulatory developments and other factors outside of our control, and no assurance can be given that actual results in future periods will not differ materially from our expectations.

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. As noted above, we expect that the percentage of revenue represented by our aggregate capital expenditures and capital lease additions will decline over the next few years, due primarily to our belief that the capital required to upgrade our broadband communications networks will decline over this time frame. No assurance can be given that actual results will not differ materially from our expectations as factors outside of our control, such as significant increases in competition, the introduction of new technologies or adverse regulatory initiatives, could cause us to decide to undertake previously unplanned upgrades of our broadband communications networks in the impacted markets. In addition, no assurance can be given that our future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

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

We offer broadband internet services in all of our broadband communications markets. Our residential subscribers generally access the internet via cable modems connected to their personal computers at various speeds depending on the tier of service selected. We determine pricing for each different tier of broadband internet service through analysis of speed, data limits, market conditions and other factors. We began offering ultra high-speed internet services in Japan in 2007 and the Netherlands in 2008, with download speeds ranging up to 160 Mbps in Japan and up to 120 Mbps in the Netherlands. We expect to expand the availability of ultra high-speed internet services during 2009.

We offer voice-over-internet-protocol, or "VoIP" telephony services in all of our broadband communications markets. In Austria, Belgium, Chile, Hungary, Japan and the Netherlands, we also provide circuit-switched telephony services. Telephony services in the remaining markets are provided using VoIP technology. In select markets, including Australia, we also offer mobile telephony services using third-party networks.

#### **Results of Operations**

As noted under *Overview* above, the comparability of our operating results during 2008, 2007 and 2006 is affected by acquisitions. In the following discussion, we quantify the impact of acquisitions on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to the timing of an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes.

Changes in foreign currency exchange rates have a significant impact on our operating results as all of our operating segments, except for Puerto Rico, have functional currencies other than the U.S. dollar. Our primary exposure to foreign currency risk from a translation perspective is currently to the euro and the Japanese yen. In this regard, 38.0% and 27.0% of our U.S. dollar revenue during 2008 was derived from subsidiaries whose functional currencies are the euro and the Japanese yen, respectively. In addition, our operating results are impacted by changes in the exchange rates for the Swiss franc, the Chilean peso, the Hungarian forint, the Australian dollar and other local currencies in Europe. The portions of the changes in the various components of our results of operations that are attributable to changes in foreign currency exchange rates from a translation perspective are highlighted under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Consolidated Operating Results* below. For additional information concerning our foreign currency risks and the applicable foreign currency exchange rates in effect for the periods covered by this Annual Report, see *Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Risk* below.

The amounts presented and discussed below represent 100% of each business's revenue and operating cash flow. As we have the ability to control Telenet, J:COM, VTR and Austar, GAAP requires that we consolidate 100% of the revenue and expenses of these entities in our consolidated statements of operations despite the fact that third parties own significant interests in these entities. The third-party owners' interests in the operating results of Telenet, J:COM, VTR, Austar and other less significant majority owned subsidiaries are reflected in minority interests in earnings of subsidiaries, net, in our consolidated statements of operations. Our ability to consolidate J:COM is dependent on our ability to continue to control Super Media, which will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. If Super Media is dissolved and we do not otherwise control J:COM at the time of any such dissolution, we will no longer be in a position to consolidate J:COM. When reviewing and analyzing our operating results, it is important to note that other third-parties own significant interests in Telenet, J:COM, VTR and Austar and that Sumitomo effectively has the ability to prevent our company from consolidating J:COM after February 2010.

#### Discussion and Analysis of our Reportable Segments

All of the reportable segments set forth below derive their revenue primarily from broadband communications services, including video, voice and broadband internet services. Certain segments also provide CLEC and other B2B services and J:COM provides certain programming services. At December 31, 2008, our operating segments in the UPC Broadband Division provided services in 10 European countries. Our Other Central and Eastern Europe segment includes our operating segments in the Czech Republic, Poland, Romania, Slovakia and Slovenia. Telenet, J:COM and VTR provide broadband communications services in Belgium, Japan and Chile, respectively. Our corporate and other category includes (i) Austar, (ii) other less significant operating segments that provide broadband communications services in Puerto Rico and video programming and other services in Europe and Argentina and (iii) our corporate category. Intersegment eliminations primarily represent the elimination of intercompany transactions between our broadband communications and programming operations, primarily in Europe.

For additional information concerning our reportable segments, including a discussion of our performance measures and a reconciliation of total segment operating cash flow to our consolidated earnings (loss) before income taxes, minority interests and discontinued operations, see note 21 to our consolidated financial statements.

The tables presented below in this section provide a separate analysis of each of the line items that comprise operating cash flow (revenue, operating expenses and SG&A expenses, excluding allocable stock-based compensation expense in accordance with our definition of operating cash flow) as well as an analysis of operating cash flow by reportable segment for (i) 2008 as compared to 2007 and (ii) 2007 as compared to 2006. In each case, the tables present (i) the amounts reported by each of our reportable segments for the comparative periods, (ii) the U.S. dollar change and percentage change from period to period and (iii) the percentage change from period to period, after removing foreign currency translation effects (FX). The comparisons that exclude FX assume that exchange rates remained constant during the periods that are included in each table. As discussed under *Quantitative and Qualitative Disclosures about Market Risk* below, we have significant exposure to movements in foreign currency exchange rates. We also provide a table showing the operating cash flow margins of our reportable segments for 2008, 2007 and 2006 at the end of this section.

Substantially all of the significant increases during 2007, as compared to 2006, in the revenue, operating expenses and SG&A expenses of our Telenet (Belgium) segment are attributable to the effects of our January 1, 2007 consolidation of Telenet, and accordingly, we do not separately discuss these increases below.

The revenue of our reportable segments includes amounts received from subscribers for ongoing services, installation fees, advertising revenue, mobile telephony revenue, channel carriage fees, telephony interconnect fees, late fees, programming revenue and amounts received for CLEC and other B2B services. In the following discussion, we use the term "subscription revenue" to refer to amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue.

The rates charged for certain video services offered by our broadband communications operations in Europe and Chile are subject to rate regulation. Additionally, in Europe, our ability to bundle or discount our services may be constrained if we are held to be dominant with respect to any product we offer. The amounts we charge and incur

with respect to telephony interconnection fees are also subject to regulatory oversight in many of our markets. Adverse outcomes from rate regulation or other regulatory initiatives could have a significant negative impact on our ability to maintain or increase our revenue. For information concerning adverse regulatory developments in the Netherlands, see note 20 to our consolidated financial statements.

### Revenue of our Reportable Segments

Revenue — 2008 compared to 2007

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2008	2007	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 1,181.1	\$ 1,060.6	\$ 120.5	11.4	3.9
Switzerland	1,017.0	873.9	143.1	16.4	4.9
Austria	538.0	503.1	34.9	6.9	(0.4)
Ireland	355.8	307.2	48.6	15.8	7.9
Total Western Europe	3,091.9	2,744.8	347.1	12.6	3.9
Hungary	405.9	377.1	28.8	7.6	0.2
Other Central and Eastern Europe	949.9	806.1	143.8	17.8	5.9
Total Central and Eastern Europe	1,355.8	1,183.2	172.6	14.6	4.1
Central and corporate operations	10.5	11.1	(0.6)	(5.4)	(14.5)
Total UPC Broadband Division	4,458.2	3,939.1	519.1	13.2	3.9
Telenet (Belgium)	1,509.0	1,291.3	217.7	16.9	9.4
J:COM (Japan)	2,854.2	2,249.5	604.7	26.9	11.3
VTR (Chile)	713.9	634.9	79.0	12.4	11.6
Corporate and other	1,110.7	975.7	135.0	13.8	10.6
Intersegment eliminations	(84.9)	(87.2)	2.3	2.6	9.0
Total consolidated LGI	\$ 10,561.1	\$ 9,003.3	\$ 1,557.8	17.3	7.9

*The Netherlands.* The Netherlands' revenue increased \$120.5 million or 11.4% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, the Netherlands' revenue increased \$41.4 million or 3.9%. This increase is attributable to an increase in subscription revenue that was partially offset by a decrease in non-subscription revenue. The increase in subscription revenue is due to (i) higher ARPU and (ii) a higher number of average RGUs during 2008, as compared to 2007. ARPU was higher during 2008, as the positive impacts of (i) an improvement in the Netherlands' RGU mix, attributable to a higher proportion of telephony, digital cable and broadband internet RGUs, (ii) January 2008 price increases for certain video, broadband internet and telephony services and (iii) growth in the Netherlands' digital cable services, including increased revenue from premium digital services and products, were only partially offset by the negative impacts of (a) increased competition, (b) changes in telephony subscriber calling patterns and an increase in the proportion of telephony subscribers selecting fixed-rate calling plans and (c) customers selecting lower-priced tiers of broadband internet services. The increase in average RGUs is attributable to an increase in average telephony, digital cable and broadband internet RGUs that was only partially offset by a decline in average analog cable RGUs. The decline in the Netherlands' average analog cable RGUs is primarily attributable to (i) the migration of certain analog cable customers to digital cable services and (ii) the effects of significant competition from the incumbent telecommunications operator in the Netherlands. We expect that we will continue to face significant competition from the incumbent telecommunications operator in future periods. The increase in subscription revenue during 2008 also includes a \$6.8 million increase that is primarily related to favorable analog cable rate settlements with certain municipalities, with \$4.5 million of the increase occurring during the fourth quarter of 2008. The decrease in the



Netherlands' non-subscription revenue is primarily attributable to (i) a decrease in revenue from B2B services, as increased competition has led to the loss of certain B2B contracts, and (ii) lower revenue from installation fees as a result of higher discounting and lower subscriber additions.

*Switzerland.* Switzerland's revenue increased \$143.1 million or 16.4% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, Switzerland's revenue increased \$42.7 million or 4.9%. This increase is attributable to an increase in subscription revenue, due to (i) a higher number of average RGUs and (ii) higher ARPU during 2008. The increase in average RGUs is attributable to increases in average digital cable, broadband internet and telephony RGUs that were only partially offset by a decline in average analog cable RGUs. ARPU was higher during 2008, as the positive impacts of (i) an improvement in Switzerland's RGU mix, attributable to a higher proportion of digital cable, telephony and broadband internet RGUs, (ii) a January 2008 price increase for analog and digital cable services and (iii) Switzerland's digital migration efforts were only partially offset by the negative impacts of (a) increased competition, (b) lower telephony call volumes, (c) customers selecting lower-priced tiers of broadband internet services and (d) a lower-priced tier of digital cable services and a decrease in the rental price charged for digital cable set-top boxes that Switzerland began offering in April 2007 to comply with the regulatory framework established by the Swiss Price Regulator in November 2006. Switzerland's non-subscription revenue remained relatively constant during 2008, as a decrease in interconnect revenue was offset by individually insignificant net increases in other components of non-subscription revenue. The decrease in interconnect revenue primarily is attributable to reductions in interconnect tariffs that were imposed by a regulatory authority during the fourth quarter of 2008. These tariff reductions, which were retroactive to January 1, 2007, resulted in decreases in interconnect revenue of \$2.2 million for the year ended December 31, 2008 and \$4.4 million for the fourth quarter of 2008, each as compared to the corresponding prior year period.

*Austria.* Austria's revenue increased \$34.9 million or 6.9% during 2008, as compared to 2007. This increase includes \$22.0 million attributable to the impacts of the October 2007 Tirol acquisition and another less significant acquisition. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, Austria's revenue decreased \$23.9 million or 4.8%. Most of this decrease is attributable to a decrease in subscription revenue, as the negative impact of lower ARPU was only partially offset by the positive impact of a higher number of average RGUs. The decline in subscription revenue, which, as discussed under *Overview* above, is largely related to the significant competition we are experiencing in Austria, includes declines in revenue from broadband internet and telephony services that were only partially offset by an increase in revenue from video services. ARPU decreased during 2008, as compared to 2007, as the positive impacts of (i) an improvement in Austria's RGU mix, primarily attributable to a higher proportion of digital cable RGUs, and (ii) a January 2008 rate increase for analog cable services were more than offset by the negative impacts of (a) increased competition, (b) a higher proportion of customers selecting lower-priced tiers of broadband internet and digital cable services, (c) lower telephony call volumes and (d) an increase in the proportion of subscribers selecting VoIP telephony service, which generally is priced lower than Austria's circuit-switched telephony service. The increase in average RGUs is attributable to increases in average digital cable and telephony RGUs that were only partially offset by decreases in average analog cable and, to a lesser extent, broadband internet RGUs. Non-subscription revenue in Austria decreased slightly during 2008, as compared to 2007, as a decrease in installation revenue was only partially offset by individually insignificant net increases in other components of non-subscription revenue. In light of current competitive and economic conditions, we expect that Austria will continue to be challenged to maintain or increase the amount of its local currency revenue during 2009.

*Ireland.* Ireland's revenue increased \$48.6 million or 15.8% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, Ireland's revenue increased \$24.4 million or 7.9%. Most of this increase is attributable to an increase in subscription revenue as a result of (i) higher ARPU and (ii) a slightly higher number of average RGUs during 2008, as compared to 2007. ARPU increased during 2008, as the positive impacts of (i) an improvement in Ireland's RGU mix, primarily attributable to a higher proportion of digital cable RGUs, (ii) a January 2008 price increase for certain analog cable, digital cable and MMDS video services, (iii) an increase in the proportion of broadband internet customers selecting higher-priced tiers of service and (iv) a July 2008 price increase for certain broadband internet services were only partially offset by the negative impact of

increased competition. The increase in average RGUs is attributable to increases in the average number of broadband internet, telephony and digital cable RGUs that were largely offset by declines in average analog cable and MMDS video RGUs.

*Hungary.* Hungary's revenue increased \$28.8 million or 7.6% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, Hungary's revenue increased \$0.6 million or 0.2%, as a decline in subscription revenue was more than offset by an increase in non-subscription revenue. Subscription revenue declined during 2008, as the negative impact of lower ARPU was only partially offset by the positive impact of a higher number of average RGUs. The decline in subscription revenue, which, as discussed under *Overview* above, is largely related to the significant competition we are experiencing in Hungary, includes a decline in revenue from video services that was only partially offset by increases in revenue from broadband internet and telephony services. ARPU declined during 2008, as compared to 2007, as the positive impacts of (i) improvements in Hungary's RGU mix, primarily attributable to a higher proportion of broadband internet and digital cable RGUs and (ii) a January 2008 rate increase for analog cable services were more than offset by the negative impacts of (a) increased competition, (b) a higher proportion of customers selecting lower-priced tiers of broadband internet and video services and (c) changes in telephony subscriber calling patterns and an increase in the proportion of telephony subscribers selecting fixed-rate calling plans. The increase in average RGUs is attributable to increases in average broadband internet, telephony, digital cable and, to a lesser extent, DTH RGUs that were only partially offset by a decline in average analog cable RGUs. The decline in average analog cable RGUs is primarily due to (i) the migration of analog cable subscribers to digital cable following the second quarter 2008 launch of digital cable services and (ii) the effects of competition. The increase in non-subscription revenue during 2008 is primarily attributable to an increase in B2B revenue.

*Other Central and Eastern Europe.* Other Central and Eastern Europe's revenue increased \$143.8 million or 17.8% during 2008, as compared to 2007. This increase includes \$13.2 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, Other Central and Eastern Europe's revenue increased \$34.7 million or 4.3%. Most of this increase is attributable to an increase in subscription revenue as a result of the positive impact of higher average RGUs during 2008 that was only partially offset by the negative impact of lower ARPU. The increase in average RGUs is attributable to increases in average broadband internet RGUs (mostly in Poland, Romania and the Czech Republic) and telephony RGUs (mostly related to the expansion of VoIP telephony services in the Czech Republic, Poland and Romania), that were only partially offset by a decline in average video RGUs. The decline in average video RGUs is attributable to decreases in Romania and, to a lesser extent, the Czech Republic and Slovakia that were only partially offset by small increases in Poland and Slovenia. ARPU declined in our Other Central and Eastern Europe segment during 2008, as compared to 2007, as the positive impacts of (i) an improvement in RGU mix, primarily attributable to a higher proportion of digital cable (due in part to the second quarter 2008 launch of digital cable services in Poland and Slovakia) and broadband internet RGUs and (ii) rate increases for video services in certain countries were more than offset by the negative impacts of (a) increased competition, (b) a higher proportion of broadband internet and video subscribers selecting lower-priced tiers and (c) changes in subscriber calling patterns and an increase in the proportion of telephony subscribers selecting fixed-rate calling plans.

Although competition is a factor throughout our Other Central and Eastern Europe markets, we are experiencing particularly intense competition in Romania and the Czech Republic. In Romania, competition has contributed to (i) an organic decline in total RGUs during the three months ended December 31, 2008 and (ii) declines in ARPU, video revenue and overall revenue during 2008, as compared to 2007. In response to the elevated level of competition in Romania, we have implemented aggressive pricing and marketing strategies. These strategies, which contributed to the organic decline in Romania's revenue, were implemented with the objective of maintaining our market share in Romania and enhancing our prospects for continued revenue growth in future periods. In the case of the Czech Republic, competition has contributed to declines during 2008, as compared to 2007, in (i) ARPU from all product categories and (ii) revenue from video services. We expect that we will continue to experience significant competition in future periods in Romania, the Czech Republic and other markets within our Other Central and Eastern Europe segment.

*Telenet (Belgium).* Telenet's revenue increased \$217.7 million or 16.9% during 2008, as compared to 2007. This increase includes \$40.8 million attributable to the impact of the October 1, 2008 Interkabel Acquisition and

another less significant acquisition. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, Telenet's revenue increased \$80.4 million or 6.2%. Most of this increase is attributable to an increase in subscription revenue due to (i) a higher number of average RGUs during 2008, as compared to 2007 and (ii) a slight increase in ARPU. The increase in average RGUs primarily is attributable to increases in the average number of digital cable, broadband internet and telephony RGUs that were only partially offset by a decline in the average number of analog cable RGUs. ARPU increased slightly during 2008, as the positive impacts of (i) an improvement in Telenet's RGU mix, primarily attributable to a higher proportion of digital cable, broadband internet and telephony RGUs, (ii) an August 2007 price increase for analog cable services, (iii) an increase in revenue from premium digital cable services, such as video-on-demand, and (iv) an increase in revenue from set-top box rentals due to Telenet's increased emphasis on the rental, as opposed to the sale, of set-top boxes were largely offset by the negative impacts of (a) increased competition, (b) a higher proportion of customers selecting lower-priced tiers of broadband internet services and (c) lower ARPU from telephony services. The decline in ARPU from telephony services reflects an increasing proportion of subscribers selecting fixed-rate calling plans and lower rates for fixed-to-mobile voice traffic. An increase in non-subscription revenue also contributed to the increase in revenue during 2008, as an increase in B2B revenue was only partially offset by lower revenue from set-top box sales and interconnect fees. The decrease in interconnect fees is due primarily to reductions in fixed-line termination rates imposed by regulatory authorities. As a result of a further 60% reduction in these rates that took effect on January 1, 2009, Telenet estimates that it will experience a decline in its interconnect revenue from 2008 to 2009 that will range from €10.0 million (\$14.0 million) to €12.0 million (\$16.7 million).

*J:COM (Japan).* J:COM's revenue increased \$604.7 million or 26.9% during 2008, as compared to 2007. This increase includes \$100.0 million attributable to the aggregate impact of the September 2007 acquisition of JTV Thematics and other less significant acquisitions. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, J:COM's revenue increased \$153.4 million or 6.8%. Most of this increase is attributable to an increase in subscription revenue, due primarily to a higher average number of telephony, broadband internet and video RGUs during 2008. ARPU remained relatively constant during 2008, as compared to 2007, as the positive impacts of (i) a higher proportion of digital cable RGUs, (ii) an increase in revenue from premium digital cable services, such as video-on-demand, and (iii) a higher proportion of broadband internet subscribers selecting higher-priced tiers of service were offset by the negative impacts of (a) higher bundling discounts and (b) lower telephony call volumes.

*VTR (Chile).* VTR's revenue increased \$79.0 million or 12.4% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, VTR's revenue increased \$73.4 million or 11.6%. This increase is attributable to an increase in subscription revenue, due primarily to higher average numbers of broadband internet, telephony and video RGUs during 2008 and, to a lesser extent, a slight increase in ARPU. ARPU increased slightly during 2008, as the positive impacts of (i) an improvement in VTR's RGU mix, attributable to a higher proportion of digital cable and broadband internet RGUs, (ii) September 2007, March 2008 and September 2008 inflation adjustments for certain video, broadband internet and telephony services and (iii) the continued migration of certain telephony subscribers to an unlimited fixed-rate calling plan were only partially offset by the negative impacts of (a) increased competition, particularly from the incumbent telecommunications operator in Chile, and (b) an increase in the proportion of subscribers selecting lower-priced tiers of analog video services.

Revenue — 2007 compared to 2006

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2007	2006	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 1,060.6	\$ 923.9	\$ 136.7	14.8	5.2
Switzerland	873.9	771.8	102.1	13.2	8.3
Austria	503.1	420.0	83.1	19.8	9.9
Ireland	307.2	262.6	44.6	17.0	7.3
Total Western Europe	2,744.8	2,378.3	366.5	15.4	7.3
Hungary	377.1	307.1	70.0	22.8	7.4
Other Central and Eastern Europe	806.1	574.0	232.1	40.4	24.0
Total Central and Eastern Europe	1,183.2	881.1	302.1	34.3	18.2
Central and corporate operations	11.1	17.9	(6.8)	(38.0)	(40.7)
Total UPC Broadband Division	3,939.1	3,277.3	661.8	20.2	10.0
Telenet (Belgium)	1,291.3	43.8	1,247.5	N.M.	N.M.
J:COM (Japan)	2,249.5	1,902.7	346.8	18.2	19.4
VTR (Chile)	634.9	558.9	76.0	13.6	11.7
Corporate and other	975.7	772.3	203.4	26.3	16.2
Intersegment eliminations	(87.2)	(71.1)	(16.1)	(22.6)	(12.2)
Total consolidated LGI	\$ 9,003.3	\$ 6,483.9	\$ 2,519.4	38.9	31.1

N.M. — Not Meaningful.

*The Netherlands.* The Netherlands' revenue increased \$136.7 million or 14.8% during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, the Netherlands' revenue increased \$48.0 million or 5.2%. This increase is attributable to an increase in subscription revenue, primarily due to higher average RGUs, as increases in average telephony and broadband internet RGUs were only partially offset by a decline in average video RGUs. The decline in average video RGUs includes a decline in average analog cable RGUs that was not fully offset by a gain in average digital cable RGUs. The decline in average video RGUs is largely due to (i) the migration of certain analog cable customers to digital cable services and (ii) the effects of significant competition from the incumbent telecommunications operator in the Netherlands. We believe that most of the declines in the Netherlands' analog cable RGUs during 2007 were attributable to this competition. ARPU was relatively unchanged during 2007, as the positive impacts of (i) an improvement in the Netherlands' RGU mix, attributable to a higher proportion of digital cable, telephony and broadband internet RGUs, (ii) growth in the Netherlands' digital cable services and (iii) a January 2007 price increase for certain analog cable services were offset by the negative impacts of (a) increased competition and (b) a higher proportion of broadband internet customers selecting lower-priced tiers of service. Subscription revenue for the 2006 period includes \$9.6 million related to the release of deferred revenue (including \$4.8 million that was released during the fourth quarter of 2006) in connection with rate settlements with certain municipalities. There were no such rate settlements during 2007.

As compared to 2006, the net number of digital cable RGUs added by the Netherlands during 2007 declined substantially. This decline was due in part to an emphasis on more selective marketing strategies. Although the Netherlands' emphasis on more selective marketing strategies resulted in a more gradual pacing of the Netherlands digital migration efforts, we also saw the positive impact of these strategies in 2007 in the form of reductions in certain marketing, operating and capital costs and improved subscriber retention rates.

*Switzerland.* Switzerland's revenue increased \$102.1 million or 13.2% during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, Switzerland's revenue increased \$64.3 million or 8.3%. Most of this increase is attributable to an increase in subscription revenue, as the number of average broadband internet, telephony and video RGUs was higher during 2007, as compared to 2006. ARPU remained relatively constant during 2007, as the positive impacts of (i) an improvement in Switzerland's RGU mix, attributable to a higher proportion of telephony, broadband internet and digital cable RGUs, and (ii) Switzerland's digital migration efforts was offset by the negative impacts of (a) increased competition, (b) lower telephony call volumes, (c) customers selecting lower-priced tiers of broadband internet services and (d) Switzerland's adoption of certain provisions of the regulatory framework established by the Swiss Price Regulator in November 2006. In order to comply with this regulatory framework, Switzerland began offering a lower-priced tier of digital cable services and decreased the rental price charged for digital cable set-top boxes during the second quarter of 2007. An increase in revenue from B2B services and other non-subscription revenue also contributed to the increase in Switzerland's revenue.

*Austria.* Austria's revenue increased \$83.1 million or 19.8% during 2007, as compared to 2006. This increase includes a \$20.8 million increase that is attributable to the impacts of the March 2006 INODE acquisition and the October 2007 Tirol acquisition. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, Austria's revenue increased \$20.9 million or 5.0%. The majority of this increase is attributable to an increase in subscription revenue, as the number of average broadband internet RGUs and, to a lesser extent, telephony and video RGUs, was higher during 2007, as compared to 2006. ARPU remained relatively unchanged during 2007, as the positive impacts of (i) an improvement in Austria's RGU mix, primarily attributable to a higher proportion of broadband internet RGUs, and (ii) a January 2007 rate increase for analog cable services were offset by the negative impacts of (a) increased competition, (b) a higher proportion of customers selecting lower-priced tiers of broadband internet service, (c) lower telephony call volumes and (d) an increase in the proportion of subscribers selecting VoIP telephony service, which generally is priced lower than Austria's circuit-switched telephony service. Telephony revenue in Austria decreased slightly on an organic basis during 2007, as the negative effect of the decrease in telephony ARPU was only partially offset by the positive impact of higher average telephony RGUs. An increase in revenue from B2B services also contributed to the increase in Austria's revenue during 2007.

*Ireland.* Ireland's revenue increased \$44.6 million or 17.0% during 2007 as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, Ireland's revenue increased \$19.1 million or 7.3%. This increase is attributable to an increase in subscription revenue as a result of higher average RGUs and slightly higher ARPU during 2007, as compared to 2006. The increase in average RGUs primarily is attributable to an increase in the average number of broadband internet RGUs. The increase in ARPU during 2007 primarily is due to the positive impacts of (i) an improvement in Ireland's RGU mix, primarily attributable to a higher proportion of digital cable RGUs, (ii) a November 2006 price increase for certain broadband internet and MMDS video services and (iii) lower promotional discounts for broadband internet services.

*Hungary.* Hungary's revenue increased \$70.0 million or 22.8% during 2007, as compared to 2006. This increase includes \$1.9 million attributable to the impact of a January 2007 acquisition. Excluding the effects of the acquisition and foreign currency exchange rate fluctuations, Hungary's revenue increased \$20.9 million or 6.8%. The majority of this increase is attributable to higher subscription revenue, as higher average numbers of broadband internet and telephony RGUs were only partially offset by lower average numbers of analog cable and DTH RGUs. ARPU declined slightly during 2007, as the positive impacts of (i) improvements in Hungary's RGU mix, primarily attributable to a higher proportion of broadband internet RGUs, and (ii) a January 2007 rate increase for analog cable services were more than offset by the negative impacts of (a) increased competition, (b) a higher proportion of customers selecting lower-priced broadband internet tiers, (c) growth in Hungary's VoIP telephony service, which generally is priced slightly lower than Hungary's circuit-switched telephony services, and (d) lower telephony call volumes. Due primarily to the decline in ARPU from telephony services, Hungary also experienced a slight organic decline in revenue from telephony services during 2007, as compared to 2006. Due primarily to competition from alternative providers, Hungary experienced an organic decline in analog cable RGUs during 2007. The majority of Hungary's analog cable subscriber losses during 2007 occurred in certain municipalities where the technology of our networks limited our ability to create a less expensive tier of service that would have more effectively competed

with alternative providers. Due to a decrease in the average number of DTH and analog cable RGUs and lower ARPU from DTH video services as a result of competitive and other factors, Hungary experienced a slight decline in revenue from video services during 2007, as compared to 2006. An increase in revenue from B2B services, which more than offset decreases in certain other categories of non-subscription revenue, also contributed to the increase in Hungary's revenue during 2007.

*Other Central and Eastern Europe.* Other Central and Eastern Europe's revenue increased \$232.1 million or 40.4% during 2007, as compared to 2006. This increase includes \$68.5 million attributable to the aggregate impact of the September 2006 consolidation of Karneval and other less significant acquisitions. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, Other Central and Eastern Europe's revenue increased \$69.3 million or 12.1%. This increase primarily is attributable to an increase in subscription revenue as a result of higher average RGUs during 2007, as compared to 2006. The increase in average RGUs during 2007 is attributable to higher average numbers of (i) broadband internet RGUs (mostly in Poland, Romania and the Czech Republic), (ii) telephony RGUs (mostly related to the expansion of VoIP telephony services in Poland, the Czech Republic and Romania) and, (iii) to a much lesser extent, video RGUs as increases in average video RGUs in Slovenia, the Czech Republic and Poland were partially offset by decreases in Romania. ARPU in our Other Central and Eastern Europe segment increased slightly during 2007, as the positive impacts of (i) an improvement in RGU mix, primarily attributable to a higher proportion of broadband internet RGUs, (ii) January 2007 rate increases for video services in certain countries and (iii) somewhat higher ARPU from telephony services due to increased call volumes (primarily in Poland and Romania) were mostly offset by the negative impacts of (a) increased competition and (b) a higher proportion of customers selecting lower-priced tiers of broadband internet services.

*J:COM (Japan).* J:COM's revenue increased \$346.8 million or 18.2% during 2007, as compared to 2006. This increase includes a \$194.0 million increase that is attributable to the aggregate impact of (i) the September 2007 acquisition of JTV Thematics, (ii) the September 2006 acquisition of Cable West and (iii) other less significant acquisitions. Excluding the effects of these acquisitions and foreign currency exchange rate fluctuations, J:COM's revenue increased \$175.6 million or 9.2%. Most of this increase is attributable to an increase in subscription revenue, due primarily to a higher average number of video, telephony and broadband internet RGUs during 2007. ARPU remained relatively unchanged during 2007, as the positive impacts of (i) a higher proportion of digital cable RGUs and (ii) a higher proportion of customers selecting higher-priced tiers of broadband internet services were largely offset by the negative impacts of (a) higher bundling discounts and (b) lower telephony call volumes.

*VTR (Chile).* VTR's revenue increased \$76.0 million or 13.6% during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, VTR's revenue increased \$65.1 million or 11.7%. Most of this increase is attributable to an increase in subscription revenue, due primarily to a higher average number of broadband internet, telephony and video RGUs during 2007. ARPU decreased somewhat during 2007, as the positive impacts of (i) inflation adjustments to certain rates for analog cable and broadband internet services, (ii) increases in the proportion of subscribers selecting higher-speed broadband internet services over the lower-speed alternatives and digital cable over analog cable services, and (iii) the migration of a significant number of telephony subscribers to a fixed-rate plan were more than offset by the negative impacts of (a) increased competition, (b) an increase in the proportion of subscribers selecting lower-priced tiers of analog video services and (c) lower call volumes for telephony subscribers that remained on a usage-based plan.

# Operating Expenses of our Reportable Segments

Operating expenses — 2008 compared to 2007

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2008	2007	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 362.2	\$ 362.8	\$ (0.6)	(0.2)	(7.1)
Switzerland	314.8	304.4	10.4	3.4	(6.8)
Austria	178.8	180.0	(1.2)	(0.7)	(7.4)
Ireland	168.6	156.2	12.4	7.9	0.2
Total Western Europe	1,024.4	1,003.4	21.0	2.1	(5.9)
Hungary	148.4	137.7	10.7	7.8	(0.1)
Other Central and Eastern Europe	341.3	295.9	45.4	15.3	5.4
Total Central and Eastern Europe	489.7	433.6	56.1	12.9	3.7
Central and corporate operations	62.5	80.7	(18.2)	(22.6)	(27.0)
Total UPC Broadband Division	1,576.6	1,517.7	58.9	3.9	(4.3)
Telenet (Belgium)	542.9	486.4	56.5	11.6	4.7
J:COM (Japan)	1,086.1	890.2	195.9	22.0	7.0
VTR (Chile)	297.3	272.6	24.7	9.1	8.5
Corporate and other	678.6	624.6	54.0	8.6	5.2
Intersegment eliminations	(78.8)	(86.5)	7.7	8.9	14.9
Total operating expenses excluding stock-based compensation expense	4,102.7	3,705.0	397.7	10.7	2.4
Stock-based compensation expense	9.7	12.2	(2.5)	(20.5)	
Total consolidated LGI	\$ 4,112.4	\$ 3,717.2	\$ 395.2	10.6	

*General.* Operating expenses include programming, network operations, interconnect, customer operations, customer care, stock-based compensation expense and other direct costs. We do not include stock-based compensation in the following discussion and analysis of the operating expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Consolidated Operating Results* below. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of the expansion of service offerings and the potential for price increases. In addition, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than the respective functional currencies of our operating segments. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins. For additional information concerning our foreign currency exchange risks see *Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Risk* below.

*UPC Broadband Division.* The UPC Broadband Division's operating expenses (exclusive of stock-based compensation expense) increased \$58.9 million or 3.9% during 2008, as compared to 2007. This increase includes

\$12.6 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, the UPC Broadband Division's operating expenses decreased \$77.9 million or 5.1%. This decrease includes the following factors:

- A decrease in interconnect and access costs of \$28.2 million or 11.4%, due primarily to (i) lower interconnect and access rates in Austria, Switzerland and the Netherlands, (ii) lower B2B volume in the Netherlands, (iii) decreased telephony usage in Austria and (iv) reductions in interconnect tariffs in Switzerland that were imposed by a regulatory authority during the fourth quarter of 2008. These tariff reductions, which were retroactive to January 1, 2007, resulted in decreases in interconnect expense of \$1.3 million for the year ended December 31, 2008 and \$2.8 million for the fourth quarter of 2008, each as compared to the corresponding prior year period;
- Decreases in personnel costs of \$17.5 million or 5.8%, due largely to (i) decreased staffing levels, particularly in (a) the Netherlands, in connection with the integration of certain components of the Netherlands' operations, (b) Switzerland and Austria, in connection with the increased usage of third parties to manage excess call volume and (c) Romania, in connection with certain restructuring activities, and (ii) increases in personnel and related costs allocable to capital activities, such as the installation of customer premise equipment for digital cable services;
- A decrease in network related expenses of \$10.2 million or 6.4%, primarily due to (i) cost containment efforts in Switzerland and the Netherlands and (ii) a \$2.8 million energy tax credit received by the Netherlands during the fourth quarter of 2008;
- A decrease in management fees of \$8.8 million, primarily due to the renegotiation of an agreement with the minority interest owner of one of our operating subsidiaries in Austria;
- An increase in outsourced labor and consulting fees of \$7.8 million or 7.0%, associated with the use of third parties to manage excess call center volume, primarily in Switzerland, Austria and the Czech Republic. This increase, which was due in part to growth in digital cable services, was partially offset by a decrease in Ireland associated with higher costs during 2007 related to a billing system conversion and the integration of certain call center operations;
- An increase in programming and related costs of \$5.2 million or 1.6%, primarily due to growth in digital cable services, predominantly in the Netherlands, Austria and Switzerland. These increases were partially offset by decreases in programming and related costs as a result of lower analog cable RGUs in Romania, Hungary, the Czech Republic and Ireland;
- A decrease in bad debt expense of \$1.0 million, primarily due to reductions in bad debt expense in Switzerland, Austria and to a lesser extent, the Czech Republic, the Netherlands, and Ireland, due largely to improved credit and collection procedures. These decreases were largely offset by a \$7.5 million increase in bad debt expense in Romania. In light of Romania's ongoing efforts to improve credit and collection policies, we expect Romania's bad debt expense to decline in 2009; and
- Individually insignificant net decreases in other operating expense categories.

*Telenet (Belgium).* Telenet's operating expenses (exclusive of stock-based compensation expense) increased \$56.5 million or 11.6% during 2008, as compared to 2007. This increase includes \$20.0 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, Telenet's operating expenses increased \$2.7 million or 0.6%. This increase includes the following factors:

- A decrease in the cost of set-top boxes sold to customers of \$18.4 million or 52.0%, mostly due to Telenet's increased emphasis on the rental, as opposed to the sale, of set-top boxes;
- An increase in outsourced labor and consulting fees of \$10.4 million or 33.4%, due primarily to (i) increased expenses associated with installation and other customer-facing activities and (ii) the temporary replacement of certain full time employees with outside contractors;



- An increase in programming and related costs of \$7.3 million or 7.0%, as an increase associated with the growth in Telenet's digital cable services was only partially offset by a \$4.1 million decrease associated with accrual releases in connection with certain copyright fee settlements;
- An increase in call overflow fees of \$4.8 million or 22.9%, primarily due to increases in staffing levels to manage excess call center volume associated with digital video services;
- An increase in personnel costs of \$2.2 million or 2.4%, as increases associated with (i) annual wage increases and (ii) increased severance costs were only partially offset by decreases associated with (a) increases in personnel and related costs allocable to capital activities, such as the installation of customer premise equipment and network upgrades and (b) reduced staffing levels related to the outsourcing of certain programming operations; and
- Individually insignificant net decreases in other operating expense categories.

*J:COM (Japan).* J:COM's operating expenses (exclusive of stock-based compensation expense) increased \$195.9 million or 22.0% during 2008, as compared to 2007. This increase includes \$32.3 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, J:COM's operating expenses increased \$30.4 million or 3.4%. This increase includes the following factors:

- An increase in interconnect and access charges of \$11.2 million or 12.6%, primarily due to a higher number of broadband internet and telephony subscribers;
- An increase in programming and related costs of \$8.4 million or 3.4%, as a result of growth in the number of video RGUs and a higher proportion of subscribers selecting digital cable over analog cable services; and
- An increase in personnel costs of \$4.1 million or 2.5%, primarily due to higher staffing levels and annual wage increases.

*VTR (Chile).* VTR's operating expenses (exclusive of stock-based compensation expense) increased \$24.7 million or 9.1% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, VTR's operating expenses increased \$23.3 million or 8.5%. This increase includes the following factors:

- An increase in programming and related costs of \$12.5 million or 17.3%, due primarily to increases in the average number of VTR's video RGUs, an increasing proportion of which consists of digital cable RGUs;
- An increase in interconnect and access charges of \$8.2 million or 14.7%, due primarily to (i) a higher volume of traffic associated with increases in VTR's telephony RGUs and (ii) increased costs associated with (a) increased usage of broadband internet services, due in part to speed upgrades that were completed in March 2008 and November 2008, and (b) an increase in VTR's broadband internet RGUs;
- An increase in personnel costs of \$3.1 million or 5.9%, largely due to periodic wage increases, including inflation adjustments; and
- An increase in bad debt expense of \$1.6 million, as increases associated with RGU growth and weak economic conditions in Chile were only partially offset by the second quarter 2008 reversal of a \$3.2 million bad debt reserve in connection with the settlement of an interconnect fee dispute.

Operating expenses — 2007 compared to 2006

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2007	2006	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 362.8	\$ 328.2	\$ 34.6	10.5	1.4
Switzerland	304.4	268.9	35.5	13.2	8.1
Austria	180.0	152.8	27.2	17.8	8.2
Ireland	156.2	136.5	19.7	14.4	5.0
Total Western Europe	1,003.4	886.4	117.0	13.2	5.1
Hungary	137.7	116.8	20.9	17.9	3.0
Other Central and Eastern Europe	295.9	217.8	78.1	35.9	20.1
Total Central and Eastern Europe	433.6	334.6	99.0	29.6	14.1
Central and corporate operations	80.7	77.8	2.9	3.7	(5.3)
Total UPC Broadband Division	1,517.7	1,298.8	218.9	16.9	6.8
Telenet (Belgium)	486.4	12.8	473.6	N.M.	N.M.
J:COM (Japan)	890.2	788.3	101.9	12.9	14.1
VTR (Chile)	272.6	255.7	16.9	6.6	4.8
Corporate and other	624.6	481.0	143.6	29.9	18.7
Intersegment eliminations	(86.5)	(71.8)	(14.7)	(20.5)	(9.9)
Total operating expenses excluding stock-based compensation expense	3,705.0	2,764.8	940.2	34.0	26.3
Stock-based compensation expense	12.2	7.0	5.2	74.3	
Total consolidated LGI	\$ 3,717.2	\$ 2,771.8	\$ 945.4	34.1	

N.M. — Not Meaningful.

*UPC Broadband Division.* The UPC Broadband Division's operating expenses (exclusive of stock-based compensation expense) increased \$218.9 million or 16.9% during 2007, as compared to 2006. This increase includes a \$34.5 million increase attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, the UPC Broadband Division's operating expenses increased \$54.3 million or 4.2%, primarily due to the net effect of the following factors:

- An increase in outsourced labor and consulting fees of \$16.6 million or 20.4% during 2007, due primarily to (i) the use of third parties to manage excess call center volume associated with growth in digital cable, broadband internet and VoIP telephony services, primarily in Switzerland and Ireland, and (ii) increased costs related to network maintenance and upgrade activity in Ireland;
- An increase in programming and related costs of \$16.1 million or 6.0% during 2007, primarily due to an increase in costs for content and interactive digital services related to subscriber growth on the digital platform, primarily in the Netherlands;
- An increase in interconnect costs of \$14.2 million or 5.0% during 2007, primarily due to growth in telephony subscribers in the Netherlands;
- A decrease in personnel costs of \$14.1 million or 4.9% during 2007, largely due to decreased headcount in (i) the Netherlands, primarily due to the integration of the Netherlands' B2B and broadband communications

operations, and (ii) Switzerland, primarily due to increased usage of third parties to manage excess call volume. These decreases were partially offset by an increase in personnel costs in our customer care centers, primarily in Austria, Poland and Romania;

- An increase in bad debt expense of \$10.9 million or 24.4% during 2007, due primarily to (i) an increase in uncollectible accounts and collection costs in Romania and (ii) higher revenue in 2007, as compared to 2006. The increase in Romania is due in part to higher levels of subscriber disconnects resulting from increased competition. These increases are partially offset by lower bad debt expense in Austria, primarily due to improved collection efforts; and
- An \$8.0 million increase (including a \$7.4 million increase during the fourth quarter of 2007) resulting primarily from the Netherlands' release of accruals during 2006 in connection with the resolution of certain operational contingencies.

*J:COM (Japan).* J:COM's operating expenses (exclusive of stock-based compensation expense) increased \$101.9 million or 12.9%, during 2007, as compared to 2006. This increase includes a \$66.6 million increase attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, J:COM's operating expenses increased \$44.5 million or 5.6%. This increase, which is primarily attributable to growth in J:COM's subscriber base, includes the following factors:

- An increase in programming and related costs of \$22.4 million or 9.9% as a result of growth in the number of video RGUs and a higher proportion of subscribers selecting digital cable over analog cable services;
- An increase in personnel costs of \$11.4 million or 7.6%; and
- Individually insignificant net increases in other operating expense categories.

*VTR (Chile).* VTR's operating expenses (exclusive of stock-based compensation expense) increased \$16.9 million or 6.6%, during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, VTR's operating expenses increased \$12.3 million or 4.8%. This increase, which is due largely to the increased scope of VTR's business, is primarily attributable to (i) a \$5.0 million or 18.4% increase in technical services and network maintenance costs and (ii) a \$4.8 million or 7.2% increase in programming and related costs.

**SG&A Expenses of our Reportable Segments**

SG&amp;A expenses — 2008 compared to 2007

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2008	2007	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 137.5	\$ 141.3	\$ (3.8)	(2.7)	(9.8)
Switzerland	160.4	150.2	10.2	6.8	(3.8)
Austria	86.5	85.6	0.9	1.1	(5.2)
Ireland	44.2	46.3	(2.1)	(4.5)	(12.1)
Total Western Europe	428.6	423.4	5.2	1.2	(7.0)
Hungary	45.8	49.5	(3.7)	(7.5)	(13.6)
Other Central and Eastern Europe	117.9	106.2	11.7	11.0	0.9
Total Central and Eastern Europe	163.7	155.7	8.0	5.1	(3.7)
Central and corporate operations	183.0	168.2	14.8	8.8	1.6
Total UPC Broadband Division	775.3	747.3	28.0	3.7	(4.4)
Telenet (Belgium)	239.5	207.8	31.7	15.3	8.1
J:COM (Japan)	577.1	447.7	129.4	28.9	13.0
VTR (Chile)	121.1	113.1	8.0	7.1	4.8
Corporate and other	218.4	215.3	3.1	1.4	(0.6)
Inter-segment eliminations	(6.1)	(0.7)	(5.4)	N.M.	N.M.
Total SG&A expenses excluding stock-based compensation expense	1,925.3	1,730.5	194.8	11.3	2.4
Stock-based compensation expense	143.8	181.2	(37.4)	(20.6)	
Total consolidated LGI	\$ 2,069.1	\$ 1,911.7	\$ 157.4	8.2	

N.M. — Not Meaningful.

*General.* SG&A expenses include human resources, information technology, general services, management, finance, legal and marketing costs, stock-based compensation and other general expenses. We do not include stock-based compensation in the following discussion and analysis of the SG&A expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Consolidated Operating Results* below. As noted under *Operating Expenses* above, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than the respective functional currencies of our operating segments. For additional information concerning our foreign currency exchange risks see *Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Risk* below.

*UPC Broadband Division.* The UPC Broadband Division's SG&A expenses (exclusive of stock-based compensation expense) increased \$28.0 million or 3.7% during 2008, as compared to 2007. This increase includes \$4.3 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, the UPC Broadband Division's SG&A expenses decreased \$36.9 million or 4.9%. This decrease includes the following factors:

- A decrease in sales and marketing costs of \$17.1 million or 8.6%, due primarily to decreases related to (i) the Netherlands' continued emphasis during the 2008 periods on more efficient marketing strategies, (ii) cost

containment efforts in Hungary and Austria and (iii) decreased costs due to a UPC rebranding campaign during 2007. These decreases were partially offset by (i) an increase in the costs incurred in Poland to support the launch of digital cable services and (ii) an increase associated with the impact of a favorable first quarter 2007 settlement related to number porting charges in Switzerland;

- A decrease in outsourced labor and professional fees of \$12.0 million or 17.1%, due primarily to decreases in certain central and corporate costs and certain costs incurred in the Netherlands, Ireland, Switzerland and Romania;
- A decrease in personnel costs of \$4.7 million or 1.5%, as increases in personnel and related costs allocable to capital activities, such as the installation of billing and support systems were only partially offset by the impacts of increases in staffing levels and annual wage increases; and
- A \$4.3 million decrease associated with Cablecom's favorable settlement of a value added tax contingency during the fourth quarter of 2008.

*Telenet (Belgium).* Telenet's SG&A expenses (exclusive of stock-based compensation expense) increased \$31.7 million or 15.3% during 2008, as compared to 2007. This increase includes \$3.3 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, Telenet's SG&A expenses increased \$13.5 million or 6.5%. This increase includes the followings factors:

- An increase in outsourced labor and professional fees of \$6.0 million or 26.8%, primarily related to certain information technology projects and strategic initiatives performed during 2008;
- An increase in personnel costs of \$4.8 million or 6.1%, as the impacts of (i) annual wage increases and (ii) a \$4.3 million increase in severance costs were only partially offset by decreased costs associated with reduced staffing levels;
- An increase in sales and marketing costs of \$6.3 million or 8.0%, primarily due to increased sales commissions; and
- Individually insignificant net decreases in other SG&A expense categories.

*J:COM (Japan).* J:COM's SG&A expenses (exclusive of stock-based compensation expense) increased \$129.4 million or 28.9% during 2008, as compared to 2007. This increase includes \$36.1 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, J:COM's SG&A expenses increased \$22.1 million or 4.9%. This increase includes (i) an increase in personnel costs of \$17.7 million or 5.5% that is due primarily to higher staffing levels and annual wage increases and (ii) individually insignificant net increases in other SG&A expense categories.

*VTR (Chile).* VTR's SG&A expenses (exclusive of stock-based compensation expense) increased \$8.0 million or 7.1% during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, VTR's SG&A expenses increased \$5.4 million or 4.8%. This increase includes (i) an increase in legal fees of \$1.6 million, due primarily to the second quarter 2008 settlement of an interconnect fee dispute, (ii) an increase in personnel costs of \$1.2 million or 3.1%, largely due to periodic wage increases, including inflation adjustments, and (iii) increases in utility costs and other individually insignificant net increases in other expense categories.

SG&A expenses — 2007 compared to 2006

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2007	2006	\$	%	%
in millions					
UPC Broadband Division:					
The Netherlands	\$ 141.3	\$ 143.8	\$ (2.5)	(1.7)	(9.8)
Switzerland	150.2	149.2	1.0	0.7	(3.9)
Austria	85.6	71.5	14.1	19.7	9.5
Ireland	46.3	46.2	0.1	0.2	(7.4)
Total Western Europe	423.4	410.7	12.7	3.1	(4.0)
Hungary	49.5	45.0	4.5	10.0	(3.8)
Other Central and Eastern Europe	106.2	91.8	14.4	15.7	2.9
Total Central and Eastern Europe	155.7	136.8	18.9	13.8	0.7
Central and corporate operations	168.2	146.3	21.9	15.0	5.3
Total UPC Broadband Division	747.3	693.8	53.5	7.7	(1.1)
Telenet (Belgium)	207.8	6.9	200.9	N.M.	N.M.
J:COM (Japan)	447.7	375.8	71.9	19.1	20.3
VTR (Chile)	113.1	104.7	8.4	8.0	6.2
Corporate and other	215.3	201.0	14.3	7.1	2.0
Inter-segment eliminations	(0.7)	0.7	(1.4)	N.M.	N.M.
Total SG&A expenses excluding stock-based compensation expense	1,730.5	1,382.9	347.6	25.1	19.1
Stock-based compensation expense	181.2	63.0	118.2	187.6	
Total consolidated LGI	\$ 1,911.7	\$ 1,445.9	\$ 465.8	32.2	

N.M. — Not Meaningful.

*UPC Broadband Division.* The UPC Broadband Division's SG&A expenses (exclusive of stock-based compensation expense) increased \$53.5 million or 7.7%, during 2007 as compared to 2006. This increase includes \$21.3 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, the UPC Broadband Division's SG&A expenses decreased \$29.0 million or 4.2%. The decrease in the UPC Broadband Division's SG&A expenses primarily is attributable to the following factors:

- A decrease in personnel costs of \$14.6 million or 5.0% during 2007, due to lower staffing levels, primarily due to the integration of certain components of our operations within the Czech Republic, the Netherlands and Ireland;
- A decrease in sales and marketing expenses of \$5.1 million or 2.9% during 2007, primarily related to (i) lower costs incurred in connection with the Netherlands digital migration efforts, primarily due to an emphasis on more selective marketing strategies, (ii) a decrease in sales and marketing costs in Hungary, primarily due to cost containment efforts, and (iii) a decrease associated with the impact of a favorable first quarter 2007 settlement related to number porting charges in Switzerland. These decreases were partially offset by increased sales and marketing expenses in Ireland, Romania and Austria, primarily due to competitive factors; and
- A decrease in outsourced labor and consulting costs of \$4.9 million or 23.5% during 2007, primarily due to professional fees incurred in Switzerland during 2006 related to integration activities subsequent to the acquisition of Cablecom.

**J:COM (Japan).** J:COM's SG&A expenses (exclusive of stock-based compensation expense) increased \$71.9 million or 19.1% during 2007, as compared to 2006. This increase includes \$57.2 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, J:COM's SG&A expenses increased \$18.9 million or 5.0%. This increase primarily is attributable to an increase in personnel costs of \$16.2 million or 5.8% associated with higher staffing levels and annual wage increases.

**VTR (Chile).** VTR's SG&A expenses (exclusive of stock-based compensation expense) increased \$8.4 million or 8.0% during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, VTR's SG&A expenses increased \$6.5 million or 6.2%. This increase, which is due largely to the increased scope of VTR's business, is primarily attributable to an increase in labor and related costs (including consulting and outsourced labor) of \$4.2 million or 12.6%.

#### Operating Cash Flow of our Reportable Segments

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance and to decide how to allocate resources to segments. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding stock-based compensation, depreciation and amortization, provisions for litigation, and impairment, restructuring and other operating charges or credits). For additional information concerning this performance measure and for a reconciliation of total segment operating cash flow to our consolidated earnings (loss) before income taxes, minority interests and discontinued operations, see note 21 to our consolidated financial statements.

#### Operating Cash Flow — 2008 compared to 2007

	Year ended December 31,		Increase		Increase excluding FX
	2008	2007	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 681.4	\$ 556.5	\$ 124.9	22.4	14.6
Switzerland	541.8	419.3	122.5	29.2	16.5
Austria	272.7	237.5	35.2	14.8	6.6
Ireland	143.0	104.7	38.3	36.6	28.6
Total Western Europe	1,638.9	1,318.0	320.9	24.3	14.9
Hungary	211.7	189.9	21.8	11.5	3.9
Other Central and Eastern Europe	490.7	404.0	86.7	21.5	7.6
Total Central and Eastern Europe	702.4	593.9	108.5	18.3	6.4
Central and corporate operations	(235.0)	(237.8)	2.8	1.2	7.3
Total UPC Broadband Division	2,106.3	1,674.1	432.2	25.8	15.0
Telenet (Belgium)	726.6	597.1	129.5	21.7	13.7
J:COM (Japan)	1,191.0	911.6	279.4	30.6	14.5
VTR (Chile)	295.5	249.2	46.3	18.6	17.9
Corporate and other	213.7	135.8	77.9	57.4	52.8
Total	\$ 4,533.1	\$ 3,567.8	\$ 965.3	27.1	16.3

Operating Cash Flow — 2007 compared to 2006

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX
	2007	2006	\$	%	%
	in millions				
UPC Broadband Division:					
The Netherlands	\$ 556.5	\$ 451.9	\$ 104.6	23.1	12.7
Switzerland	419.3	353.7	65.6	18.5	13.6
Austria	237.5	195.7	41.8	21.4	11.4
Ireland	104.7	79.9	24.8	31.0	19.7
Total Western Europe	1,318.0	1,081.2	236.8	21.9	13.3
Hungary	189.9	145.3	44.6	30.7	14.5
Other Central and Eastern Europe	404.0	264.4	139.6	52.8	34.4
Total Central and Eastern Europe	593.9	409.7	184.2	45.0	27.4
Central and corporate operations	(237.8)	(206.2)	(31.6)	(15.3)	(5.2)
Total UPC Broadband Division	1,674.1	1,284.7	389.4	30.3	19.1
Telenet (Belgium)	597.1	24.1	573.0	N.M.	N.M.
J:COM (Japan)	911.6	738.6	173.0	23.4	24.7
VTR (Chile)	249.2	198.5	50.7	25.5	23.3
Corporate and other	135.8	90.3	45.5	50.4	31.9
Total	\$ 3,567.8	\$ 2,336.2	\$ 1,231.6	52.7	43.8

N.M. — Not Meaningful

Operating Cash Flow Margin — 2008, 2007 and 2006

The following table sets forth the operating cash flow margins of our reportable segments:

	Year ended December 31,		
	2008	2007	2006
	%		
UPC Broadband Division:			
The Netherlands	57.7	52.5	48.9
Switzerland	53.3	48.0	45.8
Austria	50.7	47.2	46.6
Ireland	40.2	34.1	30.4
Total Western Europe	53.0	48.0	45.5
Hungary	52.2	50.4	47.3
Other Central and Eastern Europe	51.7	50.1	46.1
Total Central and Eastern Europe	51.8	50.2	46.5
Total UPC Broadband Division, including central and corporate costs	47.2	42.5	39.2
Telenet (Belgium)	48.2	46.2	55.0
J:COM (Japan)	41.7	40.5	38.8
VTR (Chile)	41.4	39.3	35.5



The improvement in the operating cash flow margins of our reportable segments during 2008 and 2007 is generally attributable to improved operational leverage resulting from the combined impact of revenue growth, cost containment efforts and synergies and cost savings resulting from the continued integration of acquisitions. The decrease in the operating cash flow margin of our Telenet (Belgium) segment during 2007 is due to the fact that 2006 does not include the results of Telenet. For additional discussion of the factors contributing to the changes in the operating cash flow margins of our reportable segments, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments. As compared to 2008, we currently expect that (i) the operating cash flow margins of the UPC Broadband Division and J:COM will improve slightly during 2009 and (ii) the 2009 operating cash flow margins of Telenet and VTR will remain relatively constant. As discussed under *Overview and Revenue of our Reportable Segments — Revenue* and — *Operating Expenses* above, we are experiencing significant competition and weak economies in our broadband communications markets. Sustained or increased competition, particularly in combination with a continuation or worsening of the current economic conditions, could adversely affect our ability to maintain or improve the operating cash flow margins of our reportable segments. No assurance can be given that the actual 2009 operating cash flow margins achieved by our reportable segments will not vary from our current expectations.

## Discussion and Analysis of our Consolidated Operating Results

### General

For more detailed explanations of the changes in our revenue, operating expenses and SG&A expenses, see the *Discussion and Analysis of Reportable Segments* that appears above. For information concerning our foreign currency exchange risks, see *Quantitative and Qualitative Disclosures about Market Risk — Foreign Currency Risk* below.

### 2008 compared to 2007

#### Revenue

Our revenue by major category is set forth below:

	Year ended December 31,		Increase		Increase excluding FX	Increase excluding acquisitions and FX
	2008	2007	\$	%	%	%
	in millions					
Subscription revenue (a):						
Video	\$ 4,953.4	\$ 4,331.8	\$ 621.6	14.3	5.7	3.8
Broadband internet	2,497.0	2,066.9	430.1	20.8	10.9	9.8
Telephony	1,402.4	1,166.0	236.4	20.3	10.8	10.2
Total subscription revenue	8,852.8	7,564.7	1,288.1	17.0	7.9	6.4
Other revenue (b)	1,793.2	1,525.8	267.4	17.5	7.2	1.6
Intersegment eliminations	(84.9)	(87.2)	2.3	2.6	9.0	9.0
Total consolidated LGI	\$ 10,561.1	\$ 9,003.3	\$ 1,557.8	17.3	7.9	5.7

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the individual service's price on a stand-alone basis. However, due to regulatory and other constraints, the methodology used to allocate bundling discounts may vary somewhat between our broadband communications operating segments.

(b) Other revenue includes non-subscription revenue (including B2B and installation revenue) and programming revenue.

Our consolidated revenue increased \$1,557.8 million during 2008, as compared to 2007. This increase includes \$197.0 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, total consolidated revenue increased \$515.6 million or 5.7%.

Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, our consolidated subscription revenue increased \$483.8 million or 6.4% during 2008, as compared to 2007. This increase is attributable to (i) a \$202.1 million or 9.8% increase in subscription revenue from broadband internet services, as the impact of an increase in the average number of broadband internet RGUs was only partially offset by lower ARPU from broadband internet services, (ii) a \$163.3 million or 3.8% increase in subscription revenue from video services, as the impact of higher ARPU from video services was only partially offset by a decline in the average number of video RGUs, and (iii) a \$118.4 million or 10.2% increase in subscription revenue from telephony services, as the impact of an increase in the average number of telephony RGUs was only partially offset by lower ARPU from telephony services.

Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, our consolidated other revenue increased \$24.0 million, or 1.6%, during 2008, as compared to 2007. This increase is primarily attributable to an increase in programming revenue that was only partially offset by lower installation revenue.

For additional information concerning the changes in our subscription and other revenue, see *Discussion and Analysis of Reportable Segments — Revenue — 2008 compared to 2007* above. For information regarding the competitive environment in certain of our markets, see *Overview and Discussion and Analysis of our Reportable Segments* above.

#### *Operating expenses*

Our consolidated operating expenses increased \$395.2 million during 2008, as compared to 2007. This increase includes \$73.5 million attributable to the impact of acquisitions. Our operating expenses include stock-based compensation expense, which decreased \$2.5 million during 2008. For additional information, see the discussion following SG&A expenses below. Excluding the effects of acquisitions, foreign currency exchange rate fluctuations and stock-based compensation expense, total consolidated operating expenses increased \$15.1 million or 0.4% during 2008, as compared to 2007. As discussed in more detail under *Discussion and Analysis of Reportable Segments — Operating Expenses — 2008 compared to 2007* above, this increase generally reflects the net impact of (i) increases in programming and other direct costs, (ii) net increases in outsourced labor and consulting fees, (iii) net decreases in interconnect and access charges, (iv) net decreases in network related expenses and (v) less significant net decreases in other operating expense categories.

#### *SG&A expenses*

Our consolidated SG&A expenses increased \$157.4 million during 2008, as compared to 2007. This increase includes a \$44.5 million increase that is attributable to the impact of acquisitions. Our SG&A expenses include stock-based compensation expense, which decreased \$37.4 million during 2008. For additional information, see the discussion in the following paragraph. Excluding the effects of acquisitions, foreign currency exchange rate fluctuations and stock-based compensation expense, total consolidated SG&A expenses decreased \$3.1 million or 0.2% during 2008, as compared to 2007. As discussed in more detail under *Discussion and Analysis of our Reportable Segments — SG&A Expenses* above, this decrease generally reflects the net impact of (i) net increases in labor costs, (ii) net decreases in sales and marketing costs and (iii) less significant net decreases in other SG&A expense categories.

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

We record stock-based compensation that is associated with LGI shares and the shares of certain of our subsidiaries. A summary of the aggregate stock-based compensation expense that is included in our operating and SG&A expenses is set forth below:

	Year ended December 31,	
	2008	2007
	in millions	
LGI Series A, Series B and Series C common stock:		
LGI performance plans	\$ 94.4	\$ 108.2
Stock options, SARs, restricted stock and restricted stock units	<u>44.0</u>	<u>47.3</u>
Total LGI common stock	138.4	155.5
Restricted Shares of LGI and Zonemedia (a)	—	16.2
Austar Performance Plan (b)	16.0	9.5
Other	<u>(0.9)</u>	<u>12.2</u>
Total	<u>\$ 153.5</u>	<u>\$ 193.4</u>
Included in:		
Operating expense	\$ 9.7	\$ 12.2
SG&A expense	<u>143.8</u>	<u>181.2</u>
Total	<u>\$ 153.5</u>	<u>\$ 193.4</u>

(a) These restricted shares were issued in connection with our January 2005 acquisition of Zonemedia. The 2007 amount includes stock-based compensation related to restricted shares of Zonemedia and LGI stock held by certain Zonemedia employees of \$16.2 million, of which \$12.8 million was recognized on an accelerated basis in connection with the third quarter 2007 execution of certain agreements between a subsidiary of Chellomedia and the holders of these restricted shares. No further compensation expense will be recognized in connection with these restricted stock awards.

(b) Austar began recording stock-based compensation under its performance-based incentive plan on May 2, 2007.

For additional information concerning our stock-based compensation, see note 14 to our consolidated financial statements.

*Depreciation and amortization expense*

Our consolidated depreciation and amortization expense increased \$364.6 million during 2008, as compared to 2007. Excluding the effect of foreign currency exchange rate fluctuations, depreciation and amortization expense increased \$140.3 million or 5.6%. This increase is due primarily to the net effect of (i) increases associated with capital expenditures related to the installation of customer premise equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) increases associated with acquisitions and (iii) decreases associated with certain assets of J:COM, Cablecom and VTR becoming fully depreciated.

*Provisions for litigation*

We recorded provisions for litigation of (i) \$146.0 million during the third quarter of 2007, representing our estimate of the loss that we may incur upon the ultimate disposition of the 2002 and 2006 Signal Actions, and (ii) \$25.0 million during the fourth quarter of 2007, representing the binding agreement that was reached in January 2008 to settle the shareholder litigation related to the LGI Combination. For additional information concerning the Signal Actions, see note 20 to our consolidated financial statements.

*Impairment, restructuring and other operating charges, net*

We recognized impairment, restructuring and other operating charges, net, of \$158.5 million and \$43.5 million during 2008 and 2007, respectively. The 2008 amount includes the net effect of (i) a \$144.8 million charge associated with the impairment of the goodwill of our Romanian reporting unit, (ii) restructuring charges aggregating \$19.1 million, including (a) aggregate charges of \$11.9 million related to reorganization and integration activities in certain of our European operations and (b) a \$5.6 million charge related to the reorganization of certain of VTR's administrative and operational functions, and (iii) a \$9.2 million gain on the sale of our interests in certain aircraft. For additional information concerning the impairment of the goodwill of our Romanian reporting unit, see note 9 to our consolidated financial statements.

The 2007 amount includes (i) impairment charges aggregating \$12.3 million and (ii) restructuring charges aggregating \$22.2 million, including an \$8.8 million charge associated with the integration of the Netherlands B2B and broadband communications operations.

For additional information concerning our restructuring charges, see note 17 to our consolidated financial statements.

*Interest expense*

Our interest expense increased \$165.3 million during 2008, as compared to 2007. Excluding the effects of foreign currency exchange rate fluctuations, interest expense increased \$101.3 million. This increase reflects the net effect of an increase in our average outstanding indebtedness and a slight decrease in our weighted average interest rate. The slight decrease in our weighted average interest rate is due primarily to (i) a decrease in the weighted average interest rate of our UPC Broadband Holding Bank Facility and (ii) a decrease associated with the refinancing of the LG Switzerland PIK Loan Facility in April 2007. Amortization of deferred financing costs increased \$10.9 million during 2008, primarily related to fees incurred in connection with (i) the Telenet Credit Facility in August 2007, (ii) the UPC Broadband Holding Bank Facility in the third quarter of 2008 and the second quarter of 2007 and (iii) the LGJ Holdings Credit Facility in October 2007. For additional information, see note 10 to our consolidated financial statements.

In light of the ongoing disruption in the credit markets, it is possible that the interest rates incurred on our variable-rate indebtedness could increase in future periods. As further discussed under *Qualitative and Quantitative Disclosures about Market Risk* below, we use derivative instruments to manage our interest rate risks.

*Interest and dividend income*

Our consolidated interest and dividend income decreased \$23.5 million during 2008, as compared to 2007. This decrease primarily is attributable to a decrease in our average consolidated cash and cash equivalent and restricted cash balances. Our weighted average interest rate remained relatively constant during 2008, as compared to 2007, as lower weighted average interest rates on most of our cash and cash equivalent balances were offset by the full year impact of a higher interest rate earned on our restricted cash collateral account associated with the VTR Bank Facility. This cash collateral account, which was initially funded in May 2007, earns interest at a rate that is significantly higher than the average rate earned by the remainder of our cash and cash equivalent and restricted cash balances. Dividend income decreased during 2008, as an increase in the dividend income on the Sumitomo common stock that we acquired on July 3, 2007 only partially offset the loss of dividend income on the ABC Family preferred stock that was redeemed on August 2, 2007. Our interest and dividend income for 2007 includes \$18.1 million of dividends earned on our investment in ABC Family preferred stock. The terms of the Sumitomo Collar effectively fix the dividends that we will receive on the Sumitomo common stock during the term of the Sumitomo Collar. We report the full amount of dividends received from Sumitomo as dividend income and the dividend adjustment that is payable to, or receivable from, the counterparty to the Sumitomo Collar is reported as a component of realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations.

*Share of results of affiliates, net*

The following table reflects our share of results of affiliates, net:

	Year ended December 31,	
	2008	2007
	in millions	
SC Media (a)	\$ —	\$ 16.7
Other	5.4	17.0
Total	<u>\$ 5.4</u>	<u>\$ 33.7</u>

- (a) On July 2, 2007, SC Media was split into two separate companies through the spin-off of JTV Thematics. We exchanged our investment in SC Media for Sumitomo shares on July 3, 2007 and J:COM acquired a 100% interest in JTV Thematics on September 1, 2007. As a result of these transactions, we no longer own an interest in SC Media.

For additional information concerning our equity method affiliates, see note 6 to our consolidated financial statements.

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

Our realized and unrealized gains (losses) on derivative instruments, net, include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the underlying contracts are fully or partially settled and (ii) realized gains (losses) upon the full or partial settlement of the underlying contracts. The details of our realized and unrealized gains (losses) on derivative instruments, net, are as follows:

	Year ended December 31,	
	2008	2007
	in millions	
Equity-related derivatives (a)	\$ 442.7	\$ 239.8
Cross-currency and interest rate derivative contracts (b)	(392.3)	(150.7)
Foreign currency forward contracts	34.3	(19.3)
Other	(5.8)	2.6
Total	<u>\$ 78.9</u>	<u>\$ 72.4</u>

- (a) Includes (i) gains related to the Sumitomo Collar with respect to the Sumitomo shares held by our company since July 2007, (ii) gains related to the News Corp. Forward and (iii) gains during 2007 related to the call options we held with respect to Telenet ordinary shares. The gains on the Sumitomo Collar and the News Corp. Forward are due primarily to declines in the market price of the respective underlying common stock.
- (b) The loss during 2008 primarily is attributable to the net effect of (i) losses associated with a decrease in market interest rates in all of our currencies, (ii) gains associated with a decrease in the value of the Polish zloty and Romanian lei relative to the euro, (iii) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (iv) losses associated with an increase in the value of the Swiss franc relative to the euro and (v) losses associated with an increase in the value of the euro relative to the U.S. dollar. In addition, the loss during 2008 includes a gain of \$106.0 million related to credit risk valuation adjustments, as further described in notes 7 and 8 to our consolidated financial statements. The loss during 2007 primarily is attributable to the net effect of (i) losses associated with a decrease in the value of the U.S. dollar relative to the euro, (ii) gains associated with an increase in market interest rates in euro and Australian dollar markets, (iii) gains associated with a decrease in the value of the Swiss franc relative to the euro and (iv) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar.

For additional information concerning our derivative instruments, see note 7 to our consolidated financial statements. For information concerning the market sensitivity of our derivative and financial instruments, see *Quantitative and Qualitative Disclosure about Market Risk* below.

*Foreign currency transaction gains (losses), net*

Our foreign currency transaction gains (losses) primarily result from the remeasurement of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity. Unrealized foreign currency transaction gains (losses) are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled. The details of our foreign currency transaction gains (losses), net, are as follows:

	Year ended December 31,	
	2008	2007
	in millions	
Yen denominated debt issued by U.S. subsidiaries	\$ (349.4)	\$ (92.7)
U.S. dollar denominated debt issued by a Latin American subsidiary	(112.4)	33.4
U.S. dollar denominated debt issued by a European subsidiary	(74.5)	221.0
Intercompany notes denominated in a currency other than the entity's functional currency (a)	(10.4)	(18.7)
Cash and restricted cash denominated in a currency other than the entity's functional currency	(2.2)	(55.2)
Swiss franc denominated debt issued by a European subsidiary	—	21.5
Other	(3.2)	0.1
Total	<u>\$ (552.1)</u>	<u>\$ 109.4</u>

- (a) Amounts are related to (i) loans between our non-operating and operating subsidiaries in Europe, which generally are denominated in the currency of the applicable operating subsidiary and (ii) U.S. dollar and Japanese yen denominated loans between certain of our non-operating subsidiaries in the U.S. and Europe. Accordingly, these gains (losses) are a function of movements of (i) the euro against (a) the U.S. dollar and (b) other local currencies in Europe and (ii) the U.S. dollar and the euro against the Japanese yen. The Japanese yen denominated loan has been repaid as of December 31, 2008.

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

*Unrealized losses due to changes in fair values of certain investments and debt, net*

The details of our unrealized losses due to changes in fair values of certain investments and debt, net, are as follows:

	Year ended December 31,	
	2008	2007
	in millions	
Investments (a):		
Sumitomo	\$ (255.9)	\$ —
News Corp.	(62.7)	—
Other, net	(16.2)	—
Debt — UGC Convertible Notes (b)	327.8	(200.0)
Total	<u>\$ (7.0)</u>	<u>\$ (200.0)</u>

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- (a) In accordance with the requirements of SFAS 159, we began using the fair value method to account for certain investments effective January 1, 2008. For additional information concerning our investments and fair value measurements, see notes 6 and 8 to our consolidated financial statements.
- (b) Represents changes in the fair value of the UGC Convertible Notes, including amounts attributable to the remeasurement of the UGC Convertible Notes into U.S. dollars. For additional information, see notes 8 and 10 to our consolidated financial statements.

*Losses on extinguishment of debt*

We recognized losses on extinguishment of debt of \$112.1 million during 2007. These losses include (i) a \$88.3 million loss in connection with Telenet's fourth quarter 2007 refinancing transactions, which loss includes (a) \$71.8 million representing the excess of the redemption values over the carrying values of the Telenet Senior Discount Notes and the Telenet Senior Notes and (b) \$16.5 million related to the write-off of unamortized deferred financing fees, (ii) a \$19.5 million loss resulting from the write-off of deferred financing costs in connection with the May 2007 refinancing of VTR's bank facility, (iii) an \$8.4 million loss resulting from the write-off of deferred financing costs in connection with the second quarter 2007 refinancing of the UPC Broadband Holding Bank Facility and (iv) a \$5.2 million gain on the April 2007 redemption of the Cablecom Luxembourg Old Fixed Rate Notes.

For additional information regarding our debt extinguishments, see note 10 to our consolidated financial statements.

*Gains on disposition of assets, net*

We recognized gains on the disposition of assets, net, of \$557.6 million during 2007, primarily related to the recognition of (i) a \$489.3 million pre-tax gain in connection with the July 2007 exchange of our interest in SC Media for Sumitomo common stock and (ii) a \$62.2 million gain in connection with the July 2007 sale of our investment in Melita.

For additional information regarding our dispositions, see note 5 to our consolidated financial statements.

*Income tax expense*

We recognized income tax expense of \$434.8 million and \$233.1 million during 2008 and 2007, respectively.

The income tax expense during 2008 differs from the expected income tax benefit of \$58.5 million (based on the U.S. federal 35% income tax rate) due primarily to the negative impacts of (i) a net increase in valuation allowances established against currently arising deferred tax assets in certain tax jurisdictions, (ii) the impact of differences in the statutory and local tax rates in certain jurisdictions in which we operate, (iii) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible items, (iv) the loss of certain tax attributes due to the election to change the filing status of our Australian subsidiaries, (v) certain permanent differences between the financial and tax accounting treatment of interest, dividends and other items associated with investments in subsidiaries and intercompany loans, (vi) a permanent difference associated with the impairment of goodwill in our Romanian reporting unit and (vii) an increase in certain net deferred tax liabilities due to an enacted change in state tax law.

The income tax expense for 2007 differs from the expected income tax expense of \$17.4 million (based on the U.S. federal 35% income tax rate) due primarily to the negative impacts of (i) a reduction in net deferred tax assets in the Netherlands due to an enacted change in tax law, (ii) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible items, (iii) a difference between the financial and tax accounting treatment of litigation provisions, (iv) differences in the statutory and local tax rates in certain jurisdictions in which we operate and (v) a difference between the financial and tax accounting treatment of goodwill related to the sale of our investment in SC Media. These negative impacts were only partially offset by the positive impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest, dividends and other items associated with investments in subsidiaries and intercompany loans and (ii) the

recognition of previously unrecognized tax benefits that met the FIN 48 recognition criteria during the period. Our effective tax rate was not significantly impacted by changes in our valuation allowances as the positive impacts of net decreases in valuation allowances previously established against deferred tax assets in certain tax jurisdictions, including (i) tax benefits of \$86.3 million and \$29.0 million recognized by Telenet and J:COM, respectively, upon the release of valuation allowances and (ii) a tax benefit of \$56.2 million recognized by the Netherlands to reduce valuation allowances due to a tax rate decrease, were more than offset by the negative impact of a net increase in valuation allowances against currently arising deferred tax assets in certain other tax jurisdictions. The full amount of the tax benefit recognized by Telenet upon the release of valuation allowances was allocated to the minority interest owners of Telenet.

For additional information concerning our income taxes, see note 12 to our consolidated financial statements.

*Minority interests in subsidiaries*

Our minority interests in earnings of subsidiaries, net, decreased \$52.1 million during 2008, as compared to 2007. This decrease is primarily attributable to declines in the operating results of Telenet and Austar that were only partially offset by increased earnings of J:COM and VTR.

*Net loss*

During 2008 and 2007, we reported net losses of \$788.9 million and \$422.6 million, respectively, including (i) operating income of \$1,363.4 million and \$666.8 million, respectively, and (ii) non-operating expense of \$1,530.4 million and \$617.1 million, respectively. Gains or losses associated with the disposition of assets, gains and losses associated with changes in the fair values of derivative instruments and movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future in connection with (i) any dispositions of assets, (ii) changes in the fair value of our derivative instruments, (iii) changes in foreign currency exchange rates or (iv) other non-operating items, our ability to achieve net earnings is largely dependent on our ability to increase the aggregate operating cash flow of our operating segments to a level that more than offsets the aggregate amount of our (a) stock-based compensation expense, (b) depreciation and amortization, (c) provisions for litigation, (d) impairment, restructuring and other operating charges, net, (e) interest expense, (f) other net non-operating expenses, (g) income tax expenses and (h) minority interests in earnings of subsidiaries, net. Due largely to the fact that we seek to maintain our debt at levels that provide for attractive equity returns, as discussed under *Liquidity and Capital Resources — Capitalization* below, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion under *Overview* above. For information concerning the reasons for changes in specific line items in our consolidated statements of operations, see the discussion under *Discussion and Analysis of our Reportable Segments and Discussion and Analysis of our Consolidated Operating Results* above.



**2007 compared to 2006**
**Revenue**

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	Increase (decrease) excluding acquisitions and FX
	2007	2006	\$	%	%	%
	in millions					
Subscription revenue (a):						
Video	\$ 4,331.8	\$ 3,399.2	\$ 932.6	27.4	20.0	5.5
Broadband internet	2,066.9	1,312.2	754.7	57.5	49.1	15.3
Telephony	1,166.0	790.6	375.4	47.5	41.2	14.8
Total subscription revenue	7,564.7	5,502.0	2,062.7	37.5	30.0	9.2
Other revenue (b)	1,525.8	1,053.0	472.8	44.9	35.6	10.1
Intersegment eliminations	(87.2)	(71.1)	(16.1)	(22.6)	(12.2)	(12.2)
Total consolidated LGI	\$ 9,003.3	\$ 6,483.9	\$ 2,519.4	38.9	31.1	9.3

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the individual service's price on a stand-alone basis. However, due to regulatory and other constraints, the allocation of bundling discounts may vary somewhat between our broadband communications operating segments.

(b) Other revenue includes non-subscription revenue (including B2B and installation revenue) and programming revenue.

Our consolidated revenue increased \$2,519.4 million during 2007, as compared to 2006. This increase includes a \$1,413.0 million increase that is attributable to the impact of acquisitions. Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, total consolidated revenue increased \$601.5 million or 9.3%.

Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, our consolidated subscription revenue increased \$503.7 million or 9.2% during 2007, as compared to 2006. This increase is attributable to (i) a \$200.9 million or 15.3% increase in subscription revenue from broadband internet services, as the impact of an increase in the average number of broadband internet RGUs was only partially offset by lower ARPU from broadband internet services, (ii) a \$186.1 million or 5.5% increase in subscription revenue from video services, due to the impact of higher ARPU from video services and an increase in the average number of video RGUs, and (iii) a \$116.6 million or 14.8% increase in subscription revenue from telephony services, as the impact of an increase in the average number of telephony RGUs was only partially offset by lower ARPU from telephony services.

Excluding the effects of acquisitions and foreign currency exchange rate fluctuations, our consolidated other revenue increased \$106.4 million, or 10.1%, during 2007, as compared to 2006. This increase is primarily attributable to increases in revenue from programming and B2B revenue.

For additional information concerning the changes in our subscription and other revenue, see *Discussion and Analysis of Reportable Segments — Revenue — 2007 compared to 2006* above. For information regarding the competitive environment in certain of our markets, see *Overview and Discussion and Analysis of our Reportable Segments* above.

### Operating expenses

Our consolidated operating expenses increased \$945.4 million during 2007, as compared to 2006. This increase includes a \$538.6 million increase that is attributable to the impact of acquisitions. Our operating expenses include stock-based compensation expense, which increased \$5.2 million during 2007. For additional information, see discussion following SG&A expenses below. Excluding the effects of acquisitions, foreign currency exchange rate fluctuations and stock-based compensation expense, total consolidated operating expenses increased \$188.6 million or 6.8% during 2007, as compared to 2006. As discussed in more detail under *Discussion and Analysis of Reportable Segments — Operating Expenses — 2007 compared to 2006* above, this increase generally reflects (i) increases in programming costs, (ii) increases in labor costs, (iii) increases in interconnect costs and (iv) less significant net increases in other operating expense categories. Most of these increases are a function of increased volumes or levels of activity associated with the increase in our customer base.

### SG&A expenses

Our consolidated SG&A expenses increased \$465.8 million during 2007, as compared to 2006. This increase includes a \$264.8 million increase that is attributable to the impact of acquisitions. Our SG&A expenses include stock-based compensation expense, which increased \$118.2 million. For additional information, see discussion in the following paragraph. Excluding the effects of acquisitions, foreign currency exchange rate fluctuations and stock-based compensation expense, total consolidated SG&A expenses decreased \$0.8 million or 0.1% during 2007, as compared to 2006. For additional information, see discussion under *Discussion and Analysis of Reportable Segments — SG&A Expenses — 2007 compared to 2006* above.

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

We record stock-based compensation that is associated with LGI shares and the shares of certain of our subsidiaries. A summary of the aggregate stock-based compensation expense that is included in our operating and SG&A expenses is set forth below:

	Year ended December 31,	
	2007	2006
	in millions	
LGI Series A, Series B and Series C common stock:		
LGI performance plans	\$ 108.2	\$ —
Stock options, SARs, restricted stock and restricted stock units	47.3	58.0
Total LGI common stock	155.5	58.0
Restricted Shares of LGI and Zonemedia (a)	16.2	7.1
Austar Performance Plan (b)	9.5	—
Other	12.2	4.9
Total	\$ 193.4	\$ 70.0
Included in:		
Operating expense	\$ 12.2	\$ 7.0
SG&A expense	181.2	63.0
Total	\$ 193.4	\$ 70.0

- (a) These restricted shares were issued in connection with our January 2005 acquisition of Zonemedia. The 2007 amount includes stock-based compensation related to restricted shares of Zonemedia and LGI stock held by certain Zonemedia employees of \$16.2 million, of which \$12.8 million was recognized on an accelerated basis in connection with the third quarter 2007 execution of certain agreements between a subsidiary of Chellomedia and the holders of these restricted shares. No further compensation expense will be recognized in connection with these restricted stock awards.

- (b) Austar began recording stock-based compensation under its performance-based incentive plan on May 2, 2007.

For additional information concerning our stock-based compensation, see note 14 to our consolidated financial statements.

*Depreciation and amortization*

Our consolidated depreciation and amortization expense increased \$608.4 million during 2007, as compared to 2006. This increase includes a \$390.3 million increase that is attributable to the impact of acquisitions. Excluding the effect of acquisitions and foreign currency exchange rate fluctuations, depreciation and amortization expense increased \$85.5 million or 4.5%. This increase is due primarily to the net effect of (i) increases associated with capital expenditures related to the installation of customer premise equipment, the expansion and upgrade of our networks and other capital initiatives, and (ii) decreases associated with certain of VTR's network assets becoming fully depreciated.

*Provisions for litigation*

We recorded provisions for litigation of (i) \$146.0 million during the third quarter of 2007, representing our estimate of the loss that we may incur upon the ultimate disposition of the 2002 and 2006 Signal Actions, and (ii) \$25.0 million during the fourth quarter of 2007, representing the binding agreement that was reached in January 2008 to settle the shareholder litigation related to the LGI Combination. For additional information concerning the Signal Actions, see note 20 to our consolidated financial statements.

*Impairment, restructuring and other operating charges, net*

We recognized impairment, restructuring and other operating charges, net, of \$43.5 million and \$29.2 million during 2007 and 2006, respectively. The 2007 amount includes (i) impairment charges aggregating \$12.3 million and (ii) restructuring charges aggregating \$22.2 million, including an \$8.8 million charge associated with the integration of the Netherlands B2B and broadband communications operations. The 2006 amount includes impairment charges aggregating \$15.5 million and (ii) restructuring charges aggregating \$15.0 million, the majority of which related to costs incurred in connection with the integration of our broadband communications operations in Ireland. For additional information concerning our restructuring charges, see note 17 to our consolidated financial statements.

*Interest expense*

Our consolidated interest expense increased \$308.7 million during 2007, as compared to 2006. Excluding the effects of foreign currency exchange rate fluctuations, interest expense increased \$242.5. This increase is primarily attributable to a \$4.8 billion or 45.0% increase in our average outstanding indebtedness. The increase in debt primarily is attributable to debt incurred or assumed in connection with recapitalizations and acquisitions. Our weighted average interest rate remained relatively unchanged during 2007, as compared to 2006, primarily due to increases in certain interest rates that were partially offset by a decrease associated with the refinancing of the LG Switzerland PIK Loan Facility. For additional information, see note 10 to our consolidated financial statements.

*Interest and dividend income*

Our consolidated interest and dividend income increased \$29.9 million during 2007, as compared to 2006. The increase is attributable to an increase in interest income related to higher average consolidated cash and cash equivalent and restricted cash balances and, to a lesser extent, higher average interest rates earned on such balances. Dividend income decreased slightly during 2007 as dividend income on the Sumitomo common stock that we acquired on July 3, 2007 only partially offset the loss of dividend income on the ABC Family preferred stock that was redeemed on August 2, 2007. Our interest and dividend income for 2007 includes \$18.1 million of dividends earned on our investment in ABC Family preferred stock. For additional information, see notes 5, 6 and 7 to our consolidated financial statements.

# Share of results of affiliates, net

The following table reflects our share of results of affiliates, net:

	Year ended December 31,	
	2007	2006
	in millions	
SC Media (a)	\$ 16.7	\$ 34.4
Telenet (b)	—	(24.3)
Other	17.0	2.9
Total	\$ 33.7	\$ 13.0

(a) On July 2, 2007, SC Media was split into two separate companies through the spin-off of JTV Thematics. We exchanged our investment in SC Media for Sumitomo shares on July 3, 2007 and J.COM acquired a 100% interest in JTV Thematics on September 1, 2007. As a result of these transactions, we no longer own an interest in SC Media.

(b) Effective January 1, 2007, we began accounting for Telenet as a consolidated subsidiary. See note 4 to our consolidated financial statements.

For additional information concerning our equity method affiliates, see note 6 to our consolidated financial statements.

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

Our realized and unrealized gains (losses) on derivative instruments, net, include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the underlying contracts are fully or partially settled and (ii) realized gains (losses) upon the full or partial settlement of the underlying contracts. The details of our realized and unrealized gains (losses) on derivative instruments, net, are as follows:

	Year ended December 31,	
	2007	2006
	in millions	
Equity-related derivatives (a)	\$ 239.8	\$ 21.7
Cross-currency and interest rate derivative contracts (b)	(150.7)	(312.0)
Foreign currency forward contracts	(19.3)	21.3
Other	2.6	4.2
Total	\$ 72.4	\$ (264.8)

(a) Includes (i) gains during 2007 related to the Sumitomo Collar with respect to the Sumitomo shares held by our company since July 2007, (ii) gains during 2007 and 2006 related to the News Corp. Forward and (iii) activity during 2007 and 2006 related to the call options we held with respect to Telenet ordinary shares. The gains on the Sumitomo Collar and the News Corp. Forward are due primarily to declines in the market price of the respective underlying common stock.

(b) The loss during 2007 primarily is attributable to the net effect of (i) losses associated with a decrease in the value of the U.S. dollar relative to the euro, (ii) gains associated with an increase in market interest rates in euro and Australian dollar markets, (iii) gains associated with a decrease in the value of the Swiss franc relative to the euro and (iv) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar. The loss during 2006 primarily is attributable to the net effect of (i) gains associated with increases in market interest rates, (ii) losses associated with a decrease in the value of the euro relative to the Swiss franc and (iii) losses associated with a decrease in the value of the U.S. dollar relative to the euro.

For additional information concerning our derivative instruments, see note 7 to our consolidated financial statements. For information concerning the market sensitivity of our derivative and financial instruments, see *Quantitative and Qualitative Disclosure about Market Risk* below.

*Foreign currency transaction gains (losses), net*

Our foreign currency transaction gains (losses) primarily result from the remeasurement of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity. Unrealized foreign currency transaction gains (losses) are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled. The details of our foreign currency transaction gains (losses), net, are as follows:

	Year ended December 31,	
	2007	2006
	in millions	
U.S. dollar denominated debt issued by a European subsidiary	\$ 221.0	\$ 193.4
Yen denominated debt issued by U.S. subsidiaries	(92.7)	—
Cash and restricted cash denominated in a currency other than the entity's functional currency	(55.2)	5.6
U.S. dollar denominated debt issued by a Latin American subsidiary	33.4	—
Swiss franc denominated debt issued by a European subsidiary	21.5	12.8
Intercompany notes denominated in a currency other than the entity's functional currency (a)	(18.7)	76.3
Other	0.1	11.4
Total	\$ 109.4	\$ 299.5

- (a) Amounts are related to (i) loans between our non-operating and operating subsidiaries in Europe, which generally are denominated in the currency of the applicable operating subsidiary and (ii) a U.S. dollar denominated loan between certain of our non-operating subsidiaries in the U.S. and Europe. Accordingly, these gains (losses) are a function of movements of the euro against (i) the U.S. dollar and (ii) other local currencies in Europe.

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

*Unrealized losses due to changes in fair values of certain investments and debt, net*

We recognized unrealized losses due to changes in fair values of certain investments and debt, net, of \$200.0 million and \$146.2 million during 2007 and 2006, respectively. These losses represent the changes in the fair value of the UGC Convertible Notes, including amounts attributable to the remeasurement of the UGC Convertible Notes into U.S. dollars. No amounts related to changes in the fair values of our investments are included in the 2007 and 2006 amounts as we were not required to adopt the provisions of SFAS 159 until January 1, 2008. For additional information, see notes 8 and 10 to our consolidated financial statements.

*Losses on extinguishment of debt*

We recognized losses on extinguishment of debt of \$112.1 million and \$40.8 million during 2007 and 2006, respectively. The losses during 2007 include (i) a \$88.3 million loss in connection with Telenet's fourth quarter 2007 refinancing transactions, which loss includes (a) \$71.8 million representing the excess of the redemption values over the carrying values of the Telenet Senior Discount Notes and the Telenet Senior Notes and (b) \$16.5 million related to the write-off of unamortized deferred financing fees, (ii) a \$19.5 million loss resulting from the write-off of deferred financing costs in connection with the May 2007 refinancing of VTR's bank facility, (iii) an \$8.4 million

loss resulting from the write-off of deferred financing costs in connection with the second quarter 2007 refinancing of the UPC Broadband Holding Bank Facility and (iv) a \$5.2 million gain on the April 2007 redemption of the Cablecom Luxembourg Old Fixed Rate Notes.

The losses during 2006 include (i) a \$22.2 million write-off of deferred financing costs and creditor fees in connection with the May and July 2006 refinancings of the UPC Broadband Holding Bank Facility, (ii) a \$7.6 million loss associated with the first quarter 2006 redemption of the Cablecom Luxembourg Old Floating Rate Notes, (iii) a \$4.6 million loss recognized by VTR in connection with the September 2006 refinancing of its bank debt and (iv) a \$3.3 million loss recognized by J.COM in connection with its refinancing activities. The gain on the April 2007 redemption of the Cablecom Luxembourg Old Fixed Rate Notes and the loss on the first quarter 2006 redemption of the Cablecom Luxembourg Floating Rate Senior Notes each represent the difference between the redemption and carrying amounts at the respective dates of redemption.

For additional information regarding our debt extinguishments, see note 10 to our consolidated financial statements.

*Gains on disposition of assets, net*

We recognized gains on the disposition of assets, net, of \$557.6 million and \$206.4 million during 2007 and 2006, respectively. The gains during 2007 primarily are related to the recognition of (i) a \$489.3 million pre-tax gain in connection with the July 2007 exchange of our interest in SC Media for Sumitomo common stock and (ii) a \$62.2 million gain in connection with the July 2007 sale of our investment in Melita. The gains during 2006 include (i) a \$104.7 million gain on the December 31, 2006 sale of UPC Belgium to Telenet, (ii) a \$45.3 million gain on the February 2006 sale of our cost investment in Sky Mexico, (iii) a \$35.8 million gain on the August 2006 sale of our investment in Primacom and (iv) a \$16.9 million gain on the August 2006 sale of our investment in Sky Brasil.

For additional information regarding our dispositions, see note 5 to our consolidated financial statements.

*Income tax benefit (expense)*

We recognized income tax expense of \$233.1 million and income tax benefit of \$7.9 million during 2007 and 2006, respectively.

The income tax expense for 2007 differs from the expected income tax expense of \$17.4 million (based on the U.S. federal 35% income tax rate) due primarily to the negative impacts of (i) a reduction in net deferred tax assets in the Netherlands due to an enacted change in tax law, (ii) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible items, (iii) a difference between the financial and tax accounting treatment of litigation provisions, (iv) differences in the statutory and local tax rates in certain jurisdictions in which we operate and (v) a difference between the financial and tax accounting treatment of goodwill related to the sale of our investment in SC Media. These negative impacts were only partially offset by the positive impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest, dividends and other items associated with investments in subsidiaries and intercompany loans and (ii) the recognition of previously unrecognized tax benefits that met the FIN 48 recognition criteria during the period. Our effective tax rate was not significantly impacted by changes in our valuation allowances as the positive impacts of net decreases in valuation allowances previously established against deferred tax assets in certain tax jurisdictions, including (i) tax benefits of \$86.3 million and \$29.0 million recognized by Telenet and J.COM, respectively, upon the release of valuation allowances and (ii) a tax benefit of \$56.2 million recognized by the Netherlands to reduce valuation allowances due to a tax rate decrease, were more than offset by the negative impact of a net increase in valuation allowances against currently arising deferred tax assets in certain other tax jurisdictions. The full amount of the tax benefit recognized by Telenet upon the release of valuation allowances was allocated to the minority interest owners of Telenet.

The income tax benefit for 2006 differs from the expected tax benefit of \$59.6 million (based on the U.S. federal 35% income tax rate) due primarily to the positive impacts of net decreases in valuation allowances previously established against deferred tax assets, including (i) tax benefits of \$55.4 million and \$30.4 million associated with the release of valuation allowances by J.COM and Austar, respectively and (ii) a tax benefit of

\$64.2 million recognized by the Netherlands to reduce valuation allowances due to a tax rate decrease. These positive impacts were partially offset by the negative impacts of (i) a net increase in valuation allowances against currently arising deferred tax assets in certain other tax jurisdictions, (ii) a reduction in net deferred tax assets in the Netherlands due to an enacted change in tax law, (iii) differences in the statutory and local tax rates in certain jurisdictions in which we operate, (iv) certain permanent differences between the financial and tax accounting treatment of interest, dividends and other items associated with investments in subsidiaries and intercompany loans, (v) the realization of taxable foreign currency gains and losses in certain jurisdictions not recognized for financial reporting purposes and (vi) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible items.

For additional information concerning our income tax expense, see note 12 to our consolidated financial statements.

*Minority interests in earnings of subsidiaries, net*

Our minority interests in earnings of subsidiaries, net, increased \$67.5 million during 2007, as compared to 2006. This increase is primarily attributable to the consolidation of Telenet effective January 1, 2007 and an improvement in the operating results of VTR.

*Net earnings (loss)*

During 2007 and 2006, we reported net earnings (loss) of (\$422.6 million) and \$706.2 million, respectively, including (i) operating income of \$666.8 million and \$352.3 million, respectively, (ii) non-operating expense of \$617.1 million and \$522.5 million, respectively, and (iii) income from discontinued operations of nil and \$1,040.2 million, respectively. The net earnings that we reported during 2006 are primarily attributable to gains on the disposition of our discontinued operations. Gains or losses associated with the disposition of assets, gains and losses associated with changes in the fair values of derivative instruments and movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income.

**Liquidity and Capital Resources**

***Sources and Uses of Cash***

Although our consolidated operating subsidiaries generate cash from operating activities and have borrowed funds under their respective bank facilities, the terms of the instruments governing the indebtedness of certain of our subsidiaries, including UPC Broadband Holding, Telenet, J:COM, VTR, Austar, Chellomedia and Liberty Puerto Rico, may restrict our ability to access the assets of these subsidiaries. As set forth in the table below, these subsidiaries accounted for a significant portion of our consolidated cash and cash equivalents at December 31, 2008. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax considerations, the presence of minority interest owners and other factors.

### Cash and cash equivalents

The details of the U.S. dollar equivalent balances of our consolidated cash and cash equivalents at December 31, 2008 are set forth in the following table. With the exception of LGI, which is reported on a standalone basis, the amounts presented below include the cash and cash equivalents of the named entity and its subsidiaries unless otherwise noted (in millions):

<b>Cash and cash equivalents held by:</b>	
LGI and non-operating subsidiaries:	
LGI	\$ 0.1
Non-operating subsidiaries	817.0
Total LGI and non-operating subsidiaries	817.1
Operating subsidiaries:	
J:COM	236.8
UPC Holding (excluding VTR)	112.0
Telenet	91.6
Austar	64.0
VTR	39.6
Chellomedia	8.6
Liberty Puerto Rico	1.8
Other operating subsidiaries	2.5
Total operating subsidiaries	556.9
Total cash and cash equivalents	\$ 1,374.0

### Liquidity of LGI and its Non-operating Subsidiaries

The \$0.1 million of cash and cash equivalents held by LGI, and subject to certain tax considerations, the \$817.0 million of cash and cash equivalents held by LGI's non-operating subsidiaries represented available liquidity at the corporate level at December 31, 2008. Our remaining cash and cash equivalents of \$556.9 million at December 31, 2008 were held by our operating subsidiaries as set forth in the table above. As noted above, various factors may limit our ability to access the cash of our consolidated operating subsidiaries.

As described in greater detail below, our current sources of corporate liquidity include (i) cash and cash equivalents held by LGI and, subject to certain tax considerations, LGI's non-operating subsidiaries and (ii) interest and dividend income received on our and, subject to certain tax considerations, our non-operating subsidiaries' cash and cash equivalents and investments.

From time to time, LGI and its non-operating subsidiaries may also receive (i) proceeds in the form of distributions or loan repayments from LGI's operating subsidiaries or affiliates upon (a) the completion of recapitalizations, refinancings, asset sales or similar transactions by these entities or (b) the accumulation of excess cash from operations or other means, (ii) proceeds upon the disposition of investments and other assets of LGI and its non-operating subsidiaries, (iii) proceeds received in connection with borrowings by LGI and its non-operating subsidiaries and (iv) proceeds received upon the exercise of stock options. In this regard, we have received significant cash from our subsidiaries in the form of loan repayments during 2008. Most of this cash was used to repurchase LGI common stock.

As further described in note 13 to our consolidated financial statements, we repurchased during 2008 a total of 39,065,387 shares of our LGI Series A common stock at a weighted average price of \$30.24 per share and 35,084,656 shares of our LGI Series C common stock at a weighted average price of \$29.52 per share, for an aggregate purchase price of \$2,217.1 million, including direct acquisition costs. At December 31, 2008, the remaining amount authorized under our current stock repurchase plan was \$94.8 million. Subsequent to



December 31, 2008, we acquired 6,216,300 shares of our LGI Series C common stock at a weighted average price of \$15.11, for an aggregate purchase price of \$93.9 million, including direct acquisition costs. As of February 23, 2009, the remaining authorized amount under our current stock repurchase plan was \$1.0 million.

The ongoing cash needs of LGI and its non-operating subsidiaries include (i) corporate general and administrative expenses and (ii) interest payments on the UGC Convertible Notes, the Sumitomo Collar Loan and the LGJ Holdings Credit Facility. From time to time, LGI and its non-operating subsidiaries may also require cash in connection with (i) the repayment of outstanding debt, (ii) the satisfaction of LGI's obligations under the LGI Performance Plans to the extent not satisfied through the issuance of LGI common stock, (iii) the satisfaction of contingent liabilities, (iv) acquisitions, (v) the repurchase of LGI common stock, or (vi) other investment opportunities. In light of current market conditions, no assurance can be given that any external funding would be available on favorable terms, or at all. For additional information concerning the LGI Performance Plans, see note 14 to our consolidated financial statements.

#### *Liquidity of Operating Subsidiaries*

The cash and cash equivalents of our significant subsidiaries are detailed in the table above. In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and, in the case of UPC Broadband Holding, VTR, Telenet, J:COM and Liberty Puerto Rico, borrowing availability under their respective debt instruments. For the details of the borrowing availability of such entities at December 31, 2008, see note 10 to our consolidated financial statements. Our operating subsidiaries' liquidity generally is used to fund capital expenditures and debt service requirements. From time to time, our operating subsidiaries may also require funding in connection with acquisitions, loans to LGI, capital distributions to LGI and other equity owners, or other investment opportunities. In light of current market conditions, no assurance can be given that any external funding would be available to our operating subsidiaries on favorable terms, or at all.

For a discussion of our consolidated capital expenditures and cash provided by operating activities, see the discussion under *Consolidated Cash Flow Statements* below.

#### **Capitalization**

We seek to maintain our debt at levels that provide for attractive equity returns without assuming undue risk. In this regard, we strive to cause our operating subsidiaries to maintain their debt at levels that result in a consolidated debt balance that is between four and five times our consolidated operating cash flow. The ratio of our December 31, 2008 consolidated debt to our annualized consolidated operating cash flow for the quarter ended December 31, 2008 was 4.6 and the ratio of our December 31, 2008 consolidated net debt (debt less cash and cash equivalents and restricted cash balances related to our debt instruments) to our annualized consolidated operating cash flow for the quarter ended December 31, 2008 was 4.2.

When it is cost effective, we generally seek to match the denomination of the borrowings of our subsidiaries with the functional currency of the operations that are supporting the respective borrowings. As further discussed under *Quantitative and Qualitative Disclosures about Market Risk* below and in note 7 to our consolidated financial statements, we also use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments. Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our cash provided by operations and to achieve adequate returns on our capital expenditures and acquisitions.

At December 31, 2008, our outstanding consolidated debt and capital lease obligations aggregated \$20.5 billion, including \$513.0 million that is classified as current in our consolidated balance sheet and \$18.2 billion that is due in 2012 or thereafter. J:COM debt and capital lease obligations account for \$407.7 million of the current portion of our debt and capital lease obligations. For additional information concerning the maturities of our debt and capital lease obligations, see note 10 to our consolidated financial statements. In addition to our debt and capital lease obligations, we have certain contingent liabilities that could require us to issue shares or make cash payments in future periods. See note 20 to our consolidated financial statements.

We believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our debt maturities grow in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we would be able to refinance or otherwise extend our debt maturities in light of current market conditions. In this regard, it is not possible to predict how the recent disruption in the credit and equity markets and the associated difficult economic conditions could impact our future financial position. However, (i) additional financial institution failures could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) sustained or further tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, the continuation or worsening of the weakness in the equity markets could make it less attractive to use our shares to satisfy contingent or other obligations, and sustained or increased competition, particularly in combination with weak economies, could adversely impact our cash flows and liquidity.

All of our consolidated debt and capital lease obligations at December 31, 2008 had been borrowed or incurred by our subsidiaries. For additional information concerning our debt balances at December 31, 2008, see note 10 to our consolidated financial statements.

#### **Consolidated Cash Flow Statements**

Our cash flows are subject to significant variations based on foreign currency exchange rates. See related discussion under *Quantitative and Qualitative Disclosures about Market Risk* below.

##### *2008 Consolidated Cash Flow Statement*

**General.** During 2008, we used net cash provided by our operating activities of \$3,138.0 million and \$733.7 million of our existing cash and cash equivalent balances (excluding a \$72.2 million increase due to changes in foreign currency exchange rates) to fund net cash used by our investing activities of \$3,044.8 million and net cash used by our financing activities of \$826.9 million.

**Operating Activities.** Net cash flows from operating activities increased \$684.8 million, from \$2,453.2 million during 2007 to \$3,138.0 million during 2008. This increase primarily is attributable to the net effect of (i) an increase in the cash generated by our video, voice and broadband internet services, (ii) an increase in the reported net cash provided by operating activities due to changes in foreign currency exchange rates, (iii) an increase in cash received related to certain derivative instruments and (iv) a decrease in net cash provided by operating activities due to higher cash payments for interest.

**Investing Activities.** Net cash used by investing activities increased \$258.1 million, from \$2,786.7 million during 2007 to \$3,044.8 million during 2008. This increase is due primarily to the net effect of (i) a decrease in cash paid in connection with acquisitions of \$486.9 million, (ii) a decrease in proceeds received upon disposition of assets of \$441.1 million and (iii) an increase in capital expenditures of \$340.5 million. The majority of the increase in capital expenditures is due to changes in foreign currency exchange rates.

The UPC Broadband Division accounted for \$1,264.6 million and \$1,068.8 million of our consolidated capital expenditures during 2008 and 2007, respectively. The increase in the capital expenditures of the UPC Broadband Division is due primarily to the net effect of (i) increases due to changes in foreign currency exchange rates, (ii) increases in expenditures for new build and upgrade projects to expand services, (iii) increases in expenditures for the purchase and installation of customer premise equipment and (iv) decreases in expenditures for support capital such as information technology upgrades and general support systems. During 2008 and 2007, the UPC Broadband Division's capital expenditures represented 28.4% and 27.1%, respectively, of its revenue.

Telenet accounted for \$326.2 million and \$237.6 million of our consolidated capital expenditures during 2008 and 2007, respectively. Telenet uses capital lease arrangements to finance a portion of its capital expenditures. From a financial reporting perspective, capital expenditures that are financed by capital lease arrangements are treated as non-cash activities and accordingly are not included in the capital expenditure amounts presented in our consolidated statements of cash flows. Including \$11.2 million and \$22.7 million of expenditures that were financed under

capital lease arrangements, Telenet's capital expenditures aggregated \$337.4 million and \$260.3 million during 2008 and 2007, respectively. The increase in Telenet's capital expenditures (including amounts financed under capital lease arrangements) during the 2008 period primarily relates to the net effect of (i) increases in expenditures for the purchase and installation of customer premise equipment, (ii) increases due to changes in foreign currency exchange rates, (iii) decreases in expenditures for buildings and general support systems and (iv) increases in expenditures for new build and upgrade projects to expand services. During 2008 and 2007, Telenet's capital expenditures (including amounts financed under capital lease arrangements) represented 22.4% and 20.2%, respectively, of its revenue.

J:COM accounted for \$460.7 million and \$395.5 million of our consolidated capital expenditures during 2008 and 2007, respectively. J:COM uses capital lease arrangements to finance a significant portion of its capital expenditures. Including \$150.0 million and \$161.0 million of expenditures that were financed under capital lease arrangements, J:COM's capital expenditures aggregated \$610.7 million and \$556.5 million during 2008 and 2007, respectively. The increase in J:COM's capital expenditures (including amounts financed under capital lease arrangements) is due primarily to the net effect of (i) increases due to changes in foreign currency exchange rates, (ii) decreases in expenditures for the purchase and installation of customer premise equipment, (iii) decreases in expenditures for new build and upgrade projects to expand services and (iv) decreases in expenditures for support capital such as information technology upgrades and general support systems. During 2008 and 2007, J:COM's capital expenditures (including amounts financed under capital lease arrangements) represented 21.4% and 24.7%, respectively, of its revenue.

VTR accounted for \$181.7 million and \$157.7 million of our consolidated capital expenditures during 2008 and 2007, respectively. The increase in the capital expenditures of VTR is due primarily to the net effect of (i) increases in expenditures for new build and upgrade projects, (ii) increases in expenditures for the purchase and installation of customer premise equipment, (iii) increases due to changes in foreign currency exchange rates and (iv) increases in expenditures for support capital, such as information technology upgrades and general support systems. During 2008 and 2007, VTR's capital expenditures represented 25.5% and 24.8%, respectively, of its revenue.

We expect that the percentage of revenue represented by our aggregate capital expenditures (including capital lease additions) to decline during 2009, as compared to 2008, with the 2009 percentage ranging from (i) 22% to 24% for the UPC Broadband Division; (ii) 24% to 26% for Telenet; (iii) 22% to 24% for J:COM; and (iv) 20% to 22% for VTR. The actual amount of the 2009 capital expenditures of the UPC Broadband Division, Telenet, J:COM and VTR may vary from the expected amounts for a variety of reasons, including (i) changes in (a) the competitive or regulatory environment, (b) business plans or (c) our current or expected future operating results, and (ii) the availability of sufficient capital. Accordingly, no assurance can be given that actual results will not vary materially from our expectations. In terms of the composition of our aggregate 2009 capital expenditures, we expect that almost half will be used to purchase and install customer premise equipment and that the remainder will be used to fund the rebuild and upgrade of portions of our broadband distribution systems and other capital requirements.

**Financing Activities.** Net cash used by financing activities during 2008 was \$826.9 million, compared to net cash provided by financing activities of \$327.5 million during 2007. This change primarily is attributable to the net effect of (i) a \$1,178.4 million decrease in cash received from net borrowings, (ii) a \$563.0 million decrease in the net use of cash due to a reduction in cash distributed by our subsidiaries to minority interest owners, (iii) an increase in cash paid to repurchase our LGI Series A and Series C common stock of \$475.0 million and (iv) a decrease in the reported net use of cash due to changes in foreign currency exchange rates.

#### *2007 Consolidated Cash Flow Statement*

**General.** During 2007, we used net cash provided by our operating activities of \$2,453.2 million, net cash provided by our financing activities of \$327.5 million and \$6.0 million of our existing cash and cash equivalent balances (excluding a \$161.0 million increase due to changes in foreign currency exchange rates) to fund net cash used by our investing activities of \$2,786.7 million.

**Operating Activities.** Net cash flows from operating activities increased \$541.9 million, from \$1,911.3 million during 2006 to \$2,453.2 million during 2007. This increase primarily is attributable to the net effect of (i) an

increase in the cash generated by our video, voice and broadband internet services, (ii) an increase in the reported net cash provided by operating activities due to changes in foreign currency exchange rates, (iii) a decrease in net cash provided by operating activities due to higher cash payments for interest and (iv) a decrease in net cash provided by operating activities due to higher cash payments to settle certain derivative instruments.

*Investing Activities.* Net cash used by investing activities increased \$2,622.7 million, from \$164.0 million during 2006 to \$2,786.7 million during 2007. This increase is due primarily to (i) the 2006 receipt of \$2,548.1 million of proceeds upon the disposition of discontinued operations, net of disposal costs and (ii) an increase in capital expenditures of \$526.6 million.

The UPC Broadband Division accounted for \$1,068.8 million and \$822.1 million of our consolidated capital expenditures during 2007 and 2006, respectively. The increase in the capital expenditures of the UPC Broadband Division primarily is due to (i) increases due to changes in foreign currency exchange rates, (ii) increased expenditures for new build and upgrade projects to expand services, (iii) increases in expenditures for support capital such as information technology upgrades and general support systems, (iv) increased expenditures for the purchase and installation of customer premise equipment and (v) increases due to the effects of acquisitions. During 2007 and 2006, the UPC Broadband Division's capital expenditures represented 27.1% and 25.1%, respectively, of its revenue.

Our Belgium segment accounted for \$237.6 million and \$4.5 million of our consolidated capital expenditures during 2007 and 2006, respectively. This increase primarily is attributable to our consolidation of Telenet effective January 1, 2007. Telenet uses capital lease arrangements to finance a portion of its capital expenditures. Including \$22.7 million of expenditures that were financed under capital lease arrangements, Telenet's capital expenditures aggregated \$260.3 million during 2007. Telenet's capital expenditures during the 2007 period primarily relate to (i) expenditures for new build and upgrade projects to expand services, (ii) the purchase and installation of customer premise equipment and (iii) other factors such as expenditures for buildings and general support systems. During 2007, the capital expenditures of our Telenet segment (including amounts financed under capital lease arrangements) represented 20.2% of its revenue.

J:COM accounted for \$395.5 million and \$416.7 million of our consolidated capital expenditures during 2007 and 2006, respectively. J:COM uses capital lease arrangements to finance a significant portion of its capital expenditures. Including \$161.0 million and \$149.4 million of expenditures that were financed under capital lease arrangements, J:COM's capital expenditures aggregated \$556.5 million and \$566.1 million during 2007 and 2006, respectively. The decrease in J:COM's capital expenditures (including amounts financed under capital lease arrangements) is primarily due to the net effect of (i) increased expenditures related to the effects of acquisitions, (ii) lower expenditures for new build and upgrade projects to expand services, (iii) decreases in expenditures for support capital such as information technology upgrades and general support systems and (iv) increased expenditures for the purchase and installation of customer premise equipment. During 2007 and 2006, J:COM's capital expenditures (including amounts financed under capital lease arrangements) represented 24.7% and 29.8%, respectively, of its revenue.

VTR accounted for \$157.7 million and \$138.2 million of our consolidated capital expenditures during 2007 and 2006, respectively. The increase in the capital expenditures of VTR is primarily due to (i) increases in expenditures for support capital such as information technology upgrades and general support systems, (ii) increased costs for the purchase and installation of customer premise equipment, (iii) increases due to changes in foreign currency exchange rates and (iv) increased expenditures for new build and upgrade projects to expand services and to meet increased traffic and certain regulatory commitments. During 2007 and 2006, VTR's capital expenditures represented 24.8% and 24.7%, respectively, of its revenue.

*Financing Activities.* Net cash provided by financing activities during 2007 was \$327.5 million, compared to net cash used by financing activities of \$1,185.5 million during 2006. This change primarily is attributable to the net effect of (i) a \$1,546.7 million increase in cash received from net borrowings, (ii) a \$501.2 million increase in cash distributions by our subsidiaries to minority interest holders, (iii) a \$400.4 million increase related to changes in cash collateral, (iv) a \$106.4 million increase in proceeds received from the issuance of stock by our subsidiaries and (v) an increase in the reported net cash provided due to changes in foreign currency exchange rates.

## Off Balance Sheet Arrangements and Aggregate Contractual Obligations

### Off Balance Sheet Arrangements

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

As further described in note 20 to our consolidated financial statements, we have certain contingent obligations pursuant to which our co-investors in certain entities could require us to purchase their ownership interests.

### Contractual Commitments

As of December 31, 2008, the U.S. dollar equivalent (based on December 31, 2008 exchange rates) of our consolidated contractual commitments are as follows:

	Payments due during:						Total
	2009	2010	2011	2012 in millions	2013	Thereafter	
Debt (excluding interest)	\$ 314.1	\$ 389.5	\$ 1,078.3	\$ 2,816.6	\$ 3,368.8	\$ 11,528.5	\$ 19,495.8
Capital leases (excluding interest)	241.9	221.5	179.4	139.5	91.0	299.2	1,172.5
Operating leases	208.3	114.3	72.3	49.4	31.8	105.9	582.0
Programming, satellite and other purchase obligations	321.1	103.3	23.0	10.9	3.3	10.7	472.3
Other commitments	80.6	67.0	62.3	57.8	56.3	1,377.1	1,701.1
Total (a)	<u>\$ 1,166.0</u>	<u>\$ 895.6</u>	<u>\$ 1,415.3</u>	<u>\$ 3,074.2</u>	<u>\$ 3,551.2</u>	<u>\$ 13,321.4</u>	<u>\$ 23,423.7</u>
Projected cash interest payments on debt and capital lease obligations (b)	<u>\$ 855.5</u>	<u>\$ 830.6</u>	<u>\$ 819.1</u>	<u>\$ 769.0</u>	<u>\$ 701.6</u>	<u>\$ 796.0</u>	<u>\$ 4,771.8</u>

(a) The commitments reflected in this table do not reflect any liabilities that are included in our December 31, 2008 balance sheet other than debt and capital lease obligations. Our liability for uncertain tax positions in the various jurisdictions in which we operate (\$158.5 million at December 31, 2008) has been excluded from the table as the amount and timing of any related payments are not subject to reasonable estimation.

(b) Amounts are based on interest rates and contractual maturities in effect as of December 31, 2008. The amounts presented do not include the impact of our interest rate derivative agreements, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing.

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

Other commitments relate primarily to Telenet's commitments for the Telenet PICs Network operating costs pursuant to the 2008 PICs Agreement. Beginning in the seventh year of the 2008 PICs Agreement, these commitments are subject to adjustment based on changes in the network operating costs incurred by Telenet with respect to its own networks. These potential adjustments are not subject to reasonable estimation, and therefore, are not included in the above table. Other commitments also include fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments and agreements with programming vendors and other third parties pursuant to which we expect to make payments in future periods. We also have commitments pursuant to agreements with, and obligations imposed by, franchise authorities and municipalities, including our obligations in certain markets to move aerial cable to underground ducts or to upgrade, rebuild or extend portions of our broadband distribution systems. Such amounts are not included in the above table because they are not fixed or determinable.

#### **Critical Accounting Policies, Judgments and Estimates**

In connection with the preparation of our consolidated financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are defined as those policies that are reflective of significant judgments, estimates and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe the following accounting policies are critical in the preparation of our consolidated financial statements because of the judgment necessary to account for these matters and the significant estimates involved, which are susceptible to change:

- Impairment of property and equipment and intangible assets;
- Costs associated with construction and installation activities;
- Useful lives of long-lived assets;
- Fair value measurements;
- Income tax accounting;

We have discussed the selection of the aforementioned critical accounting policies with the Audit Committee of our Board of Directors. For additional information concerning our accounting policies, see note 3 to our consolidated financial statements.

#### ***Impairment of Property and Equipment and Intangible Assets***

*Carrying Value.* The aggregate carrying value of our property and equipment and intangible assets (including goodwill) that were held for use comprised 85% and 79% of our total assets at December 31, 2008 and 2007, respectively. Pursuant to SFAS 142 and SFAS 144, we are required to assess the recoverability of our long-lived assets.

SFAS 144 requires that we review, when circumstances warrant, the carrying amounts of our property and equipment and our intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether such carrying amounts continue to be recoverable. Such events or changes in circumstance may include, among other items, (i) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the markets in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities, which is generally at or below the reporting unit level (see below). If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Pursuant to SFAS 142, we evaluate the goodwill, franchise rights and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and indefinite-lived intangible assets may not be recoverable. For purposes of the goodwill evaluation, we compare the fair values of our reporting units to their respective carrying amounts. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). In most cases, our operating segments are deemed to be a reporting unit either because the operating segment is comprised of only a single component, or the components below the operating segment are aggregated as they have similar economic characteristics. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. Any excess of the carrying value over the fair value of franchise rights or other indefinite-lived intangible assets is also charged to operations as an impairment loss.

We performed our annual impairment tests as of October 1, 2008 and concluded that no impairment charges were necessary. However, we subsequently experienced a significant decline in the market price of our LGI common stock during the fourth quarter of 2008. As a result of this decline, the carrying value of our net assets exceeded our aggregate market capitalization for a portion of the fourth quarter of 2008, and we concluded that our October 1, 2008 impairment tests should be updated. Among other revisions, the updated impairment tests used discount rates that were higher than those used in our October 1, 2008 tests. Based on these updated tests, we concluded that the estimated fair value of our Romanian reporting unit was less than its carrying value and that the implied fair value of the goodwill related to this reporting unit was less than its carrying value. The fair value of the reporting unit was based on discounted cash flow analyses that contemplated, among other matters, (i) the current and expected future impact of competition in Romania, (ii) anticipated costs associated with requirements imposed by certain municipalities to move aerial cable to underground ducts and (iii) the impact of disruptions in the credit and equity markets on our weighted average cost of capital with respect to our Romanian reporting unit. Accordingly, we recorded a \$144.8 million charge during the fourth quarter of 2008 to reflect this goodwill impairment. This impairment charge is included in impairment, restructuring and other operating charges, net, in our consolidated statement of operations.

Based on business conditions and market values that existed at December 31, 2008, we concluded that no other impairments of our goodwill or other long-lived assets were required. However, the market values of the publicly-traded equity of our company and certain of our publicly-traded subsidiaries continue to be depressed and we continue to experience difficult economic environments and significant competition in most of our markets. If, among other factors, (i) our equity values remain depressed or decline further, (ii) our subsidiaries equity values decline further, or (iii) the adverse impacts of economic or competitive factors are worse than anticipated, we could conclude in future periods that additional impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Depending on (i) our or our subsidiaries' equity prices, (ii) economic and competitive conditions and (iii) other factors, any such impairment charges could be significant.

Under both SFAS 144 and SFAS 142, considerable management judgment is necessary to estimate the fair value of reporting units and underlying long-lived and indefinite-lived assets. Certain of our reporting units are publicly traded in active markets. For these reporting units, our fair value determinations are based on quoted market prices. For the remainder of our reporting units, we typically determine fair value using an income-based (discounted cash flows) or, in some cases, a market-based approach, based on assumptions in our long-range business plans, which we update at least annually. For purposes of our 2008 SFAS 142 impairment tests, we relied primarily on the income-based approach due to lack of recent transactions involving businesses similar to our broadband communications and programming businesses. With respect to our discounted cash flow analysis, the timing and amount of future cash flows under these business plans require estimates, among other items, of subscriber growth and retention rates, rates charged per product, expected gross margin and operating cash flow margins and expected capital expenditures. The development of these cash flows, and the discount rate applied to the cash flows, is subject to inherent uncertainties, and actual results could vary significantly from such estimates. The discount rates used in determining fair values of our reporting units for purposes of our updated 2008 SFAS 142 impairment tests ranged from 12% to 18%. The aggregate fair values used in our updated 2008 SFAS 142

impairment tests exceeded our average market capitalization, as determined over a representative period, by an amount which we believe to be reasonable in light of the fact that our equity, and the equity of other companies within our industry, have historically traded at comparable discounts to private market valuations and transactions.

In order to assess the sensitivity of the reporting unit fair value determinations used for our updated 2008 SFAS 142 impairment calculations, we applied hypothetical decreases of 20% and 30% to the estimated fair value of each reporting unit. A hypothetical 20% decrease in the fair value of each of our reporting units would have resulted in (i) an estimated increase in the impairment of the goodwill associated with our Romanian reporting unit ranging from approximately \$50 million to \$100 million and (ii) estimated goodwill impairments with respect to two additional reporting units ranging, in the aggregate, from approximately \$100 million to \$150 million. A hypothetical 30% decrease in the fair value of each of our reporting units would have resulted in (i) an estimated increase in the impairment of the goodwill associated with our Romanian reporting unit ranging from approximately \$100 million to \$150 million and (ii) estimated goodwill impairments with respect to six additional reporting units, including our reporting units in Switzerland, Hungary and the Czech Republic, ranging, in the aggregate, from approximately \$700 million to \$1.3 billion.

During 2008, 2007 and 2006, we recorded impairments of our property and equipment and intangible assets (including goodwill) aggregating \$148.9 million, \$12.3 million and \$15.5 million, respectively.

#### **Costs Associated with Construction and Installation Activities**

In accordance with SFAS 51, *Financial Reporting by Cable Television Companies*, we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop, and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred.

The nature and amount of labor and other costs to be capitalized with respect to construction and installation activities involves significant judgment. In addition to direct external and internal labor and materials, we also capitalize other costs directly attributable to our construction and installation activities, including dispatch costs, quality control costs, vehicle-related costs, certain warehouse expenses and tools. We continuously monitor the appropriateness of our capitalization policy and update the policy when necessary to respond to changes in facts and circumstances, such as the development of new products and services, and changes in the manner that installations or construction activities are performed.

#### **Useful Lives of Long-Lived Assets**

We depreciate our property and equipment on a straight-line basis over the estimated economic useful life of the assets. The determination of the economic useful lives of property and equipment requires significant management judgment, based on factors such as the estimated physical lives of the assets, technological change, changes in anticipated use, legal and economic factors, rebuild and equipment swap-out plans, and other factors. Our intangible assets with definite lives primarily consist of customer relationships. Customer relationship intangible assets are amortized on a straight-line basis over the estimated weighted average life of the customer relationships. The determination of the estimated useful life of customer relationship intangible assets requires significant management judgment, and is primarily based on historical and forecasted churn rates, adjusted when necessary for risk associated with demand, competition, technical changes and other economic factors. We regularly review whether changes to estimated useful lives are required in order to accurately reflect the economic use of our property and equipment and intangible assets with definite lives. Any changes to estimated useful lives are reflected prospectively beginning in the period that the change is deemed necessary. Changes to useful lives during 2008 did not have a material impact on our depreciation and amortization expense. Depreciation and amortization expense during 2008, 2007 and 2006 was \$2,857.7 million, \$2,493.1 million and \$1,884.7 million, respectively. A 10% increase in the aggregate amount of our depreciation and amortization expense during 2008 would have resulted in a \$285.8 million or 21.0% decrease in our 2008 operating income.



**Fair Value Measurements**

SFAS 157 provides guidance with respect to the recurring and non-recurring fair value measurements. We adopted the provisions of SFAS 157 with respect to recurring fair value measurements effective January 1, 2008 and we will adopt the provisions of SFAS 157 with respect to non-recurring fair value measurements effective January 1, 2009.

SFAS 157 provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

**Recurring Valuations.** We perform recurring fair value measurements with respect to our derivative instruments, fair value method investments and UGC Convertible Notes, all of which are carried at fair value. We use (i) cash flow valuation models to determine the fair values of the UGC Convertible Notes and our interest rate and foreign currency derivative instruments, and (ii) the Black-Scholes option pricing model to determine the fair values of our equity-related derivative instruments. We use quoted market prices when available and, when not available, we use a combination of an income approach (discounted cash flows) and a market approach (market multiples of similar businesses) to determine the fair value of our fair value method investments. For a detailed discussion of the inputs we use to determine the fair value of our derivative instruments, fair value method investments and UGC Convertible Notes, see note 8 to our consolidated financial statements. See also notes 6, 7 and 10 to our consolidated financial statements for information concerning our fair value method investments, derivative instruments, and UGC Convertible Notes, respectively.

Changes in the fair values of our derivative instruments, fair value method investments and UGC Convertible Notes have had, and we believe will continue to have, a significant and volatile impact on our results of operations. During 2008, 2007 and 2006, we reported in our statements of operations net gains (losses) of \$71.9 million, (\$127.6 million) and (\$411.0 million), respectively, attributable to changes in the fair value of these items.

As further described in note 8 to our consolidated financial statements, actual amounts received or paid upon the settlement of our derivative instruments, disposal of our fair value method investments, or repayment of the UGC Convertible Notes may differ materially from the recorded fair values.

For information concerning the sensitivity of the fair value of certain of our more significant derivative instruments to changes in market conditions, see *Quantitative and Qualitative Disclosures About Market Risk — Derivative Instruments* below.

**Non-recurring Valuations.** Our non-recurring valuations are primarily associated with the application of purchase accounting, which requires that we determine the fair values of the acquired net assets with the assistance of third-party valuation specialists. In making these determinations, we are required to make estimates and assumptions that affect the recorded amounts, including, but not limited to, expected future cash flows, market comparables and discount rates, remaining useful lives of long-lived assets, replacement costs of property and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. Our estimates in this area impact, among other items, the amount of depreciation and amortization, impairment charges and income tax expense or benefit that we report in the periods following the acquisition date. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain. From December 31, 2005 to December 31, 2008, the aggregate amount of our property and equipment and intangible assets increased by \$10.3 billion or 58.9%. A significant portion of this increase is attributable to increases resulting from the application of purchase accounting. As noted above, we will adopt the provisions of SFAS 157 with respect to non-recurring fair value measurements effective January 1, 2009. For additional information concerning our acquisitions, see note 4 to our consolidated financial statements.

**Income Tax Accounting**

We are required to estimate the amount of tax payable or refundable for the current year and the deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement

carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact of such items.

Net deferred tax assets are reduced by a valuation allowance if we believe it more-likely-than-not such net deferred tax assets will not be realized. Establishing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning strategies. At December 31, 2008, the aggregate valuation allowance provided against deferred tax assets was \$2,053.0 million. The actual amount of deferred income tax benefits realized in future periods will likely differ from the net deferred tax assets reflected in our December 31, 2008 balance sheet due to, among other factors, possible future changes in income tax law or interpretations thereof in the jurisdictions in which we operate and differences between estimated and actual future taxable income. Any of such factors could have a material effect on our current and deferred tax position as reported in our consolidated financial statements. A high degree of judgment is required to assess the impact of possible future outcomes on our current and deferred tax positions.

Tax laws in jurisdictions in which we operate are subject to varied interpretation, and many tax positions we take are subject to significant uncertainty regarding whether the position will be ultimately sustained after review by the relevant tax authority. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on technical merits, that the position will be sustained upon examination. The determination of whether the tax position meets the more-likely-than-not threshold requires a facts-based judgment using all information available. In a number of cases, we have concluded that the more-likely-than-not threshold is not met, and accordingly, the amount of tax benefit recognized in the financial statements is different than the amount taken or expected to be taken in our tax returns. As of December 31, 2008, the amount of unrecognized tax benefits for financial reporting purposes, but taken or expected to be taken on tax returns, was \$424.6 million, of which \$391.5 million would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances.

We are required to continually assess our tax positions, and the results of tax examinations or changes in judgment can result in substantial changes to our unrecognized tax benefits.

We have taxable outside basis differences on certain investments in foreign subsidiaries. We do not recognize the deferred tax liabilities associated with these outside basis differences when the difference is considered essentially permanent in duration. In order to be considered essentially permanent in duration, sufficient evidence must indicate that the foreign subsidiary has invested or will invest its undistributed earnings indefinitely, or that earnings will be remitted in a tax-free liquidation. If circumstances change and it becomes apparent that some or all of the undistributed earnings will be remitted in the foreseeable future, a deferred tax liability must be recorded for some or all of the outside basis difference. The assessment of whether these outside basis differences are considered permanent in nature requires significant judgment and is based on management intentions to reinvest the earnings of a foreign subsidiary indefinitely in light of anticipated liquidity requirements and other relevant factors. As of December 31, 2008, we have approximately \$2.5 billion of taxable outside basis differences that have not been recognized. If our plans or intentions change in the future due to liquidity or other relevant considerations, we could decide that it would be prudent to repatriate significant funds or other assets from one or more of our subsidiaries, even though we would incur a tax liability in connection with any such repatriation. If our plans or intentions were to change in this manner, the recognition of all or a part of these outside basis differences could have a significant impact on our consolidated income tax expense and net earnings (loss).

For additional information concerning our income taxes, see note 12 to our consolidated financial statements.

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

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. As further described below, we have established policies, procedures and internal processes governing our management of market risks and the use of derivative instruments to manage our exposure to such risks.

**Cash and Investments**

We invest our cash in highly liquid instruments that meet high credit quality standards. From a U.S. dollar perspective, we are exposed to exchange rate risk with respect to certain of our cash balances that are denominated in euros, Japanese yen and, to a lesser degree, other currencies. At December 31, 2008, our European subsidiaries held cash balances of \$836.3 million that were denominated in euros and J:COM and Super Media collectively held cash balances of \$257.3 million that were denominated in Japanese yen. Subject to applicable debt covenants, these euro and Japanese yen cash balances are available to be used for future acquisitions and other liquidity requirements that may be denominated in such currencies.

We are also exposed to market price fluctuations related to our investments in Sumitomo and News Corp. At December 31, 2008, the aggregate fair value of these investments was approximately \$442.2 million. Where appropriate, we manage our exposure to market price fluctuations with derivative instruments such as the Sumitomo Collar and the News Corp. Forward.

**Foreign Currency Risk**

We are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than the functional currency of the operations whose cash flows support our ability to repay or refinance such debt. Although we generally seek to match the denomination of our and our subsidiaries' borrowings with the functional currency of the operations that are supporting the respective borrowings, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in the functional currency of the underlying operations (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using cross-currency interest rate swaps to synthetically convert unmatched debt into the applicable underlying currency. At December 31, 2008, substantially all of our debt was either directly or synthetically matched to the applicable functional currencies of the underlying operations through the applicable maturity dates of the underlying debt. For additional information concerning the terms of our cross-currency interest rate swaps, see note 7 to our consolidated financial statements.

In addition to the exposure that results from the mismatch of our borrowing and underlying functional currencies, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our or our subsidiaries' respective functional currencies, such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) that are denominated in a currency other than the applicable functional currency. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our respective functional currencies, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. In this regard, we expect that during 2009, (i) approximately 1% to 3% of our revenue, (ii) approximately 5% to 7% of our aggregate operating and SG&A expenses (exclusive of stock-based compensation expense) and (iii) approximately 20% to 23% of our capital expenditures (including capital lease additions) will be denominated in non-functional currencies, including amounts denominated in (a) U.S. dollars in Europe, Chile, Japan and Australia and (b) euros in Poland, Hungary, Romania and the Czech Republic. The actual levels of our non-functional currency transactions may differ from our expectations. Generally, we will consider hedging these foreign currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts. In this regard, we have entered into foreign currency forward contracts covering the forward purchase of the U.S. dollar, the Polish zloty, the Hungarian forint and the Japanese yen and the forward sale of the euro, the Japanese yen, the Chilean peso and the Australian dollar to hedge certain of these risks. Although certain non-functional currency risks related to our capital expenditures and operating and SG&A expenses were not hedged as of December 31, 2008, we expect to increase our use of hedging strategies with respect to these risks during 2009. For additional information concerning our foreign currency forward contracts, see note 7 to our consolidated financial statements.

We also are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar (our reporting currency) against the currencies of our operating subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive earnings (loss) as a separate component of stockholders' equity. 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. As a result of foreign currency risk, we may experience a negative impact on our comprehensive earnings (loss) and equity with respect to our holdings solely as a result of foreign currency translation. Our primary exposure to foreign currency risk from a foreign currency translation perspective is to the euro and the Japanese yen as 38.0% and 27.0% of our U.S. dollar revenue during 2008 was derived from subsidiaries whose functional currencies are the euro and the Japanese yen, respectively. In addition, we have significant exposure to changes in the exchange rates for the Swiss franc, the Chilean peso, the Hungarian forint, the Australian dollar and other local currencies in Europe. We generally do not hedge against the risk that we may incur non-cash losses upon the translation of the financial statements of our subsidiaries and affiliates into U.S. dollars.

The relationship between (i) the euro, the Swiss franc, the Japanese yen, the Chilean peso, the Hungarian forint and the Australian dollar and (ii) the U.S. dollar, which is our reporting currency, is shown below, per one U.S. dollar:

	As of December 31,		
	2008	2007	2006
<b>Spot rates:</b>			
Euro	0.7167	0.6857	0.7582
Swiss franc	1.0687	1.1360	1.2198
Japanese yen	90.790	111.79	119.08
Chilean peso	638.50	498.10	534.25
Hungarian forint	190.27	173.30	190.65
Australian dollar	1.4192	1.1406	1.2686
<b>Average rates:</b>			
	Year ended December 31,		
	2008	2007	2006
Euro	0.6832	0.7305	0.7969
Swiss franc	1.0822	1.2001	1.2533
Japanese yen	103.34	117.77	116.36
Chilean peso	522.81	522.24	530.40
Hungarian forint	172.42	183.59	210.21
Australian dollar	1.1968	1.1954	1.3278

#### ***Inflation and Foreign Investment Risk***

We are subject to inflationary pressures with respect to labor, programming and other costs. While we attempt to increase our revenue to offset increases in costs, there is no assurance that we will be able to do so. Therefore, costs could rise faster than associated revenue, thereby resulting in a negative impact on operating cash flow and net earnings (loss). The economic environment in the respective countries in which we operate is a function of government, economic, fiscal and monetary policies and various other factors beyond our control. We currently are unable to predict the extent that price levels might be impacted in future periods by the ongoing weakness in the worldwide economy.

#### ***Interest Rate Risks***

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include fixed-rate and variable-rate investments and borrowings by our operating subsidiaries. Our primary exposure to variable-rate debt is through the EURIBOR-indexed and LIBOR-indexed debt of UPC Broadband

Holding, the EURIBOR-indexed debt of Telenet, the Japanese yen LIBOR-indexed and TIBOR-indexed debt of J:COM, the TIBOR-indexed debt of LGJ Holdings, the LIBOR-indexed debt of VTR, the AUD BBSY-indexed debt of Austar and the variable-rate debt of certain of our other subsidiaries.

In general, we seek to enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt through the maturity date of the applicable underlying debt. Accordingly, we have entered into various derivative transactions to reduce exposure to increases in interest rates. We use interest rate derivative agreements to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use interest rate cap and collar agreements that lock in a maximum interest rate if variable rates rise, but also allow our company to benefit, to a limited extent, from declines in market rates. At December 31, 2008, we effectively paid a fixed interest rate on 91% of our variable-rate debt through the use of interest rate derivative instruments that convert variable rates to fixed rates. The final maturity dates of our various portfolios of interest rate derivative instruments generally correspond to the respective maturities of the underlying variable-rate debt. For additional information concerning the terms of these interest rate derivative instruments, see note 7 to our consolidated financial statements.

**Weighted Average Variable Interest Rate.** At December 31, 2008, our variable-rate indebtedness aggregated \$15.4 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 4.6%, excluding the effects of interest rate derivative agreements, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative agreements, deferred financing costs or commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by \$77.1 million. As discussed above and in note 7 to our consolidated financial statements, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

#### **Credit Risk**

We are exposed to the risk that the counterparties to our financial instruments, undrawn debt facilities and cash investments will default on their obligations to us. We manage the credit risks associated with our financial instruments, cash and cash equivalents and undrawn debt facilities through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our financial instruments and undrawn debt facilities is spread across a broad counterparty base of banks and financial institutions. In addition, most of our cash is invested in either (i) AAA credit rated money market funds, including funds that invest in government obligations, or (ii) overnight deposits with banks having a minimum credit rating of AA-. To date, neither the access to nor the value of our cash and cash equivalent balances have been adversely impacted by the recent liquidity problems of financial institutions. We generally do not require our counterparties to provide collateral or other security or to enter into master netting arrangements.

At December 31, 2008, our exposure to credit risk included (i) derivative assets with a fair value of \$1,124.1 million (including \$616.7 million due from counterparties for which we had offsetting liability positions at December 31, 2008), (ii) cash and cash equivalent balances of \$1,374.0 million and (iii) aggregate undrawn debt facilities of \$1,084.3 million, including CLP 136,391.6 million (\$213.6 million) of commitments under the VTR Credit Facility for which we would be required to set aside an equivalent amount of cash collateral.

Under our derivative contracts, the exercise of termination and set-off provisions is generally at the option of the non-defaulting party only. However, in an insolvency of a derivative counterparty, a liquidator may be able to force the termination of a derivative contract. In addition, mandatory set-off of amounts due under the derivative contract and potentially other contracts between our company and the relevant counterparty may be applied under the insolvency regime of the relevant jurisdiction. Accordingly, it is possible that we could be required to make payments to an insolvent counterparty even if that counterparty had previously defaulted on its obligations under a derivative contract with our company. While we anticipate that, in the event of the insolvency of one of our

derivative counterparties, we would seek to novate our derivative contracts to different counterparties, no assurance can be given that we would be able to do this on terms or pricing that would be acceptable to us. If we are unable to, or choose not to, novate to a different party, the risks that were the subject of the original derivative contract would no longer be hedged.

While we currently have no specific concerns about the creditworthiness of any particular counterparty, given the volatility and systemic risk in the markets at present and recent failures of, and financial difficulties experienced by, various banks and financial institutions, we cannot rule out the possibility that one or more of our counterparties could fail or otherwise be unable to meet its obligations to us. Any such circumstances could have an adverse effect on our cash flows, results of operations and financial condition.

Although we actively monitor the creditworthiness of our key vendors, the financial failure of a key vendor could disrupt our operations and have an adverse impact on our cash flows.

#### **Sensitivity Information**

Information concerning the sensitivity of the fair value of certain of our more significant derivative and financial instruments to changes in market conditions is set forth below. For additional information, see notes 7 and 8 to our consolidated financial statements.

##### *UPC Broadband Holding Cross-currency and Interest Rate Derivative Contracts*

Holding all other factors constant, (i) an instantaneous increase (decrease) of 10% in the value of the Swiss franc, the Czech koruna, the Slovakian koruna, the Hungarian forint, the Polish zloty and the Romanian lei relative to the euro at December 31, 2008 would have decreased (increased) the aggregate fair value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €443.9 million (\$619.4 million), (ii) an instantaneous increase (decrease) in the relevant base rate of 50 basis points (0.50%) at December 31, 2008 would have increased (decreased) the aggregate fair value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €148.1 million (\$206.6 million), (iii) an instantaneous increase (decrease) of 10% in the value of the euro relative to the U.S. dollar at December 31, 2008 would have decreased (increased) the aggregate fair value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €96.2 million (\$134.2 million), (iv) an instantaneous increase (decrease) of 10% in the value of the Swiss franc relative to the U.S. dollar at December 31, 2008 would have decreased (increased) the aggregate fair value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €45.4 million (\$63.3 million), (v) an instantaneous increase (decrease) of 10% in the value of the Chilean peso relative to the U.S. dollar at December 31, 2008 would have decreased (increased) the aggregate value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €25.1 million (\$35.0 million) (vi) an instantaneous increase (decrease) of 10% in the value of the Chilean peso relative to the euro at December 31, 2008 would have decreased (increased) the aggregate value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately €15.8 million (\$22.0 million), (vii) an instantaneous decrease in our credit spread of 50 basis points (0.50%) at December 31, 2008 would have decreased the value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately \$9.3 million, (viii) an instantaneous increase in our credit spread of 50 basis points (0.50%) at December 31, 2008 would have increased the value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately \$9.0 million, (ix) an instantaneous decrease in the credit spread of our counterparties of 50 basis points (0.50%) at December 31, 2008 would have increased the value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately \$10.1 million and (x) an instantaneous increase in the credit spread of our counterparties of 50 basis points (0.50%) at December 31, 2008 would have decreased the value of the UPC Broadband Holding cross-currency and interest rate derivative contracts by approximately \$9.5 million.

##### *VTR Cross-currency and Interest Rate Derivative Contracts*

Holding all other factors constant, (i) an instantaneous increase (decrease) of 10% in the value of the Chilean peso relative to the U.S. dollar at December 31, 2008 would have decreased (increased) the aggregate fair value of

the VTR cross-currency and interest rate derivative contracts by approximately CLP 34.2 billion (\$53.6 million) and (ii) an instantaneous increase (decrease) in the relevant base rate (excluding margin) of 50 basis points (0.50%) at December 31, 2008 would have increased (decreased) the aggregate fair value of the VTR cross-currency and interest rate derivative contracts by approximately CLP 8.0 billion (\$12.6 million).

*Telenet Interest Rate Caps and Interest Rate Collars*

Holding all other factors constant, (i) an instantaneous increase in the relevant base rate of 50 basis points (0.50%) at December 31, 2008 would have increased the aggregate fair value of the Telenet interest rate cap and interest rate collar contracts by approximately €32.8 million (\$45.8 million) and (ii) an instantaneous decrease in the relevant base rate of 50 basis points (0.50%) at December 31, 2008 would have decreased the aggregate fair value of the Telenet interest rate cap and interest rate collar contracts by approximately €7.5 million (\$10.5 million).

*UGC Convertible Notes*

Holding all other factors constant, (i) an instantaneous increase of 10% in the forecasted volatility of the LGI Series A and Series C common stock at December 31, 2008 would have increased the fair value of the UGC Convertible Notes by approximately €15.9 million (\$22.2 million), (ii) an instantaneous decrease of 10% in the forecasted volatility of the LGI Series A and Series C common stock at December 31, 2008 would have decreased the fair value of the UGC Convertible Notes by approximately €13.7 million (\$19.1 million), (iii) an instantaneous increase of 10% in the combined per share market price of LGI Series A and Series C common stock at December 31, 2008 would have increased the fair value of the UGC Convertible Notes by approximately €8.5 million (\$11.9 million), (iv) an instantaneous decrease of 10% in the combined per share market price of LGI Series A and Series C common stock at December 31, 2008 would have decreased the fair value of the UGC Convertible Notes by approximately €3.6 million (\$5.0 million), (v) an instantaneous decrease of 10% in the value of the euro relative to the U.S. dollar at December 31, 2008 would have increased the fair value of the UGC Convertible Notes by approximately €9.1 million (\$12.7 million), (vi) an instantaneous increase of 10% in the value of the euro relative to the U.S. dollar at December 31, 2008 would have decreased the fair value of the UGC Convertible Notes by approximately €3.3 million (\$4.6 million), (vii) an instantaneous increase in the risk free rate of 50 basis points (0.50%) at December 31, 2008 would have decreased the fair value of the UGC Convertible Notes by approximately €4.0 million (\$5.6 million), (viii) an instantaneous decrease in the risk free rate of 50 basis points (0.50%) at December 31, 2008 would have increased the fair value of the UGC Convertible Notes by approximately €4.1 million (\$5.7 million), (ix) an instantaneous increase of 50 basis points (0.50%) in the credit spread at December 31, 2008 would have decreased the fair value of the UGC Convertible Notes by approximately €4.3 million (\$6.0 million) and (x) an instantaneous decrease of 50 basis points (0.50%) in the credit spread at December 31, 2008 would have increased the fair value of the UGC Convertible Notes by approximately €4.4 million (\$6.1 million).

*Sumitomo Collar*

Holding all other factors constant, (i) an instantaneous decrease in the Japanese Yen risk-free rate of 50 basis points (0.50%) at December 31, 2008 would have increased the value of the Sumitomo Collar by ¥4.0 billion (\$44.1 million), (ii) an instantaneous increase in the Japanese Yen risk-free rate of 50 basis points (0.50%) at December 31, 2008 would have decreased the value of the Sumitomo Collar by ¥3.5 billion (\$38.6 million) and (iii) an instantaneous increase (decrease) of 10% in the per share market price of Sumitomo's common stock at December 31, 2008 would have decreased (increased) the aggregate fair value of the Sumitomo Collar by approximately ¥3.3 billion (\$36.3 million).

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements of LGI are filed under this Item, beginning on page II-62. Financial statement schedules and separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons are filed under Item 15 of this Annual Report on Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

***Disclosure controls and procedures***

In accordance with Exchange Act Rule 13a-15, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer, principal accounting officer, and principal financial officer (the Executives), of the effectiveness of our disclosure controls and procedures as of December 31, 2008. In designing and evaluating the disclosure controls and procedures, the Executives recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is necessarily required to apply judgment in evaluating the cost-benefit relationship of possible controls and objectives. Based on that evaluation, the Executives concluded that our disclosure controls and procedures are effective as of December 31, 2008, in timely making known to them material information relating to us and our consolidated subsidiaries required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934. We have investments in certain unconsolidated entities. As we do not control these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

***Internal control over financial reporting***

***(a) Management's Annual Report on Internal Control over Financial Reporting***

Management's annual report on internal control over financial reporting is included herein on page II-59.

***(b) Attestation Report of the Independent Registered Public Accounting Firm***

The attestation report of KPMG LLP is included herein beginning on page II-60.

***(c) Changes in Internal Control over Financial Reporting***

There have been no changes in our internal controls over financial reporting identified in connection with the evaluation described above that occurred during the fourth fiscal quarter covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

Not applicable.



### Management's Annual Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2008, using the criteria in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management believes that our internal control over financial reporting was effective as of December 31, 2008. The effectiveness of our internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report included herein. Our evaluation of internal control over financial reporting did not include the internal control of the following businesses we acquired in 2008:

	Total assets included in our consolidated financial statements as of December 31, 2008	Total revenue included in our consolidated financial statements for the year ended December 31, 2008
	in millions	
Interkabel	\$ 776.1	\$ 32.7
Mediatti	679.9	—
Other	184.0	17.0
	<u>\$ 1,640.0</u>	<u>\$ 49.7</u>

The aggregate amount of consolidated assets and revenue of these businesses included in our consolidated financial statements as of and for the year ended December 31, 2008 was \$1,640.0 million and \$49.7 million, respectively.

# Report of Independent Registered Public Accounting Firm

The Board of Directors  
Liberty Global, Inc.:

We have audited Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Liberty Global, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Liberty Global, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's evaluation of the effectiveness of Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2008 excluded the following businesses acquired in 2008:

	Total assets included in the consolidated financial statements as of December 31, 2008	Total revenue included in the consolidated financial statements for the year ended December 31, 2008
	in millions	
Interkabel	\$ 776.1	\$ 32.7
Mediatti	679.9	—
Other	184.0	17.0
	<u>\$ 1,640.0</u>	<u>\$ 49.7</u>

The aggregate amount of total assets and revenue of these businesses included in the consolidated financial statements of Liberty Global, Inc. as of and for the year ended December 31, 2008 was \$1,640.0 million and \$49.7 million, respectively. Our audit of internal control over financial reporting of Liberty Global, Inc. also excluded an evaluation of the internal control over financial reporting of these subsidiaries.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Global, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 23, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado  
February 23, 2009

**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Liberty Global, Inc.:

We have audited the accompanying consolidated balance sheets of Liberty Global, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I and II. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits. In 2007, we did not audit the consolidated financial statements of Telenet Group Holding NV, a partially-owned subsidiary, which statements reflect total assets constituting €2,738.8 million (\$3,994.2 million using December 31, 2007 exchange rates) as of December 31, 2007 and total revenue constituting €942.8 million (\$1,293.4 million at the average exchange rate for 2007) for the year then ended, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Telenet Group Holding NV, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Global, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, based on our audits and the report of the other auditors, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 2, in 2008 Liberty Global, Inc. changed its method of accounting for certain investments and an insurance arrangement. In 2007, Liberty Global, Inc. changed its method of accounting for income tax uncertainties.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Denver, Colorado  
February 23, 2009

**Report of Independent Registered Public Accounting Firm**

To Board of Directors of Telenet Group Holding NV

We have audited the accompanying consolidated balance sheets of Telenet Group Holding NV and its subsidiaries as of December 31, 2007, and the related consolidated income statement, statement of cash flows and of shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Telenet Group Holding NV and its subsidiaries at December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as adopted by the EU.

International Financial Reporting Standards as adopted by the EU vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 29 to the consolidated financial statements.

Antwerp Belgium, February 22, 2008  
PricewaterhouseCoopers Bedrijfsrevisoren bvba  
Represented by

/s/ B. Gabriëls  
Partner

LIBERTY GLOBAL, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,374.0	\$ 2,035.5
Trade receivables, net	1,002.8	1,003.7
Other receivables, net	51.8	95.7
Deferred income taxes (note 12)	280.8	319.1
Derivative instruments (note 7)	193.6	230.5
Other current assets	330.7	240.1
Total current assets	3,233.7	3,924.6
Restricted cash (note 10)	470.8	475.5
Investments (note 6)	979.8	1,171.5
Property and equipment, net (note 9)	12,035.4	10,608.5
Goodwill (note 9)	13,144.7	12,626.8
Intangible assets subject to amortization, net (note 9)	2,405.0	2,504.9
Other assets, net (notes 7, 9 and 12)	1,716.7	1,306.8
Total assets	\$ 33,986.1	\$ 32,618.6

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31,	
	2008	2007
	in millions	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 735.0	\$ 804.9
Deferred revenue and advance payments from subscribers and others (note 11)	918.4	933.8
Current portion of debt and capital lease obligations (note 10)	513.0	383.2
Derivative instruments (note 7)	441.7	116.2
Accrued interest	142.4	341.2
Other accrued and current liabilities	1,491.6	1,278.2
Total current liabilities	4,242.1	3,857.5
Long-term debt and capital lease obligations (including \$574.5 million and \$902.3 million, respectively, measured at fair value) (notes 7 and 10)	19,989.9	17,970.2
Deferred tax liabilities (note 12)	902.7	743.7
Other long-term liabilities (notes 7 and 11)	2,356.7	1,765.1
Total liabilities	27,491.4	24,336.5
Commitments and contingencies (notes 10, 12, 14 and 20)		
Minority interests in subsidiaries	3,101.7	2,446.0
Stockholders' equity (note 13):		
Series A common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 136,334,241 and 174,687,478 shares, respectively	1.4	1.7
Series B common stock, \$.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,191,210 and 7,256,353 shares, respectively	0.1	0.1
Series C common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 137,703,628 and 172,129,524 shares, respectively	1.4	1.7
Additional paid-in capital	4,124.0	6,293.2
Accumulated deficit	(1,874.9)	(1,319.1)
Accumulated other comprehensive earnings, net of taxes (note 19)	1,141.0	858.5
Total stockholders' equity	3,393.0	5,836.1
Total liabilities and stockholders' equity	\$ 33,986.1	\$ 32,618.6

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2008	2007	2006
	in millions, except share and per share amounts		
Revenue (note 15)	\$ 10,561.1	\$ 9,003.3	\$ 6,483.9
Operating costs and expenses:			
Operating (other than depreciation and amortization) (including stock-based compensation) (notes 14 and 15)	4,112.4	3,717.2	2,771.8
Selling, general and administrative (SG&A) (including stock-based compensation) (notes 14 and 15)	2,069.1	1,911.7	1,445.9
Depreciation and amortization (note 9)	2,857.7	2,493.1	1,884.7
Provisions for litigation (note 20)	—	171.0	—
Impairment, restructuring and other operating charges, net (notes 9 and 17)	158.5	43.5	29.2
	9,197.7	8,336.5	6,131.6
Operating income	1,363.4	666.8	352.3
Other income (expense):			
Interest expense (note 15)	(1,147.4)	(982.1)	(673.4)
Interest and dividend income (note 15)	91.8	115.3	85.4
Share of results of affiliates, net (note 6)	5.4	33.7	13.0
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	78.9	72.4	(264.8)
Foreign currency transaction gains (losses), net	(552.1)	109.4	299.5
Unrealized losses due to changes in fair values of certain investments and debt, net (notes 6, 8, and 10)	(7.0)	(200.0)	(146.2)
Other-than-temporary declines in fair values of investments (note 6)	—	(212.6)	(13.8)
Losses on extinguishment of debt, net (note 10)	—	(112.1)	(40.8)
Gains on disposition of assets, net (note 5)	—	557.6	206.4
Other income, net	—	1.3	12.2
	(1,530.4)	(617.1)	(522.5)
Earnings (loss) before income taxes, minority interests and discontinued operations	(167.0)	49.7	(170.2)
Income tax benefit (expense) (note 12)	(434.8)	(233.1)	7.9
Minority interests in earnings of subsidiaries, net	(187.1)	(239.2)	(171.7)
Loss from continuing operations	(788.9)	(422.6)	(334.0)
Discontinued operations (note 5):			
Earnings from operations	—	—	6.8
Gain on disposal of discontinued operations	—	—	1,033.4
	—	—	1,040.2
Net earnings (loss)	\$ (788.9)	\$ (422.6)	\$ 706.2
Basic and diluted earnings (loss) per share — Series A, Series B and Series C common stock (note 3):			
Continuing operations	\$ (2.50)	\$ (1.11)	\$ (0.76)
Discontinued operations	—	—	2.37
	\$ (2.50)	\$ (1.11)	\$ 1.61
Weighted average common shares outstanding — basic and diluted	315,234,690	380,223,355	438,135,460

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



LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year ended December 31,		
	2008	2007 in millions	2006
Net earnings (loss)	\$ (788.9)	\$ (422.6)	\$ 706.2
Other comprehensive earnings, net of taxes (note 19):			
Foreign currency translation adjustments	344.2	677.2	397.8
Reclassification adjustment for foreign currency translation losses included in net earnings (loss)	0.5	9.6	9.0
Unrealized gains (losses) on available-for-sale securities	—	(139.1)	5.7
Reclassification adjustment for net losses on available-for-sale securities included in net earnings (loss)	—	135.4	13.8
Unrealized losses on cash flow hedges	(1.7)	(2.7)	(7.2)
Reclassification adjustment for losses (gains) on cash flow hedges included in net earnings (loss)	1.4	(4.0)	6.0
Pension related adjustments	(22.4)	12.3	—
Other comprehensive earnings	322.0	688.7	425.1
Comprehensive earnings (loss)	\$ (466.9)	\$ 266.1	\$ 1,131.3

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common stock			Additional	Accumulated	Accumulated other	Deferred	Treasury	Total
	Series A	Series B	Series C	paid-in	deficit	comprehensive	compensation	stock,	stockholders'
				capital		earnings (loss),		at cost	equity
						net of taxes			
	in millions								
Balance at January 1, 2006, before effect of accounting changes	\$ 2.3	\$ 0.1	\$ 2.4	\$ 9,992.2	\$ (1,732.5)	\$ (262.9)	\$ (15.6)	\$ (169.6)	\$ 7,816.4
Accounting changes (note 2)	—	—	—	(15.6)	6.0	—	15.6	—	6.0
Balance at January 1, 2006, as adjusted for accounting changes	2.3	0.1	2.4	9,976.6	(1,726.5)	(262.9)	—	(169.6)	7,822.4
Net earnings	—	—	—	—	706.2	—	—	—	706.2
Other comprehensive earnings, net of tax (note 19)	—	—	—	—	—	425.1	—	—	425.1
Repurchase of common stock (note 13)	—	—	—	—	—	—	—	(1,756.9)	(1,756.9)
Cancellation of treasury stock	(0.3)	—	(0.4)	(1,925.8)	—	—	—	1,926.5	—
Stock-based compensation, net of taxes (notes 3 and 14)	—	—	—	63.1	—	—	—	—	63.1
Stock issued in connection with equity incentive plans	—	—	—	10.8	—	—	—	—	10.8
Adjustment to initially apply SFAS 158, net of taxes (note 2)	—	—	—	—	—	7.6	—	—	7.6
Minority owners' share of distribution paid by Austar (note 13)	—	—	—	(71.0)	—	—	—	—	(71.0)
Adjustments due to other changes in subsidiaries' equity and other, net (note 13)	—	—	—	39.8	—	—	—	—	39.8
Balance at December 31, 2006	\$ 2.0	\$ 0.1	\$ 2.0	\$ 8,093.5	\$ (1,020.3)	\$ 169.8	\$ —	\$ —	\$ 7,247.1

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)

	Common stock			Additional	Accumulated	Accumulated other	Total
	Series A	Series B	Series C	paid-in	deficit	comprehensive	stockholders'
				capital		earnings,	equity
					in millions	net of taxes	
Balance at January 1, 2007, before effect of accounting change	\$ 2.0	\$ 0.1	\$ 2.0	\$ 8,093.5	\$ (1,020.3)	\$ 169.8	\$ 7,247.1
Accounting change (note 2)	—	—	—	71.4	123.8	—	195.2
Balance at January 1, 2007, as adjusted for accounting change	2.0	0.1	2.0	8,164.9	(896.5)	169.8	7,442.3
Net loss	—	—	—	—	(422.6)	—	(422.6)
Other comprehensive earnings, net of tax (note 19)	—	—	—	—	—	688.7	688.7
Repurchase and cancellation of common stock (note 13)	(0.3)	—	(0.3)	(1,860.4)	—	—	(1,861.0)
Stock-based compensation, net of taxes (notes 3 and 14)	—	—	—	55.9	—	—	55.9
Stock issued in connection with equity incentive plans, net of employee tax withholding	—	—	—	12.4	—	—	12.4
Minority owners' share of distribution paid by Austar (note 13)	—	—	—	(114.1)	—	—	(114.1)
Adjustments due to issuance of stock by Telenet (note 4)	—	—	—	(47.2)	—	—	(47.2)
Adjustments due to issuance of stock by J.COM (note 4)	—	—	—	55.2	—	—	55.2
Adjustments due to other changes in subsidiaries' equity and other, net (note 13)	—	—	—	26.5	—	—	26.5
Balance at December 31, 2007	\$ 1.7	\$ 0.1	\$ 1.7	\$ 6,293.2	\$ (1,319.1)	\$ 858.5	\$ 5,836.1

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY — (Continued)

	Common stock			Additional	Accumulated	Accumulated other	Total
	Series A	Series B	Series C	paid-in	deficit	comprehensive	stockholders'
				capital		earnings,	equity
					in millions	net of taxes	
Balance at January 1, 2008, before effect of accounting change	\$ 1.7	\$ 0.1	\$ 1.7	\$ 6,293.2	\$ (1,319.1)	\$ 858.5	\$ 5,836.1
Accounting changes (note 2)	—	—	—	—	233.1	(39.5)	193.6
Balance at January 1, 2008, as adjusted for accounting change	1.7	0.1	1.7	6,293.2	(1,086.0)	819.0	6,029.7
Net loss	—	—	—	—	(788.9)	—	(788.9)
Other comprehensive income, net of tax (note 19)	—	—	—	—	—	322.0	322.0
Repurchase and cancellation of common stock (note 13)	(0.3)	—	(0.3)	(2,216.5)	—	—	(2,217.1)
Stock-based compensation, net of taxes (notes 3 and 14)	—	—	—	47.1	—	—	47.1
Stock issued in connection with equity incentive plans, net of employee tax withholding	—	—	—	9.0	—	—	9.0
Adjustments due to changes in subsidiaries' equity and other, net (note 13)	—	—	—	(8.8)	—	—	(8.8)
Balance at December 31, 2008	\$ 1.4	\$ 0.1	\$ 1.4	\$ 4,124.0	\$ (1,874.9)	\$ 1,141.0	\$ 3,393.0

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2008	2007	2006
	in millions		
Cash flows from operating activities:			
Net earnings (loss)	\$ (788.9)	\$ (422.6)	\$ 706.2
Earnings from discontinued operations	—	—	(1,040.2)
Loss from continuing operations	(788.9)	(422.6)	(334.0)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Stock-based compensation expense	153.5	193.4	70.0
Depreciation and amortization	2,857.7	2,493.1	1,884.7
Provisions for litigation	—	171.0	—
Impairment, restructuring and other operating charges	158.5	43.5	29.2
Amortization of deferred financing costs and non-cash interest	47.1	74.3	82.2
Share of results of affiliates, net of dividends	(5.4)	(28.5)	(7.3)
Realized and unrealized losses (gains) on financial and derivative instruments, net	(78.9)	(72.4)	264.8
Foreign currency transaction losses (gains), net	552.1	(109.4)	(299.5)
Unrealized losses due to changes in fair values of certain investments and debt, as adjusted for certain dividends	9.2	200.0	146.2
Other-than-temporary declines in fair values of investments	—	212.6	13.8
Losses on extinguishment of debt	—	112.1	40.8
Gains on disposition of assets, net	—	(557.6)	(206.4)
Deferred income tax expense (benefit)	231.2	130.1	(100.6)
Minority interests in earnings of subsidiaries	187.1	239.2	171.7
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:			
Receivables and other operating assets	221.9	253.2	220.1
Payables and accruals	(407.1)	(478.8)	(139.3)
Net cash provided by operating activities of discontinued operations	—	—	74.9
Net cash provided by operating activities	3,138.0	2,453.2	1,911.3
Cash flows from investing activities:			
Capital expended for property and equipment	(2,375.0)	(2,034.5)	(1,507.9)
Cash paid in connection with acquisitions, net of cash acquired	(691.9)	(1,178.8)	(1,254.2)
Proceeds received upon dispositions of assets	40.6	481.7	380.8
Investments in and loans to affiliates and others	(31.8)	(43.5)	(255.7)
Other investing activities, net	13.3	(11.6)	17.4
Proceeds received upon disposition of discontinued operations, net of disposal costs	—	—	2,548.1
Net cash used by investing activities of discontinued operations	—	—	(92.5)
Net cash used by investing activities	\$ (3,044.8)	\$ (2,786.7)	\$ (164.0)

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

LIBERTY GLOBAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year ended December 31,		
	2008	2007	2006
	in millions		
Cash flows from financing activities:			
Borrowings of debt	\$ 2,516.6	\$ 4,932.6	\$ 3,564.0
Repayments of debt and capital lease obligations	(1,057.1)	(2,294.7)	(2,472.8)
Repurchase of LGI common stock	(2,271.8)	(1,796.8)	(1,756.9)
Cash distribution by subsidiaries to minority interest owners	(33.5)	(596.5)	(95.3)
Proceeds from issuance of stock by subsidiaries	31.9	124.9	18.5
Payment of deferred financing costs	(27.7)	(95.3)	(91.9)
Proceeds from issuance of LGI common stock upon exercise of stock options	17.9	42.9	17.5
Change in cash collateral	9.4	6.2	(394.2)
Other financing activities, net	(12.6)	4.2	25.6
Net cash provided (used) by financing activities	(826.9)	327.5	(1,185.5)
Effect of exchange rates on cash	72.2	161.0	116.5
Net increase (decrease) in cash and cash equivalents:			
Continuing operations	(661.5)	155.0	695.9
Discontinued operations	—	—	(17.6)
Net increase (decrease) in cash and cash equivalents	(661.5)	155.0	678.3
Cash and cash equivalents:			
Beginning of period	2,035.5	1,880.5	1,202.2
End of period	\$ 1,374.0	\$ 2,035.5	\$ 1,880.5
Cash paid for interest	\$ 1,288.0	\$ 905.3	\$ 498.5
Net cash paid for taxes	\$ 141.3	\$ 76.2	\$ 65.9

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

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006**(1) Basis of Presentation**

Liberty Global, Inc. (LGI) is an international provider of video, voice and broadband internet services, with consolidated broadband communications and/or direct-to-home (DTH) satellite operations at December 31, 2008 in 15 countries, primarily in Europe, Japan and Chile. LGI was formed for the purpose of effecting the combination of LGI International, Inc. (LGI International) and UnitedGlobalCom, Inc. (UGC) (the LGI Combination). As a result of the LGI Combination, LGI International and UGC each became wholly-owned subsidiaries of LGI. LGI International is the predecessor to LGI and was formed in connection with the June 2004 spin-off of certain international cable television and programming subsidiaries and assets of Liberty Media Corporation (Liberty Media). In the following text, the terms "we," "our," "our company," and "us" may refer, as the context requires, to LGI and its predecessors and subsidiaries. Through our indirect wholly-owned subsidiary UPC Holding BV (UPC Holding), we provide video, voice and broadband internet services in 10 European countries and in Chile. The European broadband communications operations of UPC Broadband Holding BV (UPC Broadband Holding), a subsidiary of UPC Holding, are collectively referred to as the UPC Broadband Division. UPC Broadband Holding's broadband communications operations in Chile are provided through its 80%-owned indirect subsidiary, VTR Global Com S.A. (VTR). Through our indirect controlling ownership interest in Telenet Group Holding NV (Telenet) (50.6% at December 31, 2008), we provide broadband communications services in Belgium. Through our indirect controlling ownership interest in Jupiter Telecommunications Co., Ltd. (J:COM) (37.8% at December 31, 2008), we provide broadband communications services in Japan. Through our indirect majority ownership interest in Austar United Communications Limited (Austar) (54.0% at December 31, 2008), we provide DTH satellite services in Australia. We also have (i) consolidated broadband communications operations in Puerto Rico and (ii) consolidated interests in certain programming businesses in Europe, Japan (through J:COM) and Argentina. Our consolidated programming interests in Europe are primarily held through Chellomedia BV (Chellomedia), which owns or manages investments in various businesses, primarily in Europe. Certain of Chellomedia's subsidiaries and affiliates provide programming services to certain of our broadband communications operations, primarily in Europe.

On December 19, 2005 we reached an agreement to sell 100% of our Norwegian broadband communications operator, UPC Norge AS (UPC Norway), and completed the sale on January 19, 2006. On April 4, 2006, we reached an agreement to sell 100% of our Swedish broadband communications operator, NBS Nordic Broadband Services AB (publ) (UPC Sweden), and completed the sale on June 19, 2006. On June 6, 2006, we reached an agreement to sell 100% of our French broadband communications operator, UPC France SA (UPC France) and completed the sale on July 19, 2006. On June 9, 2006, we sold 100% of our Norwegian Competitive Local Exchange Carrier (CLEC), Priority Telecom Norway A.S., (PT Norway). We have presented UPC Norway, UPC Sweden, UPC France and PT Norway as discontinued operations in our consolidated financial statements. See note 5.

Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2008.

**(2) Accounting Changes and Recent Accounting Pronouncements****Accounting Changes****SFAS 161**

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

fiscal years and interim periods beginning after November 15, 2008, with earlier adoption permitted. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We have adopted the provisions of SFAS 161 effective December 31, 2008.

**SFAS 157 and FSP 157-3**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the U.S. (GAAP), and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. However, the effective date of SFAS 157 has been deferred to fiscal years beginning after November 15, 2008 and interim periods within those years as it relates to fair value measurement requirements for (i) nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis (e.g. asset retirement obligations, restructuring liabilities and assets and liabilities acquired in business combinations) and (ii) fair value measurements required for impairments under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We adopted SFAS 157 (exclusive of the deferred provisions discussed above) effective January 1, 2008. For information regarding the impacts of such adoption on our consolidated financial statements, see notes 7 and 8. The deferred provisions of SFAS 157 will be applied prospectively following our adoption of these provisions on January 1, 2009.

In October 2008, the FASB issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (i) management's internal assumptions should be considered in measuring fair value when observable data are not present, (ii) observable market information from an inactive market should be taken into account and (iii) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of the guidance provided in FSP 157-3 did not have a material impact on our consolidated financial statements.

**SFAS 159**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure financial assets and financial liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. Effective January 1, 2008, we adopted the fair value method of accounting for certain equity method and available-for-sale investments, and such adoption resulted in (i) an increase to our investments of \$280.9 million, (ii) an increase to our long-term deferred tax liabilities of \$82.3 million, (iii) a decrease to our accumulated other comprehensive earnings, net of taxes, of \$39.5 million and (iv) a decrease to our accumulated deficit of \$238.1 million. Our adjustment to accumulated other comprehensive earnings, net of taxes, includes the release of previously-recorded foreign currency translation gains of \$3.7 million and unrealized gains on available-for-sale securities of \$35.8 million. See note 6.

**EITF 06-10**

In March 2007, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance for determining whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be recorded in accordance with either SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than*



## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

*Pensions* (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion (APB) No. 12, *Omnibus Opinion* (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. Effective January 1, 2008, we adopted EITF 06-10, which is applicable to two joint survivor life insurance policies that provide for an aggregate death benefit of \$30 million on the lives of one of our former directors and his spouse. Such adoption resulted in (i) an increase to our other long-term assets of \$21.8 million, (ii) an increase to our other accrued and current liabilities of \$13.2 million, (iii) a decrease to our long-term deferred tax liabilities of \$2.9 million, (iv) an increase to our other long-term liabilities of \$16.5 million and (v) an increase to our accumulated deficit of \$5.0 million.

**FIN 48**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). FIN 48 prescribes the recognition threshold and provides guidance for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition.

In connection with our January 1, 2007 adoption of FIN 48, we recognized (i) a \$157.9 million decrease to our other long-term liabilities related to uncertain income tax positions, (ii) a \$187.3 million increase to our deferred tax assets, net of related valuation allowances, (iii) a \$123.8 million decrease to our accumulated deficit and (iv) a \$145.5 million decrease to our goodwill. In addition, we recorded a \$71.4 million increase to additional paid-in capital and a \$4.5 million increase to minority interests in subsidiaries related to the minority interest owners' share of the decrease to the January 1, 2007 stockholders' deficit of a majority-owned subsidiary. See note 13.

For information concerning our unrecognized tax benefits, see note 12.

**SFAS 155**

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140* (SFAS 155). Among other matters, SFAS 155 allows financial instruments that have embedded derivatives that otherwise would require bifurcation from the host to be accounted for as a whole, if the holder irrevocably elects to account for the whole instrument on a fair value basis. If elected, subsequent changes in the fair value of the instrument are recognized in earnings. Effective January 1, 2006, we adopted SFAS 155 and elected to account for the €500.0 million (\$697.6 million) 1.75% euro-denominated convertible senior notes issued by UGC (the UGC Convertible Notes) (see note 10) on a fair value basis. In accordance with the provisions of SFAS 155, we have accounted for the \$9.3 million cumulative impact of this change, before deducting applicable deferred income taxes of \$3.3 million, as a \$6.0 million net decrease to our January 1, 2006 accumulated deficit. This adjustment represents the difference between the total carrying value of the individual components of the UGC Convertible Notes under our former method of accounting and the fair value of the UGC Convertible Notes as of January 1, 2006.

**Recent Accounting Pronouncements****SFAS 141(R)**

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) replaces SFAS 141, *Business Combinations*, and, among other factors, generally requires an acquirer in a business combination to recognize (i) the assets acquired, (ii) the liabilities assumed (including those arising from contractual contingencies), (iii) any contingent consideration and (iv) any noncontrolling interest in the acquiree.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

at the acquisition date, at fair values as of that date. The requirements of SFAS 141(R) will result in the recognition by the acquirer of goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) also provides that the acquirer shall not adjust the finalized accounting for business combinations, including business combinations completed prior to the effective date of SFAS 141(R), for changes in acquired tax uncertainties or changes in the valuation allowances for acquired deferred tax assets that occur subsequent to the effective date of SFAS 141(R). SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, our January 1, 2009 adoption of SFAS 141(R) will not impact our consolidated financial statements for prior periods.

**SFAS 160**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also states that a noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. In addition, SFAS 160 requires (i) that consolidated net income include the amounts attributable to both the parent and noncontrolling interest, (ii) that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and (iii) expanded disclosures that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. We will adopt SFAS 160 on January 1, 2009. With the exception of the presentation of minority interests in subsidiaries, which will be reclassified to a noncontrolling interests line item within stockholders' equity for all periods presented, the provisions of SFAS 160 will be applied prospectively.

**FSP 142-3**

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS 142. This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and early adoption is prohibited. We will begin applying the provisions of FSP 142-3 prospectively on January 1, 2009.

**EITF 08-06**

In September 2008, the EITF reached a consensus on EITF Issue No. 08-06, *Equity Method Investment Accounting Considerations* (EITF 08-06). EITF 08-06 provides guidance for the accounting of equity method investments as a result of the accounting changes prescribed by SFAS 141(R) and SFAS 160. EITF 08-06 includes clarification on the following: (i) transaction costs should be included in the initial carrying value of the equity method investment, (ii) an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment need only be performed as part of any other-than-temporary impairment evaluation of the equity method investment as a whole and does not need to be performed annually, (iii) the equity method investee's issuance of shares should be accounted for as the sale of a proportionate share of the investment, which may result in a gain or loss in income, and (iv) a gain or loss should not be recognized when changing the method of accounting for an investment from the equity method to the cost method. EITF 08-06 is effective on a prospective basis in fiscal

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

years and interim periods beginning on or after December 15, 2008 and early adoption is prohibited. We will adopt EITF 08-06 on January 1, 2009 and do not expect this adoption to have a material impact on our consolidated financial statements.

**(3) Summary of Significant Accounting Policies**

***Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets, stock-based compensation and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation, including certain cash flows related to our derivative instruments, which have been reclassified in our consolidated statements of cash flows to align with the classification of the applicable underlying cash flows. See note 7.

***Principles of Consolidation***

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

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

***Cash and Cash Equivalents and Restricted Cash***

Cash equivalents consist of all investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition.

Restricted cash includes cash held in escrow and cash held as collateral for lines of credit and other compensating balances. Cash restricted to a specific use is classified as current or long-term based on the expected timing of the disbursement. At December 31, 2008 and 2007, our current and long-term restricted cash balances aggregated \$483.9 million and \$504.0 million, respectively. For additional information concerning our restricted cash balances, see note 10.

Our significant non-cash investing and financing activities are disclosed in our statements of stockholders' equity and in notes 4, 5, 9, and 10.

***Receivables***

Receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated \$144.6 million and \$125.4 million at December 31, 2008 and 2007, respectively. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

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

**Investments**

As discussed in note 2, we adopted SFAS 159 effective January 1, 2008. Under SFAS 159, we are permitted to make an election, on an investment-by-investment basis, to measure our investments at fair value. Such election is generally irrevocable. We have elected the fair value option for all investments that were previously classified as available-for-sale securities, and for certain privately-held investments. We have elected the fair value method for most of our investments as we believe this method generally provides the most meaningful information to our investors. However, for investments over which we have significant influence, we have considered the significance of transactions between our company and our equity affiliates and other factors in determining whether the fair value method should be applied. In general, we have not elected the fair value option for those equity method investments with which LGI or its consolidated subsidiaries have significant related-party transactions. For additional information regarding our fair value method investments, see note 8.

Under the fair value method, investments are recorded at fair value as determined by the provisions of SFAS 157, and any changes in fair value are reported in net earnings or loss. All costs directly associated with the acquisition of an investment that is intended to be accounted for using the fair value method are expensed as incurred. Transfers between SFAS 157 fair value hierarchies are recorded as of the end of the period in which the transfer occurs.

Dividends from publicly-traded investees are recognized when declared as dividend income in our condensed consolidated statement of operations. Dividends from privately-held investees generally are reflected as reductions of the carrying values of the applicable investments.

We continue to use the equity method for certain privately-held investments over which we have the ability to exercise significant influence. Generally, we exercise significant influence through a voting interest between 20% and 50%, or board representation and management authority. Under the equity method, an investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, with our recognition of losses generally limited to the extent of our investment in, and advances and commitments to, the investee. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), the portion of the difference between our investment and our share of the net assets of the investee that represents goodwill is not amortized, but continues to be considered for impairment under APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Intercompany profits on transactions with equity affiliates where assets remain on the balance sheet of LGI or the investee are eliminated to the extent of our ownership in the investee.

Through December 31, 2008, changes in our proportionate share of the underlying share capital of an equity method investee, including those which result from the issuance of additional equity securities by such equity investee, were recognized as increases or decreases to additional paid-in capital. Upon our January 1, 2009 adoption of EITF 08-06, these changes will be recognized as gains or losses in our consolidated statements of operations.

We use the cost method for investments in certain non-marketable securities over which we do not have the ability to exercise significant influence. These investments are carried at cost, subject to an other-than-temporary impairment assessment.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

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

Prior to our January 1, 2008 adoption of SFAS 159, we accounted for certain investments as available-for-sale securities. Available-for-sale securities are recorded 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 our consolidated statement of stockholders' equity.

Realized gains and losses are determined on an average cost basis. Securities transactions are recorded on the trade date.

**Financial Instruments**

Due to the short maturities of cash and cash equivalents, short-term restricted cash, short-term liquid investments, trade and other receivables, other current assets, accounts payable, accrued liabilities, subscriber advance payments and deposits and other current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair value of our debt, see note 10.

**Derivative Instruments**

All derivatives, whether designated as hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings (loss) and subsequently reclassified into our consolidated statements of operations when the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. With the exception of J.COM's interest rate swaps, none of the derivative instruments that were in effect during the three years ended December 31, 2008 were designated as hedges for financial reporting purposes.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies* (SFAS 51), we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and other directly attributable costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities such as reconnecting

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred. Interest capitalized with respect to construction activities was not material during any of the periods presented.

Depreciation is computed using the straight-line method over estimated useful lives of 3 to 25 years for cable distribution systems, 10 to 40 years for buildings and leasehold improvements and 2 to 20 years for support equipment. 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. The useful lives used to depreciate cable distribution systems are assessed periodically and are adjusted when warranted. The useful lives of systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed.

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

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

Asset retirement obligations may arise from the loss of rights of way that we obtain from local municipalities or other relevant authorities. Under certain circumstances, the authorities could require us to remove our network equipment from an area if, for example, we were to discontinue using the equipment for an extended period of time or the authorities were to decide not to renew our access rights. However, because the rights of way are integral to our ability to deliver broadband communications services to our customers, we expect to conduct our business in a manner that will allow us to maintain these rights for the foreseeable future. In addition, we have no reason to believe that the authorities will not renew our rights of way and, historically, renewals have always been granted. We also have obligations in lease agreements to restore the property to its original condition or remove our property at the end of the lease term. Sufficient information is not available to estimate the fair value of our asset retirement obligations in certain of our lease arrangements. This is the case in long-term lease arrangements in which the underlying leased property is integral to our operations, there is not an acceptable alternative to the leased property and we have the ability to indefinitely renew the lease. Accordingly, for most of our rights of way and certain lease agreements, the possibility is remote that we will incur significant removal costs in the foreseeable future and, as such, we do not have sufficient information to make a reasonable estimate of fair value for these asset retirement obligations.

As of December 31, 2008 and 2007, the recorded value of our asset retirement obligations was \$72.0 million and \$53.4 million, respectively.

**Intangible Assets**

Our primary intangible assets are goodwill, customer relationships, cable television franchise rights, and trade names. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in business combinations. Cable television franchise rights, customer relationships, and trade names were originally recorded at their fair values in connection with business combinations.

Pursuant to SFAS 142, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS 142. Pursuant to SFAS 142,

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144).

We do not amortize our franchise rights and certain other intangible assets as these assets have indefinite-lives. Our customer relationship intangible assets are amortized on a straight line basis over estimated useful lives ranging from 3 to 10 years for broadband communications and DTH satellite customer relationships and 10 to 18 years for programming distribution customer relationships.

**Impairment of Property and Equipment and Intangible Assets**

SFAS 144 requires that we review, when circumstances warrant, the carrying amounts of our property and equipment and our intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether such carrying amounts continue to be recoverable. Such events or changes in circumstance may include, among other items, (i) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the markets in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities, which is generally at or below the reporting unit level (see below). If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset group, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such asset group exceeds their fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Pursuant to SFAS 142, we evaluate the goodwill, franchise rights and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and indefinite-lived intangible assets may not be recoverable. For purposes of the goodwill evaluation, we compare the fair values of our reporting units to their respective carrying amounts. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). In most cases, our operating segments are deemed to be a reporting unit either because the operating segment is comprised of only a single component, or the components below the operating segment are aggregated as they have similar economic characteristics. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. Any excess of the carrying value over the fair value of franchise rights or other indefinite-lived intangible assets is also charged to operations as an impairment loss.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. 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. Certain of our valuation allowances and tax uncertainties are associated with entities that we acquired in business combinations. Through December 31, 2008, GAAP required that we account for any post-acquisition changes in these items as adjustments of the accounting for

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

the respective business combinations, and accordingly, the tax impact of these changes was not recognized in our consolidated statements of operations. Following our January 1, 2009 adoption of SFAS 141(R), the finalized accounting for business combinations, including business combinations completed prior to January 1, 2009, will no longer be adjusted for these changes. 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. Interest and penalties related to income tax liabilities are included in income tax expense.

**Defined Benefit Plans**

Certain of our indirect subsidiaries maintain various employee pension plans that are treated as defined benefit pension plans. Certain assumptions and estimates must be made in order to determine the costs and future benefits that will be associated with these plans. These assumptions include (i) the estimated long-term rates of return to be earned by plan assets, (ii) the estimated discount rates used to value the projected benefit obligations and (iii) estimated wage increases. We estimate discount rates annually based upon the yields on high-quality fixed-income investments available at the measurement date and expected to be available during the period to maturity of the pension benefits. For the long-term rates of return, we use a model portfolio based on the subsidiaries' targeted asset allocation. To the extent that net actuarial gains or losses exceed 10% of the greater of plan assets or plan liabilities, such gains or losses are amortized over the average future service period of plan participants. Effective December 31, 2006, we adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). For additional information, see note 18.

**Foreign Currency Translation and Transactions**

The reporting currency of our company is the U.S. dollar. The functional currency of our foreign operations generally is the applicable local currency for each foreign subsidiary and equity method investee. Assets and liabilities of foreign subsidiaries (including intercompany balances for which settlement is not anticipated in the foreseeable future) and equity investees are translated at the spot rate in effect at the applicable reporting date, and our consolidated statements of operations and our company's share of the results of operations of our equity affiliates generally are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings (loss) in our consolidated statement of stockholders' equity. Cash flows from our operations in foreign countries are translated at actual exchange rates when known or at the average rate for the applicable period. The effect of exchange rates on cash balances held in foreign currencies are separately reported in our consolidated cash flow statements.

Transactions denominated in currencies other than our or our subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these non-functional currency transactions result in transaction gains and losses that are reflected in the consolidated statements of operations as unrealized (based on the applicable period end translation) or realized upon settlement of the transactions.

**Revenue Recognition**

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



LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

*Other Revenue.* We recognize revenue from DTH, telephone and data services that are not provided over our cable network in the period the related services are provided. Installation revenue (including reconnect fees) related to services that are not provided over our cable network is deferred and amortized over the average expected subscriber life.

*Promotional Discounts.* For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognized only to the extent of the discounted monthly fees charged to the subscriber, if any.

*Subscriber Advance Payments and Deposits.* Payments received in advance for distribution services are deferred and recognized as revenue when the associated services are provided.

*Deferred Construction and Maintenance Revenue.* As further described in note 11, J:COM enters into agreements whereby it receives up-front compensation to construct and maintain certain cable facilities. Revenue from these agreements has been deferred and is being recognized on a straight-line basis over periods (generally 20 years) that are consistent with the durations of the underlying agreements.

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

**Stock-Based Compensation**

On January 1, 2006, we adopted the provisions of SFAS No. 123(R) (revised 2004), *Share-Based Payment* (SFAS 123(R)) using the modified prospective adoption method. SFAS 123(R) generally requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant-date fair values. SFAS 123(R) also requires the fair value of outstanding options vesting after the date of initial adoption to be recognized as a charge to operations over the remaining vesting period.

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

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

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

Although we generally expect to issue new shares of LGI common stock when LGI options or SARs are exercised, we may also elect to issue shares from treasury to the extent available. Although we repurchase shares of

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

LGI common stock from time to time, the parameters of our share purchase and redemption activities are not established solely with reference to the dilutive impact of shares issued upon the exercise of stock options and SARs.

**Earnings (Loss) per Common Share**

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

We reported losses from continuing operations during 2008, 2007 and 2006. Therefore, the dilutive effect at December 31, 2008, 2007 and 2006 of (i) the aggregate number of then outstanding options, SARs, and nonvested shares of approximately 26.1 million, 26.7 million and 32.1 million, respectively, (ii) the aggregate number of shares issuable pursuant to the then outstanding convertible debt securities and other obligations that may be settled in cash or shares of approximately 42.4 million, 42.0 million and 39.4 million, respectively, and (iii) the number of shares contingently issuable pursuant to LGI's performance-based incentive plans of 21.1 million, 9.9 million and nil, respectively, were not included in the computation of diluted loss per share because their inclusion would have been anti-dilutive to the computation.

**(4) Acquisitions****Significant 2008 Acquisitions**

During 2008, our significant acquisitions included (i) J:COM's acquisition of Mediatti Communications, Inc. (Mediatti), a broadband communications operator in Japan, effective December 25, 2008 and (ii) Telenet's acquisition of Interkabel, as defined below, effective October 1, 2008. These acquisitions, which are described below, are collectively referred to herein as the Significant 2008 Acquisitions.

A summary of the purchase prices and opening balance sheets of the Significant 2008 Acquisitions is presented following the descriptions of these transactions below.

**Acquisition of Mediatti**

Prior to December 25, 2008, Mediatti was 45.5%-owned by Liberty Japan MC, LLC (Liberty Japan MC), our then 95.2% indirectly-owned subsidiary, 44.7%-owned by affiliates of Olympus Capital (collectively, Olympus) and 9.8%-owned by other third parties. On December 24, 2008, we purchased the remaining 4.8% interest in Liberty Japan MC that we did not already own for ¥615.8 million (\$6.8 million at the transaction date). On December 25, 2008, J:COM purchased 100% of the outstanding shares of Mediatti for total cash consideration before direct acquisition costs of ¥28,350.6 million (\$310.5 million at the transaction date), of which Liberty Japan MC received ¥12,887.0 million (\$141.1 million at the transaction date). J:COM funded the cash purchase price and the December 30, 2008 repayment of Mediatti's debt with available cash and borrowings under the J:COM Credit Facility, as described in note 10. J:COM acquired Mediatti in order to achieve certain financial, operational and strategic benefits through the integration of Mediatti with J:COM's existing operations.

J:COM has accounted for the acquisition of Mediatti under the provisions of SFAS 141, whereby the Mediatti interest acquired from Olympus and the other third parties has been accounted for using the purchase method of accounting and the Mediatti interest acquired from our company has been treated as a transaction between entities under common control. Accordingly, for accounting purposes, J:COM's cost to acquire Mediatti includes (i) ¥15,463.6 million (\$169.4 million at the transaction date) representing the cash paid to Olympus and the other

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

third parties, (ii) ¥7,299.4 million (\$79.9 million at the transaction date) representing the historical cost basis or our equity method investment in Mediatti at December 25, 2008 and (iii) ¥229.2 million (\$2.5 million at the transaction date) representing direct acquisition costs.

The aggregate cost basis assigned to the Mediatti interests acquired by J.COM, as detailed above, has been allocated to the acquired identifiable net assets of Mediatti based on preliminary assessments of their respective fair values, and the excess of the aggregate cost basis over the preliminary fair values of such identifiable net assets has been allocated to goodwill. The allocation of this aggregate cost basis by J.COM, as reflected in these consolidated financial statements, is preliminary and subject to adjustment based on J.COM's final assessment of the fair values of the identifiable assets and liabilities of Mediatti. Although most items in the Mediatti valuation process remain open, we expect that the most significant adjustments to the preliminary allocation will involve intangible assets, deferred revenue and deferred income taxes.

***Acquisition of Interkabel***

Pursuant to an agreement with four associations of municipalities in Belgium, which we refer to as the pure intercommunales or the "PICs," that was executed on June 28, 2008 (the 2008 PICs Agreement), Telenet acquired from the PICs, effective October 1, 2008, certain cable television assets (Interkabel), including (i) substantially all of the rights that Telenet did not already hold to use the broadband communications network owned by the PICs (the Telenet PICs Network) and (ii) the analog and digital television activities of the PICs, including the entire subscriber base (together with the acquisition of the rights to use the Telenet PICs Network, the Interkabel Acquisition). As further described below, Telenet previously had acquired in 1996 the exclusive right to provide point-to-point services, including broadband internet and telephony services, and the right to use a portion of the capacity of the Telenet PICs Network. Telenet completed the Interkabel Acquisition in order to achieve certain financial, operational and strategic benefits by obtaining full access to the Telenet PICs Network and integrating (i) the PICs digital and analog television activities and (ii) Telenet's digital interactive television services with the broadband internet and telephony services already offered by Telenet over the Telenet PICs Network.

In connection with the Interkabel Acquisition, (i) Telenet paid net cash consideration of €224.9 million (\$315.9 million at the transaction date) before working capital adjustments and direct acquisition costs and (ii) entered into a long-term lease of the Telenet PICs Network, as further described below. The €224.9 million of cash consideration includes €8.3 million (\$11.6 million at the transaction date) representing compensation to the PICs for the acquisition of certain equipment and other rights, net of compensation to Telenet for the transfer of certain liabilities to Telenet. In addition, the PICs paid Telenet cash of €27.0 million (\$37.9 million at the transaction date) during the fourth quarter of 2008 in connection with certain working capital adjustments. Telenet borrowed an additional €85.0 million (\$124.2 million at the transaction date) under the Telenet Credit Facility in September 2008 to fund a portion of the €224.9 million of net cash consideration paid to the PICs. The remaining cash consideration was funded by existing cash and cash equivalent balances. We incurred €3.4 million (\$4.8 million at the transaction date) of direct acquisition costs associated with this transaction.

Among other matters, the 2008 PICs Agreement, which supersedes the agreement-in-principle that the parties signed on November 26, 2007, provides that the PICs will remain the legal owners of the Telenet PICs Network, and that Telenet will receive full rights to use the Telenet PICs Network under a long-term lease for a period of 38 years, for which it will pay recurring fees in addition to the fees paid under the existing 1996 PICs Agreements, as described below. The fees payable under the 2008 PICs Agreement include (i) principal payments of €13.0 million (\$18.1 million) per year (payable in quarterly installments) through October 2023 on the €195.0 million (\$272.1 million) value assigned to the initial leased asset base, (ii) payments to the PICs over the life of the 2008 PICs Agreement to reimburse for capital expenditures and compensate for network operating costs incurred by the PICs with respect to the Telenet PICs Network and (iii) interest on the outstanding amount of the initial leased asset base and all capital additions to the initial leased asset base at a rate of 6.25% per annum over the life of the

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

2008 PICs Agreement. All capital expenditures associated with the Telenet PICs Network will be initiated by Telenet but executed and pre-financed by the PICs through an addition to the long-term capital lease, and will follow a 15-year reimbursement schedule.

Including amounts payable under the existing 1996 PICs Agreements, as described below, payments for network operating costs incurred by the PICs will total €34.8 million (\$48.6 million) during the first year of the 2008 PICs Agreement and will decrease by a fixed annual amount through the sixth year of the 2008 PICs Agreement, when the annual reimbursement will be €28.7 million (\$40.0 million). Thereafter, the percentage change in the amount of reimbursed network operating costs will be based on changes in the network operating costs incurred by Telenet with respect to its own networks. Payments to the PICs for network operating costs are included in operating expenses in our consolidated statements of operations.

The 2008 PICs Agreement also provides that Telenet will (i) retain certain of the former employees of the PICs through the first quarter of 2010 and (ii) allow the PICs to use limited bandwidth on the Telenet PICs Network throughout the life of the 2008 PICs Agreement. The 2008 PICs Agreement has the form of an emphyteutic lease agreement, which under Belgian law, is the legal form that is closest to ownership of a real estate asset without actually having the full legal ownership.

The 2008 PICs Agreement will expire on September 23, 2046 and cannot be early terminated (except in case of non-payment or bankruptcy of the lessee). In the event no agreement has been reached between the parties before or on September 23, 2034 to extend or terminate the 2008 PICs Agreement, the 2008 PICs Agreement will be extended until 2107 if (i) the PICs have not informed Telenet on September 23, 2034 of their intention to terminate the 2008 PICs Agreement and (ii) Telenet has informed the PICs of its intention to extend the 2008 PICs Agreement. In case the agreement is so extended, it can be terminated by either party by giving a 12 year notice.

In the event a court would require Telenet and the PICs to pay a penalty or indemnification to a third party on grounds that the PICs did not organize a market consultation procedure before entering into the agreements, the PICs will be liable to pay such indemnity up to a maximum amount of €20 million (\$27.9 million). Any amount above €20 million would be payable by Telenet. The arrangement covers claims introduced on or before June 28, 2018.

Pursuant to certain agreements that Telenet and the PICs entered into in 1996 (the 1996 PICs Agreements), Telenet acquired the exclusive right to provide point-to-point services and the non-exclusive right to provide certain other services on a portion of the Telenet PICs Network. In return for these usage rights, Telenet issued stock to the PICs and, in addition, agreed to make various payments to the PICs, including payments associated with the capital upgrade of the Telenet PICs Network so that the Telenet PIC Network would be technologically capable of providing two-way communications services (the two-way upgrade). The discounted value of the amounts payable by Telenet through 2016 under the 1996 PICs Agreements that corresponded to the two-way upgrade of the Telenet PICs Network was reflected as a financed obligation within our other debt balances, with corresponding amounts reflected as intangible assets associated with Telenet's right to use a portion of the Telenet PICs Network. Following the completion of the Interkabel Acquisition, we began including these financed obligations (€83.5 million (\$116.5 million) balance at October 1, 2008) and intangible assets (€81.5 million (\$113.7 million) net carrying value at October 1, 2008) together with the respective lease obligations and assets associated with the 2008 PICs Agreement to arrive at the total obligations and assets that we report in our consolidated balance sheet with respect to the capital lease of the Telenet PICs Network. See notes 9 and 10. Telenet's obligation to make additional annual payments from 2017 through 2046 under the 1996 PICs Agreements was not terminated by the 2008 PICs Agreement. The discounted value of these payments as of December 31, 2008 (€41.8 million (\$58.3 million)) is included in our other debt balances in our consolidated balance sheet.

Telenet has accounted for the Interkabel Acquisition using the purchase method of accounting, whereby the total purchase price has been allocated to the acquired identifiable net assets based on assessments of their

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. The purchase price allocation, as reflected in these consolidated financial statements, is preliminary and subject to adjustment based on Telenet's final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, we expect that the most significant adjustments to the preliminary allocation will involve long-lived assets and deferred income taxes.

For information concerning the litigation related to the Interkabel Acquisition, see note 20.

**Opening Balance Sheet Information of the Significant 2008 Acquisitions**

A summary of the purchase price and opening balance sheets for the Significant 2008 Acquisitions is presented in the following table. The opening balance sheets presented in this table are based on preliminary purchase price allocations and are therefore subject to adjustment:

Effective acquisition date for financial reporting purposes:	Mediatti December 31, 2008	Interkabel October 1, 2008
	in millions	
Cash	\$ 57.7	\$ —
Other current assets	22.6	—
Investments	3.4	—
Property and equipment, net	300.1	389.2
Goodwill (a)	216.2	120.6
Intangible assets subject to amortization (b)	49.9	161.1
Other assets, net	26.1	14.2
Current liabilities	(53.9)	(71.0)
Long-term debt and capital lease obligations	(273.5)	(290.2)
Other long-term liabilities	(95.3)	(41.2)
Minority interests	(1.5)	—
Total purchase price	<u>\$ 251.8</u>	<u>\$ 282.7</u>
Purchase price:		
Cash consideration	\$ 169.4	\$ 277.9
Investments (c)	79.9	—
Direct acquisition costs	2.5	4.8
	<u>\$ 251.8</u>	<u>\$ 282.7</u>

(a) Substantially all of the goodwill associated with the Interkabel transaction is expected to be deductible for tax purposes.

(b) The amounts reflected as intangible assets subject to amortization primarily include intangible assets related to customer relationships. The intangible assets of each of Mediatti and Interkabel had weighted average lives of 10 years at the respective acquisition dates. The Interkabel amount includes an €81.5 million (\$113.7 million) reduction associated with the reclassification of certain network-related intangible assets to property and equipment, net. For additional information, see the above description of the Interkabel Acquisition.

(c) The amount for Mediatti represents the carrying value of our equity method investment in Mediatti, which was eliminated upon J:COM's acquisition of Mediatti.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

**Other 2008 Acquisition**

*Spektrum* — On September 1, 2008, Chellomedia Programming BV, a wholly-owned subsidiary of Chellomedia, acquired 100% ownership interests in (i) Spektrum-TV ZRT and (ii) Ceska programova spolecnost s.r.o. (together, Spektrum) for cash consideration of \$94.2 million, before considering cash acquired, post-closing working capital adjustments and direct acquisition costs. Spektrum operates a documentary channel in the Czech Republic, Slovakia and Hungary. Chellomedia acquired Spektrum in order to achieve certain financial, operational and strategic benefits through the integration of Spektrum with Chellomedia's existing operations. We have accounted for the Spektrum acquisition using the purchase method of accounting, whereby the total purchase price has been allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of such identifiable net assets was allocated to goodwill. The allocation of this aggregate cost basis, as reflected in these consolidated financial statements, is preliminary and subject to adjustment based on our final assessment of the fair values of the identifiable assets and liabilities of Spektrum. Although certain items in the Spektrum valuation process remain open, we expect that the most significant adjustments to the preliminary allocation will involve intangible assets and deferred income taxes.

**Significant 2007 Acquisitions**

During 2007, our significant acquisitions included (i) our consolidation of Telenet effective January 1, 2007 and our acquisition of additional direct and indirect Telenet interests during the year and (ii) J:COM's acquisition of JTV Thematics (as defined below) on September 1, 2007. These acquisitions, which are described below, are collectively referred to herein as the Significant 2007 Acquisitions.

A summary of the purchase prices and opening balance sheets of the Significant 2007 Acquisitions is presented following the descriptions of these transactions below.

**Acquisition of Telenet**

*General* — As further described below, it was not until February 2007 that we were able to exercise the voting control associated with the Telenet shares we acquired in November 2006. Accordingly, the November and December 2006 transactions that led to our January 1, 2007 consolidation of Telenet are described below, along with the additional interests that we acquired in 2007.

*2006 Transactions* — As discussed in greater detail below, we acquired 8,481,138 or 8.4% of Telenet's then-outstanding ordinary shares from third parties during November and December of 2006.

LGI Telenet I BV, a Dutch BV (LGI Telenet I) (formerly Belgian Cable Holdings, a Delaware partnership) is an indirect subsidiary of Chellomedia and, prior to June 2007 (see below), owned a majority common equity interest and a 100% preferred interest in Belgian Cable Investors, a Delaware partnership (Belgian Cable Investors). Belgian Cable Investors was dissolved in December 2007 and the net assets of Belgian Cable Investors were transferred to LGI Telenet I. LGI Telenet I provided 100% of the funding for Belgian Cable Investors' November 13, 2006 acquisition of 6,750,000 Telenet shares, as described below. In connection with this funding, the interest in Belgian Cable Investors of Cable Partners Belgium LLC (Cable Partners Belgium), an unrelated third party and, at the time, the minority investor in Belgian Cable Investors, was diluted effective in January 2007 from 21.6% to 10.5%.

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

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

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

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

On November 13, 2006, Belgian Cable Investors, then a majority-owned subsidiary of Chellomedia, paid cash consideration of €135.0 million (\$172.9 million at the transaction date) or €20.00 (\$25.62 at the transaction date) per share, before direct acquisition costs, to exercise certain call options to acquire 6,750,000 ordinary shares of Telenet from various members of the "Mixed Intercommunales" (entities comprised of certain Flanders municipalities and Electrabel NV). At the time, the Mixed Intercommunales were, along with certain of our subsidiaries, members of a syndicate (the Telenet Syndicate) that controlled Telenet by virtue of the Telenet Syndicate's collective ownership of a majority of the outstanding Telenet shares. As a result of this transaction, we obtained a majority ownership interest in the Telenet shares owned by the Telenet Syndicate, thereby acquiring certain governance rights that provided us with the ability to exercise voting control over Telenet, as further described below. However, as we did not obtain regulatory approval to exercise our voting control over Telenet until February 26, 2007, we accounted for Telenet using the equity method through December 31, 2006. Effective January 1, 2007, we began accounting for Telenet as a consolidated subsidiary. We obtained control of Telenet to enhance our strategic alternatives with respect to our investment position in Telenet.

**2007 Transactions.** During the first quarter of 2007, we acquired 2,720,970 or 2.7% of Telenet's then outstanding ordinary shares through transactions with third parties and the conversion of certain warrants, for an aggregate cost of €63.9 million (\$83.8 million at the average rate for the period), including direct acquisition costs and the €4.9 million (\$6.4 million at the average rate for the period) fair value of the converted warrants.

On May 31, 2007, pursuant to the rights provided us under the agreement among the Telenet Syndicate shareholders (the Syndicate Agreement), we nominated seven additional members to the Telenet Board, bringing our total number of representatives to nine of the 17 total members. Under the Syndicate Agreement and the Telenet Articles of Association, certain limited Telenet Board decisions must receive the affirmative vote of specified directors in order to be effective. Based on the shareholdings of the other Telenet Syndicate shareholders at the time, these special voting requirements applied only to certain minority-protective decisions, including (i) affiliate transactions, (ii) incurrence of debt in excess of that required to fund Telenet's business plan and (iii) dispositions of assets representing more than 20% of Telenet's fair market value.

On June 29, 2007, LGI Telenet I paid cash consideration of €35.3 million (\$47.6 million at the transaction date) to acquire from a third party the remaining 10.5% interest in Belgian Cable Investors that we did not already own.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

On July 4, 2007, Belgian Cable Investors paid cash consideration of €466.7 million, or €25.00 per share (\$635.7 million or \$34.05 per share at the transaction date), before direct acquisition costs, to exercise options to acquire 18,668,826 Telenet shares from certain of the Telenet Syndicate shareholders. As a result of this transaction, only one third-party shareholder (the Financial Consortium) remained within the Telenet Syndicate and our governance rights increased such that the only Telenet Board decisions that we do not control under the Syndicate Agreement and the Telenet Articles of Association are certain minority-protective decisions, including decisions to sell certain cable assets or terminate cable services.

On August 7, 2007, we exercised 26,417 warrants to purchase Telenet ordinary shares and on or around the same date, certain third-party holders of these warrants exercised in the aggregate a further 3,261,960 warrants. On August 10, 2007, Telenet issued (i) 7,461,533 ordinary shares in the aggregate to the Financial Consortium and other third parties and (ii) 79,251 ordinary shares to our company upon the exercise of these warrants. In connection with the dilution of our Telenet ownership interest that resulted from the exercise of the warrants by third-party holders, we recognized a loss of €35.8 million (\$49.2 million at the transaction date), which is reflected as a decrease to additional paid-in capital in our consolidated statement of stockholders' equity for the year ended December 31, 2007. No deferred income taxes were required to be provided on this loss.

On September 24, 2007, we purchased 5,300,000 Telenet ordinary shares in privately negotiated transactions for total cash consideration of €117.8 million (\$165.9 million at the transaction date), including direct acquisition costs. These shares are subject to the terms of the Syndicate Agreement.

We have accounted for our acquisitions of Telenet and Belgian Cable Investors interests as step acquisitions, and have allocated our investment basis to our pro rata share of Telenet's assets and liabilities at each significant acquisition date based on the estimated fair values of such assets and liabilities on such dates, and the excess of our investment basis over the adjusted estimated fair values of such identifiable net assets has been allocated to goodwill.

**Acquisition of JTV Thematics**

Sumitomo Corporation (Sumitomo) is the owner of a minority interest in LGI/Sumisho Super Media, LLC (Super Media), our indirect majority-owned subsidiary and the owner of a controlling interest in J:COM. On July 2, 2007, Jupiter TV Co., Ltd. (Jupiter TV), our Japanese programming joint venture with Sumitomo, was split into two separate companies through the spin-off of the thematics channel business (JTV Thematics). The business of the newly incorporated JTV Thematics consisted of the operations that invest in, develop, manage and distribute fee-based television programming through cable, satellite and broadband platforms systems in Japan. Following the spin-off of JTV Thematics, Jupiter TV was renamed SC Media & Commerce, Inc. (SC Media). SC Media's business primarily focuses on the operation of Jupiter Shop Channel Co., Ltd. (Jupiter Shop Channel), through which a wide variety of consumer products and accessories are marketed and sold.

As further described in note 5, we exchanged our interest in SC Media for shares of Sumitomo common stock on July 3, 2007.

On September 1, 2007, JTV Thematics and J:COM executed a merger agreement under which JTV Thematics was merged with J:COM. The merger of J:COM and JTV Thematics has been treated as the acquisition of JTV Thematics by J:COM. J:COM acquired JTV Thematics to increase its presence in the programming distribution business in Japan. J:COM has accounted for the acquisition of JTV Thematics under the provisions of SFAS 141 whereby the JTV Thematics interest acquired from Sumitomo has been accounted for using the purchase method of accounting and the JTV Thematics interest acquired from our company has been treated as a transaction between entities under common control. Accordingly, for accounting purposes, J:COM's cost to acquire JTV Thematics includes (i) ¥26,839 million (\$231.7 million at the transaction date) representing the value assigned to the 253,676 J:COM ordinary shares issued to Sumitomo based on the average quoted market price of J:COM ordinary shares for



## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

the period beginning two trading days before and ending two trading days after the terms of the merger were agreed to and announced (May 22, 2007), (ii) ¥6,708 million (\$57.9 million at the transaction date) representing the value assigned to the 253,675 J.COM ordinary shares issued to one of our wholly-owned indirect subsidiaries, based on our historical cost basis in JTV Thematics at September 1, 2007 and (iii) ¥411.0 million (\$3.5 million at the transaction date) representing direct acquisition costs.

The aggregate cost basis assigned to the JTV Thematics interests acquired by J.COM, as detailed above, has been allocated to the acquired identifiable net assets of JTV Thematics based on final assessments of their respective fair values, and the excess of the aggregate cost basis over the fair values of such identifiable net assets was allocated to goodwill.

In connection with the dilution of our J.COM ownership interest that resulted from the issuance of the J.COM shares to Sumitomo, we recorded a \$53.0 million gain, which is reflected as an increase to additional paid-in capital in our consolidated statement of stockholders' equity for the year ended December 31, 2007. No deferred income taxes were required to be provided on this gain.

**Opening Balance Sheet Information of the Significant 2007 Acquisitions**

A summary of the purchase prices and opening balance sheets of the Significant 2007 Acquisitions is presented in the following table. The opening balance sheets presented in this table reflect our final purchase price allocations, including certain purchase accounting adjustments that were recorded in 2008 prior to the finalization of the applicable purchase price allocations:

Effective acquisition or consolidation date for financial reporting purposes:	Telenet January 1, 2007	JTV Thematics September 1, 2007
	in millions	
Cash	\$ 77.6	\$ 6.3
Other current assets	159.1	22.3
Investments	—	94.1
Property and equipment, net	1,420.3	8.8
Goodwill	1,975.1	159.8
Intangible assets subject to amortization (a)	929.9	132.8
Other assets, net	22.9	14.5
Current liabilities	(575.6)	(46.5)
Long-term debt and capital lease obligations	(1,810.7)	(24.2)
Other long-term liabilities	(299.7)	(74.6)
Minority interests (b)	(378.3)	(0.2)
Total purchase price	\$ 1,520.6	\$ 293.1
Purchase price:		
Cash consideration	\$ 930.8	\$ —
Issuance of J.COM stock to Sumitomo	—	231.7
Investments (c)	523.3	57.9
Options and warrants (d)	65.2	—
Direct acquisition costs	1.3	3.5
	\$ 1,520.6	\$ 293.1

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

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- (a) The amounts reflected as intangible assets subject to amortization primarily include intangible assets related to customer relationships and, in the case of Telenet, certain network-related rights. At January 1, 2007 and the respective 2007 step acquisition dates, the weighted average useful life of Telenet's intangible assets was approximately 16 years. At September 1, 2007, the useful life of JTV Thematics' intangible assets was approximately 15 years.
  - (b) The Telenet amount represents the minority interest owners' share of Telenet's net assets.
  - (c) These amounts represent the carrying values of our equity method investments in Telenet and JTV Thematics, which were eliminated upon our respective acquisitions of controlling interests in these entities.
  - (d) Amount represents the fair value of options and warrants to acquire Telenet ordinary shares on the date of exercise.

**Other 2007 Acquisition**

*Telesystems Tirol* — On October 2, 2007, our operating subsidiary in Austria acquired Telesystem Tirol GmbH & Co KG (Tirol), a broadband communications operator in Austria, for cash consideration of €84.3 million (\$119.3 million at the transaction date), including working capital adjustments and direct acquisition costs. We have accounted for the Telesystems Tirol acquisition using the purchase method of accounting, whereby the total purchase price has been allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of such identifiable net assets was allocated to goodwill.

**Significant 2006 Acquisitions**

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

A summary of the purchase prices and opening balance sheets of the Significant 2006 Acquisitions is presented following the descriptions of these transactions below.

**Acquisition of Cable West**

On September 28, 2006, J:COM paid aggregate cash consideration of ¥55.8 billion (\$472.5 million at the transaction date) before direct acquisition costs to increase its ownership interest in Cable West from an 8.6% non-controlling interest to an 85.0% controlling interest. On November 15, 2006, J:COM paid aggregate cash consideration of ¥7,736 million (\$65.5 million at the transaction date) to increase its ownership interest in Cable West to 95.6%. Cable West is a broadband communications provider in Japan. For financial reporting purposes, J:COM began consolidating Cable West effective September 30, 2006. J:COM acquired Cable West in order to achieve certain financial, operational and strategic benefits through the integration of Cable West with its existing operation. On January 1, 2008, Cable West was merged with certain other J:COM entities to form J:COM West Co., Ltd.

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

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

76.4% and 10.6% Cable West ownership interests that we acquired during the third and fourth quarters of 2006, respectively), and the excess of the purchase prices over the adjusted fair values of such identifiable net assets was allocated to goodwill.

**Acquisition of Karneval**

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

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

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

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**Opening Balance Sheet Information of the Significant 2006 Acquisitions**

A summary of the purchase prices and opening balance sheets of the Significant 2006 Acquisitions is presented in the following table. The opening balance sheets presented in this table reflect our final purchase price allocations, including certain purchase accounting adjustments that were recorded in 2007 prior to the finalization of the applicable purchase price allocations.

Effective acquisition or consolidation date for financial reporting purposes:	Cable West	Karneval
	September 30, 2006	September 30, 2006
	in millions	
Cash	\$ 15.1	\$ 12.4
Other current assets	45.6	2.6
Property and equipment, net	300.5	172.9
Goodwill	365.9	233.0
Intangible assets subject to amortization (a)	110.0	20.9
Other assets, net	2.9	14.9
Current liabilities	(73.6)	(10.0)
Long-term debt and capital lease obligations	(65.1)	(1.8)
Other long-term liabilities	(138.2)	(16.5)
Minority interests in subsidiaries	(6.4)	—
<b>Total purchase price</b>	<b>\$ 556.7</b>	<b>\$ 428.4</b>
Purchase price:		
Cash consideration	\$ 538.0	\$ 420.1
Other investment (b)	16.4	—
Direct acquisition costs	2.3	8.3
	<b>\$ 556.7</b>	<b>\$ 428.4</b>

- (a) The amounts reflected as intangible assets subject to amortization primarily relate to our assessment of the fair value of customer relationships. Such acquired intangible assets for Cable West and Karneval had weighted average lives of 10 and 5 years, respectively, at the respective acquisition dates.
- (b) The Cable West amount represents the \$16.4 million carrying value of J:COM's cost method investment in Cable West as of September 27, 2006, which was eliminated upon J:COM's acquisition of a controlling interest.

**Other 2006 Acquisition**

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

**Pro Forma Information for 2008 and 2007 Significant Acquisitions**

The following unaudited pro forma consolidated operating results for 2008 and 2007 give effect to (i) the Significant 2008 acquisitions as if they had been completed as of January 1, 2008 (for 2008 results) and January 1,

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

2007 (for 2007 results) and (ii) the Significant 2007 Acquisitions as if they had been completed as of January 1, 2007 (for 2007 results). No effect has been given to the acquisitions of Spektrum and Tirol since they would not have had a material impact on our results of operations for the indicated periods. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable.

	Year ended December 31,	
	2008	2007
	in millions, except per share amounts	
Revenue	\$ 10,834.1	\$ 9,321.9
Net loss from continuing operations	\$ (816.1)	\$ (452.5)
Basic and diluted loss per share from continuing operations — Series A, Series B and Series C common stock	\$ (2.59)	\$ (1.19)

**Pro Forma Information for 2007 and 2006 Significant Acquisitions**

The following unaudited pro forma consolidated operating results for 2007 and 2006 give effect to (i) the Significant 2007 Acquisitions as if they had been completed as of January 1, 2007 (for 2007 results) and January 1, 2006 (for 2006 results) and (ii) the Significant 2006 Acquisitions as if they had been completed as of January 1, 2006 (for 2006 results). No effect has been given to the acquisitions of Tirol and INODE since they would not have had a material impact on our results of operations for the indicated periods. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable.

	Year ended December 31,	
	2007	2006
	in millions, except per share amounts	
Revenue	\$ 9,061.7	\$ 7,776.3
Net loss from continuing operations	\$ (430.3)	\$ (344.5)
Basic and diluted loss per share from continuing operations — Series A, Series B and Series C common stock	\$ (1.13)	\$ (0.79)

**(5) Dispositions and Discontinued Operations**

**2007 Dispositions**

**SC Media** — On July 3, 2007, pursuant to a share-for-share exchange agreement with Sumitomo, we exchanged all of our shares in SC Media for 45,652,043 shares of Sumitomo common stock with a transaction date market value of ¥104.5 billion (\$854.7 million at the transaction date). As a result of this exchange transaction, we recognized a pre-tax gain of \$489.3 million, representing the excess of the market value of the Sumitomo shares received over the carrying value of our investment in SC Media, after deducting a \$19.4 million foreign currency translation loss that was reclassified from our accumulated other comprehensive earnings to our consolidated statement of operations in connection with this exchange transaction. During the second quarter of 2007, we

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

executed a zero cost collar transaction with respect to the Sumitomo shares. See note 7. During the fourth quarter of 2007, we recorded a loss due to an other-than-temporary decline in the fair value of our investment in Sumitomo common stock. See note 6.

*Melita Cable Plc (Melita)* — On July 26, 2007, an indirect wholly-owned subsidiary of Chellomedia sold its 50% interest in Melita to an unrelated third party for cash consideration of €73.6 million (\$101.1 million at the transaction date). We recognized a gain of \$62.2 million in connection with this transaction.

**2006 Dispositions**

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

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

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

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

**Discontinued Operations**

*UPC Norway* — On December 19, 2005, we reached an agreement to sell 100% of UPC Norway to an unrelated third party. On January 19, 2006, we sold UPC Norway for cash proceeds of approximately €444.8 million (\$536.7 million at the transaction date). On January 24, 2006, €175 million (\$214 million at the transaction date) of the proceeds from the sale of UPC Norway were applied toward the prepayment of borrowings under the UPC Broadband Holding Bank Facility. See note 10. In accordance with SFAS 144, we have presented UPC Norway as a discontinued operation in our consolidated financial statements effective December 31, 2005. UPC Norway's net results for the 2006 period through the date of sale were not significant. In connection with the January 19, 2006 disposal of UPC Norway, we recognized a net gain of \$223.1 million that includes realized cumulative foreign currency translation losses of \$1.7 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our 2006 consolidated statement of operations. Prior to its disposal, we included UPC Norway in our then reportable segment, *Other Western Europe*.

*UPC Sweden* — On April 4, 2006, we reached an agreement to sell 100% of UPC Sweden to a consortium of unrelated third parties. On June 19, 2006, we sold UPC Sweden for cash proceeds of Swedish krona (SEK) 2,984 million (\$403.9 million at the transaction date) and the assumption by the buyer of capital lease obligations with an aggregate balance of approximately SEK 251 million (\$34.0 million at the transaction date). We were required to use €150 million (\$188.6 million at the transaction date) of the UPC Sweden sales proceeds to prepay

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

borrowings under the UPC Broadband Holding Bank Facility. Effective March 31, 2006, we began accounting for UPC Sweden as a discontinued operation in our consolidated financial statements in accordance with SFAS 144. In connection with the June 19, 2006 disposal of UPC Sweden, we recognized a net gain of \$155.2 million that includes realized cumulative foreign currency translation gains of \$4.4 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statement of operations. Prior to its disposal, we included UPC Sweden in our then reportable segment, *Other Western Europe*.

*UPC France* — On July 19, 2006, we sold our 100% interest in UPC France to a consortium of unrelated third parties for cash proceeds of €1,253.2 million (\$1,578.4 million at the transaction date), subject to post-closing adjustments. Effective June 1, 2006, we began accounting for UPC France as a discontinued operation in our consolidated financial statements in accordance with SFAS 144. Other than severance and bonus payments that were paid in connection with the disposition, UPC France's net results from July 1, 2006 through the date of sale were not significant. Pursuant to the terms of the UPC Broadband Holding Bank Facility, we are required to use €290.0 million (\$365.3 million at the transaction date) of the cash proceeds from the UPC France sale to prepay or otherwise provide for the prepayment of a portion of the amounts outstanding under the UPC Broadband Holding Bank Facility. As permitted by the UPC Broadband Holding Bank Facility, we initially placed cash proceeds equal to the €290.0 million required prepayment in a restricted account that is reserved for the prepayment of amounts outstanding under the UPC Broadband Holding Bank Facility. In September 2006, we used €105.0 million (\$146.5 million) of the amounts held in the UPC Holding restricted account, together with available cash of €25.0 million (\$34.9 million), to repay amounts outstanding under the UPC Broadband Holding Bank Facility. During the fourth quarter of 2006, the UPC Broadband Bank Facility was amended to eliminate the requirement to use the remaining €185.0 million (\$258.1 million) to prepay borrowings under the UPC Broadband Holding Bank Facility provided that such amount was reinvested in the business prior to a specified date. As a result of this amendment, the funds were withdrawn from the blocked account in December 2006 and reinvested in the business. In connection with the July 19, 2006 disposal of UPC France, we recognized a net gain of \$625.4 million that includes realized cumulative foreign currency translation losses of \$18.6 million. No income taxes were required to be provided on this gain. This net gain is reflected in discontinued operations in our consolidated statements of operations. Prior to its disposal, we presented UPC France as a separate reportable segment.

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

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

**Operating Results of Discontinued Operations**

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

	Year ended December 31, 2006 (a) in millions
Revenue	\$ 325.4
Operating income	\$ 25.1
Earnings before income taxes and minority interests	\$ 7.0
Net earnings from discontinued operations	\$ 6.8

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

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

**(6) Investments**

The details of our investments are set forth below:

	December 31, 2008	2007 in millions
<b>Accounting Method</b>		
Fair value	\$ 815.1	\$ —
Equity	189.7	388.6
Cost	25.0	22.1
Available-for-sale	—	760.8
Total	\$ 1,029.8	\$ 1,171.5
Current (a)	\$ 50.0	\$ —
Long-term	\$ 979.8	\$ 1,171.5

(a) The current amount represents the market value of our investment in shares of The News Corporation Limited (News Corp.) at December 31, 2008. Due to the fact that we intend to use our News Corp. shares to settle a related prepaid forward sale transaction that is scheduled to mature on July 7, 2009, we have included this amount in other current assets in our December 31, 2008 consolidated balance sheet. For information concerning our News Corp. prepaid forward sale transaction, see note 7.

**Fair Value Method Investments**

As further discussed in note 2, we adopted SFAS 159 effective January 1, 2008. Pursuant to SFAS 159, we elected the fair value option for certain of our investments, including our investments in Sumitomo, News Corp. and Canal+ Cyfrowy Sp zoo (Cyfra+). The aggregate fair value of our fair value method investments as of January 1, 2008 was \$1,138.8 million.



LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

*Sumitomo* — At December 31, 2008 and 2007, we owned 45,652,043 shares of Sumitomo common stock. Our Sumitomo shares represented 3.7% of Sumitomo's outstanding common stock at September 30, 2008, the latest date for which information with respect to Sumitomo's outstanding shares is publicly available. At December 31, 2008 and 2007, the fair value of our Sumitomo shares was \$392.2 million and \$648.1 million, respectively.

During the fourth quarter of 2007, the value of our investment in Sumitomo common stock declined to a level at December 31, 2007 that was nearly 25% below our then cost basis of ¥104.5 billion (\$854.7 million at the transaction date). The decline in fair value was considered other-than-temporary primarily due to the extent and length of time that fair value was below carrying value and uncertainties regarding the near-term prospects for the recovery of the market price of Sumitomo shares. Accordingly, we recognized a \$206.6 million pre-tax loss in December 2007. This loss is included in other-than-temporary declines in fair values of investments in our consolidated statement of operations. Our investment in Sumitomo common stock is pledged as security for borrowings under the Sumitomo Collar, which among other matters, effectively hedges our exposure to declines in the market price of Sumitomo common stock below a specified amount. For additional information, see note 7.

*News Corp.* — At December 31, 2008 and 2007, we held 5,500,000 shares of News Corp. Class A common stock. In August 2005, we entered into a prepaid forward sale transaction with respect to our investment in News Corp. Class A common stock. See note 7.

*Cyfra+* — At December 31, 2008 and 2007, we held a 25.0% interest in Cyfra+, a privately-held DTH operator in Poland.

**Equity Method Investments**

Our equity method affiliates generally are engaged in the cable and/or programming businesses in various foreign countries. At December 31, 2008, investments accounted for using the equity method include (i) J:COM's 50.0% ownership interest in Discovery Japan, Inc., a general documentary channel business currently operating two channels in Japan, (ii) J:COM's 33.4% ownership interest in JSports Broadcasting Corporation, a sports channel business currently operating four channels in Japan, and (iii) Austar's 50.0% ownership interest in XYZ Network Pty LTD, a provider of programming services in Australia. The following table sets forth the details of our share of results of affiliates, net:

	Year ended December 31,		
	2008	2007 in millions	2006
SC Media	\$ —	\$ 16.7	\$ 34.4
Telenet	—	—	(24.3)
Other	5.4	17.0	2.9
Total	<u>\$ 5.4</u>	<u>\$ 33.7</u>	<u>\$ 13.0</u>

At December 31, 2008 and 2007, the aggregate carrying amount of our equity method investments exceeded our proportionate share of the respective affiliates' net assets by \$89.5 million and \$237.5 million, respectively. Any calculated excess costs on investments are allocated on an estimated fair value basis to the underlying assets and liabilities of the investee. Amounts associated with assets other than goodwill and indefinite-lived intangible assets are amortized over their estimated useful lives (generally 17 years).

**SC Media**

SC Media, a 50% joint venture formed in 1996 by our company and Sumitomo, was a programming company in Japan, which owned and invested in programming distribution businesses, including the businesses of JTV Thematics and Jupiter Shop Channel. As a result of the exchange of our investment in SC Media for Sumitomo

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

shares on July 3, 2007 and J:COM's acquisition of a 100% interest in JTV Thematics on September 1, 2007, we no longer own an interest in SC Media and certain of the equity method investments formerly owned by SC Media are now owned by J:COM. For additional information, see notes 4 and 5.

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

	Six months ended June 30, 2007	Year ended December 31, 2006
	in millions	
<b>Results of Operations</b>		
Revenue	\$ 449.8	\$ 961.2
Operating, selling, general and administrative expenses	(368.7)	(752.3)
Depreciation and amortization	(12.7)	(21.2)
Operating income	68.4	187.7
Other, net	(38.7)	(108.1)
Earnings from continuing operations	\$ 29.7	\$ 79.6
Net earnings	\$ 29.7	\$ 68.8

**Telenet**

We began accounting for Telenet as a consolidated subsidiary effective January 1, 2007. For information concerning transactions involving our Telenet ownership interests during 2007 and 2006, see note 4.

Summarized financial information of Telenet during 2006, the period in which we used the equity method to account for Telenet, is as follows:

	Year ended December 31, 2006
	in millions
<b>Results of Operations</b>	
Revenue	\$ 1,020.8
Operating, selling, general and administrative expenses	(568.4)
Depreciation and amortization	(272.8)
Operating income	179.6
Interest expense, net	(111.7)
Other, net	(53.9)
Net earnings	\$ 14.0

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**Other**

*Mediatti* — As further described in note 4, J:COM purchased 100% of the outstanding shares of Mediatti on December 25, 2008. Prior to this transaction, LGI accounted for its interest in Mediatti using the equity method. Summarized financial information of Mediatti for the indicated periods is as follows:

	December 31, 2007 in millions	
<b>Financial Position</b>		
Current assets	\$	35.8
Investments		7.3
Property and equipment, net		208.4
Intangibles and other assets, net		73.8
Total assets	\$	325.3
Current liabilities	\$	53.2
Debt		138.7
Other liabilities		43.0
Minority interests		1.9
Shareholders' equity		88.5
Total liabilities and shareholders' equity	\$	325.3

	Year ended December 31, in millions		
	2008	2007	2006
<b>Results of Operations</b>			
Revenue	\$ 172.8	\$ 124.2	\$ 87.5
Operating, selling, general and administrative expenses	(117.4)	(86.7)	(67.0)
Depreciation and amortization	(47.5)	(36.2)	(27.9)
Impairment	(4.6)	—	—
Operating income (loss)	3.3	1.3	(7.4)
Other, net	(6.0)	(3.5)	(4.5)
Net loss	\$ (2.7)	\$ (2.2)	\$ (11.9)

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

*Melita* — As further described in note 5, we disposed of our interest in Melita in July 2007. Summarized financial information of Melita for the periods in which we used the equity method to account for Melita is as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006
	in millions	
<b>Results of Operations</b>		
Revenue	\$ 22.3	\$ 39.8
Operating, selling, general and administrative expenses	(12.4)	(20.2)
Depreciation and amortization	(3.3)	(5.6)
Operating income	6.6	14.0
Other, net	(3.1)	(6.2)
Net earnings	<u>\$ 3.5</u>	<u>\$ 7.8</u>

**Unrealized Holding Gains on Available-for-Sale Securities**

At December 31, 2008, none of our investments were classified as available-for-sale securities. At December 31, 2007, unrealized holding gains related to investments in available-for-sale securities of \$55.9 million were included in accumulated other comprehensive earnings, net of tax, in our consolidated balance sheet.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

## (7) Derivative Instruments

Through our subsidiaries, we have entered into various derivative instruments to manage interest rate and foreign currency exposure with respect to the U.S. dollar (\$), the euro (€), the Czech koruna (CZK), the Slovakian koruna (SKK), the Hungarian forint (HUF), the Polish zloty (PLN), the Romanian lei (RON), the Swiss franc (CHF), the Chilean peso (CLP), the Japanese yen (¥) and the Australian dollar (AUD). With the exception of J:COM's interest rate swaps, which are accounted for as cash flow hedges, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of all other derivative instruments are recorded in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. The following table provides details of the fair values of our derivative instrument assets and liabilities:

	December 31, 2008			December 31, 2007		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
<b>Assets:</b>						
Cross-currency and interest rate derivative contracts (b)	\$ 182.6	\$ 297.9	\$ 480.5	\$ 227.9	\$ 204.8	\$ 432.7
Equity-related derivatives (c)	—	631.7	631.7	—	213.9	213.9
Foreign currency forward contracts	10.8	—	10.8	0.6	—	0.6
Other	0.2	0.9	1.1	2.0	3.0	5.0
Total (d)	<u>\$ 193.6</u>	<u>\$ 930.5</u>	<u>\$ 1,124.1</u>	<u>\$ 230.5</u>	<u>\$ 421.7</u>	<u>\$ 652.2</u>
<b>Liabilities:</b>						
Cross-currency and interest rate derivative contracts (b)(e)	\$ 418.8	\$ 904.3	\$ 1,323.1	\$ 106.9	\$ 606.1	\$ 713.0
Equity-related derivatives (c)	17.2	—	17.2	3.1	—	3.1
Foreign currency forward contracts	3.6	1.5	5.1	6.2	0.3	6.5
Other	2.1	1.2	3.3	—	—	—
Total (d)	<u>\$ 441.7</u>	<u>\$ 907.0</u>	<u>\$ 1,348.7</u>	<u>\$ 116.2</u>	<u>\$ 606.4</u>	<u>\$ 722.6</u>

(a) Our long-term derivative assets and liabilities are included in other assets and other long-term liabilities, respectively, in our consolidated balance sheets.

(b) In 2008, we began considering credit risk in our fair value assessments in accordance with the provisions of SFAS 157. As of December 31, 2008, the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating \$21.9 million and the fair values of our cross-currency and interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating \$127.9 million. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for certain of our subsidiaries' debt instruments, as applicable. Based on our evaluation of market conditions and recent transactions, we may determine that interest rate spreads obtained from market quotations for our subsidiaries' debt instruments require adjustment in order to estimate credit spreads. These adjustments are intended to remove the impacts of estimated liquidity spreads and other factors, such as distressed sales, that cause market quotations to not be reflective of fair values. The change in the credit risk valuation adjustments associated with our derivative instruments resulted in a net gain

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

of \$106.0 million during 2008, and this gain is included in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statement of operations. For further information concerning our fair value measurements, see note 8.

- (c) The fair values of our equity-related derivatives primarily relate to the share collar (the Sumitomo Collar) with respect to the Sumitomo shares held by our company. The fair value amount as of December 31, 2008 does not include a credit risk valuation adjustment as any losses incurred by our company in the event of nonperformance by the counterparty would be fully offset against amounts we owe to the counterparty pursuant to the secured borrowing arrangements of the Sumitomo Collar.
- (d) Excludes the prepaid forward sale contract on our News Corp. Class A common stock (the News Corp. Forward), which is included in current portion of debt and capital lease obligations in our December 31, 2008 consolidated balance sheet. For reasons similar to those expressed in note (b) above, the fair value of the equity derivative embedded in this prepaid forward contract does not include a credit risk valuation adjustment.
- (e) As discussed above, J:COM accounts for its interest rate swaps as cash flow hedges. At December 31, 2008, (i) the aggregate fair value of these swaps was an \$18.0 million liability, of which \$3.0 million was classified as current, and (ii) our accumulated other comprehensive earnings included net losses of \$3.4 million related to J:COM's interest rate swaps. During 2008, our share of the net losses reclassified from J:COM's accumulated other comprehensive earnings to interest expense with respect to these cash flow hedges was \$1.1 million.

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

	Year ended December 31,		
	2008	2007 in millions	2006
Equity-related derivatives (a)	\$ 442.7	\$ 239.8	\$ 21.7
Cross-currency and interest rate derivative contracts	(392.3)	(150.7)	(312.0)
Foreign currency forward contracts	34.3	(19.3)	21.3
Other	(5.8)	2.6	4.2
Total	\$ 78.9	\$ 72.4	\$ (264.8)

- (a) Includes (i) gains during 2008 and 2007 related to our share collar (the Sumitomo Collar) with respect to the Sumitomo shares held by our company since July 2007, (ii) gains during all years presented related to the prepaid forward sale contract on our News Corp. Class A common stock and (iii) activity during 2007 and 2006 related to the call options we held with respect to Telenet ordinary shares.

The net cash received (paid) related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statements of cash flows based on the classification of the applicable underlying cash flows. The classifications of these cash flows are as follows:

	Year ended December 31,		
	2008	2007 in millions	2006
Operating activities	\$ 182.8	\$ (125.1)	\$ 33.3
Investing activities	(1.6)	(0.2)	(5.3)
Financing activities	(2.7)	10.8	26.3
Total	\$ 178.5	\$ (114.5)	\$ 54.3

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)**Counterparty Credit Risk**

We are exposed to the risk that the counterparties to our derivative contracts will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative contracts is spread across a broad counterparty base of banks and financial institutions. We generally do not require counterparties to our derivative instruments to provide collateral or other security or to enter into master netting arrangements.

At December 31, 2008, our exposure to credit risk included derivative assets with a fair value of \$1,124.1 million (including \$616.7 million due from counterparties for which we had offsetting liability positions at December 31, 2008).

Under our derivative contracts, the exercise of termination and set-off provisions is generally at the option of the non-defaulting party only. However, in an insolvency of a derivative counterparty, a liquidator may be able to force the termination of a derivative contract. In addition, mandatory set-off of amounts due under the derivative contract and potentially other contracts between our company and the relevant counterparty may be applied under the insolvency regime of the relevant jurisdiction. Accordingly, it is possible that we could be required to make payments to an insolvent counterparty even if that counterparty had previously defaulted on its obligations under a derivative contract with our company. While we anticipate that, in the event of the insolvency of one of our derivative counterparties, we would seek to novate our derivative contracts to different counterparties, no assurance can be given that we would be able to do this on terms or pricing that would be acceptable to us. If we are unable to, or choose not to, novate to a different party, the risks that were the subject of the original derivative contract would no longer be hedged.

**Equity-Related Derivatives**

*Sumitomo Collar and Secured Borrowing.* During the second quarter of 2007, our wholly-owned indirect subsidiary, Liberty Programming Japan LLC (Liberty Programming Japan), executed a zero cost share collar transaction (the Sumitomo Collar) with respect to the underlying ordinary shares of Sumitomo stock received by Liberty Programming Japan from Sumitomo in exchange for Liberty Programming Japan's interest in SC Media. See note 5. The Sumitomo Collar is comprised of purchased put options exercisable by Liberty Programming Japan and written call options exercisable by the counterparty. The Sumitomo Collar effectively hedges the value of our investment in Sumitomo shares from losses due to market price decreases below a per share value of ¥2,118.50 (\$23.33) while retaining gains from market price increases up to a per share value of ¥2,787.50 (\$30.70). The Sumitomo Collar provides for a projected gross cash ordinary dividend to be paid per Sumitomo share during the term of the Sumitomo Collar. If the actual dividend paid does not exactly match the projected dividend, then an adjustment amount shall be payable between the parties to the Sumitomo Collar depending on the dividend actually paid by Sumitomo. The Sumitomo Collar may, at the option of Liberty Programming Japan, be settled in Sumitomo shares or in cash. The Sumitomo Collar also includes a purchased fair value put option, which effectively provides Liberty Programming Japan with the ability to sell the Sumitomo shares when the market price is trading between the put and call strike prices. The Sumitomo Collar matures in five equal semi-annual installments beginning on May 22, 2016.

We account for the Sumitomo Collar at fair value with changes in fair value reported in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. The fair value of the Sumitomo Collar as of December 31, 2008 was an asset of \$631.7 million.

The Sumitomo Collar and related agreements also provide Liberty Programming Japan with the ability to borrow funds on a secured basis. Borrowings under these agreements, which are secured by a pledge of 100% of the Sumitomo shares owned by Liberty Programming Japan, bear interest at 1.883%, mature in five equal semi-annual

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

installments beginning on May 22, 2016, and are included in long-term debt and capital lease obligations in our consolidated balance sheets. On June 28, 2007, Liberty Programming Japan borrowed ¥93.660 billion (\$757.6 million at the transaction date) under these agreements (the Sumitomo Collar Loan). The pledge arrangement entered into by Liberty Programming Japan provides that Liberty Programming Japan will be able to exercise all voting and consensual rights and, subject to the terms of the Sumitomo Collar, receive dividends on the Sumitomo shares.

**News Corp. Forward.** On August 2, 2005, we entered into the News Corp. Forward, a prepaid forward sale transaction with respect to our investment in 5,500,000 shares of News Corp. Class A common stock. In consideration for entering into the News Corp. Forward, we received cash consideration of \$75.0 million. The News Corp. Forward includes a debt host instrument and an embedded derivative. The embedded derivative has the combined economics of a put exercisable by LGI and a call exercisable by the counterparty. As the net fair value of the embedded derivative at the inception date was zero, the full \$75.0 million received at the inception date is associated with the debt host contract and such amount represents the present value of the amount to be paid upon the maturity of the News Corp. Forward. The News Corp. Forward is scheduled to mature on July 7, 2009, at which time we are required to deliver a variable number of shares of News Corp. Class A common stock to the counterparty not to exceed 5,500,000 shares (or the cash value thereof). If the per share price of News Corp. Class A common stock at the maturity of the News Corp. Forward is less than or equal to \$16.24, then we are required to deliver 5,500,000 shares to the counterparty or the cash value thereof. If the per share price at the maturity is greater than \$16.24, we are required to deliver less than 5,500,000 shares to the counterparty or the cash value of such lesser amount, with the number of such shares to be delivered or cash to be paid in this case depending on the extent that the share price exceeds \$16.24 on the maturity date. The delivery mechanics of the News Corp. Forward effectively permit us to participate in the price appreciation of the underlying shares up to an agreed upon price. We have pledged 5,500,000 shares of News Corp. Class A common stock to secure our obligations under the News Corp. Forward. We account for the embedded derivative separately at fair value with changes in fair value reported in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. The fair value of the embedded derivative and the accreted value of the debt host instrument are presented together in the current (at December 31, 2008) and long-term (at December 31, 2007) portions of our debt and capital lease obligations in our consolidated balance sheets, as set forth below:

	December 31,	
	2008	2007
	in millions	
Debt host contract	\$ 87.3	\$ 83.5
Embedded equity derivative	(40.3)	11.3
	<u>\$ 47.0</u>	<u>\$ 94.8</u>

**Cristalerías Put Right.** In connection with the April 2005 combination of VTR and Metrópolis Intercom SA (Metrópolis), UGC granted a put right to Cristalerías de Chile SA (Cristalerías) with respect to the 20% interest in VTR owned by Cristalerías. We account for the Cristalerías put right at fair value, with changes in fair value reported in realized and unrealized gains (losses) on financial and derivative instruments, net, in our consolidated statements of operations. For additional information, see note 20.



LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

**Cross-currency and Interest Rate Derivative Contracts**

*Cross-currency Interest Rate Swaps:*

The terms of our outstanding cross-currency interest rate swap contracts at December 31, 2008 are as follows:

Subsidiary (a)	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	in millions			
UPC Broadband Holding:				
March 2013	\$ 200.0	€ 150.9	6 mo. LIBOR + 2.0%	5.73%
December 2014	885.0	668.0	6 mo. LIBOR + 1.75%	5.72%
	<u>\$ 1,085.0</u>	<u>€ 818.9</u>		
July 2009	€ 60.0	CZK 1,703.1	5.50%	5.15%
July 2009 — July 2010	60.0	1,703.1	5.50%	5.33%
July 2010 — December 2014	60.0	1,703.1	5.50%	6.05%
February 2010	105.8	3,018.7	5.50%	4.88%
February 2010 — December 2014	105.8	3,018.7	5.50%	5.80%
December 2014	200.0	5,800.0	5.46%	5.30%
	<u>€ 591.6</u>	<u>CZK 16,946.7</u>		
July 2009	€ 260.0	HUF 75,570.0	5.50%	8.75%
July 2009 — July 2010	260.0	75,570.0	5.50%	7.80%
July 2010 — December 2014	260.0	75,570.0	5.50%	9.40%
December 2014	228.0	62,867.5	5.50%	8.98%
	<u>€ 1,008.0</u>	<u>HUF 289,577.5</u>		
July 2009	€ 245.0	PLN 1,000.6	5.50%	7.00%
July 2009 — July 2010	245.0	1,000.6	5.50%	6.52%
July 2010 — December 2014	245.0	1,000.6	5.50%	7.60%
December 2014	98.4	335.0	5.50%	7.12%
	<u>€ 833.4</u>	<u>PLN 3,336.8</u>		
December 2010	€ 200.0	RON 709.1	5.50%	10.98%
December 2010 — December 2014	200.0	709.1	5.50%	10.69%
December 2014	89.1	320.1	5.50%	10.27%
	<u>€ 489.1</u>	<u>RON 1,738.3</u>		
September 2012	€ 229.1	CHF 355.8	6 mo. EURIBOR + 2.5%	6 mo. CHF LIBOR + 2.46%
December 2014	898.4	1,466.0	6 mo. EURIBOR + 2.0%	6 mo. CHF LIBOR + 1.94%
	<u>€ 1,127.5</u>	<u>CHF 1,821.8</u>		
December 2014	\$ 340.0	CLP 181,322.0	6 mo. LIBOR + 1.75%	8.76%
December 2014	€ 134.3	CLP 107,800.0	6 mo. EURIBOR + 2.0%	10.0%
December 2014	\$ 511.5	CHF 558.0	6 mo. LIBOR + 2.75%	6 mo. CHF LIBOR + 2.95%

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

Subsidiary (a)	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	in millions			
Chellomedia Programming Financing Holdco BV (Chellomedia PFH), an indirect subsidiary of Chellomedia: July 2013	€ 32.5	HUF 8,632.0	5.50%	9.55%
VTR: September 2014	\$ 465.5	CLP 257,654.3	6 mo. LIBOR + 3.0%	11.16%

(a) For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that were in effect as of December 31, 2008, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to December 31, 2008, we present a range of dates that represents the period covered by the applicable derivative instrument.

*Interest Rate Swaps:*

The terms of our outstanding interest rate swap contracts at December 31, 2008 are as follows:

Subsidiary (a)	Notional amount in millions	Interest rate due from counterparty	Interest rate due to counterparty
UPC Broadband Holding:			
January 2009	€ 210.0	6 mo. EURIBOR	3.58%
January 2009	1,000.0	1 mo. EURIBOR + 2.0%	6 mo. EURIBOR + 1.89%
January 2009	2,640.0	1 mo. EURIBOR + 2.1%	6 mo. EURIBOR + 2.0%
January 2009 — January 2010	3,640.0	1 mo. EURIBOR + 2.0%	6 mo. EURIBOR + 1.81%
January 2009 — April 2012	555.0	6 mo. EURIBOR	3.32%
January 2009 — December 2014	210.0	6 mo. EURIBOR	4.44%
July 2009 (b)	31.6	5.50%	6.58%
July 2009 — July 2010 (b)	31.6	5.50%	5.67%
October 2012 (b)	63.1	5.46%	6.04%
January 2010	250.0	1 mo. EURIBOR + 2.0%	6 mo. EURIBOR + 1.79%
April 2010	1,000.0	6 mo. EURIBOR	3.28%
April 2010 — December 2014	1,000.0	6 mo. EURIBOR	4.66%
January 2011	193.5	6 mo. EURIBOR	3.83%
January 2011 — December 2014	193.5	6 mo. EURIBOR	4.68%
September 2012	500.0	3 mo. EURIBOR	2.96%
December 2013	90.5	6 mo. EURIBOR	3.84%
January 2014	185.0	6 mo. EURIBOR	4.04%
December 2014	449.5	6 mo. EURIBOR	4.78%
	€ 12,243.3		

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Subsidiary (a)	Notional amount in millions	Interest rate due from counterparty	Interest rate due to counterparty
December 2010	CHF 618.5	6 mo. CHF LIBOR	2.19%
January 2011 — December 2014	618.5	6 mo. CHF LIBOR	3.56%
September 2012	711.5	6 mo. CHF LIBOR	2.33%
October 2012 — December 2014	711.5	6 mo. CHF LIBOR	3.65%
December 2014	1,050.0	6 mo. CHF LIBOR	3.47%
	<u>CHF 3,710.0</u>		
July 2013	CLP 110,700.0	6.77%	6 mo. TAB
January 2009	\$ 1,900.0	1 mo. LIBOR + 1.75%	6 mo. LIBOR + 1.63%
January 2009 — January 2010	1,900.0	1 mo LIBOR + 1.75%	6 mo. LIBOR + 1.54%
	<u>\$ 3,800.0</u>		
January 2009 — July 2013	HUF 5,908.8	6 mo. BURBOR	8.52%
January 2009 — July 2013	PLN 115.1	6 mo. WIBOR	5.41%
Chellomedia PFH:			
January 2010	\$ 88.2	1 mo. LIBOR + 3.0%	6 mo. LIBOR + 2.90%
December 2013	<u>\$ 88.2</u>	6 mo. LIBOR	4.98%
January 2010	€ 152.7	1 mo. EURIBOR + 3.0%	6 mo. EURIBOR + 2.82%
December 2013	<u>€ 152.7</u>	6 mo. EURIBOR	4.13%
Austar Entertainment Pty Ltd. (Austar Entertainment), a subsidiary of Austar:			
August 2011	AUD 250.0	3 mo. AUD BBSY	6.21%
August 2013	430.0	3 mo. AUD BBSY	6.78%
August 2011 — August 2013	25.0	3 mo. AUD BBSY	6.97%
	<u>AUD 705.0</u>		
Liberty Cablevision of Puerto Rico Ltd. (Liberty Puerto Rico):			
June 2014	<u>\$ 167.6</u>	3 mo. LIBOR	5.14%
VTR:			
July 2013	CLP 110,700.0	6 mo. TAB	7.78%
Telenet NV, an indirect wholly-owned subsidiary of Telenet:			
September 2010	€ 50.0	3 mo. EURIBOR	4.70%
January 2010 — December 2011	50.0	3 mo. EURIBOR	5.29%
	<u>€ 100.0</u>		

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Subsidiary (a)	Notional amount in millions	Interest rate due from counterparty	Interest rate due to counterparty
Telenet Bidco NV (Telenet Bidco), an indirect wholly-owned subsidiary of Telenet:			
September 2009	€ 22.7	3 mo. EURIBOR	4.52%
September 2012	300.0	3 mo. EURIBOR	4.35%
	€ 322.7		
LGJ Holdings LLC (LGJ Holdings):			
January 2010	¥ 75,000.0	1 mo. TIBOR +3.25%	6 mo. TIBOR + 3.18%
November 2012	75,000.0	6 mo. TIBOR	1.34%
	¥ 150,000.0		
J:COM:			
September 2011	¥ 2,000.0	6 mo. TIBOR	1.37%
October 2011	10,000.0	6 mo. ¥ LIBOR	1.35%
April 2013	20,000.0	6 mo. ¥ LIBOR	1.75%
October 2013	19,500.0	6 mo. ¥ LIBOR	1.63%
April 2014	10,000.0	3 mo. TIBOR	1.15%
	¥ 61,500.0		

- (a) For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that were in effect as of December 31, 2008, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to December 31, 2008, we present a range of dates that represents the period covered by the applicable derivative instrument.
- (b) These contracts originated as cross-currency interest rate swaps involving the euro and the SKK. In anticipation of Slovakia's January 1, 2009 conversion to the euro, the SKK notional amounts were converted into euros at the initial exchange rate of 30.126 SKK per euro.

*Telenet Interest Rate Caps*

Each contract establishes the maximum EURIBOR rate payable on the indicated notional amount, as detailed below:

Telenet subsidiary / Final maturity date	Notional amount in millions	Maximum rate
Telenet NV:		
September 2009	€ 16.3	4.00%
December 2017	€ 4.7	6.50%
December 2017	€ 4.7	5.50%
Telenet Bidco:		
September 2013	€ 250.0	4.75%
September 2014	€ 600.0	4.65%
September 2015	€ 650.0	4.75%

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

*Telenet Interest Rate Collars*

Each contract establishes the minimum and maximum EURIBOR rate payable on the indicated notional amount, as detailed below:

Telenet subsidiary / Final maturity date	Notional amount in millions	Minimum rate	Maximum rate
Telenet NV:			
December 2011	€ 50.0	2.50%	4.50%
December 2011	€ 25.0	2.50%	5.50%

*Foreign Currency Forward Contracts*

Several of our subsidiaries have outstanding foreign currency forward contracts. Changes in the fair value of these contracts are recorded in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. The following table summarizes our outstanding foreign currency forward contracts at December 31, 2008:

LGI subsidiary	Currency purchased forward	in millions	Currency sold forward	Maturity dates
UPC Broadband Holding	PLN	69.0	€ 16.6	January 2009
UPC Broadband Holding	HUF	6,400.0	€ 24.0	January 2009
J:COM	\$	23.7	¥ 2,491.2	January 2009 — December 2010
VTR	\$	52.9	CLP 31,199.1	January 2009 — November 2009
Telenet NV	\$	3.8	€ 3.0	January 2009 — March 2009
Austar Entertainment	\$	26.5	AUD 32.2	January 2009 — December 2009
Liberty Global Europe Financing BV	\$	16.2	CLP 10,877.0	January 2009
Liberty Global Europe Financing BV	\$	85.9	¥ 7,750.0	January 2009
Liberty Global Europe Financing BV	¥	10,900.0	€ 85.4	January 2009

**(8) Fair Value Measurements**

We use the fair value method to account for (i) certain of our investments, (ii) our derivative instruments and (iii) the UGC Convertible Notes. The reported fair values of these assets and liabilities as of December 31, 2008 likely will not represent the value that will be realized upon the ultimate settlement or disposition of these assets and liabilities. In the case of the investments that we account for using the fair value method, the values we realize upon disposition will be dependent upon, among other factors, market conditions and the historical and forecasted financial performance of the investees at the time of any such disposition. With respect to our equity-related derivatives, we expect settlement to occur through the surrender of the underlying shares. With respect to our cross-currency interest rate swaps and our interest rate swaps, we expect that the values realized will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument. We also expect that the UGC Convertible Notes will either be redeemed or converted into LGI Series A and Series C common stock in accordance with the terms of the UGC Convertible Notes.

SFAS 157 provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

All of our Level 2 inputs (interest rates, yield curves, dividend yields and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (forecasted volatilities and credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we receive fair value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. As allowed by SFAS 157, the midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

For our investments in Sumitomo common stock and News Corp. Class A common stock, the fair value measurement is based on the quoted closing price of the respective shares at each reporting date. Accordingly, the valuation of these investments falls under Level 1 of the SFAS 157 fair value hierarchy. Our other investments that we account for at fair value are privately-held companies, and therefore, quoted market prices are unavailable. The valuation technique we use for such investments is a combination of an income approach (discounted cash flow model based on forecasts) and a market approach (market multiples of similar businesses). With the exception of certain inputs for our weighted average cost of capital calculations that are derived from pricing services, the inputs used to value these investments are based on unobservable inputs derived from our assumptions. Therefore, the valuation of our privately-held investments falls under Level 3 of the SFAS 157 fair value hierarchy.

The fair value measurements of our equity-related derivative instruments are based on the Black-Scholes option pricing model, which requires the input of observable and unobservable variables such as exchange traded equity prices, risk-free interest rates, dividend yields and forecasted volatilities of the underlying equity securities. The valuations of our equity-related derivative instruments are based on a combination of Level 1 inputs (exchange traded equity prices), Level 2 inputs (interest rates and dividend yields) and Level 3 inputs (forecasted volatilities). As changes in volatilities could have a significant impact on the overall valuations of our equity-related derivative instruments, we believe that these valuations fall under Level 3 of the SFAS 157 fair value hierarchy.

As further described in note 7, we have entered into cross-currency interest rate swaps, interest rate swaps, and foreign currency forward contracts. The fair value measurements of these derivative instruments are determined using cash flow models. All but one of the inputs to these cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes interest rates, swap rates and yield curves, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. SFAS 157 requires the incorporation of a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our various interest rate and foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the overall valuations of our cross-currency interest rate swaps, interest rate swaps and our foreign currency forward contracts, we believe that the valuations of these derivative instruments fall under Level 2 of the SFAS 157 hierarchy. Our credit risk valuation adjustments with respect to our cross-currency interest rate swaps and interest rate swaps are quantified and further explained in note 7.

The UGC Convertible Notes are traded, but not in a market that could be considered "active" under the provisions of SFAS 157. Fair value is determined using a cash flow valuation model, consisting of inputs such as quoted market prices for LGI Series A and Series C common stock, risk-free interest rates, yield curves, credit

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

spreads and forecasted stock volatility. The stock volatility input is based on the historical volatilities of the LGI Series A and Series C common stock and volatilities of other similar companies. The valuation of the UGC Convertible Notes is based on Level 1 inputs (quoted market prices for LGI Series A and Series C common stock), Level 2 inputs (interest rates and yield curves) and Level 3 inputs (forecasted volatilities and credit spreads). As changes in volatilities and credit spreads could have a significant impact on the overall valuation of the UGC Convertible Notes, we believe that this valuation falls under Level 3 of the SFAS 157 fair value hierarchy. Our credit risk valuation adjustment with respect to the UGC Convertible Notes is quantified and explained in note 10.

A summary of the assets and liabilities measured at fair value that are included in our consolidated balance sheet as of December 31, 2008 is as follows:

Description	December 31, 2008	Fair value measurements at December 31, 2008 using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		in millions		
<b>Assets:</b>				
Derivative instruments (a)	\$ 1,164.4	\$ —	\$ 492.5	\$ 671.9
Investments	815.1	442.2	—	372.9
Total assets	\$ 1,979.5	\$ 442.2	\$ 492.5	\$ 1,044.8
<b>Liabilities:</b>				
UGC Convertible Notes	\$ 574.5	\$ —	\$ —	\$ 574.5
Derivative instruments	1,348.7	—	1,331.6	17.1
Total liabilities	\$ 1,923.2	\$ —	\$ 1,331.6	\$ 591.6

(a) Includes the embedded derivative component of the News Corp. Forward, which is included within current portion of debt and capital lease obligations in our December 31, 2008 consolidated balance sheet.

A reconciliation of the beginning and ending balances of our assets and liabilities measured at fair value using significant unobservable, or Level 3, inputs is as follows:

	Investments	Equity-related derivatives	UGC Convertible Notes	Total
		in millions		
Balance of asset (liability) at January 1, 2008	\$ 378.0	\$ 199.6	\$ (902.3)	\$ (324.7)
Gains (losses) included in net loss (a):				
Realized and unrealized gains on derivative instruments, net	—	442.7	—	442.7
Unrealized gains (losses) due to changes in fair values of certain investments and debt, net	(16.2)	—	327.8	311.6
Purchases, settlements and other	27.5	12.7	—	40.2
Foreign currency translation adjustments	(16.4)	(0.2)	—	(16.6)
Balance of asset (liability) at December 31, 2008	\$ 372.9	\$ 654.8	\$ (574.5)	\$ 453.2

(a) All of the gains (losses) recognized during 2008 relate to assets and liabilities that we continue to carry on our consolidated balance sheet as of December 31, 2008.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

Our cash equivalents include amounts that are invested in money market funds. We record these funds at the net asset value reported by the investment manager as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value reported by the investment manager.

**(9) Long-lived Assets**

***Property and Equipment, Net***

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

	December 31,	
	2008	2007
	in millions	
Cable distribution systems	\$ 17,349.7	\$ 13,839.4
Support equipment, buildings and land	2,288.1	1,926.4
	19,637.8	15,765.8
Accumulated depreciation	(7,602.4)	(5,157.3)
Total property and equipment, net	<u>\$ 12,035.4</u>	<u>\$ 10,608.5</u>

Depreciation expense related to our property and equipment was \$2,432.6 million, \$2,136.3 million and \$1,635.8 million during 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, the amount of property and equipment, net, recorded under capital leases was \$1,153.6 million and \$693.2 million, respectively. Depreciation of assets under capital leases is included in depreciation and amortization in our consolidated statements of operations.

During 2008, 2007 and 2006, we recorded \$600.4 million, \$185.2 million and \$150.4 million of non-cash increases to our property and equipment, respectively, as a result of assets acquired under capital lease arrangements. These increases include (i) \$233.0 million, \$161.0 million and \$149.4 million, respectively, related to lease arrangements acquired or entered into by J:COM, and (ii) \$394.4 million, \$22.7 million and nil, respectively, related to lease arrangements acquired or entered into by Telenet. The 2008 amount for Telenet is primarily related to the 2008 PICs Agreement. See note 4.



LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

**Goodwill**

Changes in the carrying amount of goodwill during 2008 are as follows:

	January 1, 2008	Acquisition related adjustments	Impairments	Release of pre-acquisition valuation allowance and other income tax related adjustments in millions	Foreign currency translation adjustments and other	December 31, 2008
<b>UPC Broadband Division:</b>						
The Netherlands	\$ 1,367.0	\$ 1.5	\$ —	\$ (41.6)	\$ (47.4)	\$ 1,279.5
Switzerland	2,519.8	—	—	(19.3)	158.1	2,658.6
Austria	872.4	1.0	—	—	(31.8)	841.6
Ireland	260.6	—	—	(0.3)	(11.3)	249.0
Total Western Europe	5,019.8	2.5	—	(61.2)	67.6	5,028.7
Hungary	421.2	0.6	—	—	(37.6)	384.2
Other Central and Eastern Europe	1,109.2	35.8	(144.8)	—	(110.5)	889.7
Total Central and Eastern Europe	1,530.4	36.4	(144.8)	—	(148.1)	1,273.9
Total UPC Broadband Division	6,550.2	38.9	(144.8)	(61.2)	(80.5)	6,302.6
Telenet (Belgium)	2,183.0	118.4	—	—	(96.6)	2,204.8
J:COM (Japan)	2,677.3	275.0	—	(8.4)	607.3	3,551.2
VTR (Chile)	534.3	—	—	—	(115.8)	418.5
Corporate and other	682.0	92.3	—	(2.7)	(104.0)	667.6
Total LGI	\$ 12,626.8	\$ 524.6	\$ (144.8)	\$ (72.3)	\$ 210.4	\$ 13,144.7

During the fourth quarter of 2008, we concluded that the fair value of our broadband communications reporting unit in Romania was less than its carrying value and that the implied fair value of the goodwill related to this reporting unit was less than its carrying value. The fair value of the reporting unit was based on discounted cash flow analyses that contemplated, among other matters, (i) the current and expected future impact of competition in Romania, (ii) anticipated costs associated with requirements imposed by certain municipalities to move aerial cable to underground ducts and (iii) the impact of disruptions in the credit and equity markets on our weighted average cost of capital with respect to our Romanian reporting unit. Accordingly, we recorded a \$144.8 million charge during the fourth quarter of 2008 to reflect this goodwill impairment. This impairment charge is included in impairment, restructuring and other operating charges, net, in our consolidated statement of operations.

Based on business conditions and market values that existed at December 31, 2008, we concluded that no other impairments of our goodwill or other long-lived assets were required. However, the market values of the publicly-traded equity of our company and certain of our publicly-traded subsidiaries continue to be depressed and we continue to experience difficult economic environments and significant competition in most of our markets. If, among other factors, (i) our equity values remain depressed or decline further, (ii) our subsidiaries equity values decline further or (iii) the adverse impacts of economic or competitive factors are worse than anticipated, we could conclude in future periods that additional impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Depending on (i) our or our subsidiaries' equity prices, (ii) economic and competitive conditions and (iii) other factors, any such impairment charges could be significant.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

Changes in the carrying amount of goodwill during 2007 are as follows:

	January 1, 2007	Acquisition related adjustments	Disposition of investment in SC Media (note 5)	Release of pre-acquisition valuation allowances and other income tax related adjustments in millions	Adoption of FIN 48 (note 2)	Foreign currency translation adjustments and other	December 31, 2007
<b>UPC Broadband Division:</b>							
The Netherlands	\$ 1,403.4	\$ —	\$ —	\$ (152.7)	\$ (27.3)	\$ 143.6	\$ 1,367.0
Switzerland	2,349.9	0.6	—	—	—	169.3	2,519.8
Austria	791.1	75.0	—	(69.3)	(8.8)	84.4	872.4
Ireland	250.0	1.3	—	(16.8)	(0.4)	26.5	260.6
Total Western Europe	4,794.4	76.9	—	(238.8)	(36.5)	423.8	5,019.8
Hungary	402.3	3.3	—	(17.9)	(9.6)	43.1	421.2
Other Central and Eastern Europe	1,048.4	3.3	—	(24.0)	(11.6)	93.1	1,109.2
Total Central and Eastern Europe	1,450.7	6.6	—	(41.9)	(21.2)	136.2	1,530.4
Total UPC Broadband Division	6,245.1	83.5	—	(280.7)	(57.7)	560.0	6,550.2
Telenet (Belgium)	—	1,983.7	—	—	—	199.3	2,183.0
J:COM (Japan)	2,354.6	194.5	—	(10.0)	—	138.2	2,677.3
VTR (Chile)	527.6	—	—	(24.9)	(4.8)	36.4	534.3
Corporate and other	815.3	38.3	(100.9)	(5.9)	(83.0)	18.2	682.0
Total LGI	\$ 9,942.6	\$ 2,300.0	\$ (100.9)	\$ (321.5)	\$ (145.5)	\$ 952.1	\$ 12,626.8

**Intangible Assets Subject to Amortization, Net**

The details of our intangible assets subject to amortization are set forth below:

	December 31,	
	2008	2007
	in millions	
<b>Gross carrying amount:</b>		
Customer relationships	\$ 3,150.3	\$ 2,746.3
Other	345.3	507.7
	<u>\$ 3,495.6</u>	<u>\$ 3,254.0</u>

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

	December 31,	
	2008	2007
	in millions	
<b>Accumulated amortization:</b>		
Customer relationships	\$ (973.0)	\$ (655.3)
Other	(117.6)	(93.8)
	<u>\$ (1,090.6)</u>	<u>\$ (749.1)</u>
<b>Net carrying amount:</b>		
Customer relationships	\$ 2,177.3	\$ 2,091.0
Other	227.7	413.9
	<u>\$ 2,405.0</u>	<u>\$ 2,504.9</u>

Amortization of intangible assets with finite useful lives was \$425.1 million, \$356.8 million and \$248.9 million during 2008, 2007 and 2006, respectively. Based on our amortizable intangible asset balances at December 31, 2008, we expect that amortization expense will be as follows for the next five years and thereafter. Amounts presented below represent U.S. dollar equivalents based on December 31, 2008 exchange rates (in millions):

2009	\$ 374.8
2010	359.0
2011	291.8
2012	269.5
2013	244.1
Thereafter	865.8
Total	<u>\$ 2,405.0</u>

***Indefinite-lived Intangible Assets***

At each of December 31, 2008 and 2007, franchise rights and other indefinite-lived intangible assets aggregating \$183.7 million were included in other assets, net, in our consolidated balance sheets.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

(10) **Debt**

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

	December 31, 2008			Estimated fair value (c)		Carrying value	
	Weighted average interest rate (a)	Unused borrowing capacity (b)		December 31,		December 31,	
		Borrowing currency	U.S. \$ equivalent	2008	2007	2008	2007
				in millions			
Debt:							
UPC Broadband Holding Bank Facility (d)	4.10%	€	223.0	\$ 311.1	\$ 7,463.7	\$ 6,843.5	\$ 8,823.1
UPC Holding 7.75% Senior Notes due 2014	7.75%	—	—	—	530.2	694.2	697.6
UPC Holding 8.625% Senior Notes due 2014	8.63%	—	—	—	326.5	432.2	418.6
UPC Holding 8.00% Senior Notes due 2016	8.00%	—	—	—	284.6	415.5	418.6
UPC Holding Facility (d)	—	—	—	—	—	345.9	—
Telenet Credit Facility	7.22%	€	315.0	439.5	2,695.8	2,694.6	2,769.6
J:COM Credit Facility	1.12%	¥	8,000.0	88.1	411.3	485.1	440.2
Other J:COM debt	1.34%	¥	2,000.0	22.0	1,412.4	1,010.2	1,641.9
UGC Convertible Notes (e)	1.75%	—	—	—	574.5	902.3	574.5
Sumitomo Collar Loan (f)	1.88%	—	—	—	1,031.6	850.4	1,031.6
Austar Bank Facility	8.58%	—	—	—	535.4	644.4	598.0
LGJ Holdings Credit Facility	4.00%	—	—	—	740.2	670.9	826.1
VTR Bank Facility (g)	5.39%	CLP	136,391.6	213.6	465.5	470.3	465.5
Chellomedia Bank Facility	4.94%	—	—	—	269.4	305.9	301.2
Liberty Puerto Rico Bank Facility	6.56%	\$	10.0	10.0	154.1	159.9	167.6
Other	7.82%	—	—	—	156.3	263.9	156.3
Total debt	4.60%		\$ 1,084.3	\$ 17,051.5	\$ 17,189.2	19,330.4	17,749.7
Capital lease obligations:							
J:COM						704.2	499.7
Telenet						438.0	75.8
Other subsidiaries						30.3	28.2
Total capital lease obligations						1,172.5	603.7
Total debt and capital lease obligations						20,502.9	18,353.4
Current maturities						(513.0)	(383.2)
Long-term debt and capital lease obligations						\$ 19,989.9	\$ 17,970.2

(a) Represents the weighted average interest rate in effect at December 31, 2008 for all borrowings outstanding pursuant to each debt instrument including the applicable margin. The interest rates presented do not include the impact of our interest rate derivative agreements, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. For information concerning our derivative instruments, see note 7.

(b) Unused borrowing capacity represents the maximum availability under the applicable facility at December 31, 2008 without regard to covenant compliance calculations. At December 31, 2008, the full amount of unused borrowing capacity was available to be borrowed under each of the respective facilities except that we could not have borrowed €142.2 million (\$198.4 million) of the unused availability under the UPC Broadband Holding

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Bank Facility due to the September 30, 2008 covenant compliance calculations that were in effect at December 31, 2008. Based on the December 31, 2008 covenant compliance calculations, we will be able to borrow the full unused availability under the UPC Broadband Holding Bank Facility when the December 31, 2008 bank reporting requirements have been completed. To the extent we were to draw on the VTR Bank Facility (as defined below) commitments, we would be required to set aside an equivalent amount of cash collateral.

- (c) The fair values of our debt instruments at December 31, 2008 were determined using discounted cash flow models. The discount rates used in these models are based on the estimated credit spread of each entity, taking into account market data, to the extent available, and other relevant factors. The fair values of our debt instruments at December 31, 2007 generally were based on the average of applicable bid and ask prices.
- (d) Effective May 16, 2008, the commitments of the lenders under the €250.0 million (\$348.8 million) UPC Holding Facility were rolled into Facility M as a separate tranche (Facility M — Tranche 5) under the UPC Broadband Holding Bank Facility.
- (e) The UGC Convertible Notes are measured at fair value. Our assessment of the fair value of the UGC Convertible Notes included an estimated credit risk component of \$136.5 million at December 31, 2008. This credit risk component is estimated at each balance sheet date as the difference between (i) the fair value of the UGC Convertible Notes and (ii) the value of the UGC Convertible Notes derived by holding all other inputs constant and replacing the market credit spread with a credit spread of nil. The estimated change in UGC's credit risk during 2008 resulted in a gain of \$111.9 million that is included in unrealized losses due to changes in fair values of certain investments and debt, net, in our consolidated statements of operations. For information regarding our fair value measurements, see note 8.
- (f) See note 7 for information regarding the Sumitomo Collar Loan.
- (g) Pursuant to the deposit arrangements with the lender in relation to the VTR Bank Facility (as defined below), we are required to fund a cash collateral account in an amount equal to the outstanding principal and interest under the VTR Bank Facility. This cash collateral account had a balance of \$465.5 million at December 31, 2008, of which \$4.7 million is reflected as a current asset and \$460.8 million is presented as a long-term asset in our consolidated balance sheet.

**UPC Broadband Holding Bank Facility**

The UPC Broadband Holding Bank Facility, as amended, is the senior secured credit facility of UPC Broadband Holding. The security package for the UPC Broadband Holding Bank Facility includes a pledge over the shares of UPC Broadband Holding and the shares of certain of UPC Broadband Holding's majority-owned operating companies. The UPC Broadband Holding Bank Facility is also guaranteed by UPC Holding, the immediate parent of UPC Broadband Holding, and is senior to other long-term debt obligations of UPC Broadband Holding and UPC Holding. The agreement governing the UPC Broadband Holding Bank Facility contains covenants that limit among other things, UPC Broadband Holding's ability to merge with or into another company, acquire other companies, incur additional debt, dispose of assets, provide loans and guarantees and enter into a hedging arrangement. In addition to customary default provisions, including defaults on other indebtedness of UPC Broadband Holding and its subsidiaries, the UPC Broadband Holding Bank Facility provides that any event of default with respect to indebtedness of €50.0 million (\$69.8 million) or more in the aggregate of (i) Liberty Global Europe, Inc. (the parent of Liberty Global Europe and an indirect subsidiary of UGC), (ii) any other company of which UPC Broadband is a subsidiary and which is a subsidiary of Liberty Global Europe, Inc. and (iii) UPC Holding II B.V. (a direct subsidiary of UPC Holding) is an event of default under the UPC Broadband Holding Bank Facility.

The UPC Broadband Holding Bank Facility permits UPC Broadband Holding to transfer funds to its parent company (and indirectly to LGI) through loans, advances or dividends provided that UPC Broadband Holding

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

maintains compliance with applicable covenants. If a Change of Control occurs, as defined in the UPC Broadband Holding Bank Facility, the facility agent may (if required by the majority lenders) cancel each facility and declare all outstanding amounts immediately due and payable. The UPC Broadband Holding Bank Facility requires compliance with various financial covenants such as: (i) Senior Debt to Annualized EBITDA, (ii) EBITDA to Total Cash Interest, (iii) EBITDA to Senior Debt Service, (iv) EBITDA to Senior Interest and (v) Total Debt to Annualized EBITDA, each capitalized term as defined in the UPC Broadband Holding Bank Facility.

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

The UPC Broadband Holding Bank Facility includes a mandatory prepayment requirement of four times Annualized EBITDA, as defined in the UPC Broadband Holding Bank Facility, of certain disposed assets. The prepayment amount may be allocated to one or more of the facilities at UPC Broadband Holding's discretion and then applied to the loans under the relevant facility on a pro rata basis. A prepayment may be waived by the majority lenders subject to the requirement to maintain pro forma covenant compliance. If the mandatory prepayment amount is less than €100 million (\$139.5 million), then no prepayment is required (subject to pro forma covenant compliance). No such prepayment is required to be made where an amount, equal to the amount that would otherwise be required to be prepaid, is deposited in a blocked account on terms that the principal amount deposited may only be released in order to make the relevant prepayment or to reinvest in assets in accordance with the terms of the UPC Broadband Holding Bank Facility, which expressly includes permitted acquisitions and capital expenditures. Any amounts deposited in the blocked account that have not been reinvested (or contracted to be so reinvested), within 12 months of the relevant permitted disposal, are required to be applied in prepayment in accordance with the terms of the UPC Broadband Holding Bank Facility.

In August and September 2008, two additional facility accession agreements (Facility O and Facility P, respectively) were entered into under the UPC Broadband Holding Bank Facility. Facility O is an additional term loan facility comprised of (i) a HUF 5,962.5 million (\$31.3 million) sub-tranche and (ii) a PLN 115.1 million (\$38.7 million) sub-tranche, and both sub-tranches were drawn in full in August 2008. Facility P is an additional term loan facility in the principal amount of \$521.2 million, of which only \$511.5 million was received due to the failure of one of the lenders to fund a \$9.7 million commitment. The lenders under LGI's \$215.0 million Senior Revolving Facility Agreement (the LGI Credit Facility) rolled their commitments into Facility P, and the LGI Credit Facility was cancelled. Certain of the lenders under Facility I, a €250.0 million (\$348.8 million) repayable and redrawable term loan under the UPC Broadband Holding Bank Facility, have novated €202.0 million (\$281.8 million) of their undrawn commitments to Liberty Global Europe BV, which is a direct subsidiary of UPC Broadband Holding, and have entered into Facility P. The remaining third party lenders under Facility I remain committed to lend their €48.0 million (\$67.0 million) share of Facility I. Facility P was drawn on September 12, 2008. The proceeds of Facilities O and P have been applied towards general corporate and working capital purposes.

In April and May 2007, the UPC Broadband Holding Bank Facility was amended and six additional facility accession agreements (collectively, the 2007 Accession Agreements) were executed. In connection with the execution of the 2007 Accession Agreements, each of which provided for an additional term loan under new Facilities M and N of the UPC Broadband Holding Bank Facility, the then-existing Facilities J1, J2, K1 and K2 were refinanced. Tranches 1, 2 and 3 under Facility M became effective on April 17, 2007, April 16, 2007 and May 18, 2007, respectively. The €1,695.0 million (\$2,365.0 million) of proceeds received under Facility M — Tranche 1 were used to refinance all of the outstanding borrowings under Facility J1 and Facility K1 under the UPC Broadband Holding Bank Facility. The €1,175.0 million (\$1,639.5 million) of proceeds received under

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Facility M — Tranche 2 were indirectly used to repay the outstanding borrowings under the senior secured credit facility agreement for Cablecom Luxembourg S.C.A. (Cablecom Luxembourg) and Cablecom GmbH, dated December 5, 2005 (the Cablecom Luxembourg Bank Facility), and, together with available cash of €207.2 million (\$280.8 million at the transaction date), to repay the outstanding borrowings under the PIK (Payment in Kind) facility agreement of Liberty Global Switzerland, Inc. (LG Switzerland), our indirect wholly-owned subsidiary, dated September 30, 2005 (the LG Switzerland PIK Loan Facility). Effective April 16, 2007, Cablecom Holdings GmbH (Cablecom) and its subsidiaries became subsidiaries of UPC Broadband Holding (the Cablecom Transfer). The €520.0 million (\$725.5 million) of proceeds received under Facility M — Tranche 3 were used to fund the cash collateral account that secures the VTR Bank Facility, as defined below, and for general corporate and working capital purposes. Tranches 1, 2 and 3 under Facility M have been combined into a single facility. Tranche 4 under Facility M became effective on May 14, 2007 and was drawn in full in September 2007. The €250.0 million (\$348.8 million) of proceeds received under Facility M — Tranche 4 were used for general corporate purposes. Tranche 4 under Facility M was combined with Tranches 1, 2 and 3 on February 11, 2009. Tranches 1 and 2 under Facility N became effective on May 16, 2007 and May 18, 2007, respectively. The \$1,775.0 million of proceeds received under Facility N — Tranche 1 were used to refinance all of the outstanding borrowings under Facility J2 and Facility K2 under the UPC Broadband Holding Bank Facility. The \$125.0 million of proceeds received under Facility N — Tranche 2 were used for general corporate and working capital purposes. Tranches 1 and 2 under Facility N have been combined into a single facility.

The details of our borrowings under the UPC Broadband Holding Bank Facility as of December 31, 2008 are summarized in the following table:

Facility	Final maturity date	Interest rate	December 31, 2008		Outstanding principal amount
			Facility amount (in borrowing currency) (a)(b)	Unused borrowing capacity(b) in millions	
I	April 1, 2010	EURIBOR + 2.50%	€ 48.0	\$ 67.0	\$ —
L	July 3, 2012	EURIBOR + 2.25%	€ 830.0	244.1	913.9
M	(c)	EURIBOR + 2.00%	€ 3,890.0	—	5,427.7
N	(c)	LIBOR + 1.75%	\$ 1,900.0	—	1,900.0
O	July 31, 2013	(d)	(d)	—	70.0
P	September 2, 2013	LIBOR + 2.75%	\$ 511.5	—	511.5
Total				\$ 311.1	\$ 8,823.1

- (a) Facilities I and L are repayable and redrawable term loans. The total committed amount of Facility I is €250.0 million, however, €202.0 million has been novated to Liberty Global Europe BV. Therefore, total third-party commitments under Facility I at December 31, 2008 were €48.0 million (\$67.0 million).
- (b) For Facility P, the \$9.7 million that was not funded by one of our lenders has been excluded from the facility amount and unused borrowing capacity. Due to the financial difficulties of this lender, we do not believe that this amount represents a near-term source of liquidity. We have no further credit risk exposures to this particular financial institution.
- (c) The final maturity date for Facilities M and N is the earlier of (i) December 31, 2014 or (ii) October 17, 2013, the date falling 90 days prior to the date on which UPC Holding's existing Senior Notes due 2014 fall due if such Senior Notes have not been repaid, refinanced or redeemed prior to such date.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

- (d) The applicable interest payable under Facility O is 2.75% per annum plus the specified percentage rate per annum determined by the Polish Association of Banking Dealers — Forex Poland or the National Bank of Hungary, as appropriate for the relevant period. The facility amount of Facility O is comprised of (i) a HUF 5,962.5 million (\$31.3 million) sub-tranche and (ii) a PLN 115.1 million (\$38.7 million) sub-tranche.

Pursuant to an amendment letter dated April 16, 2007, the UPC Broadband Holding Bank Facility was amended to permit the acquisition of LGI's indirect 80% interest in VTR (either directly or indirectly by the acquisition of its holding company) and its subsidiaries by a member of the Borrower Group (as defined in the UPC Broadband Holding Bank Facility) (the VTR Transfer). The amendment letter also amended the terms of the UPC Broadband Holding Bank Facility to, among other things, permit security interests granted under VTR's then existing bank facilities, including any refinancing thereof, and over related deposits or similar arrangements and to permit the disposal of all or any part of any member of the VTR Group (consisting of VTR, its subsidiaries and its parent holding company) without impact on the ability to dispose of other assets in the Borrower Group under applicable covenants.

The VTR Transfer was completed on May 23, 2007, when certain of our subsidiaries that collectively own an 80% interest in VTR were transferred to a subsidiary of UPC Broadband Holding. In connection with the VTR Transfer, a single lender acquired the interests and was subrogated to the rights of the lenders under the then existing fully-drawn \$475.0 million U.S. dollar denominated Tranche B term loan under VTR's previous bank facility. The VTR Tranche B term loan was then amended and restated pursuant to an Amended and Restated Senior Secured Credit Facility Agreement dated May 18, 2007 and effective May 25, 2007 (the VTR Bank Facility). The amendments included, among other things, a 100 basis point reduction in the interest rate margin payable under the VTR Tranche B term loan (from LIBOR plus 3.0% to Eurodollar Rate, as defined in the VTR Bank Facility, plus 2.0%) and the elimination of certain restrictive covenants and undertakings. VTR's then existing undrawn CLP 122.6 billion (\$192.0 million) term loan and CLP 13.8 billion (\$21.6 million) revolving loan facilities were cancelled and replaced in the VTR Bank Facility on substantially the same terms. The VTR Tranche B term loan matures in September 2014, the undrawn VTR term loan facility matures in September 2013 and the undrawn VTR revolving loan facility matures in March 2013. Any borrowings under the undrawn VTR term and revolving loan facilities will bear interest at the Nominal TAB Rate, as defined in the VTR Bank Facility, plus 2.50%.

Pursuant to the deposit arrangements with the lender in relation to the VTR Bank Facility, we are required to fund a cash collateral account in an amount equal to the outstanding principal and interest payable under the VTR Bank Facility. In this regard, we used borrowings under Facility M to fund a deposit with the new lender securing VTR's obligations under the VTR Bank Facility. In connection with the refinancing of VTR's bank facilities, VTR recognized debt extinguishment losses of \$19.5 million during the second quarter of 2007, representing the write-off of unamortized deferred financing costs.

In connection with the refinancing of Facilities J1, J2, K1 and K2, UPC Broadband Holding recognized debt extinguishment losses of \$8.4 million during the second quarter of 2007, representing the write-off of unamortized deferred financing costs. In connection with refinancings of the UPC Broadband Holding Bank Facility that occurred in May 2006 and July 2006, we recognized debt extinguishment losses of \$22.2 million during 2006, primarily representing the write-off of deferred financing costs and creditor fees.

**UPC Holding Senior Notes**

On July 29, 2005 UPC Holding issued €500 million (\$607 million at the transaction date) principal amount of 7.75% Senior Notes (the 7.75% Senior Notes). On October 10, 2005, UPC Holding issued €300 million (\$363 million at the transaction date) principal amount of 8.625% Senior Notes (the 8.625% Senior Notes). The 7.75% and 8.625% Senior Notes each mature on January 15, 2014. On April 17, 2007, the €300.0 million (\$418.6 million) principal amount of 8.0% Senior Notes due 2016 (the 8.0% Senior Notes, and collectively with the 7.75% and 8.625% Senior Notes, the UPC Holding Senior Notes) issued on October 31, 2006 by Cablecom



**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

Luxembourg became the direct obligation of UPC Holding on terms substantially identical (other than as to interest, maturity and redemption) to those governing UPC Holding's existing Senior Notes due 2014. The 8.0% Senior Notes mature on November 1, 2016.

Each issue of the UPC Holding Senior Notes are senior obligations that rank equally with all of the existing and future senior debt and are senior to all existing and future subordinated debt of UPC Holding. The UPC Holding Senior Notes are secured by a first-ranking pledge of the shares of UPC Holding. In addition, the UPC Holding Senior Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of €50.0 million (\$69.8 million) or more in the aggregate of UPC Holding or its Restricted Subsidiaries (as defined in the indentures), including UPC Broadband Holding, is an event of default under the UPC Holding Senior Notes.

At any time prior to November 1, 2009, UPC Holding may redeem some or all of the 8.0% Senior Notes by paying a "make-whole" premium, which is the present value of all scheduled interest payments until November 1, 2009, using the discount rate equal to the yield of the comparable German government bond (BUND) issue as of the redemption date plus 50 basis points.

UPC Holding may redeem some or all of the UPC Holding Senior Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on July 15 in the case of the 7.75% and 8.625% Senior Notes and November 1 in the case of the 8.0% Senior Notes of the years set out below:

Year	Redemption Price		
	7.75% Senior Notes	8.625% Senior Notes	8.0% Senior Notes
2009	103.875%	104.313%	108.000%
2010	101.938%	102.156%	106.000%
2011	100.000%	100.000%	104.000%
2012	100.000%	100.000%	102.660%
2013	100.000%	100.000%	101.330%
2014 and thereafter	100.000%	100.000%	100.000%

In addition, at any time prior to November 1, 2009, UPC Holding may redeem up to 35% of the 8.0% Senior Notes (at a redemption price of 108.000% of the principal amount) with the net proceeds from one or more specified equity offerings.

UPC Holding may redeem all of the UPC Holding Senior Notes at a price equal to their principal amount plus accrued and unpaid interest upon the occurrence of certain changes in tax law. If UPC Holding or certain of its subsidiaries sell certain assets or experience specific changes in control, UPC Holding must offer to repurchase the UPC Holding Senior Notes at a redemption price of 101%.

**UPC Holding Facility**

In June 2007, UPC Holding entered into a €250.0 million (\$348.8 million) secured term loan facility (the UPC Holding Facility). The UPC Holding Facility was fully drawn on June 19, 2007. The terms and conditions of the UPC Holding Facility were similar to the terms of the indenture for UPC Holding's Senior Notes due 2014. As permitted under the terms of the UPC Holding Facility, the commitments of the lenders under the UPC Holding Facility were rolled into Facility M under the UPC Broadband Holding Bank Facility effective May 16, 2008.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)***Telenet Credit Facility***

On August 1, 2007, Telenet Bidco executed a new senior credit facility agreement, as amended and restated by various supplemental agreements (the Telenet Credit Facility). The Telenet Credit Facility provides for (i) a €530.0 million (\$739.5 million) Term Loan A Facility (the Telenet TLA Facility) maturing in August 2012, (ii) a €307.5 million (\$429.0 million) Term Loan B1 Facility (the Telenet TLB1 Facility) maturing in February 2014, (iii) a €225.0 million (\$313.9 million) Term Loan B2 Facility (the Telenet TLB2 Facility) maturing in February 2014, (iv) a €1,062.5 million (\$1,482.5 million) Term Loan C Facility (the Telenet TLC Facility) maturing in August 2015 and (v) a €175.0 million (\$244.2 million) Revolving Facility (the Telenet Revolving Facility) maturing in August 2014.

On October 10, 2007, the Telenet TLA Facility, the Telenet TLB1 Facility and the Telenet TLC Facility were drawn in full. The Telenet TLB2 Facility, which was undrawn as of December 31, 2008, is available to be drawn through June 30, 2009. The Telenet Revolving Facility is available to be drawn through June 2014. The proceeds of the Telenet TLA Facility, the Telenet TLB1 Facility and the first €462.5 million (\$654.8 million at the transaction date) drawn under the Telenet TLC Facility have been used primarily to (i) redeem in full the Telenet Senior Discount Notes (as defined below), (ii) redeem in full the Telenet Senior Notes (as defined below) and (iii) repay in full the amounts outstanding under Telenet's previous credit facility. During the fourth quarter of 2007, we recognized debt extinguishment losses of \$88.3 million in the aggregate in connection with the redemption of the Telenet Senior Discount Notes and the Telenet Senior Notes, and the repayment of Telenet's previous credit facility. These losses include the \$71.8 million excess of the redemption values over the carrying values of the Telenet Senior Discount Notes and Telenet Senior Notes, and \$16.5 million related to the write-off of applicable unamortized deferred financing fees.

The applicable margins for the €530.0 million Telenet TLA Facility is 2.25% per annum over EURIBOR. The applicable margin for the €307.5 million Telenet TLB1 Facility and the €225.0 million Telenet TLB2 Facility is 2.50% per annum over EURIBOR. The applicable margin for the €1,062.5 million Telenet TLC Facility is 2.75% per annum over EURIBOR. The applicable margin for the €175.0 million Telenet Revolving Facility is 2.125% per annum over EURIBOR.

On November 19, 2007, Telenet used the remaining funds borrowed under the Telenet TLC Facility to fund a distribution to shareholders by way of a capital reduction. See note 13.

The Telenet TLA Facility and the Telenet TLC Facility will be repaid in full at maturity. The Telenet TLB1 Facility and the Telenet TLB2 Facility will each be repaid in three equal installments, with the first installment due in February 2013, the second installment due in August 2013 and the final installment due in February 2014. Advances under the Telenet Revolving Facility will be repaid at the end of the applicable interest period and all advances outstanding will be repaid in full at maturity.

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Telenet and its subsidiaries, the Telenet Credit Facility requires compliance with a Net Total Debt to Consolidated Annualized EBITDA covenant and a Consolidated EBITDA to Total Cash Interest covenant, each capitalized term as defined in the Telenet Credit Facility. Under the Telenet Credit Facility, Telenet Bidco is permitted to make certain distributions and restricted payments to its shareholders subject to compliance with applicable covenants. The Telenet Credit Facility is secured by (i) pledges over the shares of Telenet Bidco and certain of its subsidiaries, (ii) pledges over certain intercompany and subordinated shareholder loans and (iii) pledges over certain receivables, real estate and other assets of Telenet Bidco, Telenet and certain other Telenet subsidiaries.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

The Telenet TLB2 Facility has a commitment fee on undrawn and uncanceled commitments of 40% of the applicable margin of the Telenet TLB2 Facility subject to a maximum of 1.00%. The Telenet Revolving Facility has a commitment fee on undrawn and uncanceled commitments of 40% of the applicable margin of the Telenet Revolving Facility subject to a maximum of 0.75%.

Effective May 23, 2008, the Telenet Credit Facility was amended to (i) include an increased basket for permitted financial indebtedness incurred pursuant to finance leases, (ii) include a new definition of "Interkabel Acquisition," (iii) carve-out indebtedness incurred under the network lease entered into in connection with the Interkabel Acquisition up to a maximum aggregate amount of €195.0 million (\$272.1 million) from the definition of Total Debt (as defined in the Telenet Credit Facility) and (iv) extend the availability period for the €225.0 million Telenet TLB2 Facility from July 31, 2008 to June 30, 2009.

**Refinanced Telenet Debt**

*Telenet Senior Discount Notes.* On December 22, 2003, Telenet issued Senior Discount Notes due June 15, 2014 (the Telenet Senior Discount Notes) at 57.298% of par value with a principal amount due at maturity of \$558.0 million, receiving net proceeds of \$300.3 million. Interest on the Telenet Senior Discount Notes began accruing from December 22, 2003 at an annual rate of 11.5%, compounded semi-annually.

On October 10, 2007, Telenet used €257.0 million (\$363.8 million at the transaction date) of the proceeds from the Telenet Credit Facility to redeem the Telenet Senior Discount Notes at a redemption price equal to 100% of the accreted value of the Telenet Senior Notes plus a \$46.0 million "make-whole" premium.

*Telenet Senior Notes.* On December 22, 2003, Telenet Communications NV issued €500.0 million (\$619.1 million at the transaction date) principal amount of 9.0% Senior Notes due December 15, 2013 (the Telenet Senior Notes). During the fourth quarter of 2005, a portion of the outstanding principal amount of the Telenet Senior Notes was redeemed.

On October 10, 2007, Telenet used €413.5 million (\$585.4 million at the transaction date) of the proceeds from the Telenet Credit Facility to redeem the Telenet Senior Notes at a redemption price equal to 100% of the principal amount (plus accrued and unpaid interest) of the Telenet Senior Notes plus a €34.5 million (\$47.1 million at the transaction date) "make-whole" premium.

**Telenet Capital Lease Obligations**

At December 31, 2008, Telenet's capital lease obligations included €277.8 million (\$387.6 million) associated with Telenet's lease of the Telenet PICs Network. For additional information, see note 4.

**J:COM Credit Facility**

In December 2005, J:COM entered into a credit facility agreement with a syndicate of banks (the J:COM Credit Facility). The J:COM Credit Facility currently consists of (i) a ¥30 billion (\$330.4 million) revolving credit loan (the 2005 J:COM Revolving Loan) and (ii) an ¥85 billion (\$936.2 million) amortizing term loan (the 2005 J:COM Term Loan). Borrowings may be made under the J:COM Credit Facility on a senior, unsecured basis. Amounts repaid under the 2005 J:COM Term Loan may not be reborrowed.

On December 29, 2008, in connection with its acquisition of Mediatti as discussed in note 4, J:COM borrowed ¥22 billion (\$242.3 million) under the 2005 J:COM Revolving Loan and ¥8 billion (\$88.1 million) under the 2007 J:COM Revolving Loan (as defined below). The proceeds from these borrowings, along with available cash on hand, were used to fund the Mediatti purchase price and to repay Mediatti's then existing credit facility.

The 2005 J:COM Revolving Loan and the 2005 J:COM Term Loan bear interest equal to TIBOR plus a variable margin to be adjusted based on the leverage ratio of J:COM. The weighted-average interest rate, including

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

applicable margins, on the 2005 J:COM Term Loan at December 31, 2008 was 1.12%. Borrowings under the 2005 J:COM Revolving Loan may be used by J:COM for acquisitions and general corporate purposes. Amounts drawn under the 2005 J:COM Term Loan have a final maturity date of December 31, 2010, and amortize in quarterly installments. The final maturity date of all amounts outstanding under the 2005 J:COM Revolving Loan is December 31, 2010 and will be available for drawdown until one month prior to its final maturity. In addition to customary restrictive covenants and events of default, including defaults on other indebtedness of J:COM and its subsidiaries, the unsecured J:COM Credit Facility requires compliance with various financial covenants such as: (i) Maximum Senior Debt to EBITDA, (ii) Minimum Debt Service Coverage Ratio and (iii) a Total Shareholder's Equity test, each capitalized term as defined in the J:COM Credit Facility. The J:COM Credit Facility permits J:COM to transfer funds to its shareholders (and indirectly to LGI) through loans, dividends or other distributions provided that J:COM maintains compliance with applicable covenants. At December 31, 2008, ¥8 billion (\$88.1 million) was available for borrowing under the 2005 J:COM Revolving Loan. The 2005 J:COM Revolving Loan provides for an annual commitment fee of 0.20% on the unused portion.

**Other J:COM debt**

On March 31, 2008, J:COM entered into a ¥25 billion (\$275.4 million) syndicated term loan (the 2008 J:COM Term Loan). On April 16, 2008 the full amount of the 2008 J:COM Term Loan was drawn and the proceeds were used to repay a portion of the outstanding 2005 J:COM Term Loan. The applicable margin for the 2008 J:COM Term Loan is the three-month TIBOR plus a margin of 0.20% and borrowings are due and payable in one installment on April 16, 2014. The 2008 J:COM Term Loan contains covenants similar to those of the J:COM Credit Facility.

On September 28, 2007, J:COM entered into a ¥10 billion (\$110.1 million) unsecured revolving credit facility agreement with a syndicate of banks (the 2007 J:COM Revolving Loan). The applicable margin for the 2007 J:COM Revolving Loan is TIBOR plus a margin of 0.35%. Borrowings under the 2007 J:COM Revolving Loan, which matures on September 14, 2012, may be used for acquisitions and general corporate purposes. In addition to customary restrictive covenants and events of default, including defaults on other indebtedness of J:COM and its subsidiaries, the 2007 J:COM Revolving Loan requires compliance with various financial covenants such as: (i) Minimum Working Capital, (ii) Maximum Senior Debt to EBITDA and (iii) Minimum Debt Service Coverage Ratio, each capitalized term as defined in the 2007 J:COM Revolving Loan agreement. As of December 31, 2008, ¥2 billion (\$22.0 million) was available for borrowing under the 2007 J:COM Revolving Loan. The 2007 J:COM Revolving Loan provides for an annual commitment fee of 0.10% on the unused portion.

During April and May of 2006, J:COM refinanced ¥38 billion (\$323 million at the transaction date) and ¥2,000 million (\$18 million at the transaction date), respectively, of then-existing borrowings under the J:COM Credit Facility with ¥20 billion of fixed-interest rate loans and ¥20 billion of variable-interest rate loans. At December 31, 2008, the fixed-interest rate loans had a weighted average interest rate of 2.1% and the new variable-interest rate loans had a weighted average interest rate of Japanese yen LIBOR plus 0.3%. These loans, which contain covenants similar to those of the J:COM Credit Facility, mature in 2013 and are each to be repaid in one installment on their respective maturity dates. In connection with these refinancings, J:COM recognized debt extinguishment losses of \$3.3 million during 2006.

In connection with the September 2006 acquisition of Cable West, J:COM entered into (i) a ¥2,000 million variable-interest rate term loan agreement, (ii) a ¥20 billion fixed-interest rate term loan agreement, and (iii) a ¥30 billion syndicated term loan agreement. The ¥2,000 million (\$17 million at the transaction date) and ¥20 billion (\$169.7 million at the transaction date) term loans were fully drawn in September 2006. On October 27, 2006, the full amount of the ¥30 billion syndicated term loan (\$252.6 million at the transaction date) was drawn and a portion of the proceeds was used to repay the then outstanding balance of the 2005 J:COM Revolving Loan (¥14 billion or \$117.9 million at the transaction date). The new term loans mature between 2011 and 2013. The interest rate on the

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

¥2,000 million term loan is based on the six-month TIBOR plus a margin of 0.25%. The ¥20 billion term loan bears interest as to ¥10 billion of the outstanding principal amount at a fixed interest rate of 1.72% and as to the remaining ¥10 billion principal amount at a fixed interest rate of 1.90%. The ¥30 billion syndicated term loan bears interest at (i) LIBOR plus a margin of 0.25% as to the ¥10 billion (\$110.1 million) principal amount that is due in October 2011, (ii) LIBOR plus a margin of 0.35% as to the ¥19.5 billion (\$214.8 million) principal amount that is due in October 2013 and (iii) a fixed rate of 2.05% as to the ¥500 million (\$5.5 million) principal amount that is due in October 2013. These loans contain covenants similar to those of the J:COM Credit Facility.

**UGC Convertible Notes**

On April 6, 2004, UGC completed the offering and sale of €500.0 million (\$697.6 million) 1.75% euro-denominated convertible senior notes due April 15, 2024. Interest is payable semi-annually on April 15 and October 15 of each year. The UGC Convertible Notes are senior unsecured obligations that rank equally in right of payment with all of UGC's existing and future senior and unsecured indebtedness and ranks senior in right of payment to all of UGC's existing and future subordinated indebtedness. The UGC Convertible Notes are effectively subordinated to all existing and future indebtedness and other obligations of UGC's subsidiaries. The indenture governing the UGC Convertible Notes, which does not contain any financial or operating covenants, provides that an acceleration of indebtedness in excess of €50 million (\$69.8 million) of UGC or its Significant Subsidiaries (as defined in the indenture) is an event of default under the indenture for the UGC Convertible Notes.

The UGC Convertible Notes may be redeemed at UGC's option, in whole or in part, on or after April 20, 2011 at a redemption price in euros equal to 100% of the principal amount, together with accrued and unpaid interest. Holders of the UGC Convertible Notes have the right to tender all or part of their notes for purchase by UGC on April 15, 2011, April 15, 2014 and April 15, 2019, for a purchase price in euros equal to 100% of the principal amount, plus accrued and unpaid interest. If a change in control (as defined in the indenture) has occurred, each holder of the UGC Convertible Notes may require UGC to purchase their notes, in whole or in part, at a price equal to 100% of the principal amount, plus accrued and unpaid interest.

Prior to September 11, 2007, the UGC Convertible Notes in the aggregate were convertible into 11,044,375 shares of LGI Series A common stock and 11,044,375 shares of LGI Series C common stock based on the then conversion price for one share of LGI Series A common stock and the related Series C Dividend Shares Amount (as defined in the indenture governing the UGC Convertible Notes), which was equivalent to a conversion rate of 22.09 LGI Series A shares and 22.09 LGI Series C shares for each €1,000 principal amount of UGC Convertible Notes. Effective September 11, 2007, the conversion price of the UGC Convertible Notes was adjusted to give effect to the cumulative impact of our self-tender offers since the issuance of the UGC Convertible Notes. After giving effect to this adjustment, the UGC Convertible Notes in the aggregate are convertible into 11,159,319 LGI Series A shares and 11,044,375 LGI Series C shares, which is equivalent to a conversion rate of 22.32 shares of LGI Series A common stock and 22.09 shares of LGI Series C common stock for each €1,000 principal amount of UGC Convertible Notes.

Holders of the UGC Convertible Notes may surrender their notes for conversion prior to maturity in the following circumstances: (i) the price of LGI Series A common stock reaches a specified threshold, (ii) the combined price of LGI Series A and Series C common stock reaches a specified threshold, (iii) UGC has called the UGC Convertible Notes for redemption, (iv) the trading price for the UGC Convertible Notes falls below either of two specified thresholds, (v) we make certain distributions to holders of LGI Series A common stock or (vi) specified corporate transactions occur.

**2007 and 2006 Austar Bank Facilities**

On August 28, 2007, Austar Entertainment refinanced, amended and restated its then existing bank facility to, among other matters, provide for increased borrowing capacity. The amended and restated facility (the Austar Bank

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Facility) allows Austar Entertainment to borrow up to AUD 850.0 million (\$598.9 million) and provides for (i) an AUD-denominated term loan for AUD 225.0 million (\$158.5 million), which bears interest at BBSY plus margins ranging from 0.90% to 1.70% and matures in August 2011, (ii) an AUD-denominated term loan for AUD 500.0 million (\$352.3 million), which bears interest at BBSY plus margins ranging from 1.30% to 2.00% and matures in August 2013 and (iii) an AUD-denominated revolving facility for AUD 100.0 million (\$70.5 million), which bears interest at BBSY plus margins ranging from 0.90% to 1.70% and matures in August 2012. The Austar Bank Facility also provides for an agreement with a single bank for a AUD 25.0 million (\$17.6 million) working capital facility that matures in August 2012. Borrowings under the Austar Bank Facility were advanced to Austar to fund (i) the October 31, 2007 redemption of the Austar Subordinated Transferable Adjustable Redeemable Securities (STARS) (see below) and (ii) Austar's November 1, 2007 distribution to its shareholders (see note 13). The Austar Bank Facility, which has a commitment fee on undrawn and uncanceled balances of 0.5% per year, was fully drawn at December 31, 2008.

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Austar and its subsidiaries, the Austar Bank Facility requires compliance with various financial covenants including (i) Net Total Debt to EBITDA and (ii) EBITDA to Total Interest Expense, each capitalized term as defined in the Austar Bank Facility. The Austar Bank Facility is secured by pledges over (i) Austar Entertainment shares, (ii) shares of certain of Austar's subsidiaries and (iii) certain other assets of Austar and certain of its subsidiaries. The Austar Bank Facility is also guaranteed by Austar and certain of its subsidiaries.

As Austar Entertainment's 2007 refinancing of its then existing bank facility did not represent a substantial modification of terms, we did not recognize a debt extinguishment gain or loss upon the completion of this refinancing transaction.

**Redemption of STARS**

On October 31, 2007, Austar redeemed in full its STARS for a total cash redemption amount of AUD 115.0 million (\$106.6 million at the transaction date).

**LGJ Holdings Credit Facility**

On October 31, 2007, LGJ Holdings, our wholly-owned indirect subsidiary, executed a new senior secured credit facility agreement (the LGJ Holdings Credit Facility). The LGJ Holdings Credit Facility provides for an initial term loan facility in the amount of ¥75.0 billion (\$655.0 million at the transaction date) (the LGJ Term Loan Facility) which was drawn in full on November 5, 2007. The proceeds of the LGJ Term Loan Facility were used to make a distribution to the sole member of LGJ Holdings and to pay fees, costs and expenses incurred in connection with granting the LGJ Term Loan Facility. The LGJ Term Loan Facility will be repaid in two installments with (i) 2.5% of the outstanding principal amount of the LGJ Term Loan Facility being repayable in May 2012 and (ii) 97.5% of the outstanding principal amount of the LGJ Term Loan Facility repayable in November 2012. The applicable margin for the LGJ Term Loan Facility is 3.25% per annum over TIBOR. The LGJ Holdings Credit Facility contains a mechanism whereby additional term facilities may be entered into subject to compliance with applicable covenants and certain other restrictions. In addition to customary restrictive covenants, prepayment requirements and events of default, the LGJ Holdings Credit Facility requires compliance with various financial covenants including (i) J:COM Ten Day Average Market Price to Facilities Net Debt and (ii) Total Net Debt To J:COM Annualized EBITDA, each capitalized term as defined in the LGJ Holdings Credit Facility. The LGJ Holdings Credit Facility is secured by (i) pledges over the membership interests in LGJ Holdings and the stock of its two subsidiaries, Liberty Japan, Inc. (Liberty Japan), a wholly-owned direct subsidiary of LGJ Holdings, and Liberty Jupiter, Inc. (Liberty Jupiter), an 85.7% owned direct subsidiary of LGJ Holdings, (ii) a pledge over a bank account of LGJ Holdings and (iii) a security agreement in respect of certain future assets of LGJ Holdings, Liberty Japan and Liberty Jupiter. Liberty Japan and Liberty Jupiter are members of Super Media through which we

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

indirectly own our interest in J:COM. LGJ Holding's obligations are guaranteed by Liberty Japan and Liberty Jupiter. LGI has provided a limited recourse guarantee with respect to the payment of interest under the LGJ Holdings Credit Facility and, under certain limited circumstances, the payment of principal and other obligations. In addition, the LGJ Holdings Credit Facility provides that any event of default with respect to indebtedness of €50.0 million (\$69.8 million) or more in the aggregate of LGI is an event of default under the LGJ Holdings Credit Facility.

***Chellomedia Bank Facility***

On December 12, 2006, Chellomedia PFH, an indirect subsidiary of Chellomedia, consummated a senior secured credit facility (the Chellomedia Bank Facility) with certain banks and financial institutions as lenders. The Chellomedia Bank Facility provides the terms and conditions upon which the lenders have made available to Chellomedia PFH (i) two euro-denominated term facilities due in December 2013 with aggregate outstanding borrowings at December 31, 2008 of €102.9 million (\$143.6 million), (ii) two U.S. dollar-denominated term facilities due in December 2013 with aggregate outstanding borrowings at December 31, 2008 of \$88.2 million, (iii) a delayed draw facility due in 2013 with outstanding borrowings at December 31, 2008 of €25.0 million (\$34.9 million) and (iv) a revolving facility (which may also be drawn in Hungarian forints) due in 2012 with outstanding borrowings at December 31, 2008 of €24.8 million (\$34.6 million). As of December 31, 2008, the four term facilities, the delayed draw facility and the revolving facility have been drawn in full. The margin for the term facilities and delayed draw facility is 3.00% per annum (over LIBOR or, in relation to any loan in euro, EURIBOR) and the margin for the revolving facility is 2.50% per annum (over EURIBOR or, in relation to any loan in Hungarian forints, BUBOR).

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Chellomedia PFH and its subsidiaries, the Chellomedia Bank Facility requires Chellomedia PFH to comply with various financial covenants including (i) Total Net Debt to Annualized EBITDA, (ii) Senior Net Debt to Annualized EBITDA and (iii) EBITDA to Total Cash Interest Payable, each capitalized term as defined in the Chellomedia Bank Facility. The Chellomedia Bank Facility permits Chellomedia PFH to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that Chellomedia PFH maintains compliance with applicable covenants.

The Chellomedia Bank Facility is secured by pledges over (i) the shares of Chellomedia PFH and certain of its material subsidiaries and (ii) certain bank accounts and intercompany loan receivables of Chellomedia PFH's immediate parent company, Chellomedia PFH and certain of its subsidiaries. The Chellomedia Bank Facility is also guaranteed by Chellomedia PFH's immediate parent company, by Chellomedia PFH (in respect of other obligors' obligations) and by certain of Chellomedia PFH's subsidiaries.

***Liberty Puerto Rico Bank Facility***

On June 15, 2007, Liberty Puerto Rico refinanced its then existing bank facility with a new senior secured bank credit facility (the Liberty Puerto Rico Bank Facility). The Liberty Puerto Rico Bank Facility provides for (i) a \$150 million amortizing term loan (the LPR Term Loan), (ii) a \$20 million delayed draw Senior Credit Facility (the LPR Delayed Draw Term Loan) and (iii) a \$10 million revolving loan (the LPR Revolving Loan). Borrowings under the Liberty Puerto Rico Bank Facility, to the extent not already used to repay the amounts outstanding under Liberty Puerto Rico's prior bank facility, may be used to fund the general corporate and working capital requirements of Liberty Puerto Rico. All amounts borrowed under the Liberty Puerto Rico Bank Facility bear interest at a margin of 2.00% over LIBOR. The LPR Revolving Loan has a final maturity in 2013 and the LPR Term Loan and LPR Delayed Draw Term Loan each have a final maturity in 2014. The LPR Delayed Draw Term Loan was drawn in full on November 7, 2007. The LPR Revolving Loan, which was undrawn as of December 31, 2008, has a commitment fee on undrawn balances of 0.5% per year.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Liberty Puerto Rico and its subsidiaries, the Liberty Puerto Rico Bank Facility requires compliance with the following financial covenants: (i) Net Debt to Annualized EBITDA and (ii) Annualized EBITDA to Total Cash Interest Charges, each capitalized term as defined in the Liberty Puerto Rico Bank Facility. The Liberty Puerto Rico Bank Facility permits Liberty Puerto Rico to transfer funds to its parent company (and indirectly to LGI) through loans, dividends or other distributions provided that Liberty Puerto Rico maintains compliance with applicable covenants.

The Liberty Puerto Rico Bank Facility is secured by pledges over (i) the Liberty Puerto Rico shares indirectly owned by our company and (ii) certain other assets owned by Liberty Puerto Rico. The Liberty Puerto Rico Bank Facility also requires that Liberty Puerto Rico maintain a \$10 million cash collateral account to protect against losses in connection with an uninsured casualty event. This cash collateral account is reflected as long-term restricted cash in our consolidated balance sheets.

Prior to June 15, 2007, Liberty Puerto Rico had a \$150 million seven-year amortizing term loan under an amended and restated senior secured bank credit facility, which also provided for a \$10 million six-year revolving loan. Borrowings under this credit facility bore interest at a margin of 2.25% over LIBOR.

***Borrowing Secured by ABC Family Preferred Stock***

Liberty Family Preferred, LLC (LFP LLC) was an entity in which LGI held a 99.9% beneficial ownership interest. Prior to August 2, 2007, LFP LLC owned 345,000 shares of ABC Family Worldwide, Inc. (ABC Family) preferred stock.

On March 23, 2006, LFP LLC entered into a Loan and Pledge Agreement with Deutsche Bank AG, which allowed LFP LLC to borrow up to \$345.0 million. On March 29, 2006, LFP LLC borrowed the full available amount and received net proceeds of \$338.9 million (\$345.0 million less prepaid interest of \$6.1 million). The net proceeds received by LFP LLC were then loaned to LGI. The borrowing bore interest at three-month LIBOR plus 2.1%. LFP LLC had pledged all 345,000 shares of the ABC Family preferred stock as security for the borrowing.

On August 2, 2007, the ABC Family preferred stock was redeemed and we used the resulting proceeds to repay in full the related secured borrowings. No significant gain or loss was recorded in connection with the repayment of the secured borrowings. Subsequent to this transaction, LFP LLC was dissolved.

***Cablecom Luxembourg Old Senior Notes***

Prior to their redemption in 2007 and 2006 as described below, the Cablecom Luxembourg Old Senior Notes were comprised of (i) CHF 259.0 million (\$242.4 million) principal amount of Cablecom Luxembourg Series A Floating Rate Senior Secured Notes due 2010 (the Cablecom Luxembourg Old Series A CHF Notes), (ii) €157.9 million (\$220.3 million) principal amount of Cablecom Luxembourg Floating Rate Senior Secured Notes due 2010 (the Cablecom Luxembourg Old Series A Euro Notes) and €335.7 million (\$468.4 million) principal amount of Cablecom Luxembourg Series B Floating Rate Senior Secured Notes due 2012 (the Cablecom Luxembourg Old Series B Euro Notes, and together with the Cablecom Luxembourg Old Series A CHF Notes and Cablecom Luxembourg Old Series A Euro Notes, the Cablecom Luxembourg Old Floating Rate Notes) and (iii) €289.9 million (\$404.5 million) principal amount of 9.375% Senior Notes due 2014 (the Cablecom Luxembourg Old Fixed Rate Notes).

In connection with the October 2005 Cablecom acquisition, under the terms of the Indentures for the Cablecom Luxembourg Old Senior Notes, Cablecom Luxembourg was required to effect a change of control offer (the Change of Control Offer) for the Cablecom Luxembourg Old Senior Notes at 101% of their respective principal amounts. Pursuant to the Change of Control Offer, Cablecom Luxembourg on December 8, 2005 used CHF 268.7 million (\$223.2 million at the transaction date) of proceeds from the Facility A term loan under the Cablecom Luxembourg



## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Bank Facility to (i) purchase CHF 133.0 million (\$101.7 million at the transaction date) of the Cablecom Luxembourg Old Series A CHF Notes, (ii) purchase €42.8 million (\$50.5 million at the transaction date) of the Cablecom Luxembourg Old Series A Euro Notes, (iii) purchase €40.0 million (\$47.1 million at the transaction date) principal amount of the Cablecom Luxembourg Old Series B Euro Notes and (iv) fund the costs and expenses of the Change of Control Offer. All of the purchased amounts set forth above include principal, call premium and accrued interest.

On January 20, 2006, Cablecom Luxembourg used the remaining available proceeds from the Facility A and Facility B term loans under the Cablecom Luxembourg Bank Facility to fund the redemption of all of the Cablecom Luxembourg Old Floating Rate Notes that were not tendered in the Change of Control Offer (the Cablecom Old Note Redemption). The Cablecom Old Note Redemption price paid was 102% of the respective principal amounts plus accrued and unpaid interest through the Cablecom Old Note Redemption date. We recognized a \$7.6 million loss on the extinguishment of the Cablecom Luxembourg Old Floating Rate Notes during 2006, representing the difference between the redemption and carrying amounts of the Cablecom Luxembourg Old Floating Rate Notes at the date of the Cablecom Old Note Redemption.

On April 16, 2007, Cablecom Luxembourg redeemed in full the Cablecom Luxembourg Old Fixed Rate Notes at a redemption price of 109.375% of the principal amount plus accrued interest through the redemption date. The total amount of the redemption of €330.7 million (\$448.1 million at the transaction date) was funded by an escrow account created in October 2006 for the benefit of the holders of the Cablecom Luxembourg Old Fixed Rate Notes (the Cablecom Luxembourg Defeasance Account) in connection with the covenant defeasance of such Notes. In connection with the redemption of the Cablecom Luxembourg Old Fixed Rate Notes, Cablecom Luxembourg recognized a gain on extinguishment of debt of \$5.2 million, representing the write-off of unamortized premium.

Pursuant to the terms of the LG Switzerland PIK Loan Facility (see below), the redemption of the Cablecom Luxembourg Old Fixed Rate Notes required the repayment of the LG Switzerland PIK Loan Facility.

***Cablecom Luxembourg New Senior Notes***

On October 31, 2006, Cablecom Luxembourg issued €300.0 million (\$418.6 million) principal amount of 8.0% Senior Notes due 2016 (the Cablecom Luxembourg New Senior Notes) and the net proceeds from the sale of the Cablecom Luxembourg New Senior Notes, together with available cash, were placed into the Cablecom Luxembourg Defeasance Account, as described above.

On April 17, 2007, the Cablecom Luxembourg New Senior Notes became the direct obligation of UPC Holding on terms substantially identical (other than as to interest, maturity and redemption) to those governing UPC Holding's existing Senior Notes due 2014.

***Cablecom Luxembourg Bank Facility***

The Cablecom Luxembourg Bank Facility provided the terms and conditions upon which (i) the lenders made available to Cablecom Luxembourg two term loans (Facility A and Facility B) in an aggregate principal amount not to exceed CHF 1,330 million (\$1,244.5 million).

The CHF 618 million (\$578.3 million) Facility A term loan was fully drawn at December 31, 2006. In January 2006, the then remaining availability under the Facility A term loan was drawn to fund the Cablecom Old Note Redemption. The interest rate applicable to the Facility A term loan was equal to CHF LIBOR plus a margin of 2.50%. The Facility B term loan, which was available to be drawn in Swiss francs, U.S. dollars or euros up to an aggregate principal amount equivalent to CHF 712 million (\$666.2 million), was fully drawn at December 31, 2006. In connection with the January 2006 funding of the Cablecom Old Note Redemption, the Facility B term loan was drawn in full in the form of CHF 355.8 million (\$277.3 million at the transaction date) and €229.1 million (\$277.1 million at the transaction date). The interest rate applicable to principal denominated in Swiss francs under

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

the Facility B term loan was equal to CHF LIBOR plus a margin of 2.75% to September 5, 2006 and thereafter 2.50% plus, in each case, any mandatory costs. The interest rate applicable to principal denominated in euros under the Facility B term loan was equal to EURIBOR plus a margin of 2.50% plus any mandatory costs.

In connection with the above-described Cablecom Transfer, the outstanding borrowings under the Cablecom Luxembourg Bank Facility were repaid in full on April 16, 2007.

**LG Switzerland PIK Loan Facility**

The €550 million (\$667 million at the transaction date), 9.5 year split-coupon floating LG Switzerland PIK Loan Facility was executed on October 7, 2005. The LG Switzerland PIK Loan Facility bore interest at a rate per annum equal to (i) three-month EURIBOR (payable quarterly in cash), plus (ii) a margin of 1.75% (payable quarterly in cash), plus (iii) a PIK margin of 6.50% (to be capitalized and added to principal at the end of each interest period or, at the election of LG Switzerland, paid in cash). The net proceeds received from the LG Switzerland PIK Loan Facility of €531.7 million (\$647.8 million at the transaction date), less €50 million (\$60.9 million at the transaction date) placed in escrow to secure cash interest payments, were used to finance the Cablecom acquisition.

In connection with the above-described Cablecom Transfer, the outstanding borrowings under the LG Switzerland PIK Loan Facility were repaid in full on April 16, 2007.

**Maturities of Debt and Capital Lease Obligations**

Maturities of our debt and capital lease obligations for the indicated periods are presented below for the named entity and its subsidiaries, unless otherwise noted. Amounts presented below represent U.S. dollar equivalents based on December 31, 2008 exchange rates:

*Debt:*

	UPC holding debt (excluding VTR) (a)	VTR debt (b)	Telenet debt	J:COM debt in millions	Austar debt	Other (c)	Total
Year ended December 31:							
2009	\$ 10.6	\$ 4.7	\$ —	\$ 204.3	\$ —	\$ 94.5	\$ 314.1
2010	1.3	4.7	—	378.4	—	5.1	389.5
2011	0.2	4.7	—	212.0	158.5	702.9	1,078.3
2012	914.1	4.7	739.5	204.9	87.2	866.2	2,816.6
2013	1,698.0	4.7	286.0	769.7	352.3	258.1	3,368.8
Thereafter	7,746.2	442.0	1,803.9	312.8	—	1,223.6	11,528.5
Total debt maturities	10,370.4	465.5	2,829.4	2,082.1	598.0	3,150.4	19,495.8
Net embedded equity derivative, fair value adjustment and unamortized discount	—	—	—	—	—	(165.4)	(165.4)
Total debt	\$ 10,370.4	\$ 465.5	\$ 2,829.4	\$ 2,082.1	\$ 598.0	\$ 2,985.0	\$ 19,330.4
Current portion	\$ 10.6	\$ 4.7	\$ —	\$ 204.3	\$ —	\$ 51.5	\$ 271.1
Noncurrent portion	\$ 10,359.8	\$ 460.8	\$ 2,829.4	\$ 1,877.8	\$ 598.0	\$ 2,933.5	\$ 19,059.3

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

- (a) The final maturity date for Facilities M and N of the UPC Broadband Holding Bank Facility is the earlier of (i) December 31, 2014 or (ii) October 17, 2013, the date falling 90 days prior to the date on which UPC Holding's existing Senior Notes due 2014 fall due if such Senior Notes have not been repaid, refinanced or redeemed prior to that date. For purposes of this table, we have assumed that the €800 million (\$1,116.2 million) principal amount of Senior Notes due 2014 will be repaid, refinanced or redeemed prior to October 17, 2013 and that Facilities M and N will be repaid on December 31, 2014.
- (b) Amounts represent borrowings under the VTR Credit Facility, for which the source of repayment is expected to be the related cash collateral account.
- (c) The 2009 amount includes \$89.3 million of borrowings under the News Corp. Forward, for which the source of repayment is expected to be the underlying shares of News Corp. common stock that our held by our company. The 2011 amount includes the €500.0 million (\$697.6 million) principal amount outstanding under the UGC Convertible Notes. Although the final maturity date of the UGC Convertible Notes is April 15, 2024, holders have the right to tender all or part of their UGC Convertible Notes for purchase by UGC on April 15, 2011, April 15, 2014 and April 15, 2019, for a purchase price in euros equal to 100% of the principal amount.

*Capital lease obligations:*

	J:COM	Telenet (a)	Other	Total
		in millions		
Year ended December 31:				
2009	\$ 220.6	\$ 67.9	\$ 5.1	\$ 293.6
2010	195.8	60.8	4.1	260.7
2011	149.5	58.8	3.7	212.0
2012	106.6	56.6	3.3	166.5
2013	57.7	52.9	2.8	113.4
Thereafter	15.4	344.2	30.8	390.4
	745.6	641.2	49.8	1,436.6
Less: amount representing interest	(41.4)	(203.2)	(19.5)	(264.1)
Present value of net minimum lease payments	\$ 704.2	\$ 438.0	\$ 30.3	\$ 1,172.5
Current portion	\$ 203.4	\$ 35.5	\$ 3.0	\$ 241.9
Noncurrent portion	\$ 500.8	\$ 402.5	\$ 27.3	\$ 930.6

- (a) Includes Telenet's capital lease obligations to the PICs, as described in note 4.

**Non-cash Refinancing Transactions**

During 2008, 2007 and 2006, we completed certain refinancing transactions that resulted in non-cash borrowings and repayments of debt aggregating \$389.0 million, \$7,019.9 million and \$4,210.5 million, respectively.

**(11) Deferred Construction and Maintenance Revenue**

J:COM and its subsidiaries provide rebroadcasting services to noncable television viewers who receive poor reception of broadcast television signals as a result of obstacles that have been constructed by third parties. J:COM and its subsidiaries enter into agreements with these third parties, whereby J:COM receives up-front compensation

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

to construct and maintain cable facilities to provide rebroadcasting services to the affected viewers at no cost to the viewers during the agreement period. Revenue from these agreements has been deferred and is being recognized on a straight-line basis over periods (generally 20 years) that are consistent with the durations of the underlying agreements. During 2008, 2007 and 2006, J:COM recognized revenue under these arrangements totaling \$57.9 million, \$47.6 million and \$37.5 million, respectively. Deferred revenue recorded under these arrangements is included in our current and long-term liabilities as follows:

	December 31,	
	2008	2007
	in millions	
Current liabilities — Deferred revenue and advance payments from subscribers and others	\$ 59.1	\$ 36.3
Other long-term liabilities	722.0	484.8
<b>Total</b>	<b>\$ 781.1</b>	<b>\$ 521.1</b>

**(12) Income Taxes**

LGI files consolidated tax returns in the U.S. The income taxes of domestic and foreign subsidiaries not included within the consolidated U.S. tax group are presented in our financial statements based on a separate return basis for each tax-paying entity or group.

Income tax benefit (expense) consists of:

	Current	Deferred in millions	Total
<b>Year ended December 31, 2008:</b>			
Federal	\$ (2.3)	\$ (25.4)	\$ (27.7)
State and local	(1.0)	(1.7)	(2.7)
Foreign	(200.3)	(204.1)	(404.4)
	<u>\$ (203.6)</u>	<u>\$ (231.2)</u>	<u>\$ (434.8)</u>
<b>Year ended December 31, 2007:</b>			
Federal	\$ 33.4	\$ (84.3)	\$ (50.9)
State and local	1.7	(4.4)	(2.7)
Foreign	(138.1)	(41.4)	(179.5)
	<u>\$ (103.0)</u>	<u>\$ (130.1)</u>	<u>\$ (233.1)</u>
<b>Year ended December 31, 2006:</b>			
Federal	\$ (28.2)	\$ 58.6	\$ 30.4
State and local	(2.2)	3.1	0.9
Foreign	(62.3)	38.9	(23.4)
	<u>\$ (92.7)</u>	<u>\$ 100.6</u>	<u>\$ 7.9</u>

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

Income tax benefit (expense) attributable to our company's earnings (loss) before taxes, minority interest and discontinued operations differs from the amounts computed by applying the U.S. federal income tax rate of 35%, as a result of the following:

	Year Ended December 31,		
	2008	2007	2006
	in millions		
Computed "expected" tax benefit (expense)	\$ 58.5	\$ (17.4)	\$ 59.6
Change in valuation allowance	(190.1)	(1.8)	119.7
International rate differences	(125.5)	(50.0)	(41.1)
Non-deductible interest and other expenses	(65.1)	(64.2)	(15.6)
Change in tax status of foreign consolidated subsidiary	(30.2)	—	—
Differences in the treatment of items associated with investments in subsidiaries and affiliates	(28.7)	42.9	(23.9)
Impairment and write-off of goodwill	(22.8)	(35.3)	—
Enacted tax law and rate changes	(19.8)	(69.2)	(65.1)
Foreign taxes	(9.7)	(15.8)	(6.8)
Non-deductible or non-taxable foreign currency exchange results	7.4	7.9	(18.3)
Non-deductible provisions for litigation	(2.1)	(59.9)	—
State and local income taxes, net of federal income taxes	(1.8)	(1.7)	0.6
Recognition of previously unrecognized tax benefits	—	34.6	—
Other, net	(4.9)	(3.2)	(1.2)
	<u>\$ (434.8)</u>	<u>\$ (233.1)</u>	<u>\$ 7.9</u>

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

	December 31,	
	2008	2007
	in millions	
Current deferred tax assets	\$ 280.8	\$ 319.1
Non-current deferred tax assets	212.3	301.5
Current deferred tax liabilities	(9.1)	(6.4)
Non-current deferred tax liabilities	(902.7)	(743.7)
Net deferred tax liability	<u>\$ (418.7)</u>	<u>\$ (129.5)</u>

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2008	2007
	in millions	
<b>Deferred tax assets:</b>		
Net operating loss and other carryforwards	\$ 2,673.0	\$ 3,145.6
Debt	428.3	344.7
Deferred revenue	261.6	174.8
Property and equipment, net	57.7	102.7
Stock-based compensation	69.6	41.2
Derivative instruments	64.2	23.3
Other future deductible amounts	282.8	230.2
Deferred tax assets	3,837.2	4,062.5
Valuation allowance	(2,053.0)	(2,345.6)
Deferred tax assets, net of valuation allowance	1,784.2	1,716.9
<b>Deferred tax liabilities:</b>		
Intangible assets	(701.7)	(715.0)
Property and equipment	(549.1)	(369.6)
Investments	(377.9)	(399.2)
Derivative instruments	(241.9)	(81.2)
Other future taxable amounts	(332.3)	(281.4)
Deferred tax liabilities	(2,202.9)	(1,846.4)
Net deferred tax liability	\$ (418.7)	\$ (129.5)

Our deferred income tax valuation allowance decreased \$292.6 million in 2008. This decrease reflects the net effect of (i) net tax expense recorded in our consolidated statement of operations of \$190.1 million, (ii) acquisitions and similar transactions, (iii) foreign currency translation adjustments, (iv) valuation allowances released to goodwill and (v) other.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

The significant components of our tax loss carryforwards and related tax assets at December 31, 2008 are as follows:

Country	Tax loss carryforward	Related tax asset	Expiration date
	in millions		
The Netherlands	\$ 4,364.3	\$ 1,112.9	2012-2017
Switzerland	1,353.0	293.3	2009-2013
Belgium	1,014.5	344.8	Indefinite
Luxembourg	868.1	248.2	Indefinite
France	771.9	265.7	Indefinite
Australia	451.2	135.3	Indefinite
Ireland	448.6	56.1	Indefinite
United States	199.9	71.9	2012-2027
Austria	167.6	41.9	Indefinite
Japan	117.8	48.0	2009-2015
Chile	111.5	19.0	Indefinite
Romania	55.9	8.9	2010-2013
Hungary	43.8	7.3	Indefinite
Puerto Rico	23.7	9.2	2011-2014
Poland	8.2	1.6	2009
Other	35.7	8.9	Various
Total	\$ 10,035.7	\$ 2,673.0	

Net operating losses arising from the deduction of stock-based compensation are not included in the above table. These net operating losses, which aggregated \$55.6 million at December 31, 2008, will not be recognized for financial reporting purposes until such time as these tax benefits can be realized as a reduction of income taxes payable.

Our tax loss carryforwards within each jurisdiction combine all companies' tax losses (both capital and ordinary losses) in that jurisdiction, however, certain tax jurisdictions limit the ability to offset taxable income of a separate company or different tax group with the tax losses associated with another separate company or group. Some losses are limited in use due to change in control or same business tests. We intend to indefinitely reinvest earnings from certain foreign operations except to the extent the earnings are subject to current U.S. income taxes. At December 31, 2008, U.S. and non-U.S. income and withholding taxes for which a deferred tax liability might otherwise be required have not been provided on an estimated \$2.5 billion of cumulative temporary differences (including, for this purpose, any difference between the tax basis in stock of a consolidated subsidiary and the amount of the subsidiary's net equity determined for financial reporting purposes) related to investments in foreign subsidiaries. The determination of the additional U.S. and non-U.S. income and withholding tax that would arise upon a reversal of the temporary differences is subject to offset by available foreign tax credits, subject to certain limitations, and it is impractical to estimate the amount of income and withholding tax that might be payable.

Because we have controlling interests in subsidiaries that do business in foreign countries, such subsidiaries are considered to be "controlled foreign corporations" (CFCs) under U.S. tax law. In general, our pro rata share of certain income earned by these subsidiaries that are CFCs during a taxable year when such subsidiaries have positive current or accumulated earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

to as "Subpart F income," generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income.

In addition, a U.S. corporation that is a shareholder in a CFC may be required to include in its income its pro rata share of the CFC's increase in the average adjusted tax basis of any investment in U.S. property (including intercompany receivables from U.S. entities) 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 general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend.

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

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

Although we intend to take reasonable tax planning measures to limit our tax exposures, there can be no assurance we will be able to do so.

We and our subsidiaries file various consolidated and stand alone income tax returns in U.S. federal and state jurisdictions, and in various foreign jurisdictions. In the normal course of business, our income tax filings are subject to review by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest assessments by these taxing authorities. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations.

With a few exceptions in certain foreign jurisdictions, tax returns filed by our company or our subsidiaries for years prior to 2003 are no longer subject to examination by tax authorities. During 2008, the Internal Revenue Service (IRS) commenced examinations of most of the U.S. federal income tax returns that we or our domestic subsidiaries filed for the 2005 and 2006 tax years. Most of these audits are anticipated to be completed in 2009. Certain of our foreign subsidiaries are also currently involved in income tax examinations in various foreign jurisdictions in which we operate, including Argentina (2001 through 2007), Chile (2002), Puerto Rico (2003),



## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Austria (2004 through 2006), UK (2005 and 2006), Romania (2007), and Switzerland (2006 and 2007). Any adjustments that might arise from the foregoing examinations are not expected to have a material impact on our consolidated financial position or results of operations. The changes in our unrecognized tax benefits during 2008 are summarized below (in millions):

Balance at January 1, 2008	\$ 570.0
Additions based on tax positions related to the current year	72.9
Additions for tax positions of prior years	86.3
Reductions for tax positions of prior years	(342.7)
Lapse of statute of limitations	(1.6)
Currency translation	39.7
Balance at December 31, 2008	<u>\$ 424.6</u>

No assurance can be given that any of these tax benefits will be recognized or realized.

As of December 31, 2008, our unrecognized tax benefits included \$391.5 million of tax benefits that would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances.

During 2009, it is reasonably possible that the resolution of currently ongoing examinations by tax authorities could result in changes to our unrecognized tax benefits related to tax positions taken as of December 31, 2008. We do not expect that any such changes will have a material impact on our unrecognized tax benefits. No assurance can be given as to the nature or impact of changes in our unrecognized tax positions during 2009.

During 2008, 2007, and 2006, we recognized income tax expense (benefit) of \$13.6 million, (\$3.9 million), and \$9.8 million, respectively, representing the net accrual (release) of interest and penalties during the period. In addition, our other long-term liabilities include accrued interest and penalties of \$25.9 million at December 31, 2008.

**(13) Stockholders' Equity****Capitalization**

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

Under LGI's restated certificate of incorporation, holders of LGI Series A common stock are entitled to one vote for each share of such stock held, and holders of LGI Series B common stock are entitled to 10 votes for each share of such stock held, on all matters submitted to a vote of LGI stockholders at any annual or special meeting. Holders of LGI Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders of LGI Series C common stock are entitled to 1/100th of a vote per share).

Each share of LGI Series B common stock is convertible into one share of LGI Series A common stock. One share of LGI Series A common stock is reserved for issuance for each share of LGI Series B common stock that is either issued or subject to future issuance pursuant to outstanding stock options. At December 31, 2008, there were (i) 5,435,145, 3,066,716 and 8,353,012 shares of LGI Series A, Series B and Series C common stock, respectively, reserved for issuance pursuant to outstanding stock options, (ii) 3,958,980 and 3,993,297 shares of LGI Series A and Series C common stock, respectively, reserved for issuance pursuant to outstanding SARs, (iii) 11,159,319 and

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

11,044,375 shares of LGI Series A and Series C common stock, respectively, reserved for issuance upon conversion of the UGC Convertible Notes and (iv) 434,034 and 434,011 shares of LGI Series A and Series C common stock, respectively, reserved for issuance pursuant to outstanding restricted stock units. In addition to these amounts, one share of LGI Series A common stock is reserved for issuance for each share of LGI Series B common stock that is either issued (7,191,210 shares) or subject to future issuance pursuant to outstanding stock options (3,066,716 shares).

Subject to any preferential rights of any outstanding series of our preferred stock, the holders of LGI Series A, Series B and Series C common stock will be entitled to such dividends as may be declared from time to time by our board from funds available therefor. Except with respect to certain share distributions, whenever a dividend is paid to the holder of one of our series of common stock, we shall also pay to the holders of the other series of our common stock an equal per share dividend. There are currently no restrictions on our ability to pay dividends in cash or stock.

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

**Stock Repurchases**

During 2008, 2007 and 2006, our board of directors authorized various stock repurchase programs. Under these plans, we were authorized to acquire the specified amount of our LGI Series A and Series C common stock from time to time through open market transactions or privately negotiated transactions, which may include derivative transactions. The timing of the repurchase of shares pursuant to these programs, which may be suspended or discontinued at any time, depends on a variety of factors, including market conditions. At December 31, 2008, the remaining amount authorized under our current stock repurchase plan was \$94.8 million. Subsequent to December 31, 2008, we acquired 6,216,300 shares of our LGI Series C common stock at a weighted average price of \$15.11, for an aggregate purchase price of \$93.9 million, including direct acquisition costs. As of February 23, 2009, the remaining authorized amount under our current stock repurchase plan was \$1.0 million.

In addition to the share repurchase programs described above, we completed five separate modified Dutch auction self-tender offers during 2007 and 2006.

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

The following table provides details of our stock repurchases during 2008, 2007 and 2006:

Purchase date	LGI Series A common stock		LGI Series C common stock		Total (a) in millions
	Shares purchased	Average price paid per share (a)	Shares purchased	Average price paid per share (a)	
Stock purchased pursuant to repurchase programs during:					
2008	39,065,387	\$ 30.24	35,084,656	\$ 29.52	\$ 2,217.1
2007	5,469,397	\$ 38.57	11,361,890	\$ 37.06	\$ 632.0
2006	2,698,558	\$ 21.85	9,706,682	\$ 20.04	\$ 253.5
Stock purchased pursuant to modified Dutch auction self-tender offers (b):					
September 17, 2007	5,682,000	\$ 43.09	9,510,517	\$ 40.09	\$ 626.1
April 25, 2007	7,882,862	\$ 35.21	724,183	\$ 32.86	\$ 301.4
January 10, 2007	5,084,746	\$ 29.66	5,246,590	\$ 28.74	\$ 301.6
September 15, 2006	20,000,000	\$ 25.04	20,534,000	\$ 24.39	\$ 1,001.8
June 21, 2006	10,000,000	\$ 25.08	10,288,066	\$ 24.38	\$ 501.6
Total pursuant to self-tender offers	48,649,608	\$ 29.29	46,303,356	\$ 28.24	\$ 2,732.5
Total purchases (including purchases pursuant to self-tender offers) during:					
2008	39,065,387	\$ 30.24	35,084,656	\$ 29.52	\$ 2,217.1
2007	24,119,005	\$ 36.66	26,843,180	\$ 36.39	\$ 1,861.0
2006	32,698,558	\$ 24.79	40,528,748	\$ 23.35	\$ 1,756.9

(a) Includes direct acquisition costs.

(b) Shares purchased pursuant to the self-tender offers were not applied against the authorized amounts of our stock repurchase programs.

**Subsidiaries' Equity**

**Austar**

On April 1, 2008, Austar issued 54,025,795 ordinary shares upon the vesting of certain Class B shares that were originally issued pursuant to an executive compensation plan. Proceeds of AUD 7.5 million (\$7.1 million at the average rate for the period) were received by Austar in conjunction with the repayment of the shareholders' loans associated with the Class B shares. Subsequently, on May 13, 2008, 12,200,000 of these newly issued ordinary shares were purchased by another LGI subsidiary for aggregate cash consideration of AUD 15.3 million (\$14.4 million at the transaction date). Also, Austar paid aggregate cash consideration of AUD 55.0 million (\$51.9 million at the average rate for the period) to repurchase 46,303,184 of its ordinary shares from public shareholders during the

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

second quarter of 2008 pursuant to a stock repurchase plan. As a result of the foregoing transactions, LGI's indirect ownership interest in Austar increased from 53.4% to 54.0%, and we recorded an increase to our goodwill of \$50.6 million and a decrease to our additional paid-in capital of \$8.6 million.

In connection with our December 2005 acquisition of a controlling interest in Austar, we recorded the minority interests' share of Austar's stockholders' deficit at the acquisition date as a decrease to our additional paid-in capital. With the exception of a period during the first three quarters of 2007 when Austar reported stockholders' equity and we recorded the minority interests' share of Austar's equity movements as adjustments of minority interests in subsidiaries in our consolidated balance sheet, we have recorded all subsequent changes in the minority interests' share of Austar's equity movements as adjustments to our additional paid-in capital.

On November 1, 2007, Austar distributed AUD 299.9 million (\$274.8 million at the transaction date) to its shareholders. Our share of this capital distribution was AUD 160.1 million (\$146.7 million at the transaction date). On September 20, 2006, Austar distributed AUD 201.6 million (\$151.7 million at the transaction date) to its shareholders. Our share of this capital distribution was AUD 107.2 million (\$80.7 million at the transaction date). The minority interest owners' share of these 2007 and 2006 capital distributions of AUD 124.5 million (\$114.1 million at the transaction date) and AUD 94.4 million (\$71.0 million at the transaction date), respectively, has been reflected as a reduction of additional paid-in capital in our consolidated statements of stockholders' equity.

*Telenet*

On November 19, 2007, Telenet commenced the distribution of €655.9 million (\$961.6 million at the transaction date) to its shareholders. Our share of this capital distribution was €335.2 million (\$491.4 million at the transaction date).

*Other*

During 2008, 2007 and 2006, we recorded adjustments to additional paid-in capital associated with the dilution of our ownership interests in, and the equity transactions of, certain of our subsidiaries and affiliates.

**Restricted Net Assets**

At December 31, 2008, substantially all of our net assets were attributable to subsidiaries that have borrowed funds under their respective debt facilities. The terms of these facilities may restrict our ability to access the assets of these subsidiaries.

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

(14) **Stock Incentive Awards**

As discussed in note 3, our stock-based compensation expense is based on the stock incentive awards held by our and our subsidiaries' employees, including stock incentive awards related to LGI shares and the shares of certain of our other subsidiaries. The following table summarizes our stock-based compensation expense for the indicated periods:

	Year ended December 31,		
	2008	2007	2006
	in millions		
LGI Series A, Series B and Series C common stock:			
LGI performance plans (a)	\$ 94.4	\$ 108.2	\$ —
Stock options, SARs, restricted stock and restricted stock units	44.0	47.3	58.0
Restricted shares of LGI and Zonemedia Enterprises Ltd. (Zonemedia) (b)	—	16.2	7.1
Austar Performance Plan	16.0	9.5	—
Other	(0.9)	12.2	4.9
Total	\$ 153.5	\$ 193.4	\$ 70.0
Included in:			
Operating expense	\$ 9.7	\$ 12.2	\$ 7.0
SG&A expense	143.8	181.2	63.0
Total	\$ 153.5	\$ 193.4	\$ 70.0

(a) Amounts relate primarily to the LGI Performance Plans described below.

(b) These restricted shares were issued in connection with our January 2005 acquisition of Zonemedia. The 2007 amount includes \$12.8 million of stock-based compensation that was recognized on an accelerated basis in connection with the third quarter 2007 execution of certain agreements between a subsidiary of Chellomedia and the holders of these restricted shares. No further compensation expense will be recognized in connection with these restricted stock awards.

The following table provides certain information related to stock-based compensation not yet recognized as of December 31, 2008:

	December 31, 2008			
	LGI Series A, Series B and Series C common stock (a)	LGI performance plans (b)	Austar Performance Plan (c)	SARs on VTR common stock (d)
Total compensation expense not yet recognized (in millions)	\$ 74.6	\$ 135.3	\$ 16.7	\$ 0.3
Weighted average period remaining for expense recognition (in years)	2.5	2.8	2.8	1.0

(a) Amounts relate to the LGI incentive plans (including the Transitional Plan) and the UGC incentive plans described below.

(b) Amounts relate primarily to the LGI Performance Plans described below.

(c) Amounts relate to the Austar Performance Plan described below.

(d) Amounts relate to the incentive plan of VTR described below.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

The following table summarizes certain information related to the incentive awards granted and exercised pursuant to the LGI and UGC incentive plans described below:

	Year ended December 31,		
	2008	2007	2006
<b>LGI Series A, Series B and Series C common stock:</b>			
Assumptions used to estimate fair value of awards granted:			
Risk-free interest rate	2.48 — 3.96%	4.56 — 5.02%	4.58 — 5.20%
Expected life	4.5 — 6.0 years	4.5 — 6.0 years	4.5 — 6.0 years
Expected volatility	24.0 — 43.0%	22.40 — 25.20%	24.80 — 29.60%
Expected dividend yield	none	none	none
Weighted average grant-date fair value per share of awards granted:			
Options	\$ 10.23	\$ 10.69	\$ 6.52
SARs	\$ 9.84	\$ 10.19	\$ 6.36
Restricted stock	\$ 35.42	\$ 36.46	\$ 20.28
Total intrinsic value of awards exercised (in millions):			
Options	\$ 12.1	\$ 44.4	\$ 10.9
SARs	\$ 28.2	\$ 75.0	\$ 22.4
Cash received from exercise of options (in millions):	\$ 17.9	\$ 42.9	\$ 17.5
Income tax benefit related to stock-based compensation (in millions):	\$ 36.3	\$ 30.1	\$ 14.2
Income tax expense related to exercise of options, SARs and restricted stock (in millions):	\$ —	\$ —	\$ 5.4

**Stock Incentive Plans — LGI Common Stock**

*The LGI Incentive Plan*

The Liberty Global, Inc. 2005 Incentive Plan, as amended and restated (the LGI Incentive Plan) is administered by the compensation committee of our board of directors. The compensation committee of our board has full power and authority to grant eligible persons the awards described below and to determine the terms and conditions under which any awards are made. The incentive plan is designed to provide additional remuneration to certain employees and independent contractors for exceptional service and to encourage their investment in our company. The compensation committee may grant non-qualified stock options, SARs, restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards).

The maximum number of shares of LGI common stock with respect to which awards may be issued under the incentive plan is 50 million, subject to anti-dilution and other adjustment provisions of the LGI Incentive Plan, of which no more than 25 million shares may consist of LGI Series B common stock. With limited exceptions, no person may be granted in any calendar year awards covering more than 4 million shares of our common stock, of which no more than 2 million shares may consist of LGI Series B common stock. In addition, no person may receive payment for cash awards during any calendar year in excess of \$10 million. Shares of our common stock issuable

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

pursuant to awards made under the incentive plan are made available from either authorized but unissued shares or shares that have been issued but reacquired by our company. Options and SARs under the LGI Incentive Plan issued prior to the LGI Combination generally vest at the rate of 20% per year on each anniversary of the grant date and expire 10 years after the grant date. Options and SARs under the LGI Incentive Plan issued after the LGI Combination generally (i) vest 12.5% on the six month anniversary of the grant date and then vest at a rate of 6.25% each quarter thereafter and (ii) expire seven years after the grant date. The LGI Incentive Plan had 30,495,893 shares available for grant as of December 31, 2008 before considering any shares that might be issued in satisfaction of our obligations under the LGI Performance Plans, as described below. These shares may be awarded at or above fair value in any series of stock, except that no more than 23,372,168 shares may be awarded in LGI Series B common stock.

*The LGI Directors Incentive Plan*

The Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan, as amended and restated (the LGI Directors Incentive Plan) is designed to provide a method whereby non-employee directors may be awarded additional remuneration for the services they render on our board and committees of our board, and to encourage their investment in capital stock of our company. The LGI Directors Incentive Plan is administered by our full board of directors. Our board has the full power and authority to grant eligible non-employee directors the awards described below and to determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to our employees.

Our board may grant awards under the LGI Directors Incentive Plan. Only non-employee members of our board of directors are eligible to receive awards under the LGI Directors Incentive Plan. The maximum number of shares of our common stock with respect to which awards may be issued under the LGI Directors Incentive Plan is 10 million, subject to anti-dilution and other adjustment provisions, of which no more than 5 million shares may consist of LGI Series B common stock. Shares of our common stock issuable pursuant to awards made under the LGI Directors Incentive Plan will be made available from either authorized but unissued shares or shares that have been issued but reacquired by our company. Options issued prior to the LGI Combination under the LGI Directors Incentive Plan vest on the first anniversary of the grant date and expire 10 years after the grant date. Options issued after the LGI Combination under the LGI Directors Incentive Plan will vest as to one-third on the date of the first annual meeting of stockholders following the grant date and as to an additional one-third on the date of the second and third annual meetings of stockholders following the grant date, provided the director continues to serve as director on such date, and expire 10 years after the grant date. The LGI Directors Incentive Plan had 9,395,091 shares available for grant as of December 31, 2008. These shares may be awarded at or above fair value in any series of stock, except that no more than five million shares may be awarded in LGI Series B common stock.

During 2007, the exercise price of certain options granted in 2004 by UGC to two of our current non-employee directors was increased. This repricing was effected in order to comply with the terms of the plan pursuant to which such options were issued. In order to compensate such directors for the decrease in value associated with this repricing, we granted an aggregate 7,862 restricted stock units for LGI Series A common stock and 7,912 restricted stock units for LGI Series C common stock to said directors, under the LGI Directors Incentive Plan. Each restricted stock unit represents a right to receive one share of LGI Series A or Series C common stock, as the case may be. The aggregate grant date fair value of these restricted stock units is equal to the aggregate decrease in value associated with the repricing. All of the restricted stock units vested in full on January 5, 2008.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

*The Transitional Plan*

In 2004, options to acquire shares of LGI Series A, Series B and Series C common stock were issued to LGI International's directors and employees, Liberty Media's directors and certain of its employees pursuant to the LGI International Transitional Stock Adjustment Plan (the Transitional Plan). At the time of issuance, such options had remaining terms and vesting provisions equivalent to those of the respective Liberty Media stock incentive awards that were adjusted. No new grants will be made under the Transitional Plan.

*UGC Equity Incentive Plan, UGC Director Plans and UGC Employee Plan*

Options, restricted stock and SARs were granted to employees and directors of UGC prior to the LGI Combination under these plans. No new grants will be made under these plans.

**Stock Award Activity — LGI Common Stock**

The following tables summarize the activity during 2008 in LGI stock awards under the LGI and UGC incentive plans, as described above. The tables also include activity related to LGI stock awards granted to Liberty Media directors and employees as described above and to the then employees of Zonemedia in connection with our January 2005 acquisition of Zonemedia:

Options — LGI Series A common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	5,894,850	\$ 21.90		
Granted	80,000	\$ 31.47		
Expired or canceled	(32,043)	\$ 78.09		
Forfeited	(43,364)	\$ 27.61		
Exercised	(464,298)	\$ 19.94		
Outstanding at December 31, 2008	5,435,145	\$ 21.83	4.04	\$ 9.4
Exercisable at December 31, 2008	4,227,639	\$ 20.62	3.72	\$ 9.4

Options — LGI Series B common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	3,066,716	\$ 20.01		
Granted	—	\$ —		
Expired or canceled	—	\$ —		
Forfeited	—	\$ —		
Exercised	—	\$ —		
Outstanding at December 31, 2008	3,066,716	\$ 20.01	3.83	\$ —
Exercisable at December 31, 2008	3,066,716	\$ 20.01	3.83	\$ —



LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Options — LGI Series C common stock:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	8,797,137	\$ 20.11		
Granted	80,000	\$ 29.79		
Expired or canceled	(32,043)	\$ 73.92		
Forfeited	(43,364)	\$ 25.99		
Exercised	(448,718)	\$ 19.36		
Outstanding at December 31, 2008	8,353,012	\$ 20.00	3.80	\$ 8.1
Exercisable at December 31, 2008	6,831,793	\$ 19.26	3.49	\$ 8.1

Restricted stock and restricted stock units — LGI Series A common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2008	634,917	\$ 28.00	
Granted	296,748	\$ 36.57	
Expired or canceled	—	\$ —	
Forfeited	(12,513)	\$ 31.50	
Released from restrictions	(279,360)	\$ 28.25	
Outstanding at December 31, 2008	639,792	\$ 31.79	2.39

Restricted stock and restricted stock units — LGI Series B common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2008	23,708	\$ 22.23	
Granted	—	\$ —	
Expired or canceled	—	\$ —	
Forfeited	—	\$ —	
Released from restrictions	(11,854)	\$ 22.23	
Outstanding at December 31, 2008	11,854	\$ 22.23	0.42

Restricted stock and restricted stock units — LGI Series C common stock:	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term in years
Outstanding at January 1, 2008	658,285	\$ 26.34	
Granted	296,748	\$ 34.29	
Expired or canceled	—	\$ —	
Forfeited	(12,513)	\$ 29.02	
Released from restrictions	(291,070)	\$ 26.54	
Outstanding at December 31, 2008	651,450	\$ 29.78	2.36

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

SARs — LGI Series A common stock:	Number of shares	Weighted average base price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	3,828,895	\$ 19.12		
Granted	1,042,609	\$ 36.57		
Expired or canceled	—	\$ —		
Forfeited	(42,574)	\$ 20.96		
Exercised	(869,950)	\$ 12.04		
Outstanding at December 31, 2008	3,958,980	\$ 25.27	5.06	\$ 4.2
Exercisable at December 31, 2008	2,022,910	\$ 19.32	4.65	\$ 4.2

SARs — LGI Series C common stock:	Number of shares	Weighted average base price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	3,830,352	\$ 18.09		
Granted	1,042,609	\$ 34.38		
Expired or canceled	—	\$ —		
Forfeited	(42,574)	\$ 19.82		
Exercised	(837,090)	\$ 11.27		
Outstanding at December 31, 2008	3,993,297	\$ 23.75	5.06	\$ 4.2
Exercisable at December 31, 2008	2,057,205	\$ 18.24	4.65	\$ 4.2

At December 31, 2008, total SARs outstanding included 136,538 LGI Series A common stock capped SARs and 136,538 LGI Series C common stock capped SARs, all of which were exercisable. The holder of an LGI Series A common stock capped SAR will receive the difference between \$6.84 and the lesser of \$10.90 or the market price of LGI Series A common stock on the date of exercise. The holder of a LGI Series C common stock capped SAR will receive the difference between \$6.48 and the lesser of \$10.31 or the market price of LGI Series C common stock on the date of exercise.

**LGI Performance Plans**

On October 31, 2006 and November 1, 2006, the compensation committee of our board of directors and our board, respectively, authorized the implementation of a new performance-based incentive plan for our senior executives (the LGI Senior Executive Performance Plan) pursuant to the LGI 2005 Incentive Plan. The aggregate amount of the maximum achievable awards that may be allocated under the LGI Senior Executive Performance Plan is \$313.5 million, of which maximum achievable awards of \$302.5 million had been allocated to participants as of December 31, 2008. On January 12, 2007, the compensation committee of our board authorized the implementation of a similar performance-based incentive plan (the LGI Management Performance Plan and together with the LGI Senior Executive Performance Plan, the LGI Performance Plans) pursuant to the LGI Incentive Plan, for certain management-level employees not participating in the LGI Senior Executive Performance Plan. The aggregate amount of the maximum achievable awards under the LGI Management Performance Plan, as finalized in February 2007, is \$86.5 million, of which maximum achievable awards of \$82.2 million, after deducting forfeited awards, were allocated to participants as of December 31, 2008.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

The LGI Performance Plans are five-year plans, with a two-year performance period, beginning January 1, 2007, and a three-year service period beginning January 1, 2009. At the end of the two-year performance period, each participant may become eligible to receive varying percentages of the maximum achievable award specified for such participant based on achievement of specified compound annual growth rates in consolidated operating cash flow (see note 21), adjusted for events such as acquisitions, dispositions and changes in foreign currency exchange rates that affect comparability (OCF CAGR).

At OCF CAGRs ranging from 12% to 17%, the percentages of the maximum achievable awards that participants become eligible to receive range from 50% to 100%, respectively, subject to the other requirements of the LGI Performance Plans.

On February 18, 2009, the compensation committee determined that an OCF CAGR of approximately 15.5% had been achieved during the performance period. Accordingly, subject to adjustment based on the compensation committee's final determination as to each participant's individual performance, a maximum of \$336.2 million (or 87.4%) of the allocated maximum achievable awards could be earned.

Earned awards will be paid or will vest in six equal semi-annual installments on each March 31 and September 30 commencing on March 31, 2009, subject to forfeiture upon certain events of termination of employment or acceleration in certain circumstances. Further, the compensation committee will have the discretion to reduce the unpaid balance of an earned award based on an assessment of the participant's individual job performance during the service period. Each installment of the earned awards may be settled in cash, unrestricted shares of LGI Series A and Series C common stock, or any combination of the foregoing, or restricted share units may be issued at any time in respect of all or any portion of the remaining balance of an earned award, in each case at the discretion of the compensation committee. With the exception of an initial equity incentive award granted to a new hire in 2007, participants in the LGI Senior Executive Performance Plan were not granted any equity incentive awards in 2007 and 2008.

The LGI Performance Plans are accounted for as liability-based plans. Compensation expense under the LGI Performance Plans is (i) recognized using the accelerated attribution method based on our assessment of the awards that are probable to be earned and (ii) reported as stock-based compensation in our consolidated statements of operations, notwithstanding the fact that the compensation committee could elect at a future date to cash settle all or any portion of vested awards under the LGI Performance Plans. We began recording stock-based compensation with respect to the LGI Performance Plans on January 1, 2007, the date after which all awards were granted and the date that the requisite vesting periods began.

The LGI Senior Executive Performance Plan provides for the accelerated payment of awards under certain circumstances following the occurrence of specified change in control-type transactions. In the event any such acceleration gives rise to the imposition of certain excise taxes on participants in the LGI Senior Executive Performance Plan who are U.S. tax payers, we have agreed to make additional payments in amounts that are sufficient to fully reimburse such participants for these excise taxes after consideration of all taxes due on the additional payments.

**Stock Incentive Plans — Austar Common Stock***Austar Performance Plan*

The Austar Long Term Incentive Plan (the Austar Performance Plan) is a five-year plan, with a two-year performance period, beginning on January 1, 2007, and a three-year service period beginning on January 1, 2009. At the end of the two-year performance period, each participant may become eligible to receive varying percentages of the maximum achievable award specified for such participant based on achievement of specified compound annual growth rates in Austar's consolidated EBITDA, as defined by the Austar Performance Plan.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

The aggregate amount of the maximum awards under the Austar Performance Plan is AUD 63.8 million (\$45.0 million). At December 31, 2008, the maximum achievable awards under the Austar Performance Plan had been fully allocated to participants.

The Austar Performance Plan provides for awards based on the compound annual growth rate for Austar's consolidated EBITDA (as defined) from 2006 to 2008, as adjusted for events such as acquisitions and dispositions that affect comparability (EBITDA CAGR). At EBITDA CAGRs ranging from 15% to 20%, the percentage of the maximum achievable awards that participants become eligible to receive ranges from 50% to 100%, respectively, subject to the other requirements of the Austar Performance Plan.

Earned awards will be paid or will vest in six equal semi-annual installments on each March 31 and September 30, commencing on March 31, 2009, subject to forfeiture upon certain events of termination of employment or acceleration in certain circumstances. Further, Austar's remuneration committee will have the discretion to reduce the unpaid balance of an earned award based on an assessment of the participant's individual job performance during the service period. Each installment of the earned awards may be settled in cash, unrestricted shares of Austar, or any combination of the foregoing, or restricted share units may be issued at any time in respect of all or any portion of the remaining balance of an earned award, in each case at the discretion of Austar's remuneration committee.

The Austar Performance Plan is accounted for as a liability-based plan. Compensation expense under the Austar Performance Plan is (i) recognized using the accelerated attribution method based on our assessment of the awards that are probable to be earned and (ii) reported as stock-based compensation in our consolidated statements of operations, notwithstanding the fact that the Austar remuneration committee could elect at a future date to cash settle all or any portion of vested awards under the Austar Performance Plan. Austar began recording stock-based compensation with respect to the Austar Performance Plan on May 2, 2007, the date that the Austar Performance Plan participants were notified of their awards.

*Other Austar Stock Incentive Plans*

Prior to our acquisition of a controlling interest in Austar on December 14, 2005, Austar had implemented compensatory plans that provided for the purchase of Austar Class A and Class B shares by senior management at various prices and the conversion of the purchased shares into Austar ordinary shares, subject to vesting schedules. At December 31, 2005, Austar senior management held Class A and Class B shares that had not been converted into ordinary shares aggregating 20,840,817 and 54,025,795, respectively. All of the remaining Class A and Class B shares were converted into ordinary shares during 2006 and 2008, respectively. Stock-based compensation expense with respect to these compensatory plans was not significant during any period presented.

**Stock Incentive Plans — Telenet Common Stock***Telenet Option Plans*

*Telenet Class A and Class B Option Plan* — During periods ended prior to January 1, 2007, Telenet granted Class A and Class B options to certain members of Telenet management. At December 31, 2008, 1,236,274 Class A options and 444,254 Class B options were outstanding with a weighted average exercise price per profit certificate of €5.08 (\$7.09) and €6.35 (\$8.86), respectively. During 2008, 266,550 Class A and 150,620 Class B options were exercised in exchange for total cash proceeds of €2.3 million (\$3.2 million). All of the Class A and Class B options were fully vested at December 31, 2008 and are exercisable through June 2009 and December 2009, respectively. Stock-based compensation recorded by Telenet with respect to the Class A and Class B options was \$0.3 million during 2008 and \$0.7 million during 2007. In connection with Telenet's November 19, 2007 capital distribution (see note 13), the number of Class A and Class B options outstanding at that date were increased by 356,824 and

**LIBERTY GLOBAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008, 2007 and 2006 — (Continued)**

157,627, respectively, and the exercise prices for all then outstanding Class A and Class B options were reduced proportionately so that the fair value of the Class A and Class B options outstanding before and after the capital distribution remained the same for all option holders.

**Telenet Employee Stock Option Plans** — During 2008, Telenet granted stock options to members of senior management under two employee stock option plans (the Telenet Employee Stock Option Plans). The maximum aggregate number of shares authorized for issuance under the Telenet Employee Stock Option Plans is 3,617,000, of which 317,000 shares may only be issued to Telenet's chief executive officer. Options generally vest at a rate of 6.25% per quarter over four years and expire five years from the date of grant. As of December 31, 2008, the total compensation expense not yet recognized related to the Telenet Employee Stock Option Plans is €3.7 million (\$5.2 million) and the weighted average period remaining for expense recognition is 4.2 years. Total stock-based compensation expense of \$2.0 million was recorded in 2008 in connection with the Telenet Employee Stock Option Plans.

The following table summarizes the activity during 2008 related to the Telenet Employee Stock Option Plans:

Options — Telenet ordinary shares:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	—	€ —		
Granted (a)	1,446,100	€ 14.90		
Expired or canceled	—	€ —		
Forfeited	(25,000)	€ 14.50		
Exercised	—	€ —		
Outstanding at December 31, 2008	1,421,100	€ 14.90	4.19	€ —
Exercisable at December 31, 2008	265,655	€ 14.93	4.18	€ —

(a) The fair value of these awards was calculated on the date of grant using an expected volatility ranging from 24.2% to 28.5%, an expected life of 3.6 years, and a risk-free return ranging from 3.50% — 4.51%. The weighted average grant date fair value during 2008 was €3.65 (\$5.09).

**Telenet Employee Stock Purchase Plan**

In 2007, Telenet authorized a compensatory plan under which Telenet employees would be given the opportunity to purchase Telenet shares at a discounted price at the end of an offering period. Although employees are fully vested in the shares upon purchase, the shares may not be publicly traded for two years following the date of purchase. The maximum aggregate sales proceeds under the plan is €23.5 million (\$32.8 million).

In January 2008, Telenet offered its employees the opportunity to reserve shares for purchase under the plan at a subscription price to be determined as of March 19, 2008. The final subscription price of €12.11 was determined by applying a 16.67% discount to the average closing price of the shares during the 30 days preceding March 20, 2008. Telenet received subscriptions for 693,217 shares in March 2008. In connection with the April 2008 issuance of the shares underlying these subscriptions, Telenet received cash proceeds of €8.4 million (\$11.7 million) and recorded stock-based compensation expense of \$2.5 million.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**Stock Incentive Plans — Other Subsidiaries**

*J:COM Stock Option Plans*

J:COM has granted options and stock purchase warrants under various plans for certain directors and employees of J:COM and its consolidated subsidiaries and managed affiliates, and certain non-employees. Options or warrants granted to non-management employees vest two years from the date of grant, unless their individual grant agreements provide otherwise. Options or warrants granted to management employees and non-employees vest in four equal annual installments from date of grant, unless their individual grant agreements provide otherwise. Options granted prior to 2006 generally expire at dates ranging from August 2010 to August 2012. Options granted in 2006 and subsequent years expire 20 years after the grant date. As of December 31, 2008, J:COM has granted the maximum number of options under existing authorized plans.

A summary of the J:COM Stock Option Plan activity during 2008 is as follows:

Options — J:COM ordinary shares:	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	105,956	¥ 79,625		
Granted (a)	312	¥ 1		
Expired or canceled	(2,910)	¥ 80,000		
Forfeited	(18)	¥ 80,000		
Exercised	(10,750)	¥ 89,406		
Outstanding at December 31, 2008	92,590	¥ 79,340	2.85	¥ 1,320.3
Exercisable at December 31, 2008	91,839	¥ 79,989	2.72	¥ 1,250.1

(a) The exercise price of these options was significantly below the market price of J:COM common stock on the date of grant.

During 2008, 2007 and 2006, J:COM received cash proceeds of \$8.3 million, \$24.9 million and \$13.2 million, respectively, in connection with the exercise of stock options.

*VTR Phantom SARs Plan*

In April 2006, VTR's board of directors adopted a phantom SARs plan with respect to 1,000,000 shares of VTR's common stock (the VTR Plan). SARs granted under the VTR Plan vest in equal semi-annual installments over a three- or four-year period and expire no later than July 1, 2010. Vested SARs are exercisable within 60 days of receipt of an annual valuation report as defined in the VTR Plan. Upon exercise, the SARs are payable in cash or, for any such time as VTR is publicly traded, cash or shares of VTR or any combination thereof, in each case at the election of the compensation committee that administers the VTR Plan. On April 12, 2006, the VTR compensation committee granted a total of 945,000 SARs, each with a base price of CLP 9,503 and a vesting commencement date of January 1, 2006. On June 25, 2007, the VTR compensation committee granted a total of 401,000 SARs, each with a base price of CLP 12,588, and a vesting commencement date of January 1, 2007. On February 20, 2008, the VTR compensation committee granted a total of 37,000 SARs, each with a base price of CLP 16,868 (\$26.42), and a vesting commencement date of January 1, 2008. As the outstanding SARs under this plan currently must be settled in cash, we use the liability method to account for the VTR phantom SARs.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

A summary of the VTR Plan activity during 2008 is as follows:

SARs — VTR common stock:	Number of shares	Weighted average base price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2008	913,292	CLP 10,846		
Granted	37,000	CLP 16,868		
Expired or canceled	—	CLP —		
Forfeited	(34,417)	CLP 10,101		
Exercised	(207,981)	CLP 10,026		
Outstanding at December 31, 2008 (a)	707,894	CLP 11,438	1.0	CLP 785.0
Exercisable at December 31, 2008	444,588	CLP 11,383	1.0	CLP 496.5

(a) The fair value of these awards at December 31, 2008 was calculated using an expected volatility of 66.0%, an expected life of 1.0 years and a risk-free return of 8.28%. In addition, we were required to estimate the fair value of VTR common stock at December 31, 2008. The fair value of these awards is remeasured each reporting period, and compensation expense is adjusted to reflect the updated fair value.

*United Chile Synthetic Option Plan*

Pursuant to a synthetic option plan (the United Chile Synthetic Option Plan) that was adopted in December 2006 to replace the former UIH Latin America, Inc. Stock Option Plan, one of our directors, one of our former directors, certain of our executive officers and officers, and one of our employees, hold an aggregate of 564,843 synthetic options with respect to hypothetical shares of United Chile LLC (United Chile), the owner of our 80% ownership interest in VTR. These synthetic options represent a 2.7% fully diluted equity interest in United Chile. For purposes of determining the value attributable to these synthetic options, United Chile is assumed to have a specified share capital and intercompany indebtedness. These assumptions are designed to replicate at United Chile the share capital and indebtedness, net of the value of certain assets that UIH Latin America, Inc. would have had absent certain intercompany transactions that occurred in 2006. All of the synthetic options outstanding under the United Chile Synthetic Option Plan are fully vested and expire between 2009 and 2011. These synthetic options had no intrinsic value and minimal fair value at December 31, 2008. No new grants may be made under the United Chile Synthetic Option Plan. We account for the United Chile Synthetic Option Plan awards as liability-based awards.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**(15) Related Party Transactions**

Our related party transactions consist of the following:

	Year ended December 31,		
	2008	2007	2006
	in millions		
Revenue earned from related parties of:			
J:COM (a)	\$ 123.1	\$ 81.9	\$ 58.4
LGI and consolidated subsidiaries other than J:COM (b)	11.0	9.9	2.1
Total LGI	\$ 134.1	\$ 91.8	\$ 60.5
Operating expenses charged by related parties of:			
J:COM (c)	\$ 133.9	\$ 91.5	\$ 88.3
LGI and consolidated subsidiaries other than J:COM (d)	28.2	25.4	20.0
Total LGI	\$ 162.1	\$ 116.9	\$ 108.3
SG&A expenses charged by related parties of:			
J:COM (e)	\$ 32.9	\$ 21.1	\$ 19.1
LGI and consolidated subsidiaries other than J:COM (f)	(1.4)	(0.5)	—
Total LGI	\$ 31.5	\$ 20.6	\$ 19.1
Interest expense charged by related parties of J:COM (g)	\$ 14.6	\$ 12.0	\$ 10.1
Interest and other income recognized from related parties of LGI and consolidated subsidiaries	\$ 0.6	\$ 0.9	\$ 0.9
Capital lease additions — related parties of J:COM (h)	\$ 144.2	\$ 153.7	\$ 138.0

- (a) During the periods presented, (i) J:COM provided programming, construction, management, administrative, call center and distribution services to certain of its and LGI's affiliates, and (ii) J:COM sold construction materials to certain of such affiliates. As a result of certain transactions completed by J:COM during 2008, these affiliates became J:COM subsidiaries and in future periods the revenue derived from these entities will be eliminated in consolidation. J:COM also receives distribution fees from SC Media.
- (b) Amounts consist primarily of management, advisory and programming license fees and fees for uplink services charged to our equity method affiliates.
- (c) J:COM (i) purchases certain cable television programming from its affiliates, (ii) incurs rental expense for the use of certain vehicles and equipment under operating leases with certain subsidiaries of Sumitomo and (iii) incurs billing system expense from a Sumitomo subsidiary.
- (d) Amounts consist primarily of programming costs and interconnect fees charged by equity method affiliates.
- (e) J:COM has management service agreements with Sumitomo under which officers and management level employees are seconded from Sumitomo to J:COM. Amounts also include rental and IT support expenses paid to certain subsidiaries of Sumitomo.
- (f) The 2008 and 2007 amounts represent the reimbursements charged by Austar for marketing and director fees incurred on behalf of one of its equity affiliates.
- (g) Amounts consist of related party interest expense, primarily related to assets leased from the aforementioned Sumitomo entities.



LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

(h) J:COM leases, in the form of capital leases, customer premise equipment, various office equipment and vehicles from certain subsidiaries of Sumitomo. At December 31, 2008 and 2007, capital lease obligations of J:COM aggregating ¥54.1 billion (\$595.9 million) and ¥46.0 billion (\$506.7 million), respectively, were owed to these Sumitomo subsidiaries.

Certain of J:COM's equity method affiliates deposit excess funds with J:COM. The aggregate amounts owed by J:COM to these equity method affiliates at December 31, 2008 and 2007 of ¥4,124.0 million (\$45.4 million) and ¥3,536.0 million (\$38.9 million), respectively, is included in other accrued and current liabilities in our consolidated balance sheets.

On December 25, 2008, our then equity affiliate, Mediatti, was sold to J:COM. For additional information, see note 4.

As discussed in more detail in notes 4 and 5, on July 2, 2007, SC Media was split into two separate companies through the spin-off of JTV Thematics. We exchanged our investment in SC Media for Sumitomo shares on July 3, 2007 and J:COM acquired a 100% interest in JTV Thematics on September 1, 2007.

On December 31, 2006, we sold our 100% interest in UPC Belgium to Telenet, an equity method affiliate at that date. For additional information, see note 5.

(16) Transactions with Officers and Directors

***O3B Networks Limited***

On January 4, 2008, we subscribed for and purchased a convertible preferred equity interest in O3B Networks Limited (O3B), a start-up company headquartered in Jersey, United Kingdom, that plans to engage in a satellite-based data backhaul business. We paid an aggregate of €3.5 million (\$5.2 million at the transaction date) to O3B for the preferred interest, which represented approximately 6.7% of O3B's outstanding common shares (calculated on an "if converted" basis) immediately following the acquisition. O3B had the right, subject to the satisfaction of certain conditions on or before December 31, 2008, to require us to purchase additional preferred shares in O3B, up to an aggregate additional purchase price of €10.4 million, at the same price per share as our initial investment. In July 2008, this purchase obligation was eliminated in connection with our and certain third parties' acquisition of additional O3B convertible preferred shares. In the July 2008 transaction, we paid an aggregate purchase price of €10.4 million (\$16.2 million at the transaction date) to acquire the additional O3B convertible preferred shares. At December 31, 2008, (i) our company owned a 15.1% interest in O3B, (ii) one of our directors, who is a founder of O3B, owned a 7.7% interest in O3B and (iii) another of our directors owned a 0.4% interest in O3B. The ownership percentages set forth above are calculated on an "if converted" basis with respect to all outstanding convertible preferred shares.

***Other***

On October 10, 2008, we purchased 1,000,000 shares of our Series C common stock from our Chairman of the Board, for \$18.00 per share in cash. This purchase was made pursuant to our stock repurchase program, as further described in note 13.

For a description of certain transactions involving stock options held by certain of our directors, see note 14.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**(17) Restructuring Liabilities**

A summary of changes in our restructuring liabilities during 2008 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
			in millions		
Restructuring liability as of January 1, 2008	\$ 8.7	\$ 16.9	\$ 21.3	\$ 0.1	\$ 47.0
Restructuring charges (credits)	16.8	2.7	(0.5)	—	19.0
Cash paid	(15.4)	(5.3)	(4.1)	—	(24.8)
Acquisitions and other	2.3	(0.5)	(0.2)	(0.1)	1.5
Foreign currency translation adjustments	0.4	(0.7)	(0.5)	—	(0.8)
Restructuring liability as of December 31, 2008	\$ 12.8	\$ 13.1	\$ 16.0	\$ —	\$ 41.9
Short-term portion	\$ 12.0	\$ 4.9	\$ 4.2	\$ —	\$ 21.1
Long-term portion	0.8	8.2	11.8	—	20.8
Total	\$ 12.8	\$ 13.1	\$ 16.0	\$ —	\$ 41.9

Our 2008 restructuring charges include (i) aggregate charges of \$11.9 million related to reorganization and integration activities in certain of our European operations, and (ii) a charge of \$5.6 million related to the reorganization of certain of VTR's administrative and operational functions.

A summary of changes in our restructuring liabilities during 2007 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
			in millions		
Restructuring liability as of January 1, 2007	\$ 14.3	\$ 11.4	\$ 25.8	\$ 1.6	\$ 53.1
Restructuring charges (credits)	14.7	7.6	(0.3)	0.2	22.2
Cash paid	(18.7)	(3.2)	(4.3)	(1.5)	(27.7)
Acquisitions and other	(2.2)	(0.3)	—	(0.2)	(2.7)
Foreign currency translation adjustments	0.6	1.4	0.1	—	2.1
Restructuring liability as of December 31, 2007	\$ 8.7	\$ 16.9	\$ 21.3	\$ 0.1	\$ 47.0
Short-term portion	\$ 6.8	\$ 4.0	\$ 4.5	\$ 0.1	\$ 15.4
Long-term portion	1.9	12.9	16.8	—	31.6
Total	\$ 8.7	\$ 16.9	\$ 21.3	\$ 0.1	\$ 47.0

Our 2007 restructuring charges include (i) \$8.8 million related primarily to the cost of terminating certain employees in connection with the integration of our business-to-business (B2B) and broadband communications operations in the Netherlands and (ii) \$6.2 million related primarily to the cost of terminating certain employees in connection with the restructuring of our broadband communications operations in Ireland.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

A summary of changes in our restructuring liabilities during 2006 is set forth in the table below:

	Employee severance and termination	Office closures	Programming and lease contract termination	Other	Total
			in millions		
Restructuring liability as of January 1, 2006	\$ 14.1	\$ 13.4	\$ 30.3	\$ 9.4	\$ 67.2
Restructuring charges (credits)	15.7	1.0	(1.0)	(0.7)	15.0
Cash paid	(19.6)	(4.8)	(5.8)	(5.9)	(36.1)
Acquisitions and other	2.8	0.4	1.5	(1.0)	3.7
Foreign currency translation adjustments	1.3	1.4	0.8	(0.2)	3.3
Restructuring liability as of December 31, 2006	\$ 14.3	\$ 11.4	\$ 25.8	\$ 1.6	\$ 53.1
Short-term portion	\$ 11.2	\$ 2.7	\$ 4.5	\$ 1.6	\$ 20.0
Long-term portion	3.1	8.7	21.3	—	33.1
Total	\$ 14.3	\$ 11.4	\$ 25.8	\$ 1.6	\$ 53.1

Our 2006 restructuring charges include \$10.8 million related primarily to the cost of terminating certain employees in connection with the integration of our broadband communications operations in Ireland.

**(18) Defined Benefit Plans**

Certain of our indirect subsidiaries in Europe and Japan maintain various funded and unfunded defined benefit pension plans for their employees. Annual service cost for these employee benefit plans is determined using the projected unit credit actuarial method. The subsidiaries that maintain funded plans have established investment policies for assets. The investment strategies are long-term in nature and designed to meet the following objectives:

- Ensure that funds are available to pay benefits as they become due;
- Maximize the trusts total returns subject to prudent risk taking; and
- Preserve or improve the funded status of the trusts over time.

The subsidiaries review the asset mix of the funds on a regular basis. Generally, asset mix will be rebalanced to the target mix as individual portfolios approach their minimum or maximum levels. Allocations to real estate occur over multiple time periods. Assets targeted to real estate, but not yet allocated, are invested in fixed income securities with corresponding adjustments to fixed income rebalancing guidelines.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

The following is a summary of the funded status of the pension plans:

	Year ended December 31,	
	2008	2007
	in millions	
Projected benefit obligation at beginning of period	\$ 233.0	\$ 193.4
Acquisitions (a)	—	28.8
Service cost	16.4	17.6
Interest cost	9.4	9.0
Actuarial gain	(16.1)	(17.5)
Participants' contributions	7.9	7.3
Benefits paid	(22.9)	(25.1)
Effect of changes in exchange rates	7.8	18.1
Other	(2.8)	1.4
Projected benefit obligation at end of period	\$ 232.7	\$ 233.0
Accumulated benefit obligation at end of period	\$ 204.5	\$ 220.9
Fair value of plan assets at beginning of period	\$ 192.7	\$ 145.3
Acquisitions (a)	—	27.6
Actual earnings (loss) of plan assets	(32.2)	2.9
Group contributions	17.1	15.8
Participants' contributions	7.9	7.3
Benefits paid	(22.4)	(20.6)
Effect of changes in exchange rates	7.0	14.4
Fair value of plan assets at end of period	\$ 170.1	\$ 192.7
Net liability (b)	\$ 62.6	\$ 40.3

(a) The 2007 amount primarily relates to Telenet.

(b) The net liability related to our defined benefit pension plans is included in other long-term liabilities in our consolidated balance sheets.

The change in the amount of net actuarial gain not yet recognized as a component of net periodic pension costs in our consolidated statements of operations is as follows:

	Before-tax amount	Tax benefit (expense) in millions	Net-of-tax amount
Balance at January 1, 2007	\$ 8.5	\$ (0.9)	\$ 7.6
Change in net actuarial gain	12.8	(0.2)	12.6
Amount recognized as a component of net loss	(0.3)	—	(0.3)
Balance at December 31, 2007	21.0	(1.1)	19.9
Change in net actuarial gain	(23.0)	0.8	(22.2)
Amount recognized as a component of net loss	(0.2)	—	(0.2)
Balance at December 31, 2008	\$ (2.2)	\$ (0.3)	\$ (2.5)

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

We expect that the amount of net actuarial gain or loss to be recognized in our 2009 consolidated statement of operations will not be significant.

*Actuarial Assumptions*

The measurement date used to determine pension plan assumptions was December 31 for each of 2008 and 2007. The actuarial assumptions used to compute the net periodic pension cost are based on information available as of the beginning of the period, specifically market interest rates, past experience and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. In computing future costs and obligations, the subsidiaries must make assumptions about such items as employee mortality and turnover, expected salary and wage increases, discount rate, expected long-term rate of return on plan assets and expected future cost increases.

The expected rates of return on the assets of the funded plans are the long-term rates of return the subsidiaries expect to earn on their trust assets. The rates of return are determined by the investment composition of the plan assets and the long-term risk and return forecast for each asset category. The forecasts for each asset class are generated using historical information as well as an analysis of current and expected market conditions. The expected risk and return characteristics for each asset class are reviewed annually and revised, as necessary, to reflect changes in the financial markets. To compute the expected return on plan assets, the subsidiaries apply an expected rate of return to the fair value of the plan assets.

The weighted average assumptions used in determining benefit obligations are as follows:

	December 31,	
	2008	2007
Expected rate of salary increase	2.32%	2.37%
Discount rate	3.85%	4.03%
Return on plan assets	4.71%	4.74%

The components of net periodic pension cost recorded in our consolidated statements of operations are as follows:

	Year ended December 31,	
	2008	2007
	in millions	
Service cost	\$ 16.4	\$ 17.6
Interest cost	9.4	9.0
Expected return on plan assets	(9.3)	(9.6)
Other	(2.9)	1.1
Net periodic pension cost	<u>\$ 13.6</u>	<u>\$ 18.1</u>

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

The weighted average asset mix of the funded plans is as follows:

	December 31,	
	2008	2007
Debt securities	39%	32%
Equity securities	22%	30%
Guarantee investment contracts	19%	18%
Real estate	8%	7%
Other	12%	13%
	<u>100%</u>	<u>100%</u>

The weighted average target asset mix established for the funded plans is as follows:

Debt securities	40%
Equity securities	22%
Guarantee investment contracts	19%
Real estate	7%
Other	12%
	<u>100%</u>

Our subsidiaries' contributions to their respective pension plans in 2009 are expected to aggregate \$18.8 million. As of December 31, 2008, the expected benefits to be paid during the next ten years with respect to our defined benefit pension plans are as follows (in millions):

2009	\$ 17.1
2010	\$ 7.9
2011	\$ 8.2
2012	\$ 8.4
2013	\$ 9.2
2014 — 2018	\$ 56.9

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

(19) **Accumulated Other Comprehensive Earnings (Loss)**

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

	Foreign currency translation adjustments	Unrealized gains (losses) on securities	Unrealized gains (losses) on cash flow hedges in millions	Pension related adjustments	Accumulated other comprehensive earnings (loss)
Balance at January 1, 2006	\$ (287.7)	\$ 20.0	\$ 4.8	\$ —	\$ (262.9)
Other comprehensive earnings (loss)	406.8	19.5	(1.2)	—	425.1
Adjustment to initially adopt SFAS 158, net of taxes (note 3)	—	—	—	7.6	7.6
Balance at December 31, 2006	119.1	39.5	3.6	7.6	169.8
Other comprehensive earnings (loss)	686.8	(3.7)	(6.7)	12.3	688.7
Balance at December 31, 2007	\$ 805.9	\$ 35.8	\$ (3.1)	\$ 19.9	\$ 858.5
Accounting change (note 2)	(3.7)	(35.8)	—	—	(39.5)
Other comprehensive earnings (loss)	344.7	—	(0.3)	(22.4)	322.0
Balance at December 31, 2008	\$ 1,146.9	\$ —	\$ (3.4)	\$ (2.5)	\$ 1,141.0

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

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

	Before-tax amount	Tax benefit (expense) in millions	Net-of-tax amount
Year ended December 31, 2006:			
Foreign currency translation adjustments	\$ 404.7	\$ 2.1	\$ 406.8
Unrealized gains on securities	30.5	(11.0)	19.5
Unrealized losses on cash flow hedges	(1.2)	—	(1.2)
Other comprehensive earnings	<u>\$ 434.0</u>	<u>\$ (8.9)</u>	<u>\$ 425.1</u>
Year ended December 31, 2007:			
Foreign currency translation adjustments	\$ 693.2	\$ (6.4)	\$ 686.8
Unrealized losses on securities	(5.9)	2.2	(3.7)
Unrealized losses on cash flow hedges	(10.9)	4.2	(6.7)
Pension related adjustments	12.3	—	12.3
Other comprehensive earnings	<u>\$ 688.7</u>	<u>\$ —</u>	<u>\$ 688.7</u>
Year ended December 31, 2008:			
Foreign currency translation adjustments	\$ 349.9	\$ (5.2)	\$ 344.7
Unrealized losses on cash flow hedges	(1.0)	0.7	(0.3)
Pension related adjustments	(23.2)	0.8	(22.4)
Other comprehensive earnings	<u>\$ 325.7</u>	<u>\$ (3.7)</u>	<u>\$ 322.0</u>

**(20) Commitments and Contingencies**

**Commitments**

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancellable operating leases, programming contracts, satellite carriage commitments, purchases of customer premise equipment and other items. We expect that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases. As of December 31, 2008, the U.S. dollar equivalents (based on December 31, 2008 exchange rates) of such commitments that are not reflected in our consolidated balance sheet are as follows:

	2009	2010	2011	2012 in millions	2013	Thereafter	Total
Operating leases	\$ 208.3	\$ 114.3	\$ 72.3	\$ 49.4	\$ 31.8	\$ 105.9	\$ 582.0
Programming, satellite and other purchase obligations	321.1	103.3	23.0	10.9	3.3	10.7	472.3
Other commitments	80.6	67.0	62.3	57.8	56.3	1,377.1	1,701.1
	<u>\$ 610.0</u>	<u>\$ 284.6</u>	<u>\$ 157.6</u>	<u>\$ 118.1</u>	<u>\$ 91.4</u>	<u>\$ 1,493.7</u>	<u>\$ 2,755.4</u>



## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

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

Other commitments relate primarily to Telenet's commitments for the Telenet PICs Network operating costs pursuant to the 2008 PICs Agreement. Beginning in the seventh year of the 2008 PICs Agreement, these commitments are subject to adjustment based on changes in the network operating costs incurred by Telenet with respect to its own networks. These potential adjustments are not subject to reasonable estimation, and therefore, are not included in the above table. Other commitments also include fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments and agreements with programming vendors and other third parties pursuant to which we expect to make payments in future periods. We also have commitments pursuant to agreements with, and obligations imposed by, franchise authorities and municipalities, including our obligations in certain markets to move aerial cable to underground ducts or to upgrade, rebuild or extend portions of our broadband distribution systems. Such amounts are not included in the above table because they are not fixed or determinable due to various factors.

Rental expense under non-cancelable operating lease arrangements amounted to \$200.4 million, \$180.1 million and \$150.4 million in 2008, 2007 and 2006, respectively. It is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases.

We have established various defined contribution benefit plans for our and our subsidiaries' employees. The aggregate expense for matching contributions under the various defined contribution employee benefit plans was \$31.0 million, \$27.4 million and \$20.2 million in 2008, 2007 and 2006, respectively.

***Contingent Obligations***

In connection with the April 13, 2005 combination of VTR and Metrópolis, Cristalerías acquired the right to require UGC to purchase Cristalerías' equity interest in VTR at fair value, subject to a \$140 million floor price. This put right is exercisable by Cristalerías until April 13, 2015. Upon the exercise of this put right by Cristalerías, UGC has the option to use cash or shares of LGI common stock to acquire Cristalerías' interest in VTR. The fair value of this put right at December 31, 2008 was a liability of \$17.2 million.

The minority owner of Chello Central Europe Zrt (formerly Sport 1 Holding Zrt) (Chello Central Europe), a subsidiary of Chellomedia in Hungary, has the right to put all (but not part) of its interest in Chello Central Europe to one of our subsidiaries each year between January 1 and January 31. This put option lapses if not exercised by February 1, 2011. Chellomedia has a corresponding call right. The price payable upon exercise of the put or call right will be the fair value of the minority owner's interest in Chello Central Europe. In the event the fair value of Chello Central Europe on exercise of the put right exceeds a multiple of ten times EBITDA, as defined in the underlying agreement, Chellomedia may in its sole discretion elect not to acquire the minority interest and the put

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

right lapses for that year, with the minority shareholder being instead entitled to sell its minority interest to a third party within three months of such date, subject to Chellomedia's right of first refusal. After this three-month period elapses, the minority shareholder cannot sell its shares to third parties without Chellomedia's consent. The put and call rights are to be settled in cash.

Three individuals, including one of our executive officers and an officer of one of our subsidiaries, own a 14.3% common stock interest in Liberty Jupiter, which owned a 4.0% indirect interest in J:COM at December 31, 2008. In addition to our 85.7% common stock interest in Liberty Jupiter, we also own Liberty Jupiter preferred stock with an aggregate liquidation value of \$161.9 million at December 31, 2008. Under the amended and restated shareholders agreement, the individuals can require us to purchase all of their Liberty Jupiter common stock interest, and we can require them to sell us all or part of their Liberty Jupiter common stock interest, in exchange for LGI common stock with an aggregate market value equal to the fair market value of the Liberty Jupiter shares so exchanged, as determined by agreement of the parties or independent appraisal.

***Guarantees and Other Credit Enhancements***

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

***Legal Proceedings and Other Contingencies***

*Signal* — On April 26, 2002, Liberty Global Europe received a notice that the former shareholders of Signal Global Communications (Signal) filed a lawsuit (the 2002 Signal Action) against Liberty Global Europe in the District Court of Amsterdam, the Netherlands, claiming damages for Liberty Global Europe's alleged failure to honor certain option rights that were granted to those shareholders pursuant to a Shareholders Agreement entered into in connection with the acquisition of Signal by Priority Telecom NV (Priority Telecom). The Shareholders Agreement provided that in the absence of an IPO, as defined in the Shareholders Agreement, of shares of Priority Telecom by October 1, 2001, the Signal shareholders would be entitled until October 30, 2001 to exchange their Priority Telecom shares into shares of Liberty Global Europe, with a cash equivalent value of \$200 million in the aggregate, or cash at Liberty Global Europe's discretion. Liberty Global Europe believes that it complied in full with its obligations to the Signal shareholders through the successful completion of the IPO of Priority Telecom on September 27, 2001, and accordingly, that the option rights were not exercisable.

On May 4, 2005, the District Court rendered its decision in the 2002 Signal Action, dismissing all claims of the former Signal shareholders. On August 2, 2005, an appeal against the district court decision was filed. Subsequently, when the grounds of appeal were filed in November 2005, nine individual plaintiffs, rather than all former Signal shareholders, continued to pursue their claims. Based on the share ownership information provided by the nine plaintiffs, the damage claims remaining subject to the 2002 Signal Action are approximately \$28 million in the aggregate before statutory interest. A hearing on the appeal was held on May 22, 2007. On September 13, 2007, the Court of Appeals rendered its decision that no IPO within the meaning of the Shareholders Agreement had been realized and accordingly the plaintiffs should have been allowed to exercise their option rights. In the same decision, the Court of Appeals directed the plaintiffs to present more detailed calculations and substantiation of the damages they claimed to have suffered as a result of Liberty Global Europe's nonperformance with respect to their option rights, and stated that Liberty Global Europe will be allowed to respond to the calculations submitted by the plaintiffs by separate statement. The Court of Appeals gave the parties leave to appeal to the Dutch Supreme Court and deferred all further decisions and actions, including the calculation and substantiation of the damages, pending such appeal. Liberty Global Europe filed an appeal with the Dutch Supreme Court on December 13, 2007. On

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

February 15, 2008, the plaintiffs filed a conditional appeal against the decision with the Dutch Supreme Court, challenging certain aspects of the Court of Appeals' decision in the event that Liberty Global Europe's appeal is not dismissed by the Dutch Supreme Court.

On June 13, 2006, Liberty Global Europe, Priority Telecom, Euronext NV and Euronext Amsterdam NV were each served with a summons for a new action (the 2006 Cignal Action) purportedly on behalf of all the other former Cignal shareholders and provisionally for the nine plaintiffs in the 2002 Cignal Action. The 2006 Cignal Action claims, among other things, that the listing of Priority Telecom on Euronext Amsterdam NV in September 2001 did not meet the requirements of the applicable listing rules and, accordingly, the IPO was not valid and did not satisfy Liberty Global Europe's obligations to the Cignal shareholders. Aggregate claims of \$200 million, plus statutory interest, are asserted in this action, which amount includes the amount provisionally claimed by the nine plaintiffs in the 2002 Cignal Action. A hearing in the 2006 Cignal Action took place on October 9, 2007 following which, on December 19, 2007, the District Court rendered its decision dismissing the plaintiffs' claims against Liberty Global Europe and the other defendants. The plaintiffs appealed the District Court's decision to the Court of Appeals on March 12, 2008. Oral pleadings in this appeal have been scheduled for April 17, 2009.

In light of the September 13, 2007 decision by the Court of Appeals and other factors, we recorded a provision of \$146.0 million during the third quarter of 2007, representing our estimate of the loss that we may incur upon the ultimate disposition of the 2002 and 2006 Cignal Actions. This provision has been recorded notwithstanding our appeal of the Court of Appeals decision in the 2002 Cignal Action to the Dutch Supreme Court and the fact that the Court of Appeals decision is not binding with respect to the 2006 Cignal Action. We have not adjusted the provision as a result of the December 19, 2007 District Court decision in the 2006 Cignal Action, because the plaintiffs have filed an appeal of that decision.

*Interkabel Acquisition* — On November 26, 2007, Telenet and the PICs announced a non-binding agreement-in-principle to transfer the analog and digital television activities of the PICs, including all existing subscribers, to Telenet. On December 26, 2007, Belgacom NV/SA (Belgacom), the incumbent telecommunications operator in Belgium, lodged summary proceedings with the President of the Court of First Instance of Antwerp with a view to obtaining a provisional injunction preventing the PICs from effecting the agreement-in-principle. Belgacom's claim is based on the allegation that the PICs should have organized a market consultation prior to entering into the agreement-in-principle. The PICs are challenging this allegation, and Telenet intervened in this litigation in order to protect its interests. Belgacom also initiated a civil procedure on the merits claiming the annulment of the agreement-in-principle. On March 11, 2008, the President of the Court of First Instance of Antwerp ruled in favor of Belgacom and, accordingly, ordered the PICs to refrain from any act implementing the agreement-in-principle pending the procedure on the merits. The PICs and Telenet appealed the March 11, 2008 ruling and on June 4, 2008 the Court of Appeal of Antwerp ruled in their favor, reversing the decision in summary proceedings to suspend the agreement-in-principle. Belgacom has brought this appeal judgment before the *Cour de Cassation* (Belgian Supreme Court), which could overrule the appeal judgment, but only on matters of law or procedure. The civil claim on the merits is still pending and the final judgment is expected to take more than one year.

In parallel, Belgacom filed a complaint with the Government Commissioner who needs to make a decision whether the Board approvals of the PICs of the agreement-in-principle should be suspended. For now, the Government Commissioner and the Flemish Home Secretary Minister have not deemed it necessary to suspend the agreement-in-principle in light of the pending legal proceedings. Furthermore, Belgacom also initiated a suspension and annulment procedure before the Council of State against these Board approvals. On June 2, 2008 the Council of State ruled in favor of the PICs and Telenet by declaring Belgacom's claim for suspension inadmissible because there is no risk for a "serious and irreparable harm." The final judgment in the annulment case is expected to take more than one year.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

Belgacom also initiated a suspension and annulment procedure before the Council of State against the June 28, 2008 Board resolutions of the PICs approving the 2008 PICs Agreement. On November 27, 2008, the Council of State ruled in favor of the PICs and Telenet in the suspension procedure. The final judgment in the annulment case is expected to take more than one year. The Council of State may decide to join this case with the other annulment case and treat them simultaneously.

It is possible that Belgacom will initiate further legal proceedings in an attempt to block the integration of the PICs' analog and digital television activities or obtain the rescission of the 2008 PICs Agreement. No assurance can be given as to the outcome of these or other Belgacom proceedings. However, an unfavorable outcome of existing or future Belgacom proceedings could potentially lead to the rescission of the 2008 PICs Agreement and/or to an obligation for Telenet to pay compensation for damages, subject to the relevant provisions of the 2008 PICs Agreement, as discussed in note 4.

*The Netherlands Regulatory Developments* — As part of the process of implementing certain directives promulgated by the European Union (EU) in 2003, the Dutch national regulatory authority (OPTA) analyzed the eighteen markets that were predefined in the EU Commission's Recommendation on Relevant Markets at that time to determine if any operator or service provider has "Significant Market Power" within the meaning of the EU directives. All providers of call termination on fixed networks in the Netherlands have been found to have Significant Market Power, including our subsidiary UPC Nederland BV (UPC NL). College van Beroep voor het bedrijfsleven (CBB), the administrative supreme court, annulled on May 11, 2007, the Significant Market Power designation of UPC NL in this market with the consequence that there were no legal grounds for imposing obligations. OPTA published an amended decision effective May 6, 2008, which imposed all previous obligations regarding access, transparency and tariff regulation and included a non-discrimination obligation. UPC NL has challenged this decision at CBB, which appeal is still pending. In December 2008, OPTA completed further market analyses, including a new decision on call termination for UPC NL. This decision became effective January 1, 2009, requiring UPC NL to reduce its call termination rates.

In relation to television services, in its first round analysis, OPTA found UPC NL, our Dutch subsidiary, to have Significant Market Power in the market for wholesale broadcasting transmission services, which was on the original but not the current list of predefined markets, and in an additional market not on either list relating to the retail transmission of radio and television signals. The OPTA decision with respect to the wholesale market imposed various obligations on UPC NL, including the obligation to provide access to content providers and packagers that seek to distribute content over UPC NL's network using their own conditional access platforms. OPTA's revised decision in relation to the wholesale market, which was issued after an initial successful appeal by UPC NL but imposed substantially the same obligations as the initial decision, will expire on March 17, 2009. The OPTA decision with respect to the retail market expired on March 17, 2007.

On August 5, 2008, OPTA issued a draft decision on its second round market analysis with respect to television services, again finding UPC NL, as well as other cable operators, to have Significant Market Power in the market for wholesale broadcasting transmission services and imposing new obligations. Following a national consultation procedure, OPTA issued a revised decision and submitted it to the EU Commission on January 9, 2009. On February 9, 2009, the EU Commission informed OPTA of its approval of the draft decision. The decision is expected to become effective on March 17, 2009. The new market analysis decision, once effective, will impose on the four largest cable operators in the Netherlands a number of access obligations in respect of television services. The two largest cable operators, including UPC NL, will have a number of additional access obligations.

The access obligations consist of (i) access to capacity for the transmission of the television signal (both analog and digital), (ii) resale of the analog television signal and, in conjunction with any such resale, the provision of customer connection, and (iii) access to UPC NL's digital conditional access system, including access to its

LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

operational supporting systems and co-location. OPTA has stated that any operator with its own infrastructure, such as Royal KPN NV, the incumbent telecommunications operator in the Netherlands, will not be allowed to resell the analog television signal or avail itself of access to UPC NL's digital platform.

The resale obligation will enable third parties to take over the customer relationship as far as the analog television signal is concerned. The decision includes the possibility for resale of an analog package that is not identical to the analog packages offered by UPC NL. Potential resellers will need to negotiate the relevant copyrights directly with program providers in order to resell the identical or almost identical analog television signals. In case of non-identical resale, the decision imposes a number of preconditions, including that the reseller must bear the costs of filtering and that OPTA will determine the reasonableness of such request on a case by case basis.

In respect of transmission of the analog television signal, a number of preconditions were established to ensure that such transmission will not cause unreasonable use of scarce capacity. A request for transmission of analog signals that are not included in UPC NL's analog television package, as well as parallel transmission of analog signals that are already part of the analog package, will in principle be deemed unreasonable.

Regarding digital, the new market analysis decision requires UPC NL to enable providers of digital television signals to supply their digital signals using their own or UPC NL's digital conditional access system. This allows the third parties to have their own customer relationship for those digital television signals and, to bundle their offer with the resale of the analog television signal.

Pricing of the wholesale offer for analog and digital transmission capacity will be at cost-oriented prices. Pricing of the wholesale offer for resale of the analog package, including access to UPC NL's transmission platform for purposes of resale, will be based on a discount to UPC NL's retail rates, at a level to be determined by OPTA and, if no retail offer of UPC NL is available, on cost-oriented basis. Both access obligations come with the obligation to provide access to the relevant network elements and facilities, including set-top boxes, co-location, software systems and operational supporting systems, at cost-oriented prices if no relevant retail tariff is available to define the retail minus tariff.

UPC NL will also be required to make its tariffs publicly available on a rate card. Furthermore, UPC NL will not be allowed to discriminate between third parties and its own retail business in making these services available. This includes for example a prohibition on offering loyalty discounts to its own customers.

We believe that the proposed measures are unnecessary and disproportionate and are evaluating our legal options. Pending the outcome of any legal action UPC NL may determine to take, it will be required to comply with the decision.

*Chilean Antitrust Matter* — On December 12, 2006, Liberty Media, the former parent company of our predecessor, announced publicly that it had agreed to acquire an approximate 39% interest in The DirecTV Group, Inc. (DirecTV). On August 1, 2007, VTR received formal written notice from the Chilean Federal Economic Prosecutor (FNE) that Liberty Media's acquisition of the DirecTV interest would violate one of the conditions imposed by the Chilean Antitrust Court on VTR's combination with Metrópolis prohibiting VTR and its control group from participating, directly or indirectly through related persons, in Chilean satellite or microwave television businesses. On March 10, 2008, following the closing of Liberty Media's investment in DirecTV, the FNE commenced an action before the Chilean Antitrust Court against John C. Malone who is chairman of our board of directors and of Liberty Media's board of directors. In this action, the FNE alleges that Mr. Malone is a controller of VTR and either controls or indirectly participates in DirecTV's satellite operations in Chile, thus violating the condition. The FNE requests the Antitrust Court to impose a fine on Mr. Malone and order him to effect the transfer of the shares, interests or other assets that are necessary to restore the independence, in ownership and administration, of VTR and DirecTV. We currently are unable to predict the outcome of this matter or its impact on VTR.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

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

*Other* — In addition to the foregoing items, we have contingent liabilities related to (i) legal proceedings, (ii) wage, property, sales and other tax issues, (iii) disputes over interconnection fees and (iv) other matters arising in the ordinary course of business. Although it is reasonably possible we may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. However, it is expected that the amounts, if any, which may be required to satisfy such contingencies will not be material in relation to our financial position or results of operations.

**(21) Information about Operating Segments**

We own a variety of international subsidiaries and investments that provide broadband communications services, and to a lesser extent, video programming services. We identify our reportable segments as those consolidated subsidiaries that represent 10% or more of our revenue, operating cash flow (as defined below), or total assets. In certain cases, we may elect to include an operating segment in our segment disclosure that does not meet the above-described criteria for a reportable segment. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and operating cash flow. In addition, we review non-financial measures such as subscriber growth and penetration, as appropriate.

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance and to decide how to allocate resources to segments. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding stock-based compensation, depreciation and amortization, provisions for litigation, and impairment, restructuring and other operating charges or credits). We believe operating cash flow is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to (i) readily view operating trends, (ii) perform analytical comparisons and benchmarking between segments and (iii) identify strategies to improve operating performance in the different countries in which we operate. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within operating cash flow would distort the ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of operating cash flow is important because analysts and investors use it to compare our performance to other companies in our industry. However, our definition of operating cash flow may differ from cash flow measurements provided by other public companies. A reconciliation of total segment operating cash flow to our earnings (loss) before income taxes and minority interests is presented below. Operating cash flow should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net earnings (loss), cash flow from operating activities and other GAAP measures of income or cash flows.

## LIBERTY GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

We have identified the following consolidated operating segments as our reportable segments:

- UPC Broadband Division:
  - The Netherlands
  - Switzerland
  - Austria
  - Ireland
  - Hungary
  - Other Central and Eastern Europe
- Telenet (Belgium)
- J:COM (Japan)
- VTR (Chile)

All of the reportable segments set forth above derive their revenue primarily from broadband communications services, including video, voice and broadband internet services. Certain segments also provide CLEC and other B2B services and J:COM provides certain programming services. At December 31, 2008, our operating segments in the UPC Broadband Division provided services in 10 European countries. Our Other Central and Eastern Europe segment includes our operating segments in the Czech Republic, Poland, Romania, Slovakia and Slovenia. Telenet, J:COM and VTR provide broadband communications services in Belgium, Japan and Chile, respectively. Our corporate and other category includes (i) Austar, (ii) other less significant consolidated operating segments that provide broadband communications services in Puerto Rico and video programming and other services in Europe and Argentina and (iii) our corporate category. Intersegment eliminations primarily represent the elimination of intercompany transactions between our broadband communications and programming operations, primarily in Europe.

***Performance Measures of Our Reportable Segments***

The amounts presented below represent 100% of each of our reportable segment's revenue and operating cash flow. As we have the ability to control Telenet, J:COM, VTR and Austar, GAAP requires that we consolidate 100% of the revenue and expenses of these entities in our consolidated statements of operations despite the fact that third parties own significant interests in these entities. The third-party owners' interests in the operating results of Telenet, J:COM, VTR, Austar and other less significant majority-owned subsidiaries are reflected in minority interests in earnings of subsidiaries, net, in our consolidated statements of operations. Our ability to consolidate J:COM is dependent on our ability to continue to control Super Media, which will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. If Super Media is dissolved and we do not otherwise control J:COM at the time of any such dissolution, we will no longer be in a position to consolidate J:COM. When

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

reviewing and analyzing our operating results, it is important to note that other third-party entities own significant interests in Telenet, J:COM, VTR and Austar and that Sumitomo effectively has the ability to prevent our company from consolidating J:COM after February 2010.

	Year ended December 31,					
	2008		2007		2006	
		Operating cash flow		Operating cash flow		Operating cash flow
	Revenue		Revenue		Revenue	
	in millions					
<b>Performance Measures</b>						
UPC Broadband Division:						
The Netherlands	\$ 1,181.1	\$ 681.4	\$ 1,060.6	\$ 556.5	\$ 923.9	\$ 451.9
Switzerland	1,017.0	541.8	873.9	419.3	771.8	353.7
Austria	538.0	272.7	503.1	237.5	420.0	195.7
Ireland	355.8	143.0	307.2	104.7	262.6	79.9
Total Western Europe	3,091.9	1,638.9	2,744.8	1,318.0	2,378.3	1,081.2
Hungary	405.9	211.7	377.1	189.9	307.1	145.3
Other Central and Eastern Europe	949.9	490.7	806.1	404.0	574.0	264.4
Total Central and Eastern Europe	1,355.8	702.4	1,183.2	593.9	881.1	409.7
Central and corporate operations	10.5	(235.0)	11.1	(237.8)	17.9	(206.2)
Total UPC Broadband Division	4,458.2	2,106.3	3,939.1	1,674.1	3,277.3	1,284.7
Telenet (Belgium)	1,509.0	726.6	1,291.3	597.1	43.8	24.1
J:COM (Japan)	2,854.2	1,191.0	2,249.5	911.6	1,902.7	738.6
VTR (Chile)	713.9	295.5	634.9	249.2	558.9	198.5
Corporate and other	1,110.7	213.7	975.7	135.8	772.3	90.3
Intersegment eliminations	(84.9)	—	(87.2)	—	(71.1)	—
Total consolidated LGI	\$ 10,561.1	\$ 4,533.1	\$ 9,003.3	\$ 3,567.8	\$ 6,483.9	\$ 2,336.2



LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

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

	Year ended December 31,		
	2008	2007	2006
	in millions		
Total segment operating cash flow	\$ 4,533.1	\$ 3,567.8	\$ 2,336.2
Stock-based compensation expense	(153.5)	(193.4)	(70.0)
Depreciation and amortization	(2,857.7)	(2,493.1)	(1,884.7)
Provisions for litigation	—	(171.0)	—
Impairment, restructuring and other operating charges, net	(158.5)	(43.5)	(29.2)
Operating income	1,363.4	666.8	352.3
Interest expense	(1,147.4)	(982.1)	(673.4)
Interest and dividend income	91.8	115.3	85.4
Share of results of affiliates, net	5.4	33.7	13.0
Realized and unrealized gains (losses) on derivative instruments, net	78.9	72.4	(264.8)
Foreign currency transaction gains (losses), net	(552.1)	109.4	299.5
Unrealized losses due to changes in fair values of certain investments and debt, net	(7.0)	(200.0)	(146.2)
Other-than-temporary declines in fair values of investments	—	(212.6)	(13.8)
Losses on extinguishment of debt, net	—	(112.1)	(40.8)
Gains on disposition of assets, net	—	557.6	206.4
Other income, net	—	1.3	12.2
Earnings (loss) before income taxes, minority interests and discontinued operations	\$ (167.0)	\$ 49.7	\$ (170.2)

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**Balance Sheet Data of our Reportable Segments**

Selected balance sheet data of our reportable segments is set forth below:

	Investments in affiliates		Long-lived assets		Total assets	
	December 31,		December 31,		December 31,	
	2008	2007	2008	2007	2008	2007
	in millions					
UPC Broadband Division:						
The Netherlands	\$ —	\$ —	\$ 2,706.2	\$ 3,009.6	\$ 2,719.9	\$ 3,101.6
Switzerland	—	31.1	4,319.0	4,088.9	4,710.7	4,441.2
Austria	—	—	1,317.0	1,355.4	1,357.2	1,410.2
Ireland	—	—	751.6	759.4	782.0	801.4
Total Western Europe	—	31.1	9,093.8	9,213.3	9,569.8	9,754.4
Hungary	—	—	792.3	860.7	836.5	914.6
Other Central and Eastern Europe	—	—	2,038.4	2,328.9	2,153.0	2,459.4
Total Central and Eastern Europe	—	—	2,830.7	3,189.6	2,989.5	3,374.0
Central and corporate operations	—	—	255.4	283.9	2,207.1	2,577.2
Total UPC Broadband Division	—	31.1	12,179.9	12,686.8	14,766.4	15,705.6
Telenet (Belgium)	—	—	5,031.2	4,632.2	5,396.8	5,127.2
J:COM (Japan)	147.2	174.5	8,195.1	6,013.6	9,180.2	6,808.6
VTR (Chile)	4.4	2.4	938.6	1,134.8	1,176.6	1,483.5
Corporate and other	38.1	180.6	1,424.0	1,456.5	3,466.1	3,493.7
Total consolidated LGI	\$ 189.7	\$ 388.6	\$ 27,768.8	\$ 25,923.9	\$ 33,986.1	\$ 32,618.6

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

**Capital Expenditures of our Reportable Segments**

The capital expenditures of our reportable segments are set forth below:

	Year ended December 31,		
	2008	2007 in millions	2006
UPC Broadband Division:			
The Netherlands	\$ 229.4	\$ 201.6	\$ 197.1
Switzerland	246.8	210.9	178.8
Austria	109.7	76.9	52.0
Ireland	109.6	127.9	79.4
Total Western Europe	695.5	617.3	507.3
Hungary	109.3	68.4	73.5
Other Central and Eastern Europe	325.0	236.1	145.0
Total Central and Eastern Europe	434.3	304.5	218.5
Central and corporate operations	134.8	147.0	96.3
Total UPC Broadband Division	1,264.6	1,068.8	822.1
Telenet (Belgium)	326.2	237.6	4.5
J:COM (Japan)	460.7	395.5	416.7
VTR (Chile)	181.7	157.7	138.2
Corporate and other	141.8	174.9	126.4
Total consolidated LGI	\$ 2,375.0	\$ 2,034.5	\$ 1,507.9

**Revenue by Major Category**

Our revenue by major category is set forth below:

	Year ended December 31,		
	2008	2007 in millions	2006
Subscription revenue (a):			
Video	\$ 4,953.4	\$ 4,331.8	\$ 3,399.2
Broadband internet	2,497.0	2,066.9	1,312.2
Telephony	1,402.4	1,166.0	790.6
Total subscription revenue	8,852.8	7,564.7	5,502.0
Other revenue (b)	1,793.2	1,525.8	1,053.0
Intersegment eliminations	(84.9)	(87.2)	(71.1)
Total consolidated LGI	\$ 10,561.1	\$ 9,003.3	\$ 6,483.9

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the individual service's price on a stand-alone basis. However, due to regulatory and other constraints, the allocation of bundling discounts may vary somewhat between our broadband communications operating segments.
- (b) Other revenue includes non-subscription revenue (including B2B and installation revenue) and programming revenue.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

**Geographic Segments**

*Revenue*

The revenue of our geographic segments is set forth below:

	Year ended December 31,		
	2008	2007	2006
	in millions		
Europe:			
UPC Broadband Division:			
The Netherlands	\$ 1,181.1	\$ 1,060.6	\$ 923.9
Switzerland	1,017.0	873.9	771.8
Austria	538.0	503.1	420.0
Ireland	355.8	307.2	262.6
Hungary	405.9	377.1	307.1
Romania	213.4	237.2	187.4
Poland	312.8	229.3	169.7
Czech Republic	284.3	226.8	137.9
Slovakia	76.0	62.1	48.8
Slovenia	63.4	50.7	30.2
Central and corporate operations (a)	10.5	11.1	17.9
Total UPC Broadband Division	4,458.2	3,939.1	3,277.3
Belgium	1,509.0	1,291.3	43.8
Chellomedia (b)	439.3	361.5	254.8
Total Europe	6,406.5	5,591.9	3,575.9
Japan	2,854.2	2,249.5	1,902.7
The Americas:			
Chile	713.9	634.9	558.9
Other (c)	136.7	139.7	140.9
Total — The Americas	850.6	774.6	699.8
Australia	534.7	474.5	376.6
Intersegment eliminations	(84.9)	(87.2)	(71.1)
Total consolidated LGI	\$ 10,561.1	\$ 9,003.3	\$ 6,483.9

(a) The UPC Broadband Division's central and corporate operations are located primarily in the Netherlands.

(b) Chellomedia's geographic segments are located primarily in the United Kingdom, the Netherlands, Spain, Hungary and other European countries.

(c) Includes certain less significant operating segments that provide broadband communications and video programming services.

LIBERTY GLOBAL, INC.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008, 2007 and 2006 — (Continued)

The long-lived assets of our geographic segments are set forth below:

	December 31,	
	2008	2007
	in millions	
Europe:		
UPC Broadband Division:		
The Netherlands	\$ 2,706.2	\$ 3,009.6
Switzerland	4,319.0	4,088.9
Austria	1,317.0	1,355.4
Ireland	751.6	759.4
Hungary	792.3	860.7
Romania	436.9	690.4
Poland	374.1	416.1
Czech Republic	900.3	921.7
Slovakia	156.1	139.9
Slovenia	171.0	160.8
Central and corporate operations (a)	255.4	283.9
Total UPC Broadband Division	12,179.9	12,686.8
Belgium	5,031.2	4,632.2
Chellomedia (b)	496.8	494.7
Total Europe	17,707.9	17,813.7
Japan	8,195.1	6,013.6
The Americas:		
U.S. (c)	67.0	91.2
Chile	938.6	1,134.8
Other (d)	379.9	380.6
Total — The Americas	1,385.5	1,606.6
Australia	480.3	490.0
Total consolidated LGI	\$ 27,768.8	\$ 25,923.9

- (a) The UPC Broadband Division's central and corporate operations are located primarily in the Netherlands.  
(b) Chellomedia's geographic segments are located primarily in the United Kingdom, the Netherlands, Spain, Hungary and other European countries.  
(c) Primarily represents the assets of our corporate category.  
(d) Includes certain less significant operating segments that provide broadband communications and video programming services.

LIBERTY GLOBAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008, 2007 and 2006 — (Continued)

(22) Quarterly Financial Information (Unaudited)

	2008			
	1st quarter	2nd quarter in millions, except per share amounts	3rd quarter	4th quarter
Revenue	\$ 2,611.0	\$ 2,729.9	\$ 2,649.7	\$ 2,570.5
Operating income	\$ 357.8	\$ 364.5	\$ 412.8	\$ 228.3
Net earnings (loss)	\$ (155.6)	\$ 428.2	\$ (308.9)	\$ (752.6)
Basic earnings (loss) per share — Series A, Series B and Series C common stock (note 3)	\$ (0.45)	\$ 1.33	\$ (1.01)	\$ (2.60)
Diluted earnings (loss) per share — Series A, Series B and Series C common stock (note 3)	\$ (0.45)	\$ 1.11	\$ (1.01)	\$ (2.60)

	2007			
	1st quarter	2nd quarter in millions, except per share amounts	3rd quarter	4th quarter
Revenue	\$ 2,106.0	\$ 2,180.6	\$ 2,255.3	\$ 2,461.4
Operating income	\$ 181.8	\$ 210.2	\$ 86.8	\$ 188.0
Net earnings (loss)	\$ (136.1)	\$ (129.7)	\$ 40.4	\$ (197.2)
Basic earnings (loss) per share — Series A, Series B and Series C common stock (note 3)	\$ (0.35)	\$ (0.34)	\$ 0.11	\$ (0.54)
Diluted earnings (loss) per share — Series A, Series B and Series C common stock (note 3)	\$ (0.35)	\$ (0.34)	\$ 0.10	\$ (0.54)

**PART III**

Except as indicated below, the following required information is incorporated by reference to our definitive proxy statement for our 2009 Annual Meeting of shareholders, which we intend to hold during the second quarter of 2009.

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Item 11. EXECUTIVE COMPENSATION**

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

*The information required by Item 201(d) of Regulation S-K is included below and accordingly will not be incorporated by reference to our definitive proxy statement.*

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

We intend to file our definitive proxy statement for our 2009 Annual Meeting of shareholders with the Securities and Exchange Commission on or before April 30, 2009.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**
**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information as of December 31, 2008 with respect to shares of our common stock authorized for issuance under our equity compensation plans.

**Equity Compensation Plan Information**

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2)	Weighted average exercise price of outstanding options, warrants and rights (1)(2)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in the first column)
<b>Equity compensation plans approved by security holders:</b>			
<b>Liberty Global, Inc. 2005 Incentive Plan (As Amended and Restated Effective October 31, 2006) (3)</b>			
LGI Series A common stock	5,191,917	\$ 28.13	30,495,893
LGI Series B common stock	1,568,562	\$ 20.10	
LGI Series C common stock	6,801,630	\$ 24.62	
<b>Liberty Global, Inc. 2005 Non-employee Director Incentive Plan (As Amended and Restated Effective November 1, 2006) (4)(5)</b>			
LGI Series A common stock	267,576	\$ 28.57	9,395,091
LGI Series B common stock	—	\$ —	
LGI Series C common stock	267,576	\$ 27.17	
<b>Liberty Media International, Inc. Transitional Stock Adjustment Plan (5)(6)</b>			
LGI Series A common stock	292,096	\$ 17.52	—
LGI Series B common stock	1,498,154	\$ 19.92	
LGI Series C common stock	1,744,561	\$ 17.88	
<b>UGC Plans (7)</b>			
LGI Series A common stock	3,642,536	\$ 16.45	—
LGI Series B common stock	—	\$ —	
LGI Series C common stock	3,532,542	\$ 15.86	
<b>Equity compensation plans not approved by security holders:</b>			
None	—		—
<b>Totals</b>			
LGI Series A common stock	<u>9,394,125</u>		<u>39,890,984</u>
LGI Series B common stock	<u>3,066,716</u>		
LGI Series C common stock	<u>12,346,309</u>		

(1) This table includes stock appreciation rights (SARs) with respect to 3,958,980 and 3,993,297 shares of LGI Series A and Series C common stock, respectively. Upon exercise, the appreciation of a SAR, which is the difference between the base price of the SAR and the then-market value of the underlying series of LGI common stock or in certain cases, if lower, a specified price, may be paid in shares of the applicable series of



[Table of Contents](#)

LGI common stock. Based upon the respective market prices of LGI Series A and Series C common stock at December 31, 2008 and excluding any related tax effects, 266,273 and 275,301 shares of LGI Series A and Series C common stock, respectively, would have been issued if all outstanding SARs had been exercised on December 31, 2008. For further information, see note 14 to our consolidated financial statements.

- (2) In addition to the option and SAR information included in this table, there are outstanding under the various incentive plans restricted shares and restricted share unit awards with respect to LGI common stock.
- (3) The incentive plan permits grants of, or with respect to, LGI Series A, Series B or Series C common stock subject to a single aggregate limit of 50 million shares (of which no more than 25 million shares may consist of Series B shares), subject to anti-dilution adjustments. As of December 31, 2008, an aggregate of 30,495,893 shares of common stock were available for issuance pursuant to the incentive plan before considering any shares that might be issued in satisfaction of our obligations under the LGI Performance Plans. No more than 23,372,168 of such shares may consist of LGI Series B shares. For information concerning the LGI Performance Plans, see note 14 to our consolidated financial statements.
- (4) The non-employee director incentive plan permits grants of, or with respect to, LGI Series A, Series B or Series C common stock subject to a single aggregate limit of 10 million shares (of which no more than 5 million shares may consist of LGI Series B shares), subject to anti-dilution adjustments. As of December 31, 2008, an aggregate of 9,395,091 shares of common stock were available for issuance pursuant to the non-employee director incentive plan (of which no more than 5 million shares may consist of LGI Series B shares).
- (5) Prior to LGI International's spin off from Liberty Media, Liberty Media approved each of the non-employee director incentive plan and the transitional plan in its capacity as the then sole shareholder of LGI International.
- (6) The transitional plan was adopted in connection with LGI International's spin off from Liberty Media to provide for the supplemental award of options to purchase shares of LGI common stock and restricted shares of LGI common stock, in each case, pursuant to adjustments made to outstanding Liberty Media stock incentive awards in accordance with the anti-dilution provisions of Liberty Media's stock incentive plans. No additional awards will be made under the transitional plan.
- (7) The UGC Plans are comprised of the UnitedGlobalCom, Inc. 1993 Stock Option Plan, amended and restated as of January 22, 2004; the UnitedGlobalCom, Inc. Stock Option Plan for Non-Employee Directors, effective June 1, 1993, amended and restated as of January 22, 2004; the UnitedGlobalCom, Inc. Stock Option Plan for Non-Employee Directors, effective March 20, 1998, amended and restated as of January 22, 2004; and the UnitedGlobalCom Equity Incentive Plan, amended and restated effective October 17, 2003. Awards outstanding under each of these plans were converted into awards with respect to LGI common stock in the LGI Combination. No additional awards will be made under these plans.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (a)(1) FINANCIAL STATEMENTS

The financial statements required under this Item begin on page II-62 of this Annual Report.

## (a)(2) FINANCIAL STATEMENT SCHEDULES

The financial statement schedules required under this Item are as follows:

<a href="#">Schedule I — Condensed Financial Information of Registrant (Parent Company Information)</a>	
<a href="#">Condensed Balance Sheets as of December 31, 2008 and 2007 (Parent Company Only)</a>	IV-9
<a href="#">Condensed Statements of Operations for the years ended December 31, 2008, 2007 and 2006 (Parent Company Only)</a>	IV-10
<a href="#">Condensed Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006 (Parent Company Only)</a>	IV-11
<a href="#">Schedule II — Valuation and Qualifying Accounts</a>	IV-12
Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons:	
SC Media & Commerce Inc. and Subsidiaries	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	IV-13
<a href="#">Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006</a>	IV-14
<a href="#">Consolidated Statements of Operations for the six months ended June 30, 2007 and the year ended December 31, 2006</a>	IV-16
<a href="#">Consolidated Statements of Comprehensive Income for the six months ended June 30, 2007 and the year ended December 31, 2006</a>	IV-17
<a href="#">Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2007 and the year ended December 31, 2006</a>	IV-18
<a href="#">Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and the year ended December 31, 2006</a>	IV-19
<a href="#">Notes to Consolidated Financial Statements</a>	IV-21
Telenet Group Holding NV	
<a href="#">Report of Independent Auditors</a>	IV-48
<a href="#">Consolidated Balance Sheets as of December 31, 2006</a>	IV-49
<a href="#">Consolidated Income Statements for the year ended December 31, 2006</a>	IV-50
<a href="#">Consolidated Statements of Shareholders' Equity for the year ended December 31, 2006</a>	IV-51
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2006</a>	IV-52
<a href="#">Notes to Consolidated Financial Statements</a>	IV-53

(a) (3) EXHIBITS

Listed below are the exhibits filed as part of this Annual Report (according to the number assigned to them in Item 601 of Regulation S-K):

- 3 — Articles of Incorporation and Bylaws:
  - 3.1 Restated Certificate of Incorporation of the Registrant, dated June 15, 2005 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed June 16, 2005 (File No. 000-51360) (the Merger 8-K)).
  - 3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Merger 8-K).
- 4 — Instruments Defining the Rights of Securities Holders, including Indentures:
  - 4.1 Specimen certificate for shares of the Registrant's Series A common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to the Merger 8-K).
  - 4.2 Specimen certificate for shares of the Registrant's Series B common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.2 to the Merger 8-K).
  - 4.3 Specimen certificate for shares of the Registrant's Series C Common Stock, par value \$.01 per share (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A filed August 24, 2005 (File No. 000-51360)).
  - 4.4 Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband Holding BV (UPC Broadband Holding), as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility Lenders, under the senior secured credit agreement originally dated January 16, 2004, as amended and restated from time to time among the Borrower, the guarantors as defined therein, the Facility Agent and the Security Agent and the bank and financial institutions acceding thereto from time to time (the Facility Agreement) (incorporated by reference to Exhibit 10.41 to the UnitedGlobalCom, Inc. (UGC) Annual Report on Form 10-K filed March 14, 2005 (File No. 000-49658) (UGC 2004 10-K)).
  - 4.5 Deed of Amendment and Restatement, dated May 10, 2006, among UPC Broadband Holding and UPC Financing Partnership (UPC Financing), as Borrowers, the guarantors listed therein, and the Senior Hedging Banks listed therein, with Toronto Dominion (Texas) LLC, as Facility Agent, and TD Bank Europe Limited, as Existing Security Agent, amending and restating the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2006 (File No. 000-51360)).
  - 4.6 Additional Facility Accession Agreement, dated July 3, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed July 7, 2006 (File No. 000-51360)).
  - 4.7 Amendment Letter, dated December 11, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein and Toronto Dominion (Texas) LLC, as Facility Agent, to the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed December 12, 2006 (File No. 000-5160)).
  - 4.8 Additional Facility M Accession Agreement, dated April 12, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 17, 2007 (File No. 000-51360) (the Facility M 8-K)).

[Table of Contents](#)

- 4.9 Additional Facility M Accession Agreement, dated April 13, 2007, among UPC Broadband Holding, UPC Financing (as Borrowers), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.2 to the Facility M 8-K).
- 4.10 Amendment Letter, dated April 16, 2007, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and Toronto Dominion (Texas) LLC, as Facility Agent, to the Facility Agreement (incorporated by reference to Exhibit 4.3 to the Facility M 8-K).
- 4.11 Additional Facility M Accession Agreement, dated May 4, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2007 (File No. 000-51360) (the May 10, 2007 10-Q)).
- 4.12 Additional Facility N Accession Agreement, dated May 11, 2007 among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe as Security Agent, and the Additional Facility N Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A filed May 15, 2007 (File No. 000-51360)).
- 4.13 Additional Facility M Accession Agreement, dated May 18, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 22, 2007 (File No. 000-51360) (the Facilities M&N 8-K)).
- 4.14 Additional Facility N Accession Agreement, dated May 18, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the Additional Facility N Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.2 to the Facilities M&N 8-K).
- 4.15 Additional Facility O Accession Agreement dated August 12, 2008, among UPC Broadband Holding as Borrower, Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the banks and financial institutions listed therein as Additional Facility O Lenders under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed September 12, 2008 (File No. 000-51360)).
- 4.16 Additional Facility Accession Agreement dated September 9, 2008, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the banks and financial institutions listed therein as Additional Facility P Lenders under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 21, 2008 (File No. 000-51360)).
- 4.17 €2,300,000,000 Credit Agreement, originally dated August 1, 2007, and as amended and restated by a supplemental agreements dated August 22, 2007, September 11, 2007, and October 8, 2007, among Telenet Bidco NV as Borrower, the parties listed therein as Original Guarantors, ABN AMRO Bank N.V., BNP Paribas S.A. and J.P. Morgan PLC as Mandated Lead Arrangers, BNP Paribas S.A. as Facility Agent, KBC Bank NV as Security Agent and the financial institutions listed therein as Initial Original Lenders (the Telenet Credit Facility) (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 10, 2007 (File No. 000-51360)).

[Table of Contents](#)

4.18	Amendment Letter dated November 19, 2007, among Telenet Bidco NV, Telenet NV, UPC Belgium NV and BNP Paribas S.A., to the Telenet Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed November 21, 2007 (File No. 000-51360)).
4.19	Letter dated May 7, 2008 from Telenet Bidco NV to BNP Paribas S.A. as Facility Agent which amends the Telenet Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A filed May 28, 2008 (File No. 000-51360)).
4.20	Letter dated May 7, 2008 from BNP Paribas S.A. as Facility Agent to Telenet Bidco NV, which amends the Telenet Credit Facility (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K/A filed May 28, 2008 (File No. 000-51360)).
4.21	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.
10 —	Material Contracts:
10.1	Liberty Global, Inc. 2005 Incentive Plan (As Amended and Restated Effective October 31, 2006) (the Incentive Plan) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 6, 2006 (File No. 000-51360) (the November 2006 8-K)).
10.2	Form of the Non-Qualified Stock Option Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed May 7, 2008 (File No. 000-51360) (the May 7, 2008 10-Q)).
10.3	Form of Stock Appreciation Rights Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.3 to the May 7, 2008 10-Q).
10.4	Form of Restricted Shares Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed August 19, 2005 (File No. 000-51360)).
10.5	Form of Restricted Share Units Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.1 to the May 7, 2008 10-Q).
10.6	Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (as assignee of LGI International, Inc., fka Liberty Media International, Inc., the predecessor issuer to the Registrant (LGI International)) under the Incentive Plan (the Malone Award Agreement) (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/A (Amendment No. 1) with respect to LGI International's common stock filed July 14, 2004 (File No. 005-79904)).
10.7	Form of Amendment to the Malone Award Agreement (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed December 27, 2005 (File No. 000-51360) (the 409A 8-K)).
10.8	Notice to Holders of Liberty Global, Inc. Stock Options Awarded by Liberty Media International, Inc. of Additional Method of Payment of Option Price dated March 6, 2008 (incorporated by reference to Exhibit 10.4 to the May 7, 2008 10-Q).
10.9	Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan (as Amended and Restated Effective November 1, 2006) (the Director Plan) (incorporated by reference to Exhibit 99.2 to the November 2006 8-K).
10.10	Form of Restricted Shares Agreement under the Director Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (Amendment No. 1) filed August 11, 2006 (File No. 000-51360)).
10.11	Form of Non-Qualified Stock Option Agreement under the Director Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed August 5, 2008 (File No. 000-51360) (the August 5, 2008 10-Q)).

[Table of Contents](#)

10.12	Form of Restricted Share Units Agreement under the Director Plan (incorporated by reference to Exhibit 10.1 to the August 5, 2008 10-Q).
10.13	Liberty Global, Inc. Compensation Policy for Nonemployee Directors (As Amended and Restated Effective June 7, 2006) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 12, 2006 (File No. 000-51360) (the June 2006 8-K)).
10.14	Liberty Global, Inc. Senior Executive Performance Incentive Plan (As Amended and Restated Effective May 2, 2007) (the SEP Incentive Plan) (incorporated by reference to Exhibit 10.2 to the May 10, 2007 10-Q).
10.15	Form of Participation Certificate under the SEP Incentive Plan (incorporated by reference to Exhibit 10.3 to the May 10, 2007 10-Q).
10.16	Form of Verification of Incentive Award Terms under the Incentive Plan (incorporated by reference to Exhibit 10.4 to the August 5, 2008 10-Q).
10.17	Liberty Global, Inc. 2008 Annual Performance Award Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 5.02(e) of the Registrant's Current Report on Form 8-K filed February 26, 2008 (File No. 000-51360)).
10.18	Liberty Global, Inc. 2007 Annual Bonus Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 5.02(e) of the Registrant's Current Report on Form 8-K filed March 2, 2007 (File No. 000-51360)).
10.19	Deferred Compensation Plan (adopted Effective December 15, 2008).*
10.20	Form of Deferral Election Form under the Deferred Compensation Plan.*
10.21	Liberty Media International, Inc. Transitional Stock Adjustment Plan (the Transitional Plan) (incorporated by reference to Exhibit 4.5 to LGI International's Registration Statement on Form S-8 filed June 23, 2004 (File No. 333-116790)).
10.22	Form of Non-Qualified Stock Option Exercise Price Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.1 to the 409A 8-K).
10.23	Form of Non-Qualified Stock Option Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.2 to the 409A 8-K).
10.24	UnitedGlobalCom, Inc. Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed March 1, 2007 (File No. 000-51360) (the 2006 10-K)).
10.25	UnitedGlobalCom, Inc. 1993 Stock Option Plan (amended and restated effective January 22, 2004) (incorporated by reference to Exhibit 10.6 to the UGC Annual Report on Form 10-K filed March 15, 2004 (File No. 000-49658) (the UGC 2003 10-K)).
10.26	Form of Amendment to Stock Appreciation Rights Agreement under the UnitedGlobalCom, Inc. 2003 Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 6, 2005 (File No. 000-51360)).
10.27	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
10.28	Form of Letter Agreement dated December 22, 2006, between United Chile LLC and certain employees of the Registrant, including three executive officers and a director (incorporated by reference to Exhibit 10.22 to the 2006 10-K).
10.29	Notice to Holders of United Chile Synthetic Options, Right to Amend Grant Agreement dated December 16, 2008 with Amendment Election Form.*

[Table of Contents](#)

10.30	Form of Indemnification Agreement between the Registrant and its Directors (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed March 14, 2006 (File No. 000-51360) (the 2005 10-K)).
10.31	Form of Indemnification Agreement between the Registrant and its Executive Officers (incorporated by reference to Exhibit 10.20 of the 2005 10-K).
10.32	Personal Usage of Aircraft Policy (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 21, 2005 (File No. 000-51360)).
10.33	Form of Termination Agreement relating to Aircraft Time Sharing Agreement (incorporated by reference to Exhibit 10.3 to the August 5, 2008 10-Q).
10.34	Executive Service Agreement, dated December 15, 2004, between UPC Services Limited and Charles Bracken (incorporated by reference to Exhibit 10.15 to the UGC 2004 10-K).
10.35	Employment Agreement, effective April 19, 2000, among UGC, United Pan-Europe Communications NV, now known as Liberty Global Europe NV (Liberty Global Europe), and Gene Musselman (incorporated by reference to Exhibit 10.27 to the UGC 2003 10-K).
10.36	Addendum to Employment Agreement, dated as of September 3, 2003, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.28 to the UGC 2003 10-K).
10.37	Contract Extension Letter, dated November 2, 2005, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.26 to the 2005 10-K).
10.38	Amendment to Employment Agreement, dated June 5, 2008, among UPC Broadband Holding Services B.V. (as assignee of Liberty Global Europe N.V.), Registrant (as assignee of UGC) and Gene Musselman (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 5, 2008 (File No. 000-51360)).
10.39	Employment Agreement, effective November 1, 2007, between Liberty Global Services II, LLC and Shane O'Neill (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed November 8, 2007 (the November 8, 2007 10-Q)).
10.40	Executive Service Agreement, effective November 1, 2007, between Chellomedia Services Ltd. and Shane O'Neill (incorporated by reference to Exhibit 10.3 to the November 8, 2007 10-Q).
10.41	Deed of Indemnity, effective November 1, 2007, between the Registrant and Shane O'Neill (incorporated by reference to Exhibit 10.4 to the November 8, 2007 10-Q).
10.42	Executive Service Agreement, dated November 30, 2006, between Liberty Global Europe Ltd. and Miranda Curtis (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 4, 2006 (File No. 000-51360)).
10.43	Employment Agreement, effective July 2, 2007, between Liberty Global Services, LLC and Mauricio Ramos (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2007 (the August 9, 2007 10-Q)).
10.44	Employment Contract, effective July 2, 2007, between VTR Global Com S.A. and Mauricio Ramos (free translation of the Spanish original) (incorporated by reference to Exhibit 10.9 to the August 9, 2007 10-Q).
10.45	VTR Global Com S.A. 2006 Phantom SAR Plan (the VTR Plan) (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K filed February 26, 2008 (the 2008 10-K)).
10.46	Form of Grant Agreement for U.S. Taxpayers under the VTR Plan (incorporated by reference to Exhibit 10.40 to the 2008 10-K).

[Table of Contents](#)

10.47	Second Amended and Restated Stockholders' Agreement, dated as of August 14, 2007, among the Registrant, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 7 thereof, LGI International, Inc. and Liberty Media International Holdings, LLC, (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report Form 10-Q filed November 8, 2007 (File No. 000-51360)).
10.48	Amended and Restated Operating Agreement, dated November 26, 2004 (the Operating Agreement), among Liberty Japan, Inc., Liberty Japan II, Inc., Liberty Global Japan LLC, fka LMI Holdings Japan LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and solely with respect to certain provisions thereof, the Registrant (as successor to LGI International) (incorporated by reference to Exhibit 10.27 of LGI International's Annual Report on Form 10-K filed March 14, 2005 (File No. 0000-50671)).
10.49	First Amendment dated as of May 22, 2007, to the Operating Agreement, among Liberty Japan, Inc., Liberty Japan II, Inc., Liberty Global Japan LLC, fka LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to certain provisions thereof, the Registrant (incorporated by reference to Registrant's Current Report on Form 8-K filed June 26, 2007 (File No. 000-51360)).
10.50	Preemptive Rights Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and John Dick (incorporated by reference to Exhibit 10.51 to the 2008 10-K).
10.51	Right of First Offer Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and John Dick (incorporated by reference to Exhibit 10.52 to the 2008 10-K).
10.52	Right of First Offer Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and Paul Gould (incorporated by reference to Exhibit 10.53 to the 2008 10-K).
21	— List of Subsidiaries*
23	— Consent of Experts and Counsel:
23.1	Consent of KPMG LLP*
23.2	Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba*
23.3	Consent of KPMG AZSA & Co.*
23.4	Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba*
31	— Rule 13a-14(a)/15d-14(a) Certification:
31.1	Certification of President and Chief Executive Officer*
31.2	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)*
31.3	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)*
32	— Section 1350 Certification *

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\* Filed herewith



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIBERTY GLOBAL, INC.

Dated: February 23, 2009

By /s/ ELIZABETH M. MARKOWSKI  
Elizabeth M. Markowski  
Senior Vice President, Secretary and General Counsel

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
<u>/s/ JOHN C. MALONE</u> John C. Malone	Chairman of the Board	February 23, 2009
<u>/s/ MICHAEL T. FRIES</u> Michael T. Fries	Chief Executive Officer, President and Director	February 23, 2009
<u>/s/ JOHN P. COLE</u> John P. Cole	Director	February 23, 2009
<u>/s/ JOHN W. DICK</u> John W. Dick	Director	February 23, 2009
<u>/s/ PAUL A. GOULD</u> Paul A. Gould	Director	February 23, 2009
<u>/s/ RICHARD R. GREEN</u> Richard R. Green	Director	February 23, 2009
<u>/s/ DAVID E. RAPLEY</u> David E. Rapley	Director	February 23, 2009
<u>/s/ LARRY E. ROMRELL</u> Larry E. Romrell	Director	February 23, 2009
<u>/s/ J. C. SPARKMAN</u> J. C. Sparkman	Director	February 23, 2009
<u>/s/ J. DAVID WARGO</u> J. David Wargo	Director	February 23, 2009
<u>/s/ CHARLES H.R. BRACKEN</u> Charles H.R. Bracken	Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)	February 23, 2009
<u>/s/ BERNARD G. DVORAK</u> Bernard G. Dvorak	Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)	February 23, 2009

## LIBERTY GLOBAL, INC.

## SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED BALANCE SHEETS  
(Parent Company Only)

	December 31,	
	2008	2007
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 0.1	\$ 62.0
Deferred income taxes	20.0	
Other current assets	1.9	0.2
Total current assets	22.0	62.2
Investments in consolidated subsidiaries, including intercompany balances	3,523.8	5,901.0
Property and equipment, at cost	2.3	1.6
Accumulated depreciation	(1.0)	(0.5)
Property and equipment, net	1.3	1.1
Deferred income taxes	73.0	58.4
Other assets, net	—	3.0
Total assets	\$ 3,620.1	\$ 6,025.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10.5	\$ 66.0
Accrued stock-based compensation	113.3	—
Accrued liabilities and other	11.9	15.4
Total current liabilities	135.7	81.4
Accrued stock-based compensation	89.3	108.2
Other long-term liabilities	2.1	—
Total liabilities	227.1	189.6
Commitments and contingencies		
Stockholders' equity:		
Series A common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 136,334,241 and 174,687,478 shares, respectively	1.4	1.7
Series B common stock, \$.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,191,210 and 7,256,353 shares, respectively	0.1	0.1
Series C common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding 137,703,628 and 172,129,524 shares, respectively	1.4	1.7
Additional paid-in capital	4,124.0	6,293.2
Accumulated deficit	(1,874.9)	(1,319.1)
Accumulated other comprehensive earnings, net of taxes	1,141.0	858.5
Total stockholders' equity	3,393.0	5,836.1
Total liabilities and stockholders' equity	\$ 3,620.1	\$ 6,025.7

LIBERTY GLOBAL, INC.  
SCHEDULE I  
CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENTS OF OPERATIONS  
(Parent Company Only)

	Year ended December 31,		
	2008	2007	2006
	in millions		
Operating costs and expenses:			
Selling, general and administrative (including stock-based compensation)	\$ 126.8	\$ 128.6	\$ 66.4
Depreciation and amortization	0.4	0.3	0.2
Operating loss	(127.2)	(128.9)	(66.6)
Other income (expense):			
Interest income (expense), net	(1.4)	(4.7)	0.3
Other income (expense), net	(0.2)	—	0.1
	(1.6)	(4.7)	0.4
Loss before income taxes and equity in earnings (losses) of consolidated subsidiaries, net	(128.8)	(133.6)	(66.2)
Equity in earnings (losses) of consolidated subsidiaries, net	(702.6)	(337.9)	752.4
Income tax benefit	42.5	48.9	20.0
Net earnings (loss)	<u>\$ (788.9)</u>	<u>\$ (422.6)</u>	<u>\$ 706.2</u>

## LIBERTY GLOBAL, INC.

## SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
(Parent Company Information — See Notes to Consolidated Financial Statements)

CONDENSED STATEMENT OF CASH FLOWS  
(Parent Company Only)

	Year ended December 31,		
	2008	2007	2006
	in millions		
Cash flows from operating activities:			
Net earnings (loss)	\$ (788.9)	\$ (422.6)	\$ 706.2
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Equity in losses (earnings) of consolidated subsidiaries, net	702.6	337.9	(752.4)
Stock-based compensation	69.8	75.1	27.6
Amortization of deferred financing costs	0.8	0.6	—
Depreciation and amortization	0.4	0.3	0.2
Deferred income tax expense (benefit)	(34.6)	(22.5)	3.6
Changes in operating assets and liabilities:			
Receivables and other operating assets	(1.6)	3.0	(2.4)
Payables and accruals	(56.7)	66.8	(15.6)
Net cash provided (used) by operating activities	(108.2)	38.6	(32.8)
Cash flows from investing activities:			
Net distributions and advances received from subsidiaries and affiliates	2,300.8	1,760.9	1,789.4
Capital expended for property and equipment	(0.6)	(0.4)	(0.8)
Net cash provided by investing activities	2,300.2	1,760.5	1,788.6
Cash flows from financing activities:			
Repurchase of common stock	(2,271.8)	(1,796.8)	(1,756.9)
Borrowings of debt	215.0	—	—
Repayments of debt	(215.0)	—	—
Proceeds from issuance of LGI common stock upon exercise of stock options	17.9	42.9	17.5
Other financing activities, net	—	(3.5)	—
Net cash used by financing activities	(2,253.9)	(1,757.4)	(1,739.4)
Net increase (decrease) in cash and cash equivalents	(61.9)	41.7	16.4
Cash and cash equivalents:			
Beginning of period	62.0	20.3	3.9
End of period	\$ 0.1	\$ 62.0	\$ 20.3

LIBERTY GLOBAL, INC.  
SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS

	Allowance for doubtful accounts					Balance at end of period
	Balance at beginning of period	Additions to costs and expenses	Acquisitions	Deductions or write-offs	Foreign currency translation adjustments	
Year ended December 31:						
2006	\$ 73.6	46.0	2.4	(50.4)	4.9	\$ 76.5
2007	\$ 76.5	73.6	23.7	(57.9)	9.5	\$ 125.4
2008	\$ 125.4	82.9	0.5	(53.6)	(10.6)	\$ 144.6

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
SC Media & Commerce Inc.

We have audited the accompanying consolidated balance sheets of SC Media & Commerce Inc. (formerly Jupiter TV Co., Ltd.) and subsidiaries as of June 30, 2007 and December 31, 2006, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the six-month period ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SC Media & Commerce Inc. and subsidiaries as of June 30, 2007 and December 31, 2006, and the results of their operations and their cash flows for the six-month period ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

KPMG AZSA & Co.

Tokyo, Japan  
February 15, 2008

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents		
Related party (Note 19)	¥ 14,100,000	¥ 14,850,000
Other	12,001,778	8,368,450
Accounts receivable, less allowance for doubtful accounts of ¥7,857 thousand in 2007 and ¥7,986 thousand in 2006		
Related party (Note 19)	262,835	235,832
Other	6,197,749	7,560,107
Retail inventories	4,797,966	3,516,137
Program rights and language versioning, net (Note 4)	952,981	695,410
Deferred income taxes (Note 14)	2,155,189	2,267,201
Prepaid and other current assets	589,391	704,309
Total current assets	41,057,889	38,197,446
Investments (Note 5)	8,613,754	8,396,505
Property and equipment, net (Notes 6, 12 and 15)	7,740,121	7,577,906
Software development costs, net (Note 7)	4,654,526	4,443,317
Program rights and language versioning, excluding current portion, net (Note 4)	80,897	284,071
Goodwill (Note 9)	286,263	286,263
Other intangible assets, net (Note 8)	179,491	192,143
Deferred income taxes (Note 14)	676,970	841,607
Other assets, net	979,026	951,909
Total assets	¥ 64,268,937	¥ 61,171,167

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS — (Continued)**

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (related party) (Notes 13 and 19)	¥ 3,940,000	¥ 290,000
Current portion of long-term debt (Note 13)	—	1,600,000
Obligations under capital leases, current installments (related party) (Notes 12 and 19):	591,142	467,289
Accounts payable:		
Related party (Note 19)	158,527	412,072
Other	4,916,893	7,894,053
Accrued liabilities:		
Related party (Note 19)	1,606,375	1,291,395
Other	2,419,457	1,789,467
Income taxes payable	3,448,564	5,573,428
Advances from affiliate	3,370,000	2,180,000
Deferred income taxes (Note 14)	2,430	1,797
Accrued pension and severance costs (Note 16)	193,528	30,590
Other current liabilities	1,582,307	1,566,732
Total current liabilities	22,229,223	23,096,823
Long-term debt, excluding current portion (Notes 13)	—	800,000
Obligations under capital lease, excluding current portion (Notes 12 and 19):	1,367,796	1,265,684
Accrued pension and severance costs (Note 16)	347,536	477,058
Deferred income taxes (Note 14)	410,126	379,227
Other liabilities (Notes 15)	333,379	331,103
Total liabilities	24,688,060	26,349,895
Minority interests	10,452,366	9,270,294
Commitments and contingencies (Note 12, 17 and 21)		
Shareholders' equity (Note 18):		
Common stock no par value:		
Authorized 460,000 shares; issued and outstanding 360,681 shares in 2007 and 360,680 shares in 2006	11,434,364	11,434,000
Additional paid-in capital	7,266,493	7,266,129
Retained earnings	10,419,144	6,850,849
Accumulated other comprehensive income	8,510	—
Total shareholders' equity	29,128,511	25,550,978
Total liabilities and shareholders' equity	¥ 64,268,937	¥ 61,171,167

See accompanying notes to consolidated financial statements.



**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Revenues:			
Retail sales, net	¥ 46,882,903	¥ 98,581,185	¥ 75,676,822
Television programming revenue:			
Related party (Note 19)	1,274,938	2,068,552	1,894,734
Other	4,661,864	8,796,869	7,550,155
Services and other revenue:			
Related party (Note 19)	602,919	1,127,181	957,801
Other	594,136	1,269,414	1,564,716
Total revenues	<u>54,016,760</u>	<u>111,843,201</u>	<u>87,644,228</u>
Operating costs and expenses:			
Cost of retail sales:			
Related party (Note 19)	1,724,043	3,586,299	2,870,371
Other	27,372,731	54,629,263	41,227,980
Cost of programming and distribution:			
Related party (Note 19)	1,486,015	2,961,635	2,770,766
Other	4,889,835	8,841,068	8,732,559
Selling, general and administrative expenses:			
Related party (Note 19)	776,458	1,345,305	1,052,691
Other	8,023,133	16,167,992	13,234,077
Depreciation and amortization	1,526,667	2,467,685	1,783,999
Total operating expenses	<u>45,798,882</u>	<u>89,999,247</u>	<u>71,672,443</u>
Operating income	<u>8,217,878</u>	<u>21,843,954</u>	<u>15,971,785</u>
Other income (expense):			
Interest income (expense), net:			
Related parties (Note 19)	6,153	(50,297)	(41,390)
Other	(30,452)	(36,021)	(72,215)
Foreign exchange gain	98,281	174,408	477,351
Equity in income of equity-method affiliates (Note 5)	225,811	72,919	53,925
Gain on sale of investment in affiliate (Note 5)	11	—	116,441
Impairment loss on investment (Note 5)	—	—	(30,000)
Other income (expense), net	<u>(26,632)</u>	<u>53,129</u>	<u>16,487</u>
Total other income	<u>273,172</u>	<u>214,138</u>	<u>520,599</u>
Income from continuing operations before income taxes and minority interest	8,491,050	22,058,092	16,492,384
Income tax expense (Note 14)	(3,743,463)	(9,317,087)	(6,397,810)
Minority interest in earnings, net of income taxes	<u>(1,175,464)</u>	<u>(3,475,008)</u>	<u>(2,594,393)</u>
Net income from continuing operations	3,572,123	9,265,997	7,500,181
Net loss from discontinued operations (Note 3), net of income tax benefit of ¥2,627, ¥864,190 and ¥939,904, respectively	<u>(3,828)</u>	<u>(1,260,616)</u>	<u>(1,446,996)</u>
Net income	<u>¥ 3,568,295</u>	<u>¥ 8,005,381</u>	<u>¥ 6,053,185</u>

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Net income for the period	¥ 3,568,295	¥ 8,005,381	¥ 6,053,185
Other comprehensive income (loss):			
Net unrealized (loss) gain on derivative instruments, net of income taxes	(666)	—	44,096
Reclassification adjustment for loss (gain) included in net income, net of income taxes	9,176	(38,181)	10,790
Other comprehensive income (loss)	8,510	(38,181)	54,886
Total comprehensive income	¥ 3,576,805	¥ 7,967,200	¥ 6,108,071

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Common stock (Note 18):			
Balance at beginning of period	¥ 11,434,000	¥ 11,434,000	¥ 11,434,000
Issuance of common stock	364	—	—
Balance at end of period	11,434,364	11,434,000	11,434,000
Additional paid-in capital (Note 18):			
Balance at beginning of period	7,266,129	7,226,129	6,788,054
Gain on the issuance of common stock by equity-method investee, net of income tax expense of ¥282,787 thousand (Note 5)	—	—	478,075
Issuance of common stock	364	—	—
Balance at end of period	7,266,493	7,266,129	7,266,129
Retained earnings (accumulated deficit):			
Balance at beginning of period	6,850,849	(1,154,532)	(7,207,717)
Net income	3,568,295	8,005,381	6,053,185
Balance at end of period	10,419,144	6,850,849	(1,154,532)
Accumulated other comprehensive income:			
Balance at beginning of period	—	38,181	(16,705)
Other comprehensive income (loss)	8,510	(38,181)	54,886
Balance at end of period	8,510	—	38,181
Total shareholders' equity	¥ 29,128,511	¥ 25,550,978	¥ 17,583,778

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Cash flows from operating activities:			
Net income	¥ 3,568,295	¥ 8,005,381	¥ 6,053,185
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations, net of income taxes	3,828	1,260,616	1,446,996
Depreciation and amortization	1,526,667	2,467,685	1,783,999
Amortization of program rights and language versioning	1,461,862	2,149,491	1,810,630
Provision for (release of) allowance for doubtful accounts	(131)	1,101	(838)
Equity in income of equity-method affiliates	(225,811)	(72,919)	(53,925)
Deferred income taxes	320,394	586,788	(121,381)
Minority interest in earnings	1,175,464	3,475,008	2,594,393
Gain on the sale of investment in affiliate	(11)	—	(116,441)
Impairment loss on investment	—	—	30,000
Changes in assets and liabilities, net of effects of acquisitions:			
Purchase of program rights and language versioning	(1,516,259)	(2,006,688)	(2,247,145)
Decrease (increase) in accounts receivable	1,382,245	(1,728,707)	(1,387,858)
Increase in retail inventories	(1,281,829)	(245,298)	(270,074)
Increase (decrease) in accounts payable	(3,153,536)	372,611	2,436,146
Increase (decrease) in accrued liabilities	2,065,726	(4,833)	961,950
Increase (decrease) in income taxes payable	(2,131,484)	537,490	2,844,746
Other, net	(549,217)	920,011	(162,895)
Net cash provided by operating activities of continuing operations	2,646,203	15,717,737	15,601,488
Net cash used in operating activities of discontinued operations	(149,975)	(1,825,767)	(1,515,993)
Net cash provided by operating activities	2,496,228	13,891,970	14,085,495
Cash flows from investing activities:			
Capital expenditures	(1,930,996)	(3,750,927)	(3,257,335)
Net cash acquired (paid) in connection with business combinations	106,220	—	(46,365)
Proceeds from sale of investment in affiliate	8,574	—	275,102
Investments in affiliates	—	—	(767,500)
Net cash used in investing activities of continuing operations	(1,816,202)	(3,750,927)	(3,796,098)
Net cash used in investing activities of discontinued operations	—	(34,954)	(527,352)
Net cash used in investing activities	(1,816,202)	(3,785,881)	(4,323,450)

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Cash flows from financing activities:			
Proceeds from advances from affiliate	1,190,000	480,000	762,000
Proceeds from issuance of short-term debt (related party)	3,650,000	15,000	275,000
Principal payments on external loan	(2,400,000)	(1,600,000)	—
Principal payments on shareholder loan	—	—	(1,000,000)
Principal payments on obligations under capital leases	(269,919)	(365,974)	(319,060)
Other financing activities	728	55,000	90,000
Net cash provided by (used in) financing activities of continuing operations	2,170,809	(1,415,974)	(192,060)
Net cash used in financing activities of discontinued operations	(15,987)	(532,527)	(35,455)
Net cash provided by (used in) financing activities	2,154,822	(1,948,501)	(227,515)
Net effect of exchange rate changes on cash and cash equivalents	48,480	43,104	130,617
Net increase in cash and cash equivalents	2,883,328	8,200,692	9,665,147
Cash and cash equivalents at beginning of period	23,218,450	15,017,758	5,352,611
Cash and cash equivalents at end of period	¥ 26,101,778	¥ 23,218,450	¥ 15,017,758
	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Supplemental information:			
Cash paid during the period for:			
Income taxes	¥ 5,547,933	¥ 8,192,819	¥ 3,674,446
Interest	10,076	134,977	91,860
Non-cash activities:			
Assets acquired under capital leases	176,578	941,168	931,620
Asset retirement costs accrued	—	299,691	—
Accrual for purchase of property and equipment	114,650	732,677	532,023

See accompanying notes to consolidated financial statements.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Summary of Significant Accounting Policies and Practices**

**(a) Description of Business**

SC Media & Commerce Inc., (the "Company" or "SMC"), formerly Jupiter TV Co., Ltd., and its subsidiaries invest in, develop, manage and distribute television programming through cable, satellite and broadband platforms in Japan. Jupiter Shop Channel Co., Ltd ("Shop Channel"), through which SMC markets and sells a wide variety of consumer products and accessories, is SMC's largest channel in terms of revenue, comprising approximately 87%, 89%, and 86%, of total revenues for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. SMC's business activities are conducted in Japan and serve the Japanese market.

At June 30, 2007, the Company was owned 49.99986% by Liberty Global, Inc ("LGI"), through certain of its indirect wholly owned subsidiaries and 50.00014% by Sumitomo Corporation ("SC"). The Company was incorporated in 1996 in Japan under the name Kabushiki Kaisha Jupiter Programming (Jupiter Programming Co., Ltd. in English), and changed its name to Kabushiki Kaisha Jupiter TV Co., Ltd. (Jupiter TV Co., Ltd. in English) on January 1, 2006, and then to Kabushiki Kaisha SC Media & Commerce Inc. (SC Media & Commerce Inc. in English) effective from July 2, 2007.

On May 22, 2007, the Company executed a comprehensive business restructuring agreement with its shareholders, which included the following matters.

On May 22, 2007, the Company's shareholders' meeting resolved to issue one new share of the Company's common stock to SC on May 23, 2007, resulting in SC and LGI owning 50.00014% and 49.99986% of the Company, respectively. Prior to that transaction SC and LGI each held 50% of the Company.

On May 24, 2007, the Company's Board resolved that it would split into two separate companies with a planned effective date of July 2, 2007. The split plan was subsequently approved by the Company's shareholders on June 8, 2007. SC and LGI established Jupiter TV Co., Ltd ("New Jupiter TV") as a newly incorporated company and certain assets were distributed to New Jupiter TV by the Company as a dividend in kind on July 2, 2007. The business of New Jupiter TV consisted of the operations that invest in, develop, manage and distribute fee-based television programming through cable, satellite and broadband platforms systems in Japan, while the existing Jupiter TV Co. Ltd. was renamed SC Media & Commerce Inc., effective July 2, 2007 and its business centers around the operation of Shop Channel, and On-line TV Co. Ltd., a broadband broadcasting business in Japan.

On May 22, 2007, the Company's Board resolved to enter into a share-for-share exchange agreement with SC under which all of LGI's shares in SMC were exchanged for SC's common stock on July 3, 2007, resulting in SMC becoming a wholly owned subsidiary of SC on that date. That agreement was approved by the Company's shareholders on June 8, 2007.

On May 22, 2007, the Company, Jupiter Telecommunication Co., Ltd ("J:Com"), which is a consolidated subsidiary of LGI, SC and LGI agreed that New Jupiter TV and J:Com would enter into an agreement on July 17, 2007, under which New Jupiter TV became a wholly owned subsidiary of J:COM on September 3, 2007 following a share exchange between LGI and SC.

**(b) Basis of Consolidated Financial Statements**

The Company and its subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform to U.S. generally accepted accounting principles. The major areas requiring such adjustment are accounting for derivative instruments and hedging activities, assets held under finance lease arrangements, goodwill and other intangible assets, employers' accounting for pensions, compensated absence, deferred taxes, cooperative marketing arrangements and certain customer discounts, asset retirement obligations, and merger transactions by equity affiliates.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The consolidated financial statements of the Company are presented on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Subsequent to June 30, 2007, the Company completed a series of reorganization steps (see Note 1(a)) including a spin-off of the net assets of New Jupiter TV followed by its merger with J.Com. The accompanying financial statements do not include any adjustments or reclassification of recorded assets that might arise as a result of those reorganization activities.

**(c) Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company and all of its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

SMC accounts for investments in variable interest entities in accordance with the provisions of the Revised Interpretation of the Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities", issued in December 2003. The Revised Interpretation of FIN No. 46 provides guidance on how to identify a variable interest entity ("VIE"), and determines when the assets, liabilities, non-controlling interests, and results of operations of a VIE must be included in a company's consolidated financial statements. A company that holds variable interests in an entity is required to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if any. SMC consolidates Reality TV Japan ("RTVJ"), which was incorporated in January 2005, and in which SMC owns a 50% interest, in accordance with the provisions of the Revised Interpretation of FIN No. 46. RTVJ is a television channel specializing in the reality genre, distributed through cable, satellite and broadband platforms, which complements SMC's other channel businesses. For additional information concerning RTVJ, see Note 22.

**(d) Cash Equivalents**

Cash equivalents consist of highly liquid debt instruments with an initial maturity of three months or less from the date of purchase.

**(e) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on an analysis of certain individual accounts, including claims in bankruptcy.

**(f) Retail Inventories**

Retail Inventories, consisting primarily of products held for sale on Shop Channel, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

**(g) Program Rights and Language Versioning**

Rights to programming acquired for broadcast on the programming channels and language versioning are stated at the lower of cost and net realizable value. Program right licenses generally state a fixed time period within which a program can be aired, and generally limit the number of times a program can be aired. The licensor retains ownership of the program upon expiration of the license. Programming rights and language versioning costs are amortized over the license period for the program rights based on the nature of the contract or program. Where airing runs are limited, amortization is generally based on runs usage, where usage is unlimited, a straight line basis is used as an estimate of actual usage for amortization purposes. Certain sports programs are amortized fully upon first airing. Such amortization is included in programming and distribution expense in the accompanying consolidated statements of operations.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The portion of unamortized program rights and language versioning costs expected to be amortized within one year is classified as a current asset in the accompanying consolidated balance sheets.

**(h) Investments**

For those investments in affiliates in which SMC's voting interest is 20% to 50% or SMC otherwise has the ability to exercise significant influence over the affiliates' operations and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and is adjusted to recognize SMC's share of the net earnings or losses of its affiliates. SMC recognizes its share of losses of an equity method affiliate until its investment and net advances, if any, are reduced to zero and only provides for additional losses in the event that it has guaranteed obligations of the equity method affiliate or is otherwise committed to provide further financial support.

The difference between the carrying value of SMC's investment in the affiliate and the underlying equity in the net assets of the affiliate is recorded as (i) equity method intangible assets where appropriate and amortized over a relevant period of time, or (ii) as residual goodwill. Equity method goodwill is not amortized but is reviewed for impairment in accordance with Accounting Principles Board ("APB") Opinion No. 18, "The Equity-Method Accounting for Investments in Common Stock" which requires that an other-than temporary decline in value of an investment be recognized as an impairment loss.

Investments in other securities carried at cost represent non-marketable equity securities in which SMC's ownership is less than 20% and SMC does not have the ability to exercise significant influence over the entities' operation and financial policies.

SMC 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, SMC utilizes various sources of information, as available, including cash flow projections, independent valuations and, as applicable, stock price analysis. In the event of a determination that a decline in value is other-than temporary, a charge to income is recorded for the loss, and a new cost basis in the investment is established.

**(i) Derivative Financial Instruments**

Under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or a net investment in a foreign operation. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in income in the period of change.

SMC uses foreign exchange forward contracts to manage currency exposure, resulting from changes in foreign currency exchange rates, on firm purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. SMC enters into these contracts to hedge its U.S. dollar denominated net monetary exposures. Hedges relating to firm purchase commitments for contracted programming rights and other contract costs may have qualified for hedge accounting under the hedging criteria specified by



**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

SFAS No. 133. However prior to January 1, 2004, SMC elected not to designate any qualifying transactions as hedges. For certain qualifying transactions entered into since January 1, 2004, SMC has designated the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss). For SMC's foreign exchange forward contracts that do not qualify for hedge accounting under the hedging criteria specified by SFAS No. 133, changes in the fair value of derivatives are recorded in the consolidated statements of operations in the period of the change.

SMC does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

**(j) Property and Equipment**

Property and equipment are stated at cost.

Depreciation and amortization is generally computed using the straight line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	2-20 years
Leasehold and building improvements	3-18 years
Equipment and vehicles	2-15 years
Buildings	37-50 years

Equipment under capital leases is initially stated at the present value of minimum lease payments. Equipment under capital leases is amortized using the straight line method over the shorter of the lease term and the estimated useful lives of the respective assets, which generally range from three to nine years.

**(k) Software Development Costs**

SMC capitalizes certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal use are expensed as incurred during the preliminary project stage, including costs associated with making strategic decisions and determining performance and system requirements regarding the project, and vendor demonstration costs. Labor costs incurred subsequent to the preliminary project stage through implementation are capitalized. SMC also expenses costs incurred for internal-use software projects in the post implementation stage such as costs for training and maintenance. The capitalized cost of software is amortized on a straight-line basis over the estimated useful life, which is generally two to five years.

**(l) Goodwill and Other Intangible Assets**

Goodwill represents the excess of costs over fair value of net assets of businesses acquired, and is accounted for under the provisions of SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

SMC performs its annual impairment test for goodwill and indefinite-life intangible assets at the end of each reporting period. SMC completed its impairment tests at June 30, 2007 and December 31, 2006 and 2005, with no indication of impairment identified.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(m) Long-Lived Assets and Long-Lived Assets to be Disposed Of**

SMC accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined by independent third party appraisals, projected discounted cash flows, or other valuation techniques as appropriate.

SMC accounts for its obligations associated with the retirement of tangible long-lived assets in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations". Pursuant to SFAS No. 143, obligations associated with the retirement of tangible long-lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

SMC accounts for the conditional asset retirement obligations in accordance with FIN No. 47, "Accounting for Conditional Asset Retirement Obligations" which requires conditional asset retirement obligations to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation can be made. FIN No. 47 also provides guidance as to when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

**(n) Accrued Pension and Severance Costs**

The Company and certain of its subsidiaries provide a Retirement Allowance Plan ("RAP") for eligible employees. The RAP is an unfunded retirement allowance program in which benefits are based on years of service which in turn determine a multiple of final monthly compensation. SMC accounts for the RAP in accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions". Effective December 31, 2006, SMC adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)" which requires an employer to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The adoption of this statement did not have any effect on the consolidated financial statements.

In addition, SMC 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. SMC accounts for the EPF Plan in accordance with the provisions of SFAS No. 87, governing multi-employer plans. Under these provisions, SMC recognizes a net pension expense for the required contribution for each period and recognizes a liability for any contributions due but unpaid at the end of each period. Any shortfalls in plan funding are charged to participating companies on a 'share-of-contribution' basis through 'special contributions' spread over a period of years determined by the EPF Plan as being appropriate.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(o) Revenue Recognition**

**Retail Sales**

Revenue from sales of products by Shop Channel is recognized when the products are delivered to customers, which is when title and risk of loss transfers. Shop Channel's retail sales policy allows merchandise to be returned at the customers' discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

**Television Programming Revenue**

Television programming revenue includes subscription and advertising revenue.

Subscription revenue is recognized in the periods in which programming services are provided to cable, satellite and broadband subscribers. SMC's channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual satellite subscribers pay a monthly fee for programming channels under the terms of rolling one-month subscription contracts. Cable and broadband service providers generally pay a per-subscriber fee for the right to distribute SMC'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 six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 were ¥1,006,100 thousand, ¥1,985,917 thousand, and ¥1,833,329 thousand, respectively.

Cooperative marketing and advertising funds paid to cable system operators for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 were ¥168,189 thousand, ¥311,282 thousand, and ¥264,794 thousand, respectively.

The Company generates advertising revenue on all of its programming channels except Shop Channel. Advertising revenue is recognized, net of agency commissions, when advertisements are broadcast on SMC's programming channels.

**Services and Other Revenue**

Services and other revenue mainly comprises cable and advertising sales fees and commissions, and technical broadcast facility and production services provided by the Company and certain subsidiaries, and is recognized in the periods in which such services are provided to customers.

**(p) Cost of Retail Sales**

Cost of retail sales consists of the cost of products marketed to customers by Shop Channel, including write-downs for inventory obsolescence, shipping and handling costs and warehouse costs. Product costs are recognized as cost of retail sales in the accompanying consolidated statements of operations when the products are delivered to customers and the corresponding revenue is recognized.

**(q) Cost of Programming and Distribution**

Cost of programming consists of costs incurred to acquire or produce programs airing on the channels distributed to cable, satellite and broadband subscribers. Distribution costs include the costs of delivering the programming channels via satellite, including the costs incurred for uplink services and use of satellite transponders, costs of distribution of certain channels over optical fiber to cable platforms, and payments made to cable and satellite platforms for carriage of Shop Channel.

SC MEDIA & COMMERCE INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**(r) Advertising Expense**

Advertising expense is recognized as incurred and is included in selling, general and administrative expenses or, if appropriate, as a reduction of subscription revenue. Cooperative marketing costs are recognized as an expense to the extent that an identifiable benefit is received and the fair value of the benefit can be reasonably measured, otherwise as a reduction of subscription revenue. Advertising expense included in selling, general and administrative expenses for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 was ¥1,193,618 thousand, ¥2,180,782 thousand, and ¥1,676,707 thousand, respectively.

**(s) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**(t) Issuance of Stock by Subsidiaries and Investee Affiliates**

The change in the Company's proportionate share in the underlying net equity of a consolidated subsidiary or equity-method investee from the issuance of their common stock is recorded in additional paid-in capital in the consolidated financial statements.

**(u) Foreign Currency Transactions**

Financial assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet dates. All revenue and expenses denominated in foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of operations.

**(v) Use of Estimates**

Management of SMC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, retail inventories, long-lived assets, investments, deferred tax assets, retail sales returns, contingencies, and obligations related to employees' retirement plans. Actual results could differ from estimates.

**(w) New Accounting Standards**

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN No. 48 prescribes the recognition threshold and provides guidance for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. Nonpublic entities

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

are first required to apply the provisions of FIN No. 48 in connection with the preparation of annual financial statements for the years beginning after December 15, 2007. The adoption of FIN No. 48 is not expected to have a material impact on SMC's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. In November 2007, the FASB proposed a one-year deferral of SFAS No. 157's fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The adoption of SFAS No. 157 is not expected to have a material impact on SMC's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on SMC's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". SFAS No. 141(R) replaces SFAS No. 141, "Business Combinations", and generally requires an acquirer in a business combination to recognize (i) the assets acquired, (ii) the liabilities assumed (including those arising from contractual contingencies), (iii) any contingent consideration and (iv) any noncontrolling interest in the acquiree at the acquisition date, at fair values as of that date. The requirements of SFAS No. 141(R) will result in the recognition by the acquirer of goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS No. 141(R) amends SFAS No. 109 to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS No. 141(R) also amends SFAS No. 142, to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SMC has not completed its analysis of the impact of this standard on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in consolidated entity that should be reported as equity in the consolidated financial statements. In addition, SFAS No. 160 requires (i) that consolidated net income include the amounts attributable to both the parent and noncontrolling interest, (ii) that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and (iii) expanded disclosures that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. SMC has not completed its analysis of the impact of this standard on its consolidated financial statements.

**(x) Reclassifications**

Certain prior year amounts have been reclassified for comparability with the current year presentation.

**2. Acquisitions**

On December 28, 2004, SMC acquired 100% of the outstanding shares of JSBC2 Co. Ltd. (JSBC2) (formerly BB Factory Corporation Ltd), a television programming company. The acquisition was accounted for as a purchase.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The aggregate purchase price was ¥596,365 thousand, of which ¥550,000 thousand was paid in cash on December 28, 2004. The balance of ¥46,365 thousand was paid in cash on April 28, 2005. At December 31, 2004, the estimated additional purchase consideration at that time of ¥68,000, which was determined with reference to the net asset value of JSBC2 at January 31, 2005, pending final approval by both parties to the transaction, was accrued. The difference between the estimated purchase price and the final purchase price amounted to ¥21,635 thousand and reduced goodwill in 2005 (Note 9). SMC has recognized subscriber-related intangible assets in the amount of ¥200,000 thousand representing estimated financial benefits from taking over Channel BB's position in direct-to-home channel packaging alliances, which is being amortized over a ten year period commencing in 2005. The results of operations of JSBC2 were included in SMC's consolidated statements of operations from January 1, 2005. Goodwill from the acquisition of JSBC2 is not deductible for tax purposes.

During 2005, previously unrecognized tax benefits in the form of net operating loss carryforwards acquired in connection with the acquisition of JSBC2 amounting to ¥154,252 thousand were realized during the year. Accordingly, the Company reduced the carrying value of goodwill by a similar amount (Note 9).

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed, as recorded at the date of acquisition of JSBC2:

	(Yen in Thousands)
Current assets	¥ 224,471
Intangible assets	200,000
Goodwill	281,186
Total assets acquired	705,657
Current liabilities assumed	(6,277)
Deferred tax liabilities	(81,380)
Net assets acquired	¥ 618,000

On March 29, 2007, SMC acquired 89% of the outstanding shares of EP Broadcasting Co. Ltd. ("EPB"), a licensed television broadcasting company. The aggregate purchase price was ¥1,790 thousand, which was paid in cash. The results of operations of EPB were included in SMC's consolidated statements of operations from April 1, 2007.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed, as recorded at the date of acquisition of EPB:

	(Yen in Thousands)
Cash	¥ 108,010
Current assets	56,503
Fixed assets under capital lease	217,343
Other assets	31,249
Total assets acquired	413,105
Current liabilities assumed	(69,417)
Lease obligation	(335,291)
Minority interest	(6,607)
Net assets acquired	¥ 1,790

The excess of the estimated fair value of net assets acquired over cash paid has been allocated to reduce the amounts allocated to long-lived assets.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**3. Discontinued Operation**

In December 2005, a decision was made to place the launch of a new television channel business, PartiTV, on hold while SMC reconsidered the feasibility and social appropriateness of the content and business model based on new information obtained during the developmental period. At that point, the business had been developed to a stage such that management recognized it as a component of the SMC business. SMC then proceeded to evaluate the feasibility of re-deploying PartiTV infrastructure assets and commitments, including in connection with the potential launch of an auction channel that was being studied. Auction was planned to be one programming genre in the original PartiTV business model.

In July 2006 the Company's Board concluded that the bulk of the PartiTV assets and infrastructure was not suitable for the auction channel plan being developed, and approval was given to sell or terminate all PartiTV infrastructure assets and commitments. At that point SMC classified the PartiTV business component as a discontinued operation in accordance with the provisions of SFAS No. 144. Certain employees of PartiTV were advised in December 2005 and the bulk of employees were advised in 2006 that they would retire from the Company, and that their contracts and/or employment status within the PartiTV division would expire or would be terminated on the basis of certain compensation packages.

The Company has incurred certain employee severance costs and contract termination costs directly related to the disposal of the PartiTV business. These costs are included as a component of the discontinued operations, and a summary of the activities related to these costs is as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006
	(Yen in Thousands)	
Balance at beginning of period	¥ 259,185	¥ —
Employee severance costs incurred	3,685	393,139
Employee severance cash payments	(149,975)	(133,954)
Contract termination costs incurred	2,770	350,923
Contract termination cash payments	(18,757)	(350,923)
Balance at end of period	¥ 96,908	¥ 259,185

At June 30, 2007, all of the PartiTV business component assets had been disposed of or re-deployed within the group, and commitments settled. There were no significant assets or liabilities, except for employee severance costs accrued of ¥69,105 thousand, of the PartiTV component at June 30, 2007.

The results for the PartiTV business component recognized in the consolidated statements of operations as net loss from discontinued operations, were as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
	(Yen in Thousands)		
Revenue from discontinued operations	¥ —	¥ —	¥ —
Operating loss from discontinued operations	—	(717,659)	(2,386,900)
Loss on disposal of discontinued operations	(6,455)	(1,407,147)	—
Income tax benefit from discontinued operations	2,627	864,190	939,904
Net loss from discontinued operations	¥ (3,828)	¥ (1,260,616)	¥ (1,446,996)

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**4. Program Rights and Language Versioning**

Program rights and language versioning were composed of the following:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Program rights	¥ 2,069,542	¥ 1,795,575
Language versioning	358,292	333,952
	2,427,834	2,129,527
Less accumulated amortization	(1,393,956)	(1,150,046)
	1,033,878	979,481
Less current portion	(952,981)	(695,410)
	¥ 80,897	¥ 284,071

Amortization expense related to program rights and language versioning for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, was ¥1,461,862 thousand, ¥2,149,491 thousand, and ¥1,810,630 thousand, respectively, which is included in cost of programming and distribution in the consolidated statements of operations in respective years.

**5. Investments**

Investments, including advances were composed of the following:

	June 30, 2007	December 31, 2006
	Percentage ownership	Percentage ownership
	Carrying amount	Carrying amount
	(Yen in Thousands)	
Investments accounted for under the equity method:		
Discovery Japan, Inc.	50.0% ¥ 1,231,115	50.0% ¥ 1,107,064
Animal Planet Japan, Co. Ltd.	33.3% 228,253	33.3% 197,449
InteracTV Co., Ltd.	32.5% 28,064	42.5% 36,439
JSports Broadcasting Corporation	33.4% 4,919,306	33.4% 4,834,792
AXN Japan, Inc.	35.0% 986,361	35.0% 940,149
Jupiter VOD Co., Inc.	50.0% 489,555	50.0% 549,512
Total equity method investments	7,882,654	7,665,405
Investments accounted for at cost:		
NikkeiCNBC Japan, Inc.	9.8% 100,000	9.8% 100,000
Kids Station, Inc.	15.0% 304,500	15.0% 304,500
AT-X, Inc.	12.3% 236,000	12.3% 236,000
Nihon Eiga Satellite Broadcasting Corporation	10.0% 66,600	10.0% 66,600
Satellite Service Co. Ltd.	12.0% 24,000	12.0% 24,000
Total cost method investments	731,100	731,100
	¥ 8,613,754	¥ 8,396,505

The following investments represent participation in programming businesses:

- Discovery Japan, Inc., a general documentary channel business currently operating two channels;
- Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
- JSports Broadcasting Corporation, a sports channel business currently operating four channels;
- AXN Japan, Inc., a general entertainment channel;
- NikkeiCNBC Japan, Inc., a news service channel;
- Kids Station, Inc., a children's entertainment channel;



**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

AT-X, Inc., an animation genre channel;  
Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels; and  
Jupiter VOD Co., Inc. a multi-genre video on demand programming service

The following investments represent participation in broadcast license-holding companies through which channels are consigned to subscribers to the 'CS110 degree East' Direct-to-home satellite service:

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;  
Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

The following reflects SMC's share of earnings (losses) of investments accounted for under the equity method:

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Discovery Japan, Inc.	¥ 124,051	¥ 212,743	¥ 313,865
Animal Planet Japan, Co. Ltd.	30,804	(479)	(125,581)
InteracTV Co., Ltd.	189	(1,960)	(188)
JSports Broadcasting Corporation	84,514	51,334	135,845
AXN Japan, Inc.	46,212	30,669	12,351
Jupiter VOD Co., Inc.	(59,959)	(219,388)	(282,367)
	<u>¥ 225,811</u>	<u>¥ 72,919</u>	<u>¥ 53,925</u>

On November, 1, 2005, JSports Broadcasting Corporation ("JSB") acquired Sports-iESPN, another sports channel business. The acquisition was accounted for as a purchase by JSB. Common stock representing approximately 19.5% of the combined business was issued to the shareholders of Sports-iESPN in consideration for the purchase. The stock issuance resulted in SMC's equity share of JSB diluting from 42.8% to 34.5%.

The difference between SMC's share of the underlying net equity of JSB immediately prior to the acquisition of Sports-iESPN and subsequent thereto has been accounted for by the Company as an increase in the carrying value of its investment with a corresponding increase in additional paid-in capital in the amount of ¥478,075 (net of income tax of ¥282,787) in a manner analogous to Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary". Immediately following the acquisition of Sports-iESPN by JSB, SMC sold 770 shares of its investment in common stock of JSB to other unrelated shareholders pursuant to a shareholding adjustment arrangement in exchange for cash proceeds, further diluting its investment in JSB from a 34.5% owned equity-method investment to a 33.4% owned equity-method investment. SMC recognized a ¥116,441 thousand gain on sale of those shares in earnings.

In December 2004, the Company invested ¥485,000 thousand and acquired a 50% voting interest in Jupiter VOD Co., Ltd. ("JVOD"). In December 2005, a further equity investment was made in the amount of ¥650,000 thousand, maintaining a 50% voting interest in JVOD. JVOD is a video on demand programming service providing on-demand video services primarily to digitized cable systems capable of receiving its service.

The carrying amount of investments in affiliates as of June 30, 2007 and December 31, 2006 included ¥751,940 thousand for AXN Japan, Inc. ("AXN") and ¥2,180,084 thousand for JSB of excess cost of the investments over the Company's equity in the net assets. The amount of that excess costs represents "equity method goodwill".

SMC holds 33.3% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company entered into an Amendment To Funding Agreement with effect from March 31, 2005, under which it has funding obligations in accordance with its

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

ordinary shareholding ratio up to a maximum of ¥1,500,000 thousand. During the six-month period ended June 30, 2007 and the year ended December 31, 2006, the Company invested no further funds and its aggregate investment was ¥1,395,000 thousand as of June 30, 2007, in Animal Planet Japan, Co. Ltd.

The aggregate cost of SMC's cost method investments totaled ¥731,100 thousand at June 30, 2007 and December 31, 2006. SMC performs an impairment test for cost method investments whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. At June 30, 2007 and December 31, 2006, SMC estimated that the fair value of each of the investments exceeded the cost of the investment, and therefore concluded that no impairment had occurred. At December 31, 2005, the fair value of the investment in AT-X, Inc. based on a discounted cash flow analysis of available business plans, indicated that an other-than-temporary decline in value had occurred. The amount of the associated impairment write-down for the year ended December 31, 2005 was ¥30,000 thousand and is included in other income (expense) in the accompanying statements of operations.

Financial information for the companies in which the Company has an investment accounted for under the equity method is presented as combined as the companies are similar in nature and operate in the same business area. Condensed combined financial information is as follows:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Combined financial position		
Current assets	¥ 13,542,663	¥ 11,591,623
Other assets	8,052,003	7,191,268
Total assets	<u>21,594,666</u>	<u>18,782,891</u>
Current liabilities	6,204,384	4,658,638
Other liabilities	4,320,004	3,395,045
Shareholders' equity	11,070,278	10,729,208
Total liabilities and shareholders' equity	<u>¥ 21,594,666</u>	<u>¥ 18,782,891</u>

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Combined operations			
Revenues	¥ 13,965,286	¥ 28,166,813	¥ 22,852,521
Operating expenses	<u>13,178,291</u>	<u>27,511,715</u>	<u>22,648,732</u>
Operating income	786,995	655,098	203,789
Other expense net, including income taxes	<u>(264,458)</u>	<u>(562,015)</u>	<u>(1,027)</u>
Net income	<u>¥ 522,537</u>	<u>¥ 93,083</u>	<u>¥ 202,762</u>

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**6. Property and Equipment**

The details of property and equipment are as follows:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Furniture and fixtures	¥ 583,853	¥ 286,972
Leasehold and building improvements	2,170,309	2,112,082
Equipment and vehicles	8,003,843	6,598,613
Buildings	1,001,485	1,001,485
Land	437,147	437,147
Construction in progress	4,400	932,788
	12,201,037	11,369,087
Less accumulated depreciation and amortization	(4,460,916)	(3,791,181)
	<u>¥ 7,740,121</u>	<u>¥ 7,577,906</u>

Property and equipment include assets held under capitalized lease arrangements (Note 12). Depreciation and amortization expense related to property and equipment for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 was ¥899,766 thousand, ¥1,497,830 thousand, and ¥1,070,502 thousand, respectively.

At December 31, 2005 SMC reviewed its long-lived assets, including capitalized leases, developed for the PartiTV business for impairment, due to a decision that the channel would not be launched (Note 3). A determination of impairment was made with respect to the PartiTV long-lived assets to be held and used based on a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the assets in accordance with the provisions of SFAS No. 144. At that time the PartiTV assets were written down to their estimated fair market value. The fair value was determined by estimating the market value in a current transaction between willing parties, that is, other than in a forced or liquidation sale, in reference to prices for assets or asset groups with similar functionality, having similar remaining useful lives. The amount of the associated impairment write-down for the year ended December 31, 2005 was ¥524,140 thousand, and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

At December 31, 2006 SMC had disposed of, or re-deployed within the group, substantially all of the long-lived assets, including capitalized leases, developed for the PartiTV business. Remaining assets were reviewed for impairment and were written down to their estimated fair market value which was determined with reference to the experience from selling the bulk of the PartiTV assets during the year. The amount of the associated impairment write-down for the year ended December 31, 2006 was ¥54,508 thousand and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

At June 30, 2007 SMC had disposed of, or re-deployed within the group, all of the remaining long-lived assets, including capitalized leases, developed for the PartiTV business. No further impairment write-down was realized for the PartiTV assets for the six-month period ended June 30, 2007.

**7. Software Development Costs**

Capitalized software development costs for internal use were as follows:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Software development costs	¥ 8,841,475	¥ 8,021,193
Less accumulated amortization	(4,186,949)	(3,577,876)
	<u>¥ 4,654,526</u>	<u>¥ 4,443,317</u>

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Significant software development additions during 2007 and 2006 included development of Shop Channel core systems, e-commerce, and new call center infrastructure, all of which are for internal use.

Aggregate amortization expense for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 was ¥609,097 thousand, ¥1,017,224 thousand, and ¥728,573 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Twelve months ending June 30,	(Yen in Thousands)
2008	¥ 1,273,609
2009	1,252,707
2010	1,184,259
2011	729,584
2012	202,779

SMC reviewed its software development costs related to the PartiTV business for impairment using the same methodology as for long-lived assets review (Note 6). The amount of the associated impairment write-down for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 was ¥0, ¥18,000 thousand, and ¥211,209 thousand respectively, and is included in net loss from discontinued operation in the accompanying consolidated statements of operations.

#### 8. Intangibles

Intangible assets acquired during the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, were ¥900 thousand, ¥2,407 thousand, and ¥15,029 thousand, respectively. The weighted average amortization period is six years.

The details of intangible assets other than software and goodwill were as follows:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Intangible assets subject to amortization, net of accumulated amortization of ¥152,710 thousand in 2007 and ¥131,232 thousand in 2006:		
Channel packaging arrangements	¥ 150,000	¥ 160,000
Other	24,418	27,070
	174,418	187,070
Other intangible assets not subject to amortization:	5,073	5,073
Total other intangible assets	¥ 179,491	¥ 192,143

Channel packaging arrangements which were acquired in connection with the acquisition of JSBC2 (Note 2) and are currently being developed by RTVJ represent the estimated value to be derived from existing channel position in packaging alliances on the direct-to-home satellite distribution platform, and are being amortized over their estimated useful life of ten years. An agreement to terminate the RTVJ channel service on March 31, 2008 was signed on October 31, 2007, and RTVJ is planned to be liquidated by June 2008 (Note 22). The carrying value of channel packaging and related goodwill as of June 30, 2007 is expected to be recovered through the sale of JSBC2 (Note 22). The aggregate amortization expense of other intangible assets subject to amortization for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 was

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

¥13,977 thousand, ¥28,888 thousand, and ¥48,258 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Twelve months ending June 30,	(Yen in Thousands)
2008	¥ 25,470
2009	23,109
2010	23,076
2011	22,941
2012	11,419

**9. Goodwill**

The changes in the carrying amount of goodwill were as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006
	(Yen in Thousands)	
Balance at beginning of period	¥ 286,263	¥ 294,244
Adjustment	—	(7,981)
Balance at end of period	¥ 286,263	¥ 286,263

The adjustments to the carrying value of goodwill of ¥175,887 thousand recorded in 2005 included ¥154,252 thousand of previously unrecognized tax benefits of JSBC2 acquired in 2004, and ¥21,635 thousand attributable to the finalization of the purchase price, of JSBC2 (Note 2). The adjustment to the carrying value of goodwill of ¥7,981 thousand recorded in 2006 represents previously unrecognized tax benefits in another subsidiary.

**10. Derivative Instruments and Hedging Activities**

SMC uses foreign exchange forward and option contracts that generally extend 10 to 48 months to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. SMC enters into these contracts to hedge its U.S. dollar denominated monetary exposure. Such forward contracts had an aggregated notional amount in U.S. dollars of 27,900 thousand at June 30, 2007, and in U.S. dollars of 14,100 thousand and in Euros of 830 thousand at December 31, 2006.

SMC does not enter into derivative financial transactions for trading or speculative purposes.

SMC is exposed to credit-related losses in the event of non-performance by the counterparties to derivative financial instruments, but they do not expect the counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

For certain qualifying transactions entered into from January 1, 2004, SMC designates the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income. The amount of hedge ineffectiveness recognized currently in foreign exchange gains was not material for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005. These amounts are reclassified into earnings through gain (loss) on forward exchange contracts when the hedged items impact earnings. Accumulated gains, net of taxes, of ¥11,174 thousand are included in accumulated other comprehensive income at June 30, 2007, and will be reclassified into earnings within twelve months.

No cash flow hedges were discontinued during the six-month period ended June 30, 2007 or the years ended December 31, 2006 and 2005 as a result of forecasted transactions that are no longer probable to occur.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

SMC has entered into foreign exchange forward and option contracts designated but not qualified as hedging instruments under SFAS No. 133 as a means of hedging certain foreign currency exposures. SMC records these contracts on the balance sheet at fair value. The changes in fair value of such instruments are recognized currently in earnings and are included in foreign exchange gain.

At June 30, 2007 and December 31, 2006 the fair value of forward and option contracts recognized in other current assets in the accompanying consolidated balance sheets was an asset of ¥87,111 thousand, and ¥84,852 thousand, respectively.

**11. Fair Value of Financial Instruments**

The carrying amounts for financial instruments in SMC's consolidated financial statements at June 30, 2007 and December 31, 2006 approximate their estimated fair values. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, income taxes payable, and other current liabilities (non-derivatives):* The carrying amounts approximate fair value because of the short duration of these instruments.

*Foreign exchange forward and option contracts:* The carrying amount is reflective of fair value. The fair value of currency forward and option contracts is estimated based on quotes obtained from financial institutions. At June 30, 2007 and December 31, 2006, fair value of foreign exchange forward contracts of ¥87,111 thousand and ¥84,852 thousand, respectively, was included in other current assets in the accompanying consolidated balance sheets.

*Long-term debt, including current maturities and short-term debt:* The fair value of SMC'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. SMC believes the carrying amount approximates fair value based on the variable rates and currently available terms and conditions for similar debt.

*Obligations under capital leases, including current installments:* The carrying amount is reflective of fair value. The fair value of SMC's capital lease obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to SMC by leasing companies.

**12. Leases**

SMC is obligated under various capital leases for certain equipment and other assets that expire at various dates, generally during the next five years. The gross amount of equipment and the related accumulated amortization recorded under capital leases were as follows:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Equipment and vehicles	¥ 2,430,151	¥ 2,206,592
Others	520,883	303,799
Less accumulated amortization	(1,192,407)	(920,631)
	<u>¥ 1,758,627</u>	<u>¥ 1,589,760</u>

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Amortization of assets held under capital leases is included with depreciation and amortization expense. Leased equipment is included in property and equipment (Note 6).

Future minimum capital lease payments as of June 30, 2007 were as follows:

Twelve months ending June 30,	(Yen in Thousands)
2008	¥ 725,214
2009	582,799
2010	370,043
2011	223,086
2012	111,696
Thereafter	3,421
Total minimum lease payments	2,016,258
Less amount representing interest (at rates ranging from 1.43% to 6.33%)	(57,321)
Present value of minimum capital lease payments	1,958,938
Less current installments	(591,142)
	¥ 1,367,796

The Company leases four principal office and operational premises. SMC headquarters has a three-year lease agreement from August 2004, with a rolling two-year right of renewal that provides for annual rental costs of ¥289,669 thousand. Shop Channel has a 15-year office lease agreement expiring in October 2013 with an annual rental cost of ¥180,924 thousand, a two-year call center lease agreement from March 2006, with a rolling two-year right of renewal, that provides for annual rental costs of ¥181,992 thousand, and a five-year logistics center lease agreement from June 2006, with a rolling two-year right of renewal, that provides for annual rental costs of ¥732,384 thousand.

SMC's several operating leases primarily for office space that expire over the next 10 years, and a 30-year lease for land that expires in 27 years, result in rent expense for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005 of ¥707,814 thousand, ¥1,187,904 thousand, and ¥445,094 thousand, respectively.

Leases for office space are mainly cancelable upon six months notice. Accordingly, the schedule below detailing future minimum lease payments under non-cancelable operating leases includes the lease costs for the Company's premises for only a six-month period.

SMC contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. SMC's historical transponder service contracts were generally ten years in duration, were entered into prior to 2004, and were disclosed by SMC as commitments other than leases (Note 21). In September 2006, one of the transponder providers significantly revised the terms under which they provide transponder capacity. Following a six-month transitional contract period to March 2007, new contracts are now one year in duration and service fees are based on fixed rates. Under the provisions of EITF 01-8 "Determining Whether an Arrangement Contains a Lease", the contracts renewed under the revised terms are treated as operating leases.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Future minimum lease payments for the noncancelable portion of operating leases as of June 30, 2007, were as follows:

Twelve months ending June 30,	(Yen in Thousands)
2008	¥ 1,200,126
2009	4,980
2010	4,980
2011	4,980
2012	4,980
Thereafter	4,980
Total minimum lease payments	¥ 1,225,026

**13. Debt**

Short-term debt consisted of the following:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Loans from minority shareholder	¥ 290,000	¥ 290,000
Loans from J:COM Finance Co. Ltd.	3,650,000	
	¥ 3,940,000	¥ 290,000

As of June 30, 2007 and December 31, 2006, SMC had outstanding short-term borrowings of ¥290,000 thousand from Zonemedia Enterprises Limited ("Zonemedia"), formerly Zone Vision Enterprises Limited, a 50% shareholder in RTVJ. The borrowings comprise a series of loans pursuant to a shareholder finance agreement entered into between SMC and Zonemedia for the specified purpose of financing RTVJ, a consolidated joint venture. Each of the series of loans bears interest at a rate of 3.5% per annum. These borrowings were subsequently transferred to New Jupiter TV as part of its net assets (Note 1(a)).

As of June 30, 2007, SMC had outstanding short-term borrowings of ¥3,650,000 thousand from J:COM Finance Co., Ltd.. The funds were borrowed under a revolving line of credit of up to ¥6,000,000 thousand in order to repay term borrowings from banks and to facilitate the Company's subsequent reorganization (see Note 1(a)). The borrowings are repayable in full on December 31, 2007 or earlier upon five days notice by the Company, and bear interest at a rate of 2.15% per annum. These borrowings were subsequently transferred to New JTV as part of its net assets (Note 1(a)).

Long-term debt consisted of the following:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Term loan borrowings from banks	¥ —	¥ 2,400,000
Less: current portion	—	(1,600,000)
Long-term debt, excluding current portion	¥ —	¥ 800,000

As of December 31, 2004, the Company had a ¥10,000,000 thousand credit facility (the "Facility") available for immediate and full borrowing with a group of banks, to be drawn upon until December 25, 2005. That Facility, which was guaranteed by certain of the Company's subsidiaries, comprised an ¥8,000,000 thousand five-year term loan, and a ¥2,000,000 thousand 364-day revolving facility, which was renewable in June each year. The Company decided in December 2005 not to draw down the remaining available term loan amount and in June 2006 decided not to renew the 364-day revolving facility. In May 2007, the Company made full early repayment of outstanding five-year term loan borrowings. There was no penalty associated with the early repayment of the term loan.



**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Interest on outstanding five-year term loan borrowings was based on certain financial ratios and could range from Euroyen TIBOR + 0.75% to TIBOR + 2.00%. The interest rates charged at December 31, 2006 for the five-year term loan was 1.163%.

**14. Income Taxes**

The components of the provision for income taxes from continuing operations recognized in the consolidated statements of operations were as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Current taxes	¥ 3,423,069	¥ 8,730,299	¥ 6,519,191
Deferred taxes	320,394	586,788	(121,381)
Income tax expense	¥ 3,743,463	¥ 9,317,087	¥ 6,397,810

Amounts provided for income taxes were allocated as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Income taxes on income from continuing operations	¥ 3,743,463	¥ 9,317,087	¥ 6,397,810
Income tax on loss from discontinued operations	(2,627)	(864,190)	(939,904)
Other comprehensive (income) loss	5,838	(26,194)	37,653
Additional paid-in capital by issuance of common stock by equity-method investee	—	—	282,787
Total	¥ 3,746,674	¥ 8,426,703	¥ 5,778,346

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

All pre-tax income and income tax expense is related to operations in Japan. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	June 30, 2007	December 31, 2006
	(Yen in Thousands)	
Deferred tax assets:		
Net operating loss carryforwards	¥ 3,172,116	¥ 1,039,333
Retail inventories	1,145,094	972,366
Equity-method investments	571,120	617,746
Return provision	508,445	335,701
Property and equipment	405,638	331,936
Accrued liabilities	336,902	603,839
Enterprise tax payable	274,592	414,286
Net assets from discontinued operations	46,437	336,498
Others	623,493	523,918
	7,083,837	5,175,723
Less valuation allowance	(4,210,642)	(2,029,740)
Total deferred tax assets	2,873,195	3,145,983
Deferred tax liabilities:		
Equity-method investment	(350,304)	(315,916)
Intangibles	(61,035)	(65,104)
Unrealized foreign exchange	(40,456)	(35,384)
Others	(1,797)	(1,795)
Total deferred tax liabilities	(453,592)	(418,199)
Net deferred tax assets	¥ 2,419,603	¥ 2,727,784

The valuation allowance for deferred tax assets as of January 1, 2005 was ¥2,165,372 thousand. The net changes in the total valuation allowance for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, were an increase of ¥2,180,902 thousand, an increase of ¥316,955 thousand, and a decrease of ¥452,587 thousand, respectively. Such net changes reflect the effect of net tax expenses of ¥180,446 thousand, ¥383,043 thousand, and ¥123,130 thousand recorded for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively, in the accompanying consolidated statements of operations.

As a result of the acquisition of EPB on March 29, 2007 (Note 2), the Company acquired net operating loss carryforwards of ¥4,829,518 thousand (related deferred tax assets of ¥1,965,131 thousand). However, a full valuation allowance against the acquired deferred tax assets of EPB was provided for as of June 30, 2007, as the Company considered it was not more likely than not that the deferred tax assets would be realized through future taxable income of EPB.

The valuation allowance for deferred tax assets that will be treated as a reduction of goodwill upon subsequent recognition of related tax benefits as of June 30, 2007 amounted to ¥3,959 thousand.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which the operating losses are available for use. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deferred tax assets, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

As of June 30, 2007, SMC and its subsidiaries had total net operating loss carryforwards attributable to continuing operations for income tax purposes of approximately ¥7,795,813 thousand, which are available to offset future taxable income, if any. SMC and its subsidiaries have elected to be subject to taxation on a stand-alone basis and net operating loss carryforwards may not be utilized against other group company profits. Aggregated net operating loss carryforwards, if not utilized, expire as follows:

Year ending December 31,	(Yen in Thousands)
2007 (six months ended)	—
2008	9,729
2009	700,294
2010	2,089,431
2011	1,119,362
2012	1,931,181
2013	1,300,513
2014	620,107
2015	25,196
	<u>¥ 7,795,813</u>

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 7.2%, which in aggregate result in a statutory tax rate of 40.7%. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes for continuing operations is as follows:

	Six months ended June 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Statutory tax rate	40.7%	40.7%	40.7%
Non-deductible expenses	0.7	0.6	0.6
Change in valuation allowance	2.1	1.7	0.8
Income tax credits	—	(0.5)	(2.9)
Others	0.6	(0.3)	(0.4)
Effective income tax rate for continuing operations	<u>44.1%</u>	<u>42.2%</u>	<u>38.8%</u>

**15. Asset Retirement Obligations**

SMC has asset retirement obligations primarily associated with restoration activities to be carried out at the time SMC vacates certain leased premises, accounted for in accordance with SFAS No. 143 and FIN No. 47 (Note 1(m)), which are included in other liabilities in the accompanying consolidated balance sheets. The following table presents the activity for the asset retirement obligations:

	Six months ended June 30, 2007	Year ended December 31, 2006
	(Yen in Thousands)	
Balance at beginning of period	¥ 301,053	¥ —
Accrued during the period	—	299,691
Accretion expenses	2,279	1,362
Balance at end of period	<u>¥ 303,332</u>	<u>¥ 301,053</u>

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**16. Accrued Pension and Severance Cost**

Net periodic cost of the Company and its subsidiaries' unfunded RAP accounted for in accordance with SFAS No. 87 included the following components:

	Six months ended June 30, 2007	Year ended December 31, 2006 (Yen in Thousands)	Year ended December 31, 2005
Service cost — benefits earned during the period	¥ 52,308	¥ 92,297	¥ 65,013
Interest cost on projected benefit obligation	3,807	5,916	5,696
Recognized actuarial loss (gain)	(11,551)	40,139	44,420
Net periodic cost	¥ 44,564	¥ 138,352	¥ 115,129

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:

	Six months ended June 30, 2007 (Yen in Thousands)	Year ended December 31, 2006 (Yen in Thousands)
Change in projected benefit obligations:		
Benefit obligations, beginning of period	¥ 507,648	¥ 394,403
Service cost	52,308	92,297
Interest cost	3,807	5,916
Actuarial loss (gain)	(11,551)	40,139
Benefits paid	(11,148)	(25,107)
Projected benefit obligations, end of period	¥ 541,064	¥ 507,648
Accumulated benefit obligations, end of period	¥ 405,179	¥ 374,752

Actuarial gains and losses are recognized fully in the year in which they occur. The weighted-average discount rate used in determining net periodic cost of the Company and its subsidiaries' plans was 1.7%, 1.5%, and 2.0% for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. The weighted-average discount rate used in determining benefit obligations as of June 30, 2007 and December 31, 2006 was 1.70% and 1.50%, respectively. Assumed salary increases ranged from 1.00% to 3.99% depending on employees' age for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (excluding the RAP amounts settled on August 31, 2007, see below):

Twelve months ending 30 June,	(Yen in Thousands)
2008	¥ 27,165
2009	40,794
2010	44,088
2011	45,992
2012	49,691
Years 2013-2017	310,486

SMC generally uses a measurement date of December 31 for all of its unfunded RAP.

On August 31, 2007, immediately prior to merger with J:Com, New Jupiter TV paid all of its staff employed at that date their RAP entitlement in full on an involuntary termination basis. The amount paid was ¥166,363 thousand. The projected benefit obligations accrued at August 31, 2007 for those staff members was ¥198,154 thousand, resulting in a ¥31,791 thousand gain being realized by New Jupiter TV following the payment. SMC continues to use the RAP system for its staff.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

On July 2, 2007 projected pension obligations of ¥198,154 thousand were included in the net asset transfer to New Jupiter TV pursuant to the reorganization of the Company, discussed in Note 1(a).

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit EPF plan. The Company contributions to this plan amounted to ¥58,673 thousand, ¥105,747 thousand, and ¥87,408 thousand, for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. During 2005, SMC approved the start of a process to withdraw from the EPF plan. At December 31, 2005 the planned withdrawal was considered probable, and therefore the estimated obligation to fund SMC's share of shortfalls in the EPF plan funding, calculated by the EPF and amounting to ¥170,920 thousand, was accrued as an exit liability at December 31, 2005, and was included in selling, general and administrative expenses in the accompanying consolidated statements of operations. At December 31, 2006, SMC had decided not to proceed with a withdrawal from the EPF plan in the near future. Therefore the exit liability accrued at December 31, 2005 was reversed during 2006, with the resulting credit amounting to ¥170,920 thousand included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

**17. Contingencies**

In December 2006, the Company's subsidiary Shop Channel learned from the Japan Fair Trade Commission ("FTC") of a preliminary decision regarding a product that had been under investigation during 2006 due to their concern that Shop Channel was not able to adequately substantiate certain representations made about the product on the channel. The FTC subsequently finalized a 'Cease and Desist Order' on February 1, 2007, which required Shop Channel to make a public announcement stating claims made about the product had given customers the impression that the efficacy of the product was better than it was. Shop Channel determined that the appropriate further action to take following such an order was to offer every customer who purchased the product the opportunity to return the item for a full refund whether they are satisfied with the product or not. Shop Channel made an estimate of the expenses related to taking such action including the refund value and the external administrative and logistics processing costs. The total cost estimate was determined by estimating the expected returns percentage based on previous experience of product returns and recalls. At December 31, 2006 the full estimated refund amount of ¥393,600 thousand and associated processing costs amounting to ¥172,200 thousand, were accrued in accordance with SFAS No. 5, and were included in cost of retail sales, and selling, general and administrative expenses, respectively, in the accompanying consolidated statements of operations.

Subsequent to December 31, 2006, ¥308,087 thousand of costs were actually incurred in relation to these contingency matters, with ¥257,713 thousand recorded as a credit to earnings during the six-month period ended June 30, 2007.

In June 2007, the Company's subsidiary Shop Channel was notified that a certain product had malfunctioned and might be susceptible to overheating and catching fire. In September 2007, the Company engaged an independent third party to investigate this claim. Through this investigation it was determined that this product did contain a defect and there was the possibility the product could overheat and catch fire, however to the best of the Company's knowledge no product has actually caught fire or caused any damage. Based on these facts the Company decided to recall this product and notice was given of the recall. The Company estimated the associated recall expenses as approximately ¥673,031 thousand (100% of the units sold plus external administrative costs) of which ¥631,033 thousand was recorded as reduction of retail sales during the six-month period ended June 30, 2007. All inventory on hand was repurchased from the Company by the supplier at cost.

**18. Shareholders' Equity**

The Commercial Code of Japan was revised as the Japanese Corporate Law during 2006 and certain restrictions on the amount that can be paid as a cash dividend have been removed. Dividends can be issued to the extent of retained earnings available at the end of the previous year, and upon preparation of extraordinary

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

financial statements, dividends can be issued from current year retained earnings at an extraordinary balance sheet date, subject to retained earnings at year end being positive. There is no longer a requirement to maintain a legal reserve up to 25% of the issued capital.

The Company paid no cash dividends for the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005. The amount immediately available for dividends under the Japanese Corporate Law is based on the unappropriated retained earnings recorded in the Company's stand-alone statutory books of account, which amounted to ¥0 at June 30, 2007.

On March 5, 2004, the Company transferred ¥8,400,000 thousand of common stock to additional paid in capital (¥6,587,064 thousand) and accumulated deficit (¥1,812,936 thousand). The transfer was approved by the Company's shareholders in accordance with the Commercial Code of Japan, which allows a company to make a purchase of its own shares, as contemplated in the further transaction noted below, only from specified additional paid in capital or retained earnings reserves. SMC purchased its own shares using the resulting additional paid in capital, and elected at the same time to eliminate its accumulated deficit and generate positive retained earnings on a single entity basis. On a consolidated basis, SMC continued to show an accumulated deficit immediately after that transfer. Such transfer did not impact SMC's total equity, cash position or liquidity. Had the Company been subject to corporate law generally applicable to United States companies for similar transactions, the retained earnings (deficit) at June 30, 2007 and December 31, 2006 would be ¥1,812,936 thousand less (more) than the amount included in the accompanying consolidated financial statements.

On May 22, 2007, the Company's shareholders' meeting resolved to issue one new share of the Company's common stock to SC on May 23, 2007 for ¥728 thousand, resulting in SC and LGI owning 50.00014% and 49.99986% of the Company, respectively.

**19. Related Party Transactions**

SMC engages in a variety of transactions in the normal course of business. Significant related party balances, income and expenditures have been separately identified in the consolidated balance sheets and statements of operations. A list of related parties and a description of main types of transactions with each party follows:

Sumitomo Corporation, shareholder, and its subsidiaries and affiliates: television programming advertising revenues, cost of retail sales, costs of programming and distribution, selling, general and administrative expenses for equipment operating leases and staff secondment fees, property and equipment capital leases, cash deposits and interest thereon;

Liberty Global Inc., shareholder, and its subsidiaries: selling, general and administrative expenses for staff secondment fees and recharge of project development costs;

Discovery Japan, Inc., and Animal Planet Japan, Co. Ltd, affiliate companies: services and other revenues from cable and advertising sales activities and broadcasting, marketing and office support services; costs of programming, distribution relating to direct-to-home subscription revenue and receipt of cash advances;

JSports Broadcasting Corporation, affiliate company: services and other revenues from cable and advertising sales activities and recovery of staff costs for seconded staff and advertising revenues thereon.

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to SMC, costs of programming and distribution payments for transponder services;

Jupiter Telecommunications Co., Ltd, an affiliated company of Sumitomo Corporation at December 31, 2004, and an indirect consolidated subsidiary of LGI: television programming cable subscription and advertising revenues, costs of programming and distribution for carriage of Shop Channel by cable systems;

Jupiter VOD Co., Inc., affiliate company: services and other revenues from office support services and advertising revenues.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Zonemedia Enterprises Limited and group companies, a 50% shareholder in Reality TV Japan and a subsidiary of LGI: costs of programming, distribution relating to management and royalty fees, purchases of programming, and shareholder loans and interest thereon.

**20. Concentration of Credit Risk**

As of June 30, 2007 and December 31, 2006, SkyPerfectTV, an unrelated party, and J:Com, a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company.

For the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, subscription revenues of ¥1,970,853 thousand, ¥3,833,171 thousand, and ¥3,501,730 thousand, respectively, received through SkyPerfectTV, accounted for approximately 42%, 44% and 44%, respectively, of subscription revenues, and 4%, 3%, and 4%, respectively, of total revenues. As of June 30, 2007 and December 31, 2006 SkyPerfectTV accounted for approximately 5% of accounts receivable at each balance sheet date.

For the six-month period ended June 30, 2007 and the years ended December 31, 2006 and 2005, subscription revenues of ¥1,049,469 thousand, ¥1,751,627 thousand, and ¥1,543,063 thousand, respectively, received through J:Com, accounted for approximately 22%, 20%, and 20%, respectively, of subscription revenues, and 2% of total revenues for each period. As of June 30, 2007 and December 31, 2006 J:Com accounted for approximately 2% of accounts receivable at each balance sheet date.

**21. Commitments, Other Than Leases**

As of June 30, 2007, SMC has commitments to purchase various program rights as follows:

Twelve months ending June 30,	(Yen in Thousands)
2008	¥ 1,144,092
2009	949,181
2010	930,225
2011	440,744
2012	—
Total program rights purchase commitments	¥ 3,464,242

SMC contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. The satellites generally have a fifteen year usable life. SMC channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Those licensed broadcasting companies also contract for uplink services from a third company in order to transmit each channel's signal to the satellite.

Transponder service contracts have historically been generally ten years in duration. In September 2006, one of the transponder providers significantly revised the terms under which they provide transponder capacity. Following a six-month transitional contract period to March 2007, new contracts are now one year in duration with service fees based on fixed rates. Under the provisions of EITF 01-8, the contracts renewed under the revised terms are treated as operating leases (Note 12).

Under the historical transponder service contracts that were entered into prior to 2004, service fees are based on a fixed portion plus a variable portion based on platform subscriber numbers, and termination is possible subject to payment of a penalty fee calculated in part on future variable contract obligations. Uplink service fees are based on fixed rates and termination is possible subject to payment of a penalty fee upon cease of use. Practically, other regulatory requirements make immediate termination of the service contracts not possible, and due to the unclear nature the actual commitment as of balance date, commitments are disclosed for the full amounts under the service contracts.

**SC MEDIA & COMMERCE INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

As of June 30, 2007, SMC has commitments for uplink services and transponder services under historical service contracts as follows:

Twelve months ending June 30,		(Yen in Thousands)
2008	¥	1,186,585
2009		299,748
2010		299,748
2011		299,748
2012		299,748
Total transponder and uplink services commitments	¥	<u>2,385,577</u>

**22. Subsequent Event**

On October 31, 2007 J:Com (formerly New Jupiter TV, see Note 1(a)) and related companies, and Zonemedia and related companies, signed an agreement to terminate the RTVJ channel service on March 31, 2008, and liquidate the company by June 2008.

Immediately following signing of that agreement, notice was given to RTVJ's direct-to-home channel packaging alliance partners and SkyPerfectTV that RTVJ programming would be withdrawn from SkyPerfectTV packages on March 31, 2008. The notice was given by JSBC2 a wholly owned satellite broadcasting license holding company through which RTVJ delivers its channel through SkyPerfectTV. This notice complied with the five months notice period imposed by the packaging alliance.

Also on October 31, 2007, a share sale and purchase agreement was entered into between J:Com and an unrelated third party under which J:Com agreed to sell all of the shares of JSBC2 to the third party for ¥700,000 thousand on April 1, 2008. JSBC2 announced to direct-to-home channel packaging alliance partners and SkyPerfectTV that the third party's channel would take over the positions to be vacated by RTVJ on April 1, 2008.

The closure of RTVJ and the sale of JSBC2 are contemplated transactions and are not expected to have a material impact on the financial position or results of operations of SMC or J:Com.



To the Board of Directors and Shareholders of Telenet Group Holding NV

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Telenet Group Holding NV (the "Company") and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the EU. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards as adopted by the EU vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 28 to the consolidated financial statements.

PricewaterhouseCoopers Bedrijfsrevisoren bvba

Represented by

/s/ B. Gabriëls

Antwerp, Belgium

June 12, 2007

TELENET GROUP HOLDING NV  
CONSOLIDATED BALANCE SHEETS

	Notes	December 31, 2006	December 31, 2005
		(In thousands of Euro)	
ASSETS			
NON-CURRENT ASSETS:			
Property and equipment	4	973,379	943,919
Goodwill	5	1,148,745	1,012,544
Other intangible assets	6	278,813	278,347
Other assets		2,319	860
Total non-current assets		2,403,256	2,235,670
CURRENT ASSETS:			
Trade receivables	7	105,589	98,677
Other current assets	8	24,399	26,668
Cash and cash equivalents	9	58,844	210,359
Total current assets		188,832	335,704
TOTAL ASSETS		2,592,088	2,571,374
EQUITY AND LIABILITIES			
Equity:			
Contributed capital	10	2,543,032	2,532,504
Other reserves	10	5,115	3,860
Hedging reserves	12	(3,599)	1,078
Retained loss		(1,822,891)	(1,828,344)
Total equity		721,657	709,098
NON-CURRENT LIABILITIES:			
Long-term debt, less current portion	11	1,330,843	1,288,785
Derivative financial instruments	12	36,485	20,364
Unearned revenue	17	14,825	11,537
Other liabilities	14	29,708	23,755
Total non-current liabilities		1,411,861	1,344,441
CURRENT LIABILITIES:			
Short-term borrowings	11	15,659	—
Current portion of long-term debt	11	59,767	156,129
Accounts payable		180,473	174,701
Accrued expenses and other current liabilities	16	79,492	74,129
Unearned revenue and subscriber advanced payments	17	123,179	112,876
Total current liabilities		458,570	517,835
Total liabilities		1,870,431	1,862,276
TOTAL EQUITY AND LIABILITIES		2,592,088	2,571,374

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV  
CONSOLIDATED INCOME STATEMENTS

	Notes	For the Years Ended	
		December 31,	December 31,
		2006	2005
		(In thousands of Euro)	
<b>Continuing operations</b>			
Revenue	17	813,452	733,517
Costs of services provided	18	(510,696)	(456,717)
<b>Gross profit</b>		302,756	276,800
Selling, general and administrative	18	(159,022)	(145,621)
<b>Operating profit</b>		143,734	131,179
Finance costs, net	19	(100,963)	(193,208)
<b>Income (loss) before income tax</b>		42,771	(62,029)
Income tax expense	20	(34,283)	(14,938)
<b>Net income (loss) from continuing operations</b>		8,488	(76,967)
<b>Discontinued operations</b>			
Income (loss) from discontinued operations	22	(3,035)	300
<b>Net income (loss)</b>		<u>5,453</u>	<u>(76,667)</u>
<b>Basic and diluted earnings (loss) per share in €:</b>	21		
Net income (loss) from continuing operations		0.08	(0.86)
Loss from discontinued operations		(0.03)	0.00
<b>Net income (loss)</b>		<u>0.05</u>	<u>(0.86)</u>

See notes to the consolidated financial statements.

TELENET GROUP HOLDING NV  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(amounts in thousands, except shares)

	Notes	Number of Shares	Share Capital	Share Premium and Other Reserves	Hedging Reserves	Retained Loss	Total
<b>January 1, 2005</b>		<u>86,527,257</u>	<u>1,427,930</u>	<u>841,334</u>	<u>(26,627)</u>	<u>(1,751,677)</u>	<u>490,960</u>
Unrealized net gain (loss) on derivative contracts recognized directly in equity	12	—	—	—	27,705	—	27,705
Net loss for the year		—	—	—	—	(76,667)	(76,667)
Total recognized loss for 2005		—	—	—	27,705	(76,667)	(48,962)
Recognition of share-based compensation	10	—	—	2,196	—	—	2,196
Ordinary shares issued upon exercise of the Bank Warrants	10	329,994	—	—	—	—	—
Proceeds received upon exercise of the Class B Options	10	—	—	524	—	—	524
Issuance of share capital through IPO, net of offering costs	1	<u>13,347,602</u>	<u>219,435</u>	<u>44,945</u>	—	—	<u>264,380</u>
<b>December 31, 2005</b>		<u>100,204,853</u>	<u>1,647,365</u>	<u>888,999</u>	<u>1,078</u>	<u>(1,828,344)</u>	<u>709,098</u>
Unrealized net gain (loss) on derivative contracts recognized directly in equity	12	—	—	—	(4,677)	—	(4,677)
Net profit for the year		—	—	—	—	5,453	5,453
Total recognized profit for 2006		—	—	—	(4,677)	5,453	776
Recognition of share-based compensation	10	—	—	559	—	—	559
Proceeds received upon exercise of the Class A and Class B Options	10	—	—	5,059	—	—	5,059
Issuance of share capital through Employee Stock Purchase Plan	10	300,033	4,917	1,248	—	—	6,165
Issuance of share capital via exchange of Class A and Class B Profit Certificates	10	<u>580,569</u>	<u>4,363</u>	<u>(4,363)</u>	—	—	—
<b>December 31, 2006</b>		<u>101,085,455</u>	<u>1,656,645</u>	<u>891,502</u>	<u>(3,599)</u>	<u>(1,822,891)</u>	<u>721,657</u>

See notes to the consolidated financial statements.

**TELENET GROUP HOLDING NV**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the Year Ended December 31,	
	2006	2005
	(In thousands of Euro)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	5,453	(76,667)
Adjustments for:		
Depreciation, amortization and impairment	222,921	206,314
Income taxes	34,232	15,052
Provision for liabilities and charges	11,778	1,698
Increase in allowance for bad debt	(1,352)	3,550
Amortization of financing cost	4,930	9,165
Loss on extinguishment of debt	21,355	13,678
Interest income	(4,569)	(3,420)
Interest expense	93,958	133,511
(Gain)/loss on derivative instruments, net	8,856	(25,802)
Unrealized foreign exchange (gain)/loss, net	(23,580)	40,261
Share based compensation	1,587	2,196
(Gain)/loss on disposal of fixed assets and business	5,977	(147)
Changes in operating assets and liabilities:		
Accounts receivable	(6,239)	(17,440)
Other assets	3,351	(5,513)
Unearned revenue	5,135	2,613
Accounts payable	7,833	26,770
Accrued expenses and other current liabilities	(12,235)	10,964
Cash generated from operations	379,391	336,783
Interest paid	(67,974)	(123,984)
Income taxes paid	(69)	(177)
Net cash provided by operating activities	311,348	212,622
<b>CASH FLOWS BY INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(178,857)	(141,088)
Proceeds on disposal of property and equipment	156	453
Purchases of intangibles	(29,069)	(41,925)
Acquisition of subsidiaries	(183,627)	(1,444)
Proceeds from disposal of business	18	—
Net cash used in investing activities	(391,379)	(184,004)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of long-term borrowings	(166,249)	(317,660)
Net proceeds from short term borrowings	5,875	—
Proceeds from long-term borrowings	100,000	105,000
Payments of redemption premiums	(11,230)	(13,341)
Repayments of finance leases	(1,748)	(853)
Proceeds from the issuance of capital, net of offering costs	5,137	264,380
Proceeds received upon exercise of Class A and Class B options	5,059	524
Payments for debt issuance costs	(8,328)	(1,497)
Net cash provided by (used in) financing activities	(71,484)	36,553
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(151,515)</b>	<b>65,171</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	210,359	145,188
End of period	58,844	210,359

See notes to the consolidated financial statements.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**  
**(in thousands of Euro, except per share amounts, unless otherwise stated)**

**1. GENERAL INFORMATION**

The accompanying consolidated financial statements present the operations of Telenet Group Holding NV ("Telenet Group Holding") and its subsidiaries (hereafter collectively referred to as the "Company"). Through its broadband network the Company offers cable television, including premium television services, broadband internet and telephony services to residential subscribers in Flanders as well as broadband internet, data and voice services in the business market throughout Belgium. Telenet Group Holding and its principal subsidiaries are limited liability companies organized under Belgian law. The Company is managed and operates in one operating segment, broadband communications.

These consolidated financial statements have been authorized for issue by the Board of Directors on April 27, 2007.

***Initial Public Offering***

On October 11, 2005, shares in Telenet Group Holding commenced trading on the Brussels Euronext stock exchange pursuant to an initial public offering ("IPO") of the Company's shares by the Company (the "Primary Offering") and certain of its shareholders (the "Secondary Offering"). In addition, shares were offered to qualifying employees (the "Employee Offering") at a discounted price. The initial price of the shares was €21.00. The Company issued and sold 13,333,333 shares of its common stock pursuant to the Primary Offering and approximately 14,269 shares pursuant to the Employee Offering. Net of the underwriting discount and other expenses of the offering, the Company received €264,380 for the common stock it issued and sold under the Primary and Employee Offerings. The net proceeds from the Primary and Employee Offerings were used to partially redeem Telenet Group Holding's Senior Discount Notes and Telenet Communications' Senior Notes (Note 11). Telenet Group Holding did not receive any proceeds from the sale of shares by the selling shareholders.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In accordance with the EU Regulation 1606/2002 of July 19, 2002, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs as adopted by the EU"). The financial statements have been prepared on the historical cost basis, except for certain financial instruments. The principal accounting policies are set out below.

***Basis of Consolidation***

The consolidated financial statements include the accounts of Telenet Group Holding and all of the entities that it directly or indirectly controls. All intercompany accounts and transactions among consolidated entities have been eliminated.

***Management's Use of Estimates***

The preparation of financial statements in accordance with IFRSs as adopted by the EU requires the use of certain critical accounting estimates and management judgement in the process of applying the Company's accounting policies that affects the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

## TELENET GROUP HOLDING NV

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and assets not yet ready for use, on a straight-line basis over their estimated useful lives. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the lease.

The following useful lives are used for the depreciation of property and equipment:

Buildings and improvements	10-33 years
Operating facilities	3-20 years
Other equipment	3-10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The costs associated with the construction of cable transmission and distribution facilities and also internet and telephony service installations are capitalized and depreciated over 3 to 20 years. Costs include all direct labor and materials as well as certain indirect costs.

Government grants related to assets are recorded as a deduction from the cost in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge. Expenditures for repairs and maintenance are charged to operating expense as incurred. Borrowing costs are recognized in profit and loss in the period in which they are incurred.

**Intangible Assets**

Intangible assets are measured at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Network user rights	10 or 20 years
Trade name	15 years
Customer lists and supply contracts	5 or 15 years
Broadcasting rights	Life of the contractual right
Software development costs	3 years

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Capitalized internal-use software costs include only external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Broadcasting rights are capitalized as an intangible asset when the value of the contract is measurable upon signing and are amortized on a straight-line basis over contractual life.

**Impairment of Tangible and Intangible Assets Excluding Goodwill**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually, or more frequently when there is an indication that it may be impaired. The Company has identified one cash-generating unit to which all goodwill was allocated. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in a subsequent period.

**Foreign Currency Transactions**

The Company's functional and presentation currency is Euros ("€"), which is also the functional currency of each of the Company's subsidiaries. Transactions in currencies other than Euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

**Financial Instruments**

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash equivalents consist principally of commercial paper and certificates of deposit with maturities of three months or less when purchased.

Trade Receivables

Trade receivables do not carry any interest and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.



TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Trade payables

Trade payables are not interest bearing and are stated at their fair value.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are recorded as a component of the related debt to the extent that they are not settled in the period in which they arise.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Warrants

When issued in connection with detachable warrants to purchase shares, the fair value of debt securities is determined using a market interest rate for an equivalent debt instrument. Any resulting discount or premium on the debt securities is recognized using the effective interest rate method over the contractual term of the debt. The remainder of the proceeds is allocated to the detachable warrants and is recognized and included in shareholders' equity, net of any income tax effects.

The Company assesses whether freestanding warrants are to be classified within shareholder's equity or as a liability. Warrants accounted for as permanent equity are recorded at their initial fair value and subsequent changes in fair value are not recognized unless a change in the classification of those warrants occurs. Warrants not qualifying for permanent equity accounting are recorded at fair value as a liability with subsequent changes in fair value recognized through the income statement.

Derivative financial instruments and hedge accounting

The Company's activities are exposed to changes in foreign currency exchange rates and interest rates.

The Company seeks to reduce its foreign currency exposure through the use of certain derivative financial instruments in order to manage its exposure to exchange rate and interest rate fluctuations arising from its operations and funding. The Company has identified certain agreements as cash flow hedges including foreign exchange forward contracts, interest rate swap agreements, cap options and combinations of such instruments.

The use of derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of derivatives consistent with the Company's risk management strategy described in Note 12.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Fair Values

The Company has estimated the fair value of its financial instruments in these consolidated financial statements using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amount of cash, accounts and other receivables, and accounts and other payables approximates fair value because of the short maturity of those instruments.

**Revenue Recognition**

Subscription fees for telephony, internet and premium cable television are prepaid by subscribers on a monthly basis and recognized in revenue as the related services are provided i.e. in the subsequent month. Subscription fees for basic cable television are prepaid by subscribers predominantly on an annual basis and recognized in revenue on a straight line basis over the following twelve months. Revenue from telephone and internet activity is recognized on usage.

Installation fees are recognized immediately only when (1) they represent a separately identifiable service that is delivered (2) for which part the related costs equalling the installation revenue or exceeding this revenue are expensed as incurred and reliably measurable. Accordingly, telephony, digital television and internet installation fees are recognized immediately whereas analogue cable television activation fees are deferred and recognized over the estimated customer relationship period of 10 years.

Together with subscription fees, basic cable television subscribers are charged a copyright fee for the content received from public broadcasters that is broadcasted over the Company's network. These fees contribute to the cost the Company bears in respect of copyright fees paid to copyright collecting agencies for certain content provided by the public broadcasters and other copyright holders. The Company reports copyright fees collected from cable subscribers on a gross basis as a component of revenue as the Company is acting as a principal as the arrangement with the public broadcaster and other copyright holders does not represent a passthrough arrangement. Indeed, the Company bears substantial risk in setting the level of copyright fees charged to subscribers as well as in collecting such fees.

**Operating Expenses**

Operating expenses consist of interconnection costs, network operating and maintenance and repair costs and cable programming costs, including employee costs and related depreciation and amortization charges. The Company capitalizes most of its installation cost, including labor cost. Copyright and license fees paid to the holders of these rights and their agents are the primary component of the Company's cable programming costs. Other direct costs include costs that the Company incurs in connection with providing its residential and business services, such

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as interconnection charges as well as bad debt expense. Network costs consist of costs associated with operating, maintaining and repairing the Company's broadband network and customer care costs necessary to maintain its customer base.

**Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the amount can be reliably measured. Provisions are measured at the Company's best estimate of the expenditure required to settle its liability and are discounted to present value where the effect is material.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the Company. Property and equipment acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and any impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term debt. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. All other leases are classified as operating leases and are charged to profit or loss on a straight-line basis over the lease term.

**Income Taxes**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In view of the Company's history of losses, no net deferred tax assets have been recognized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Employee Benefits**

Pension Obligations

The Company provides both defined benefit and defined contribution plans to its employees, directors and certain members of management. The defined benefit pension plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The schemes are generally funded by payments from the participants and the Company to insurance companies as determined by periodic actuarial calculations.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. The corridor approach is applied to actuarial gains and losses. Such gains and losses are the result of changes in actuarial assumptions on retirement and similar commitments. Accordingly, all gains and losses exceeding 10% of the greater of the present value of the defined benefit obligation and the fair value of any plan assets are recognized over the expected average remaining working life of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Other Employee Benefit Obligations

Some entities provide long term service awards, health care premiums, early retirement plans and death benefits, among others, to their employees and/or retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees.

Share-based Payments

The Company issues equity-settled share-based payments to certain employees which are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes pricing model and is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the cumulative impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

***New standards, interpretations and amendments***

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2006 and are categorized below as either implemented, not yet effective or not relevant to the Company's operations.

IAS 19 (Amendment), *Employee Benefits* introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Company applies this amendment from annual periods beginning January 1, 2006.

The following interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but that the Company has not early adopted:

- IFRS 7, *Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures* (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company has not yet completed its assessment of the impact of IFRS 7 and the amendment to IAS 1 to the level of disclosures currently provided. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007;
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Company's accounts.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant to the Company's operations:

- IAS 21 (Amendment), *Net Investment in a Foreign Operation*;
- IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*;
- IAS 39 (Amendment), *The Fair Value Option*;
- IAS 39 and IFRS 4 (Amendment), *Financial Guarantee Contracts*;
- IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources*;
- IFRS 6, *Exploration for and Evaluation of Mineral Resources*;
- IFRIC 4, *Determining whether an Arrangement contains a Lease*;
- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;
- IFRIC 6, *Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment*;

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8, *Scope of IFRS 2*; and
- IFRIC 9, *Reassessment of Embedded Derivatives*.

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

***Critical judgements in applying the Company's accounting policies***

*Goodwill*

The Company performed its annual review for impairment during the third quarter of 2006 and 2005. Goodwill was allocated to one reporting unit. The key assumptions for the value in use calculations used to determine the recoverable amount are those regarding the discount rates and expected changes to selling prices/product offerings and direct costs during the period. Changes in selling practices and direct costs are based on past practices and expectations of future changes in the market. The calculation uses cash flow projections based on financial budgets approved by management, and a discount rate of 9.0 per cent based on current market assessments of the time value of money and the risks specific to the Company. Cash flows beyond the five-year period have been extrapolated using a steady 2 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the industry. Management believes that any reasonably possible changes in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

***Key sources of estimation uncertainty***

*Deferred Income Taxes*

As of December 31, 2006, Telenet Group Holding and its subsidiaries had available combined cumulative tax loss carry-forwards of €698,877 (2005: €672,617). Under current Belgian tax laws, these loss carry-forwards have an indefinite life and may be used to offset the future taxable income of Telenet Group Holding and its subsidiaries. Two subsidiaries acquired in a previous business combination made taxable profits of €85,366 (2005: €37,135) during the year and utilized tax loss carryforwards which had not been previously recognized as deferred tax assets resulting in a deferred tax expense of €34,292 (2005: €14,917).

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In view of the Company's history of losses, no net deferred tax assets have been recognized.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. PROPERTY AND EQUIPMENT

	Land, Buildings and Leasehold Improvements	Network	Construction in Progress	Furniture, Equipment and Vehicles	Total
<b>Cost</b>					
At January 1, 2005	38,242	1,325,072	32,238	26,117	1,421,669
Additions	5,547	—	119,789	17,196	142,532
Transfers	2,677	126,679	(129,356)	—	—
Disposals	—	—	—	(2,145)	(2,145)
At December 31, 2005	46,466	1,451,751	22,671	41,168	1,562,056
Acquisition of subsidiaries	534	15,388	371	129	16,422
Additions	5,805	11,323	170,071	1,327	188,526
Transfers	2,095	147,662	(147,694)	(2,063)	—
Impairment	—	(10,825)	—	—	(10,825)
Disposals	—	(5,871)	—	(1,711)	(7,582)
At December 31, 2006	54,900	1,609,428	45,419	38,850	1,748,597
<b>Accumulated Depreciation</b>					
At January 1, 2005	3,835	442,701	—	14,357	460,893
Depreciation charge for the year	2,020	149,986	—	7,077	159,083
Eliminated on Disposal	—	—	—	(1,839)	(1,839)
At December 31, 2005	5,855	592,687	—	19,595	618,137
Depreciation charge for the year	1,659	155,447	—	6,375	163,481
Transfers	—	432	—	(432)	—
Eliminated on Disposal	—	(4,755)	—	(1,645)	(6,400)
At December 31, 2006	7,514	743,811	—	23,893	775,218
<b>Carrying Amount</b>					
At December 31, 2006	47,386	865,617	45,419	14,957	973,379
At December 31, 2005	40,611	859,064	22,671	21,573	943,919
<b>Carrying Amount of Finance Leases included in Property and Equipment</b>					
At December 31, 2006	17,562	5,384	—	361	23,307
At December 31, 2005	18,256	5,790	—	468	24,514

An impairment of €8,874 was recorded during 2006 for non-recoverable items of equipment.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**5. GOODWILL**

A reconciliation of the changes in goodwill is depicted below:

	December 31, 2006	December 31, 2005
Beginning balance	1,012,544	1,027,461
Use of net operating losses acquired in business combinations (Note 13)	(34,292)	(14,917)
Acquisition of subsidiary (Note 22)	174,975	—
Derecognized on disposal of a subsidiary (Note 22)	(4,482)	—
	<u>1,148,745</u>	<u>1,012,544</u>

**6. OTHER INTANGIBLE ASSETS**

	Network User Rights	Trade Name	Software	Customer Lists	Other	Total
<b>Cost</b>						
At January 1, 2005	136,856	121,000	70,720	67,991	27,756	424,323
Additions	1,311	—	34,632	—	8,859	44,802
Disposals	—	—	—	—	(23,962)	(23,962)
At December 31, 2005	138,167	121,000	105,352	67,991	12,653	445,163
Acquisition of subsidiary	—	—	321	16,741	—	17,062
Additions	2,388	—	20,590	—	11,023	34,001
Disposals	—	—	36	—	(6,657)	(6,621)
At December 31, 2006	140,555	121,000	126,299	84,732	17,019	489,605
<b>Accumulated Amortization</b>						
At January 1, 2005	28,685	30,250	48,589	16,498	19,525	143,547
Charge for the year	10,343	8,067	13,720	6,532	8,569	47,231
Disposals	—	—	—	—	(23,962)	(23,962)
At December 31, 2005	39,028	38,317	62,309	23,030	4,132	166,816
Charge for the year	10,757	8,066	17,339	6,531	5,922	48,615
Disposals	—	—	37	—	(4,676)	(4,639)
At December 31, 2006	49,785	46,383	79,685	29,561	5,378	210,792
<b>Carrying Amount</b>						
At December 31, 2006	90,770	74,617	46,614	55,171	11,641	278,813
At December 31, 2005	99,139	82,683	43,043	44,961	8,521	278,347

The Company's intangible assets other than goodwill each have a finite life and are comprised primarily of network user rights, trade name, software development and acquisition costs, customer lists, broadcasting rights and contracts with suppliers. These intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates the estimated useful lives of its finite intangible assets each reporting period to determine whether events or circumstances warrant revised estimates of useful lives.



**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**7. TRADE RECEIVABLES**

	December 31, 2006	December 31, 2005
Trade receivables	123,568	117,771
Less: provision for impairment of receivables	(17,979)	(19,094)
Trade receivables, net	<u>105,589</u>	<u>98,677</u>

The Company recognised a loss of €4,414 and €4,520 for the impairment of its trade receivables during the years ended December 31, 2006 and 2005, respectively. The loss has been included in cost of services provided in the income statement. There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers.

**8. OTHER CURRENT ASSETS**

	December 31, 2006	December 31, 2005
Prepaid taxes and VAT	693	1,190
Inventory	12,200	8,212
Receivable from Electrabel	—	7,965
Miscellaneous receivable	3,133	3,705
Prepaid content	3,187	2,270
Prepayments	3,038	3,111
Receivable on disposal of Phone Plus	1,175	—
Other	973	215
	<u>24,399</u>	<u>26,668</u>

**9. CASH AND CASH EQUIVALENTS**

	December 31, 2006	December 31, 2005
Cash at bank and on hand	37,875	11,422
Commercial paper	9,969	159,664
Certificates of deposits	11,000	39,273
Total cash and cash equivalents	<u>58,844</u>	<u>210,359</u>

The Company holds commercial paper with a weighted average interest rate of 3.59% (2005 : 2.3%) and an average maturity of 31 days (2005 : 32 days). The certificates of deposits have a weighted average interest rate of 3.58% (2005 : 2.3%) and an average maturity of 4 days (2005 : 9 days).

**10. SHAREHOLDERS' EQUITY**

Telenet Group Holding currently has the following shares outstanding, all of which are treated as one class in the earnings (loss) per share calculation:

- 101,085,455 ordinary Shares;
- 2,164,911 dispreference shares that are held by Interkabel and the Liberty Global Consortium, which have the same rights as the ordinary Shares except that they are subject to an €8.02 liquidation dispreference, such

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

that in any liquidation of Telenet Group Holding the dispreference shares would only participate in the portion of the proceeds of the liquidation that exceeded €8.02 per Share. Dispreference shares may be converted into ordinary Shares at a rate of 1.04 to 1; and

- 30 Golden Shares held by the mixed intercommunales, which have the same rights as the ordinary Shares and which also give their holders the right to appoint representatives to the Regulatory Board, which oversees the public interest guarantees related to our offering of digital television.

The share capital amounts as of December 31, 2006 were €1,656,645,249.91.

According to a transparency declaration filed with the Banking, Finance and Insurance Commission (BFIC) and the Company on November 13, 2006, Liberty Global Inc. acquired through its affiliate Belgian Cable Investors 6,750,000 shares of Telenet Group Holding through the exercise of its options (the "New Period Options") issued by the Mixed Intermunicipalities shareholders. The options have been exercised at a price of €20 per share.

Further to a new transparency declaration of November 20, 2006, Liberty Global, Inc. acquired through another affiliate, LGI Ventures BV formerly known as Chellomedia Investments B.V., all shares held by the Evercore entities which are part of the Liberty Global Consortium. Consequently, LGI holds as of December 31, 2006 a total of 28,292,474 shares or 27.99% of the Telenet Group Holding share capital, representing a majority of the Syndicate Shares. As a result thereof and following the receipt of certain regulatory approvals in February 2007, LGI has the right to exclusively nominate candidates for the majority of the positions in the Board of Directors of Telenet Group Holding.

**Employee Share Based Compensation**

*Class A and Class B Options*

In August 2004, the Company granted 1,500,000 Class A Options to certain members of management to subscribe to 1,500,000 Class A Profit Certificates ("Class A Options"). Except for 506,712 Class A Options that vested immediately upon grant, the vesting period of the Class A Options extends to a maximum to 40 months and can be exercised through June 2009. The fair value of the Class A Options was determined on the date of grant to be €8.46 using the Black-Scholes option-pricing model with the following assumptions: annual Euro swap interest rate for each respective expiration date, expected life of 4.9 years, and a dividend yield of 0.0% and volatility of 24%

In December 2004, the Company offered 1,251,000 of the 1,350,000 authorized Class B Options to certain members of management to subscribe to 1,251,000 Class B Profit Certificates ("Class B Options"). Of the 1,251,000 Class B Options offered by the Company, 1,083,000 were accepted in February 2005. The remaining 267,000 Class B Options were cancelled on September 20, 2005. Except for 105,375 Class B Options that vested immediately upon grant, the Class B Options vest over 4 years and can be exercised through December 2009. The fair value of the Class B Options was determined on the date of grant to be €5.12 using the Black-Scholes option-pricing model with the following assumptions: annual Euro swap interest rate for each respective expiration date, expected life of 4.9 years, and a dividend yield of 0.0% and volatility of 20%

The Class A and the Class B Options must be exercised in multiples of three, giving the right to acquire three Class A Profit Certificates for €20 or three Class B Profit Certificates for €25. The Class A and Class B Profit Certificates are exchangeable into shares of the Company on a one for one basis, subject to certain conditions being met. Upon exercise, these profit certificates give the holders the right to receive dividends equal to dividends distributed, if any, to the holders of the Company's shares.

In the case of an initial public offering or a change of control, the vesting for half of the remaining non-vested Class A Options would be brought forward to the date of the offering or change in control. In contemplation of the IPO, the Board of Directors decided at its September 2, 2005 meeting to accelerate the vesting of 121,968 Class B Options, contingent upon the closing of the IPO which occurred on October 11, 2005. The terms and conditions of the certificates as originally granted did not provide for such accelerated vesting but allowed the Board of Directors

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

the possibility of accelerating vesting subsequent to grant. As a result of this modification, additional compensation expense of €576 was incurred in October 2005 based on the increase in the intrinsic value of the Class B Option at the date of grant. The remaining non vested Class B Options will vest over the remaining original vesting periods.

Upon change in control that resulted from the increase in LGI's participation on November 13, 2006, the vesting on all of the remaining unvested Class A options was accelerated in accordance with the terms of the original agreement. This resulted in an additional expense of €153 in November 2006.

The Class A and Class B options in the table below were exercised versus payments of €5,059 and €524 during the years ended December 31, 2006 and 2005, respectively. Upon exercise, the Class A and Class B options were exchanged on a one-for-one basis for Class A and Class B Profit Certificates and are accounted for as increases in Other Reserves within Equity. These reserves are transferred from Other Reserves to Share Capital when the Profit Certificates are exchanged for shares of the Company and resulted in a transfer of €4,363 between Other Reserves and Share Capital within Equity in 2006.

Class of Option	Number of Options Exercised	Exercise Date	Share Price at Exercise Date (in Euros)
Class B Options	62,877	12/12/05	16.60
Class A Options	285,000	05/12/06	18.20
Class B Options	232,692	05/12/06	18.20
Class B Options	68,533	10/02/06	19.10
Class A Options	30,000	12/22/06	21.69
Class B Options	53,844	12/22/06	21.69

*All Plans*

A summary of the activity of the Company's stock options for the years ended December 31, 2006 and 2005 is as follows:

	Outstanding Options	
	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2005	1,544,390	7.19
Class B Options granted	1,083,000	8.33
1998 Plan & 1999 Plan options exercised	(44,390)	24.79
Class B Options exercised	(62,877)	8.33
Balance December 31, 2005	2,520,123	7.34
Class A Options exercised	(315,000)	6.67
Class B Options exercised	(355,089)	8.33
Class B Options lapsed	(1,140)	8.33
Class B Options forfeited	(55,380)	8.33
Balance December 31, 2006	<u>1,793,514</u>	7.23

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2006:

	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (in Euros)
Class A Options	1,185,000	1,185,000	30 months	6.67
Class B Options	608,534	159,989	36 months	8.33

**Employee Stock Purchase Plan**

On October 16, 2006, Telenet launched an employee stock purchase plan (ESPP). Under the terms of the ESPP, employees were given until December 4, 2006 to purchase new shares of Telenet Group Holding NV at a discount of 16.67% to the average share price over the month of November 2006. Based on the average share price of €20.54 for November 2006, the discount under the ESPP was €3.43 per share. As the shares were fully vested at the time of the transaction, the Company recognized €1,028 as compensation expense in December 2006 for the 300,033 shares that were purchased.

**Warrants**

*Subordinated Debt Warrants*

The Company has 3,426,000 subordinated debt warrants outstanding (the "Subordinated Debt Warrants") which are held by the Liberty Global Consortium, the GIMV, the Financial Consortium and the MICs. Each Subordinated Debt Warrant entitles the holder thereof to three shares of Telenet Group Holding upon payment of an exercise price of €40. Alternatively, holders may opt for a "cashless" exercise of the Subordinated Debt Warrants. In such a case, they will be entitled to acquire a reduced number of shares of Telenet Group Holding, using the value of their warrants (measured by the market value of the shares of Telenet Group Holding at the time of exercise less the exercise price of the warrants) to acquire shares of Telenet Group Holding at their market value. The warrants can be exercised at any time during the exercise period ending on August 9, 2009.

*Bank Warrants*

In conjunction with the Senior Credit Facility obtained in July 2002, the Company issued a total of 100,000 detachable warrants, which vested immediately upon issuance. Until the expiration date in August 2007, these warrants gave the holders the right to purchase a number of the Company's ordinary shares for €0.01 per warrant. The number of shares would only be known at the exercise date as it was ultimately based on the number of outstanding shares at August 9, 2002 adjusted by various factors, including additions for shares issued upon the exercise of other warrants.

These warrants are no longer held by the lenders and all but 15,714 were cancelled. The remaining 15,714 warrants were transferred as part of the settlement of the subordinated shareholder debts that were repaid on December 22, 2003. On August 24, 2005, the Company's Chief Executive Officer exercised the 15,714 Bank Warrants acquired in 2004 at a price of €0.01 per 21 shares, and, as a result, acquired 329,994 shares.

**11. DEBT AND OTHER FINANCING**

The debt balances specified below include accrued interest as of December 31, 2006 and 2005.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2006	December 31, 2005
Senior Credit Facility:		
Tranche A	—	219,013
Tranche B	—	11,127
Tranche D	—	333
Tranche E	—	405,196
New Senior Credit Facility:		
Tranche A	600,154	—
Tranche B	100,139	—
Senior Notes	369,691	509,504
Senior Discount Notes(1)	221,239	220,954
Clientele Fee	45,860	42,379
Annuity Fee	51,057	53,822
Finance lease obligations	25,821	27,236
	1,413,961	1,489,564
Less: deferred financing fees	(23,351)	(44,650)
	1,390,610	1,444,914
Less: current portion	(59,767)	(156,129)
Total long-term debt	1,330,843	1,288,785

(1) Accreted balance of the Senior Discount Notes, converted to Euros on December 31, 2006 and 2005 at the accounting rate of \$1.317 to €1.00 and \$1.1797 to €1.00, respectively.

Total debt is denominated in Euros with the exception of the Senior Discount Note which is denominated in U.S. Dollars. Fixed interest rates applied to 41.74% of the total financial debt (2005: 48.5%). The weighted average interest rates at year end was 9.94% on fixed interest rate loans (2005: 9.77%) and 4.90% on floating interest rate loans (2005: 4.83%).

#### Senior Notes

On December 22, 2003, Telenet Communication issued Senior Notes with a principal amount of €500,000, receiving net proceeds of €482,310. Interest on the notes is payable semi-annually at an annual rate of 9%. The notes do not have required principal repayments prior to maturity on December 15, 2013.

Telenet Communications initiated an offer for approximately €125,522 of principal and accrued interest of its Senior Notes on November 30, 2005. Under the terms of the offer, which closed in January 2006, Telenet Communications redeemed €124,773 of principal of the Senior Notes plus accrued interest of €749, and paid a 9.0% redemption premium of €11,230, resulting in a total payment to holders of the Senior Notes of €136,752. The redemption cost associated with this exercise was recorded as an increase in finance cost in the fourth quarter of 2005.

#### Senior Discount Notes

On December 22, 2003, the Company issued Senior Discount Notes at 57.298% of par value with a principal amount at maturity of \$558,000 (or €450,654 using the exchange rate obtained upon the issuance of \$1.2382 per €1.00), receiving net proceeds of €242,527. Interest on the notes started accruing from December 22, 2003 at an

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

annual rate of 11.5%, compounded semi-annually. Commencing on June 15, 2009 until maturity on June 15, 2014, interest is payable semi-annually at an annual rate of 11.5%. There are no required principal repayments prior to maturity.

In connection with the issuance of the Senior Discount Notes, the Company entered into a registration rights agreement pursuant to which it undertook to either complete a registered exchange offer (or, if required, cause a shelf registration statement to become effective) with respect to the Senior Discount Notes by June 30, 2005, or to pay in cash liquidated damages at a rate equal to 1% per annum of the accreted value of the Senior Discount Notes until December 31, 2005. The accreted value of the Senior Discount notes as of June 30, 2005 was \$379 million.

Because the Company has not completed a registered exchange offer (or caused a shelf registration statement to become effective) with respect to the Senior Discount Notes as of June 30, 2005, it paid liquidated damages of \$1,150 (or €973) to holders of the Senior Discount Notes on December 15, 2005.

On October 17, 2005, Telenet Group Holding initiated an offer for up to 35% of the accreted value of its Senior Discount Notes, as calculated under the terms of the indenture governing such Notes, including an adjustment for amounts redeemed under the Change of Control Offer for the Senior Discount Notes, described below, such that not less than 65% of the Senior Discount Notes remains outstanding. Under the terms of the offer, which closed on November 23, 2005, Telenet Group Holding redeemed Senior Discount Notes with an accreted value of \$136,171 (€115,233), representing 34.6% of \$393,743 (€465,286), the total accreted value of the Senior Discount Notes as of such date, and paid an 11.5% redemption premium of \$15,660 (€13,341). In addition, Telenet Group Holding paid \$552 (€467) in accrued liquidated damages with respect to the redeemed Senior Discount Notes. The redemption cost associated with this exercise was recorded as an increase in finance cost in the fourth quarter of 2005.

***Change of Control Offers for the Telenet Group Holding Senior Discount Notes and Telenet Communications Senior Notes***

Certain of the Company's shareholders entered into an agreement on October 14, 2005 which, among other matters, amended certain governance terms. The Company concluded that these changes resulted in a Change of Control within the definitions of the relevant indentures. Therefore, on October 17, 2005, Telenet Group Holding and Telenet Communications initiated change of control offers for the full accreted value and outstanding principal amount of Senior Discount Notes and Senior Notes, respectively (the "Change of Control Offers"). As per the terms of the indentures governing the Senior Discount Notes and Senior Notes, the Change of Control Offers were made at 101% of accreted value and outstanding principal amount, respectively. The Change of Control Offers expired on November 18, 2005 at which time \$2,523 of face value at redemption of the Senior Discount Notes and €6,825 of the Senior Notes were tendered for redemption and settled during November 2005 together with accreted or accrued interest, as appropriate, the 1% redemption premium and the accrued liquidated damages in respect of the Senior Discount Notes. Pursuant to the Change of Control Offers, the total cost of the Senior Discount Notes purchased was \$2,559 and the total cost of the Senior Notes purchased was €7,165.

***New Senior Credit Facility***

On May 10, 2006, Telenet Bidco, Telenet NV and Telenet Vlaanderen (as Borrowers and Guarantors), entered into a new senior credit facility (the "New Senior Credit Facility"), which provided significantly improved terms compared to Telenet's previous Senior Credit Facility. The New Senior Credit Facility was closed on May 12, 2006 and has a final maturity date of March 31, 2011. In connection with the closing of the New Senior Credit Facility, the Company prepaid a net €35,000 of outstanding senior debt using excess cash on its balance sheet.

The major terms and conditions of the various tranches of the New Senior Credit Facility were as follows:

- Tranche A provides a €600,000 amortising loan facility which was drawn in full upon closing. It is repayable in quarterly instalments commencing on March 31, 2007 and calls for a final repayment of €370,000 on March 31, 2011.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- Tranche B is a €200,000 revolving credit facility of which the undrawn availability was €100,000 as of December 31, 2006.
- Tranche C is an uncommitted facility of up to €200,000 or, if utilised for the acquisition of certain Belgian cable assets, up to €350,000.

Interest is currently payable on Tranches A and B of the New Senior Credit Facility at a margin of 0.90% over EURIBOR, and can vary from 0.70% to 1.25% subject to an interest margin ratchet mechanism based on the ratio of Net Cash Pay Debt to Consolidated EBITDA. A commitment fee is payable quarterly in arrears on undrawn amounts of the Tranche B Loan at the rate of 40% of the applicable margin of the Tranche B Loan. The financial covenants, which are tested on a quarterly basis, measure performance against, among others, standards for leverage, debt service coverage, and earnings before interest, taxes, depreciation, and amortization ("EBITDA").

***Senior Credit Facility***

Until replaced by the New Senior Credit Facility in May 2006 (the "Refinancing"), the Company had a senior secured facility that provided up to €835,000 in committed financing from a syndicate of lenders and in various tranches and a further €150,000 in uncommitted senior secured facilities (the "Senior Credit Facility"). Since the date that the Senior Credit Facility was originally signed in July 2002, the Company amended the terms and structure and made partial prepayments of the Senior Credit Facility in line with its requirements and its evolving credit profile.

At the time the Refinancing, the major terms and conditions of the various committed tranches of the Senior Credit Facility were as follows:

- Tranche A was an amortizing term loan and guarantee facility expiring in 2009 for an amount of up to €218,880. Amounts under the facility incurred interest at Euribor plus a margin of 3%.
- Tranche B was an amortizing revolving credit facility, expiring in 2009, of up to €11,121. Amounts under the facility incurred interest at Euribor plus a margin of up to 3%.
- Tranche C2 was a nonamortizing term loan with a principal amount of €150,000 which matured in 2010. Amounts under the Tranche C2 facility incurred interest at Euribor plus a margin of up to 3.75%. The outstanding principal under this facility was fully repaid on March 31, 2005.
- Tranche D was a revolving credit facility, expiring in 2009, of €200,000. Amounts under the facility incurred interest at Euribor plus a margin of up to 3.50%.
- Tranche E was a non-amortizing term loan, expiring in 2011, of €405,000. Amounts under the facility incurred interest at Euribor plus a margin of 2.50%.

***Clientele and Annuity Agreements***

In 1996, the Company entered into a Clientele Agreement and an Annuity Agreement with the Pure Intercommunale Companies ("PICs"), through Interkabel Vlaanderen CVBA ("Interkabel"), which is a related party of the Company.

The clientele fee payable under the Clientele Agreement is payable by the Company in return for access to the cable network customer database owned and controlled by the PICs. The clientele fee is payable as long as the Company maintains its usage rights to the cable network, and is adjusted periodically depending on the level of inflation. Such payments allow the PICs to recover part of their historical investment to upgrade the original cable network to allow for two-way communication (the "HFC Upgrade"). Considering this, the present value of the clientele fee payments over the first 20 years (being the life of the longest lived assets that are part of the HFC Upgrade) has been accounted for as network user rights under intangible assets, and is amortized over 10 or 20 years depending on the useful life of the underlying assets that make up the HFC Upgrade.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In accordance with the terms of the Annuity Agreement, the PICs charge an annuity fee, which in substance covers the remaining 60% of the cost of the HFC Upgrade incurred by the PICs, to the Company. Payments under the Annuity Agreement are due over a period of 10 or 20 years, depending on the useful life of the underlying assets that make up the HFC Upgrade incurred by the PICs. The present value of the future payments under the Annuity Agreement has been capitalized as network user rights under intangible assets, and is amortized over 10 or 20 years depending on the useful life of the underlying assets that make up the HFC Upgrade.

**Finance Lease Obligations**

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Within one year	2,748	2,159	1,525	1,184
In the second to fifth years, inclusive	12,989	11,509	9,300	8,223
Thereafter	19,074	22,091	14,430	17,090
Total minimum lease payments	34,811	35,758	25,255	26,497
Less: future finance charges	(9,556)	(9,261)	—	—
Present value of lease obligations	25,255	26,497	25,255	26,497
Less: amount due for settlement within 12 months			(1,525)	(1,184)
Amount due for settlement after 12 months			23,730	25,313

The Company leases certain assets under finance leases including buildings, head-ends and certain vehicles with average lease terms of 20, 20 and 5 years, respectively. Leases of head-ends include the equipment used to receive signals of various devices, whether directly from the transmitter or from a microwave relay system. These devices are used, among other things, to transmit data and telephony and television signals. For the year ended December 31, 2006, the average effective borrowing rate was 4.69% (2005: 3.76%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

On July 20, 2006, Telenet NV entered into an arrangement to finance the construction of a new building for a maximum amount of €30,000. At the end of the construction period the company will start paying quarterly lease payments, based on fixed capital repayments, in order to repay the total amount financed plus applicable interest charges. The lease period will last for 15 years starting at the end of the construction period and the Company has a bargain purchase option at the end of the lease. On November 17, 2006 the Company entered into an agreement with the lessors pursuant to which the contractual interest margin of 1.00% will be payable over a fixed rate of 3.89% for the term of the finance arrangement.

During the construction phase, the Company will pay interest on amounts drawn under the finance arrangement based on 3-month Euribor plus a 1.00% margin. As of December 31, 2006 the total amount capitalized for construction in progress was €15,545 and an equivalent amount plus accrued interest is presented as short-term borrowings pursuant to the terms of the above mentioned finance agreement. At the end of the construction period a sale and lease back will be accounted for whereby the lease back is a finance lease.



**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Repayment Schedule**

Aggregate future principal payments on the total borrowings under all of the Company's debt agreements other than finance leases are shown in the following table. The Senior Discount Note is included at its fully accreted value.

	December 31, 2006	December 31, 2005
On demand or within one year	52,628	12,342
In the second year	61,441	51,725
In the third year	72,298	52,166
In the fourth year	82,018	52,485
In the fifth year	480,241	52,199
After five years	740,901	1,307,492
	<u>1,489,527</u>	<u>1,528,409</u>
Less: Interest to be accreted on the Senior Discount Note	(59,791)	(85,628)
	<u>1,429,736</u>	<u>1,442,782</u>

**Guarantees and Covenants**

Obligations under the Senior Notes, Senior Discount Notes and the New Senior Credit Facility are guaranteed and cross-guaranteed by certain subsidiaries of Telenet Group Holding. The obligations are also secured by mortgages and by pledges of certain equity interests, material contracts, and other rights and claims held by certain of Telenet Group Holding's subsidiaries including, on a consolidated basis, property and equipment of €950,072, intangible assets of €278,813, trade receivables of €105,589 and other current assets of €24,351.

As of December 31, 2006 and 2005, the Company was in compliance with all of its financial covenants.

**12. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company seeks to reduce its foreign currency exposure through a policy of matching, to the extent possible, assets and liabilities denominated in foreign currencies. In addition, the Company uses certain derivative financial instruments in order to manage its exposure to exchange rate and interest rate fluctuations arising from its operations and funding. The Company has identified certain foreign exchange forward contracts, interest rate swaps, caps and collars as cash flow hedges and has determined that it has no significant embedded derivative instruments that are required to be bifurcated and measured at fair value. The Company is also exposed to credit risks.

**Foreign Currency Cash Flow Hedges**

The Company continues to apply hedge accounting in relation to its foreign exchange forwards that were purchased historically to hedge the U.S. dollar foreign exchange risk related to the U.S. dollar-denominated Senior Discount Notes.

The hedging instrument in this hedging relationship is the spot value of the foreign exchange forwards, as defined by the difference between the spot rate at inception and the closing spot rate. The hedged risk is the variability in the Euro-equivalent cash flows related to the fully accreted amount of the Senior Discount Notes.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

As of December 31, 2006 and December 31, 2005 outstanding foreign exchange forward contracts that qualified as cash flow hedges were as follows:

	December 31, 2006	December 31, 2005
<i>Forward purchase contracts</i>		
Notional amount in U.S. dollars	362,700	362,700
Weighted average strike price (U.S. dollars per Euro)	1.1930	1.1930
Maturity	December 15, 2008	December 15, 2008

**Foreign Exchange Risk Related to Operations**

The Company uses forward and option contracts in order to limit its exposure to the U.S. dollar fluctuations against the Euro for transactions that are part of daily operations. These derivatives are economic hedges but have not been accounted for as cash flow hedges.

Derivative financial instruments covering operational foreign exchange risk exposure as of December 31, 2006 and December 31, 2005 were as follows:

	December 31, 2006	December 31, 2005
<i>Option contracts</i>		
Notional amount in U.S. dollars	17,000	17,500
Weighted average strike price (U.S. dollars per Euro)	1.29	1.17
Maturity	From January to June 2007	From January to July 2006

**Interest Rate Risk**

The Company has entered into interest rate swaps, caps and collars designed to hedge the interest rate exposure associated with various floating rate debts.

Interest rate swaps qualifying for cash flow hedge accounting have been designated as hedging instruments in their entirety. The time value of cap and collar contracts has been excluded from the designation. Hedge effectiveness is determined using the hypothetical derivative method. Cumulative changes in the fair value of the hedging instrument are compared to cumulative changes in the fair value of the hypothetical derivative.

When the Company determines that a derivative is not highly effective as a hedging instrument, hedge accounting is discontinued prospectively. Consequently, amounts accumulated in other comprehensive income are transferred to earnings in the same periods during which the hedged forecasted transaction affects earnings. When hedge accounting is discontinued because it is no longer expected that a forecasted transaction will occur, the Company reclassifies amounts accumulated in the hedging reserve to earnings immediately.

In conjunction with entering into the New Senior Credit Facility, during the second quarter of 2006, the Company discontinued cash flow hedge accounting for all outstanding interest rate derivatives. Consequently, cumulative losses that were previously recorded through hedging reserves were reversed into profit or loss for an amount of €2,173.

During the second semester of 2006, the Company has defined several new cash flow hedge relationships for a portion of its interest rate derivatives.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2006 and December 31, 2005, the outstanding contracts were as follows:

	December 31, 2006	December 31, 2005
<i>Interest rate swaps</i>		
Notional amount	171,163	180,762
Average pay interest rate	4.79%	4.78%
Average receive interest rate	2.9%	2.4%
Maturity	From 2008 to 2011	From 2008 to 2011
<i>Caps</i>		
Notional amount	49,046	59,504
Average cap interest rate	4.4%	4.4%
Maturity	From 2009 to 2017	From 2009 to 2017
<i>Collars</i>		
Notional amount	450,000	450,000
Average floor interest rate	2.5%	2.5%
Average cap interest rate	5.4%	5.4%
Maturity	From 2009 to 2011	From 2009 to 2011

**Summary**

The cumulative impact of the all of the derivative instruments described above has been allocated between hedging reserves and earnings as follows:

	Fair Value	Hedging Reserves	Earnings
January 1, 2005	(81,134)	(26,627)	(54,507)
Change in fair value of foreign exchange forward contracts	51,576	62,161	(15,540)
Change in fair value of foreign exchange forward contracts reclassified into earnings	—	(43,403)	43,403
Change in fair value of foreign exchange option contracts	251	—	251
Change in fair value of interest rate derivatives qualifying for hedge accounting	252	(70)	322
Change in fair value of interest rate derivatives not qualifying for hedge accounting	6,383	—	6,383
Amortization of the change in fair value of interest rate derivatives frozen upon discontinuance of hedge accounting	—	9,017	(9,017)
December 31, 2005	(22,672)	1,078	(28,705)

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fair Value	Hedging Reserves	Earnings
December 31, 2005	(22,672)	1,078	(28,705)
Change in fair value of foreign exchange forward contracts	(20,586)	(32,052)	11,466
Change in fair value of foreign exchange forward contracts reclassified into earnings	—	24,517	(24,517)
Change in fair value of foreign exchange option contracts	(254)	—	(254)
Change in fair value of interest rate derivatives qualifying for hedge accounting	2,429	685	1,744
Change in fair value of interest rate derivatives not qualifying for hedge accounting	4,878	—	4,878
Amortization of the change in fair value of interest rate derivatives frozen upon discontinuance of hedge accounting	—	98	(98)
Immediate transfer of amounts accumulated in hedging reserve to profit or loss due to discontinuance of hedge accounting	—	2,075	(2,075)
December 31, 2006	(36,205)	(3,599)	(37,561)

The difference between the cumulative change in fair value of the derivative instruments and the cumulative amounts booked in the hedging reserve and earnings amounts to €4,955. This corresponds to the settlement of foreign exchange forward contracts in 2005.

**Credit Risk**

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies with regard to its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as deemed appropriate.

The largest share of the gross assets subject to credit risk is accounts receivable from residential and small commercial customers located throughout Belgium. The risk of material loss from nonperformance from these customers is not considered likely. Reserves for uncollectible accounts receivable are provided for the potential loss from nonpayment by these customers based on historical experience.

With regards to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with highly rated European and U.S. financial institutions.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Fair market value**

The carrying amounts and related estimated fair values of the Company's significant financial instruments were as follows:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including short-term maturities)	(1,413,961)	(1,477,765)	(1,489,564)	(1,576,295)
Foreign exchange forward	(31,490)	(31,490)	(10,904)	(10,904)
Foreign exchange options	(227)	(227)	27	27
Interest rate swaps	(2,840)	(2,840)	(7,994)	(7,994)
Caps	(352)	(352)	(718)	(718)
Collars	(1,296)	(1,296)	(3,083)	(3,083)
Total derivative instruments	(36,205)	(36,205)	(22,672)	(22,672)
Total	(1,450,166)	(1,513,970)	(1,512,236)	(1,598,967)

The fair values of interest rate swaps and foreign exchange forwards are calculated by the Company based on swap curves flat, without extra credit spreads. Confirmations of the fair values received from the contractual counterparties, which are all commercial banks, are used to validate the internal calculations. The fair value of derivative instruments containing option-related features are determined by commercial banks and validated by management.

The fair values of our long-term debt instruments are derived as the lesser of either the call price of the relevant instrument or the market value as determined by quoted market prices at each measurement date, where available, or, where not available, at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risk to the appropriate measurement date.

The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments for which carrying amounts and fair values have not been presented are not materially different than their related carrying amounts.

Management has applied its judgment in using market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize in a current market exchange.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**13. DEFERRED TAXES**

Telenet Group Holding and its consolidated subsidiaries each file separate tax returns in accordance with Belgian tax laws. For financial reporting purposes, Telenet Group Holding and its subsidiaries calculate their respective tax assets and liabilities on a separate-return basis. These assets and liabilities are combined in the accompanying consolidated financial statements.

The tax effects of significant temporary differences and tax loss carry-forwards are presented below:

	December 31, 2006	December 31, 2005
Deferred income tax assets		
Financial instruments	5,700	12,251
Bad debt allowance	6,023	5,929
Tax loss carry-forwards	260,899	307,349
Total deferred tax assets	<u>272,622</u>	<u>325,529</u>
Deferred income tax liabilities		
Intangible assets	7,327	3,399
Property and equipment	664	1,448
Other	330	420
Total deferred tax liabilities	<u>8,321</u>	<u>5,267</u>
Net deferred income tax assets	<u>264,301</u>	<u>320,262</u>
Net deferred income tax recognized in the balance sheet	<u>6,477</u>	<u>—</u>

As of December 31, 2006, Telenet Group Holding and its subsidiaries had available combined cumulative tax loss carry-forwards of €698,877 (2005: €672,617). Under current Belgian tax laws, these loss carry-forwards have an indefinite life and may be used to offset the future taxable income of Telenet Group Holding and its subsidiaries. As Telenet Group Holding and virtually all of its subsidiaries have never realized any substantial taxable profits, no deferred taxes have been recognized.

Two subsidiaries acquired in a previous business combination made taxable profits of €85,366 (2005: €37,135) during the year and utilized tax loss carryforwards which had not been previously recognized as deferred tax assets. One of these two subsidiaries was liquidated in 2006. The utilization of tax losses carried forward from previous business combinations is recorded as a reduction of goodwill using the historic tax rate of 40.17% applicable at the time of the acquisition while the deferred tax asset is established using the current tax rate of 33.99%. This results in a deferred tax expense of €34,292 (2005: €14,917). Available tax loss carry-forwards were reduced by €381,689 during 2005 as a result of taxable profits being recognized on permanent tax differences and adjustments related to the mergers and disallowed expenses. Taxable profit is reduced by a notional interest deduction which can be carried forward for 7 years.

**14. OTHER LIABILITIES**

	December 31, 2006	December 31, 2005
Copyright fees	3,453	11,131
Employee benefit obligations	16,859	9,868
Other	<u>9,396</u>	<u>2,756</u>
	<u>29,708</u>	<u>23,755</u>

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In 2004, the Company, together with other Belgian cable operators, concluded negotiations with certain of the broadcasters and copyright collection agencies in Belgium that determined the copyright fees due by cable operators that represented the significant majority of the claims previously outstanding. The Company remains in litigation with smaller copyright collection agencies and broadcasters and has reached an agreement in principle on some of the outstanding terms. The Company has accrued €18,260 (2005: €22,884) for settlement of these estimated fees of which €14,807 (2005: €11,753) is considered to be short term and is recorded under accrued expenses and other current liabilities.

**15. EMPLOYEE BENEFIT PLANS**

The majority of Telenet's employees participate in defined contribution plans funded through a group insurance or pension fund. By law, those plans provide an average minimum guaranteed rate of return over the employee's career equal to 3.75% on employee contributions and 3.25% on employer contributions paid as from January 1, 2004 onwards. During 2006, an amount of € 1,871 (2005: €1,430) was paid by the employer with respect to those plans.

Since the actual rates of return obtained by the pension fund have been significantly higher than the minimum guaranteed rates of return, no provisions have been accounted for. The accumulated plan assets in the pension fund amount to €15,503 at December 31, 2006 (2005: €11,759). The Company has also recognized a liability of €2,973 at December 31, 2006 (2005: €1,591) for long term service awards

The funded defined benefit pension plans are financed through insurance contracts which provide a guaranteed rate of return. The plan assets do not include any shares issued by Telenet or property occupied by Telenet.

The amounts recognized in the balance sheet are as follows:

	<b>Defined Benefit Plans</b>		<b>Postretirement Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Present value of funded obligations	7,080	4,719	—	—
Fair value of plan assets	(6,185)	(1,878)	—	—
	895	2,841	—	—
Present value of unfunded obligations	—	—	6,351	3,471
Unrecognized net actuarial loss	(1,680)	(1,440)	(1,856)	(490)
Net (asset) liability in balance sheet	(785)	1,401	4,495	2,981

The amounts recognized in the income statement are as follows:

	<b>Defined Benefit Plans</b>		<b>Postretirement Plans</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	2,375	2,186	855	984
Interest cost	270	206	240	142
Expected return on plan assets	(163)	(74)	—	—
Losses/(gains) on curtailments	—	—	461	—
Actuarial losses recognized in the year	60	5	90	—
Total	2,542	2,323	1,646	1,126

Of the charge for the year, €3,555 (2004: €2,825) is included in costs of services provided in the income statement, €192 (2005: €350) is included in selling, general and administrative and €441 (2005: €274) is included in finance cost.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Changes in the present value of the defined benefit obligation are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Opening defined benefit obligation	4,719	2,265	3,471	1,855
Service cost	2,375	2,186	855	984
Interest cost	270	206	240	142
Plan participants contributions	60	57	—	—
Losses/(gains) on curtailments	—	—	461	—
Actuarial loss (gain)	(317)	326	1,456	490
Benefits paid	(27)	(321)	(132)	—
Closing defined benefit obligation	7,080	4,719	6,351	3,471

Changes in the fair value of plan assets are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Opening fair value of plan assets	1,878	1,462	—	—
Actual return on plan assets	163	74	—	—
Company contributions	4,727	1,625	132	—
Plan participants contributions	59	56	—	—
Actuarial (loss) gain	(615)	(1,018)	—	—
Benefits paid	(27)	(321)	(132)	—
Closing fair value of plan assets	6,185	1,878	—	—

A 1% change in assumed medical cost increase would have the following effects on:

	1% increase	1% decrease
a) aggregate amount of service cost and interest cost	157	(123)
b) defined benefit obligation	687	(577)

The experience adjustments for the current and previous four annual periods amount to :

	2006	2005	2004	2003	2002
Defined benefit obligation	13,431	8,189	4,120	410	287
Fair value of plan assets	6,185	1,878	1,462	317	213
(Surplus)/deficit	7,246	6,311	2,658	93	74
Experience adjustments on plan liabilities	1,634	—	—	—	—
Experience adjustments on plan assets	(615)	(1,018)	—	—	—



TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The principal assumptions used for the purpose of the actuarial valuations are as follows:

	Defined Benefit Plans		Postretirement Plans	
	2006	2005	2006	2005
Discount rate at December 31	4.30%	4.00%	4.300%	4.00%
Rate of compensation increase	3.09%	3.11%	—	—
Expected return on plan assets	4.00%	4.83%	—	—
Underlying inflation rate	2.00%	2.00%	2.00%	2.00%
Increase of medical benefits	—	—	3.00%	3.00%

**16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	December 31, 2006	December 31, 2005
Customer deposits	25,859	25,451
Compensation and employee benefits	32,828	30,574
Financial instruments	275	2,465
VAT and withholding taxes	4,244	1,616
Copyright fees	14,807	11,753
Other current liabilities	1,479	2,270
	<u>79,492</u>	<u>74,129</u>

**17. REVENUE**

The Company's revenue, for both continuing and discontinued operations, are comprised of the following:

	For the Year Ended December 31,	
	2006	2005
<b>Continuing operations</b>		
Cable television:		
- Basic Subscribers(1)	199,433	198,557
- Premium Subscribers(1)	47,312	51,808
- Distributors/Other	36,788	17,211
Residential:		
- Internet	268,588	231,097
- Telephony(2)	183,269	160,930
Business	<u>78,062</u>	<u>73,914</u>
Subtotal continuing operations	813,452	733,517
<b>Discontinued Operations</b>		
Residential:		
- Telephony(2)	<u>7,509</u>	<u>9,364</u>
Total	<u>820,961</u>	<u>742,881</u>

Residential telephony revenue also includes interconnection fees generated by business customers.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company also has unearned revenue as follows:

	December 31, 2006	December 31, 2005
Cable television:		
- Basic Subscribers(1)	113,982	107,861
- Premium Subscribers(1)	10,104	3,756
- Distributors/Other	207	777
Residential:		
- Internet	10,539	8,079
- Telephony(2)	2,529	2,062
Business	643	1,878
Total	138,004	124,413
Current portion	123,179	112,876
Long-term portion	14,825	11,537

- (1) Basic and premium cable television substantially comprises residential customers, but also includes a small proportion of business customers.  
(2) Residential telephony revenue also includes interconnection fees generated by business customers.

Unearned revenue is generally fees prepaid by the customers and, as discussed in Note 2, is recognized in the Income Statement on a straight-line basis over the related service period

**18. EXPENSES BY NATURE**

	For the Year Ended December 31, 2006	2005
Employee benefits:		
- Wages, salaries, commissions and social security costs	91,498	89,203
- Share-based payments granted to directors and employees	1,587	2,196
- Other employee benefit costs	21,246	18,854
Employee benefits	114,331	110,253
Depreciation and impairment	174,306	159,084
Amortization	43,118	39,087
Amortization of broadcasting rights	5,497	8,144
Network operating and service costs	247,130	213,137
Advertising, sales and marketing	57,117	49,401
Other costs	35,880	32,202
Total costs and expenses	677,379	611,308
Attributable to:		
Continuing operations	669,718	602,338
Discontinued operations	7,661	8,970
	677,379	611,308

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The average number of full time equivalents employed by the Company during the year ended December 31, 2006 was 1,552 (2005: 1,503).

**19. FINANCE COSTS**

	For the Year Ended December 31,	
	2006	2005
Interest expense (including amortization of financing cost)	98,888	142,676
Interest income	(4,569)	(3,420)
Interest expense, net	94,319	139,256
Net foreign exchange transaction (gains)/losses on financing transactions	(23,580)	40,262
Change in fair value of foreign exchange forward contracts reclassified into earnings (Note 12)	24,517	(43,403)
Change in fair value of derivatives (Note 12)	(15,661)	17,601
Net (Gains)/losses on derivative financial instruments	8,856	(25,802)
Loss on extinguishment of debt	21,355	39,472
Finance costs, net	100,950	193,188
Attributable to:		
Continuing operations	100,963	193,208
Discontinued operations	(13)	(20)
	100,950	193,188

**20. INCOME TAX EXPENSE**

	For the Year Ended December 31,	
	2006	2005
Current tax expense	107	136
Deferred tax expense (Note 13)	34,292	14,917
Income tax expense	34,399	15,053
Attributable to:		
Continuing operations	34,283	14,938
Discontinued operations	116	115
	34,399	15,053

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The tax on the Company's profit (loss) before tax differs from the theoretical amount that would arise using the Belgian statutory tax rate applicable to profits (losses) of the consolidated companies as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Income (loss) before tax from continuing operations	42,771	(62,029)
Income (loss) before tax from discontinued operations	(2,919)	415
Income (loss) before tax	<u>39,852</u>	<u>(61,614)</u>
Income tax expense/(benefit) at the Belgian statutory rate of 33.99%	13,546	(20,943)
Expenses not deductible for tax purposes	17,907	20,738
Recognition of previously unrecognized acquired tax losses through goodwill at the historic Belgian statutory rate of 40.17%	34,292	14,917
Utilization of previously unrecognized tax losses	(34,950)	(14,929)
Tax losses for which no deferred income tax asset was recognised	3,604	15,270
Tax expense for the year	<u>34,399</u>	<u>15,053</u>

**21. EARNINGS (LOSS) PER SHARE**

**Basic**

The earnings and weighted average number of shares used in calculating basic earnings (loss) per share are:

	<b>For the Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Net Income (loss)</b>		
Net Income (loss) from continuing operations used in the calculation of basic earnings per share from continuing operations	8,488	(76,967)
Net Income (loss) from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(3,035)	300
Net Income (loss) attributable to the equity holders of the Company	<u>5,453</u>	<u>(76,667)</u>
<b>Weighted average number of shares</b>		
Weighted average number of ordinary shares	100,365,003	89,503,387
Weighted average number of Class A Profit Certificates	120,536	—
Weighted average number of Class B Profit Certificates	140,008	—
Weighted average number of shares used in the calculation of basic earnings (loss) per share (all measures)	<u>100,625,546</u>	<u>89,503,387</u>
<b>Basic and diluted earnings (loss) per share in €</b>		
From continuing operations	0.08	(0.86)
From discontinued operations	(0.03)	—
Total basic and diluted earnings (loss) per share	<u>0.05</u>	<u>(0.86)</u>

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Diluted**

Diluted earnings (loss) per share is calculated adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential ordinary shares. During the year ended December 31, 2005, the Company had six categories of dilutive potential ordinary shares: Class A and Class B Options, stock options under the 1999 and 1998 Plans, the Bank Warrants and the Subordinated Debt Warrants. Of these, only the Class A and Class B Options and the Subordinated Debt Warrants are still outstanding during the year ended December 31, 2006 as the other instruments were exercised during September 2005. The effects of the dilutive potential ordinary shares were not included in the computation of diluted loss per share for the year ended December 31, 2005 because they are anti-dilutive. The earnings used in the calculation of all diluted earnings per share measures are the same as those for the equivalent basic earnings per share measures, as outlined above.

	For the Year Ended December 31,	
	2006	2005
<b>Weighted average number of shares</b>		
Weighted average number of shares used in the calculation of basic earnings (loss) per share	100,625,546	89,503,387
Adjustment for:		
— Class A Options	825,132	—
— Class B Options	400,537	—
— Subordinated Debt Warrants	2,602,510	—
Weighted average number of shares used in the calculation of diluted earnings (loss) per share (all measures)	104,453,725	89,503,387
<b>Basic and diluted earnings (loss) per share in €</b>		
From continuing operations	0.08	(0.86)
From discontinued operations	(0.03)	—
Total basic and diluted earnings (loss) per share	0.05	(0.86)

**22. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

**Acquisition of Hypertrust**

On February 2, 2006, the Company announced the acquisition of the assets and rights of Hypertrust, a Belgian provider of on-line digital photography services, for €550. Hypertrust's technology, which was previously marketed under the Pixagogo and Photoblog brand names, allows Telenet broadband internet and iDTV customers to easily store, manage and share digital photographs. The Company has allocated €70 of the total consideration paid to property and equipment and the remaining €480 to goodwill.

**Acquisition of UPC Belgium**

The Company completed the acquisition of 100% of UPC Belgium from LGI on December 31, 2006 for €183,077, net of cash acquired of €22,343. The acquisition was paid for in cash. UPC Belgium is a leading provider

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

of television and broadband internet in the Brussels and Leuven regions. The acquisition provides the opportunity to expand the Company's footprint and offer its interactive digital television and telephony products to UPC Belgium's customers. On a provisional basis, the Company has allocated the consideration paid over the net assets as follows:

	December 31, 2006
Current assets, net of cash acquired	1,262
Fixed assets	16,352
Intangible assets	17,062
Non-current assets	65
Liabilities assumed	(26,159)
Goodwill	174,495
Total cash consideration paid	<u>183,077</u>

**Disposal of Phone Plus**

On November 28, 2006, Telenet signed an agreement for the sale of 100% of its equity ownership in its wholly-owned Phone Plus subsidiary to Toledo Telecom. Under the terms of the transaction, Telenet will receive total cash consideration of €2,350 less €1,056 cash and cash equivalents that was held by Phone Plus when sold. Of the cash consideration, €1,175 will be paid to the company in 2007. Telenet made the decision to sell Phone Plus as part of an optimisation of its products and services. In that review, Phone Plus was considered to be a non-core business. Toledo Communications and Telenet Solutions are working towards further broadening and deepening of their business cooperation for voice and data products. Goodwill held by the group was derecognized on disposal of Phone Plus for €4,482.

	For the Year Ended December 31,	
	2006	2005
<b>Loss from discontinued operations</b>		
Revenue	7,509	9,364
Expenses	<u>(7,648)</u>	<u>(8,949)</u>
Profit (loss) before tax	(139)	415
Attributable income tax expense	<u>(116)</u>	<u>(115)</u>
	(255)	300
Loss on disposal of business	<u>(2,780)</u>	<u>—</u>
Profit (loss) from discontinued operations	<u>(3,035)</u>	<u>300</u>
<b>Cash flows from discontinued operations</b>		
Net cash flows from operating activities	153	37
Net cash flows used in investing activities	(39)	(35)
Net cash flows from financing activities	<u>—</u>	<u>—</u>
Net cash flows	<u>114</u>	<u>2</u>

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	For the Year Ended December 31,	
	2006	2005
<b>Book value of net assets sold</b>		
Non-current assets	125	—
Current assets	2,864	—
Non-current liabilities	(11)	—
Current liabilities	(2,157)	—
Net assets disposed of	821	—

**23. NON CASH INVESTING AND FINANCING TRANSACTIONS**

	For the Year Ended December 31,	
	2006	2005
Acquisition of network user rights in exchange for debt	2,182	1,311
Extinguishment of Senior Credit Facility via the New Senior Credit Facility	600,000	—
Acquisition of property and equipment in exchange for short-term borrowings	9,670	—
Disposal of business in exchange for note receivable	1,175	—

**24. COMMITMENTS AND CONTINGENCIES**

***Interconnection Litigation***

The Company has been involved in legal proceedings with Belgacom related to the increased interconnection fees that have been charged since August 2002 to telephone operators to terminate calls made to end users on the Company's network.

The Company obtained approval from the Belgian Institute for Postal Services and Telecommunications (BIPT) to increase its interconnection rates for inbound domestic calls in August 2002. Belgacom increased the tariffs charged to its telephony customers calling Telenet numbers to reflect the Company's increased termination rates.

Belgacom challenged the Company's increased interconnection termination rates before the Commercial Court of Mechelen (Rechtbank van Koophandel) alleging abusive pricing. Belgacom has further challenged the BIPT's approval of the Company's increased domestic interconnection termination rates before the Council of State (Raad van State), the highest administrative court in Belgium. The Council of State may affirm the BIPT's decision or return the case to the BIPT for reconsideration. The Council of State rejected an emergency request from Belgacom to suspend the implementation of the increased interconnection termination rate.

On January 20, 2004, the President of the Commercial Court in Mechelen rendered a judgement in the case where Belgacom contested the validity of the Company's interconnection tariffs which was heard on September 23, 2003. The judgement stated that there is no indication that the Company's interconnection tariffs constitute a breach of the unfair trade practices law, competition law or pricing regulations as invoked by Belgacom. As a result, the judge determined that Belgacom's potential claim is limited to a contractual matter upon which the judge who heard the case was not competent to rule, considering the nature of the procedure initiated by Belgacom. The judge therefore dismissed the claim. The Company is currently not required to change the interconnection rates it currently charges to Belgacom and which were approved in 2002 by the BIPT.

Belgacom appealed this judgement in April 2004. On March 17, 2005, the Court of Appeals of Antwerp dismissed Belgacom's claims. In February 2006, Belgacom brought the case before the Belgian Supreme Court.

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

(*Hof van Cassatie / Cour de Cassation*), which will have the authority to review only whether there has been a mistake of law or breach of certain formal procedural requirements in the case. We expect a final decision may take up to three years to be reached, since the Supreme Court can refer the case back to the Court of Appeal.

In August 2006, the BIPT issued a new decision on the fixed termination market, imposing a linear glide path over three year towards near reciprocity, starting in January 2007. Belgacom challenged the BIPT August decision before the Court of Appeal, imposing a three year gliding path for Telenet. We also challenged BIPT's decision as the gliding path prevents Telenet of recuperating all of its costs.

**Operating Leases**

The Company leases facilities, vehicles and equipment under cancelable and non-cancelable operating leases. The following schedule details, at December 31, 2006 and 2005, the future minimum lease payments under cancelable and non-cancellable operating leases:

	December 31, 2006	December 31, 2005
Within one year	12,238	7,762
In the second to fifth years, inclusive	22,181	10,849
Thereafter	3,881	1,146
Total minimum lease payments	38,300	19,758
Minimum lease payments recognized as an expense in the year	20,976	19,325

**25. RELATED PARTIES**

The related parties of the Company mainly comprise its shareholders that have the ability to exercise significant influence. This consisted of the Liberty Global Consortium for both 2006 and 2005, and the MICs, Electrabel and Suez as a result of their direct and indirect ownership of the Company until the change in ownership at the time of the IPO in October 2005. As a result of the sale of their investment in the Company in December 2004 and the termination of the Strategic Services Agreement on May 11, 2005, Cable Partners Europe L.L.C. ("CPE") (formerly known as Callahan Associates International L.L.C.) and Callahan InvestCo Belgium 1 S.à.R.L. ("CIB") are no longer related parties. Transactions with other related parties primarily relate to leasing and derivative contracts held with a financial institution.

The following tables summarize material related party balances and transactions for the period:

**Balance Sheet**

	December 31, 2006	December 31, 2005
Purchases of property and equipment — Other related parties	—	6
Other receivables — Other related parties	—	1,486
Accounts receivable — Liberty Global Consortium	15	—
Accounts payable — Liberty Global Consortium	10	23
Accrued expenses — Other related parties	—	974
Current portion of long-term debt — Other related parties	—	808
Long-term debt — Other related parties	—	19,110
Derivative financial instruments — Other related parties	—	6,255



TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Income Statement**

	For The Years Ended December 31	
	2006	2005
Operating		
Leases and other operating expenses — Electrabel and Suez	—	(4,691)
Leases and other operating expenses — Liberty Global Consortium	(319)	(1,961)
Other operating income — Liberty Global Consortium	16	—
Other operating income — Electrabel and Suez	—	1,063
Interconnect net result — Other related parties	—	(10,284)
Other operating expenses — Other related parties	—	(3,501)
Finance costs		
Finance income (loss) — Other related parties	—	3,387

**Key management compensation**

	December 31, 2006	December 31, 2005
Salaries and other short-term employee benefits	3,554	3,570
Post-employment benefits	174	150
Share-based payments	346	1,620
	<u>4,074</u>	<u>5,340</u>

On August 24, 2005, the Company's Chief Executive Officer also exercised the Bank Warrants as described in Note 10.

**26. SUBSIDIARIES**

Details of the Company and its subsidiaries as of December 31, 2006 are as follows.

Company	National Number	Address	% Held	Consolidation Method
Telenet Group Holding NV	477.702.333	Liersesteenweg 4, 2800, Belgium	—	Parent company
Telenet Communications NV	473.416.814	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet Bidco NV	473.416.418	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet NV	439.840.857	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
Telenet Vlaanderen NV	458.840.088	Liersesteenweg 4, 2800, Belgium	100%	Fully consolidated
UPC Belgium	455.620.381	Chazallaan 140, 1030, Belgium	100%	Fully consolidated
Merrion Communications	6378934T	62, Merrion Square, Dublin 2, Ireland	100%	Fully consolidated
Telenet Solutions Luxembourg SA	1.999.223.4426	Rue de Neudorf 595, 2220 Luxembourg, Luxembourg	100%	Fully consolidated

**TELENET GROUP HOLDING NV**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In order to simplify the internal corporate structure of the Company and to align the corporate structure with the operating functioning of the Company, the Company completed the mergers of MixtiCS and PayTVCo with Telenet NV during July 2005 with effect from January 1, 2005 and the merger of Telenet Solutions NV with Telenet NV on December 31, 2005 with effect from January 1, 2006. On January 31, 2006, Telenet Holding NV was liquidated since it no longer fulfilled any function in the group structure.

**27. SUBSEQUENT EVENTS**

**Cooperation with Interkabel**

On January 24, 2007, Telenet received a letter from the Pure Intermunicipality companies (acting together under the Interkabel umbrella) inviting Telenet to submit a proposal to offer video-on-demand services to Interkabel's customers. Telenet and Interkabel have engaged in another round of discussions on an agreement for iDTV. Telenet holds a number of rights for point-to-point services on the Interkabel networks which include Video on Demand.

Proposals for a broader framework of cooperation have also been exchanged recently. The outcome of these contacts cannot be predicted at this point. Telenet remains committed to work towards a constructive solution that is consistent with its rights which have been agreed at its foundation and which it will defend firmly.

**European Commission Approval of LGI's Controlling Ownership in Telenet**

On February 26, 2007, LGI announced that the European Commission has approved their increased and controlling ownership position in the Company. With this regulated approval, the Company will be consolidated by LGI for financial reporting purposes beginning January 1, 2007. LGI also stated that it intends to nominate a majority of the Company's Board of Directors.

**28. RECONCILIATION OF IFRSs AS ADOPTED BY THE EU TO U.S. GAAP**

The consolidated financial statements have been prepared in accordance with IFRSs as adopted by the EU, as described in Note 2 to the consolidated financial statements. Those principles differ in certain significant respects from U.S. general accepted accounting principles ("U.S. GAAP"). These differences relate to the items that are described below and are summarized in the following tables. Such differences affect both the determination of net income and shareholders' equity, as well as the classification and format of the consolidated financial statements

***Items Affecting Net Income and Shareholders' Equity***

**A. Deferred Taxes**

Tax losses carried forward by subsidiaries acquired in previous business combinations have historically been presented net of a full valuation allowance. The Company started using these tax losses carried forward in 2004. Under IFRSs as adopted by the EU, the Company is required to reduce goodwill using the tax rate in effect at the time of the acquisition, or 40.17%, while using the current tax rate of 33.99% to establish the deferred tax asset. The difference between these two rates is recorded as an expense. Under U.S. GAAP, both the deferred tax asset and the reduction of +goodwill are determined using the current tax rate of 33.99%, resulting in lower deferred tax expense as these tax loss carryforwards are recognized. This results in an increase in goodwill of €8,254 and €2,978 and a decrease in deferred tax expense of €5,276 and €2,294 as of and for the years ended December 31, 2006 and 2005, respectively.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**B. Share-based Payment**

Under IFRSs as adopted by the EU, warrants granted after November 7, 2002 that had not vested before January 1, 2005 are recorded at the fair value of each option granted as estimated on the date of grant using the Black-Scholes option-pricing model. Warrants granted on or before November 7, 2002 were not modified subsequent to this date and, as a result, no compensation expense was recognized.

Through December 31, 2005 under U.S. GAAP, the Company used the intrinsic value method to account for stock option plans, including those plans that were not expensed under IFRSs as adopted by the EU as discussed above. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* on January 1, 2006 using the modified prospective method. Under the intrinsic method, the excess of the measurement date fair value of the Company's ordinary shares over the exercise price of the stock options is recognized as compensation expense over the vesting period of the options. Under SFAS 123(R), the compensation cost is based on the grant-date fair value for the portion of the awards outstanding at the transition date where the requisite service has not been rendered. After the adoption of SFAS 123(R) on January 1, 2006, there is not a difference in compensation expense recognized under IFRSs as adopted by the EU or U.S. GAAP. The 2005 adjustments did not have tax consequences.

**C. Copyright Fees**

Under IFRSs as adopted by the EU, the Company records settlements with certain broadcasters and copyright collection agencies at the present value of the expenditures expected to be required to settle the obligation. Under U.S. GAAP, the Company retained an accrual in other liabilities for the gross amounts that the Company expects to pay. The interest expense recognized under IFRSs as adopted by the EU is reversed in U.S. GAAP resulting in an decrease in interest expense of €392 and €183 during the years ended December 31, 2006 and 2005, respectively. These adjustments did not have tax consequences.

**D. Pension Liability**

Under IFRSs as adopted by the EU, the cost of providing defined benefit retirement benefit schemes is determined using the Projected Unit Credit Method. The corridor approach is applied to actuarial gains and losses. Accordingly, all gains and losses exceeding 10% of the greater of the present value of the defined benefit obligation and the fair value of any plan assets are recognized over the expected average remaining working life of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

As of December 31, 2006 for U.S. GAAP, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). SFAS No. 158 requires the recognition of the funded status of pension and other postretirement benefit plans on the balance sheet. The overfunded or underfunded status is recognized as an asset or liability on the balance sheet with changes occurring during the current year reflected through the comprehensive income portion of equity. Further, SFAS No. 158 requires the unrecognized transition asset or obligation, gains or losses, and prior service costs to be recognized as a component of other comprehensive income, net of tax. The adoption of SFAS No. 158, resulted in an increase in the pension liability of €3,536 that has been recorded as a direct adjustment to accumulated other comprehensive income under U.S. GAAP.

TELENET GROUP HOLDING NV  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Reconciliation to U.S. GAAP**

Reconciliation to U.S. GAAP of net income (loss) and shareholders' equity are presented as follows:

	Note	For the Years Ended December 31	
		2006	2005
Net income (loss) in accordance with IFRSs as adopted by the EU		5,453	(76,667)
Items having the effect of (increasing) decreasing reported net income (loss):			
Deferred taxes	A	5,276	2,294
Stock based compensation	B	—	1,365
Copyright fees	C	392	183
Total of U.S. GAAP adjustments		5,668	3,842
Net income (loss) in accordance with U.S. GAAP		11,121	(72,825)

	Note	December 31, 2006	December 31, 2005
Shareholders' equity in accordance with IFRSs as adopted by the EU		721,657	709,098
Items having the effect of increasing (decreasing) reported shareholders' equity:			
Deferred taxes	A	8,254	2,978
Copyright fees	C	(843)	(1,235)
Pension liability	D	(3,536)	—
Total of U.S. GAAP adjustments		3,875	1,743
Shareholders' equity in accordance with U.S. GAAP		725,532	710,841

**Cash Flow Statement**

The cash flow statement has been prepared in accordance with International Accounting Standards No. 7, and accordingly, the cash flow statement has not been reconciled to U.S. GAAP.

**Exhibit Index**

- 3 — Articles of Incorporation and Bylaws:
    - 3.1 Restated Certificate of Incorporation of the Registrant, dated June 15, 2005 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed June 16, 2005 (File No. 000-51360) (the Merger 8-K)).
    - 3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Merger 8-K).
  - 4 — Instruments Defining the Rights of Securities Holders, including Indentures:
    - 4.1 Specimen certificate for shares of the Registrant's Series A common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to the Merger 8-K).
    - 4.2 Specimen certificate for shares of the Registrant's Series B common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.2 to the Merger 8-K).
    - 4.3 Specimen certificate for shares of the Registrant's Series C Common Stock, par value \$.01 per share (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A filed August 24, 2005 (File No. 000-51360)).
    - 4.4 Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband Holding BV (UPC Broadband Holding), as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility Lenders, under the senior secured credit agreement originally dated January 16, 2004, as amended and restated from time to time among the Borrower, the guarantors as defined therein, the Facility Agent and the Security Agent and the bank and financial institutions acceding thereto from time to time (the Facility Agreement) (incorporated by reference to Exhibit 10.41 to the UnitedGlobalCom, Inc. (UGC) Annual Report on Form 10-K filed March 14, 2005 (File No. 000-49658) (UGC 2004 10-K)).
    - 4.5 Deed of Amendment and Restatement, dated May 10, 2006, among UPC Broadband Holding and UPC Financing Partnership (UPC Financing), as Borrowers, the guarantors listed therein, and the Senior Hedging Banks listed therein, with Toronto Dominion (Texas) LLC, as Facility Agent, and TD Bank Europe Limited, as Existing Security Agent, amending and restating the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2006) (File No. 000-51360)).
    - 4.6 Additional Facility Accession Agreement, dated July 3, 2006, among UPC Broadband Holding, as Borrower, Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed July 7, 2006 (File No. 000-51360)).
    - 4.7 Amendment Letter, dated December 11, 2006, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein and Toronto Dominion (Texas) LLC, as Facility Agent, to the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed December 12, 2006 (File No. 000-5160)).
    - 4.8 Additional Facility M Accession Agreement, dated April 12, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 17, 2007 (File No. 000-51360) (the Facility M 8-K)).
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## [Table of Contents](#)

- 4.9 Additional Facility M Accession Agreement, dated April 13, 2007, among UPC Broadband Holding, UPC Financing (as Borrowers), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.2 to the Facility M 8-K).
  - 4.10 Amendment Letter, dated April 16, 2007, among UPC Broadband Holding and UPC Financing, as Borrowers, the guarantors listed therein, and Toronto Dominion (Texas) LLC, as Facility Agent, to the Facility Agreement (incorporated by reference to Exhibit 4.3 to the Facility M 8-K).
  - 4.11 Additional Facility M Accession Agreement, dated May 4, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC, as Facility Agent, TD Bank Europe Limited, as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2007 (File No. 000-51360) (the May 10, 2007 10-Q)).
  - 4.12 Additional Facility N Accession Agreement, dated May 11, 2007 among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe as Security Agent, and the Additional Facility N Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A filed May 15, 2007 (File No. 000-51360)).
  - 4.13 Additional Facility M Accession Agreement, dated May 18, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the Additional Facility M Lenders listed therein, under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 22, 2007 (File No. 000-51360) (the Facilities M&N 8-K)).
  - 4.14 Additional Facility N Accession Agreement, dated May 18, 2007, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the Additional Facility N Lenders listed therein under the Facility Agreement (incorporated by reference to Exhibit 4.2 to the Facilities M&N 8-K).
  - 4.15 Additional Facility O Accession Agreement dated August 12, 2008, among UPC Broadband Holding as Borrower, Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the banks and financial institutions listed therein as Additional Facility O Lenders under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed September 12, 2008 (File No. 000-51360)).
  - 4.16 Additional Facility Accession Agreement dated September 9, 2008, among UPC Broadband Holding, UPC Financing (as Borrower), Toronto Dominion (Texas) LLC as Facility Agent and TD Bank Europe Limited as Security Agent, and the banks and financial institutions listed therein as Additional Facility P Lenders under the Facility Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 21, 2008 (File No. 000-51360)).
  - 4.17 €2,300,000,000 Credit Agreement, originally dated August 1, 2007, and as amended and restated by a supplemental agreements dated August 22, 2007, September 11, 2007, and October 8, 2007, among Telenet Bidco NV as Borrower, the parties listed therein as Original Guarantors, ABN AMRO Bank N.V., BNP Paribas S.A. and J.P. Morgan PLC as Mandated Lead Arrangers, BNP Paribas S.A. as Facility Agent, KBC Bank NV as Security Agent and the financial institutions listed therein as Initial Original Lenders (the Telenet Credit Facility) (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 10, 2007 (File No. 000-51360)).
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## [Table of Contents](#)

4.18	Amendment Letter dated November 19, 2007, among Telenet Bidco NV, Telenet NV, UPC Belgium NV and BNP Paribas S.A., to the Telenet Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed November 21, 2007 (File No. 000-51360)).
4.19	Letter dated May 7, 2008 from Telenet Bidco NV to BNP Paribas S.A. as Facility Agent which amends the Telenet Credit Facility (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A filed May 28, 2008 (File No. 000-51360)).
4.20	Letter dated May 7, 2008 from BNP Paribas S.A. as Facility Agent to Telenet Bidco NV, which amends the Telenet Credit Facility (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K/A filed May 28, 2008 (File No. 000-51360)).
4.21	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.
10 —	Material Contracts:
10.1	Liberty Global, Inc. 2005 Incentive Plan (As Amended and Restated Effective October 31, 2006) (the Incentive Plan) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 6, 2006 (File No. 000-51360) (the November 2006 8-K)).
10.2	Form of the Non-Qualified Stock Option Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed May 7, 2008 (File No. 000-51360) (the May 7, 2008 10-Q)).
10.3	Form of Stock Appreciation Rights Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.3 to the May 7, 2008 10-Q).
10.4	Form of Restricted Shares Agreement under the Incentive Plan (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed August 19, 2005 (File No. 000-51360)).
10.5	Form of Restricted Share Units Agreement under the Incentive Plan (incorporated by reference to Exhibit 10.1 to the May 7, 2008 10-Q).
10.6	Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (as assignee of LGI International, Inc., fka Liberty Media International, Inc., the predecessor issuer to the Registrant (LGI International)) under the Incentive Plan (the Malone Award Agreement) (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/A (Amendment No. 1) with respect to LGI International's common stock filed July 14, 2004 (File No. 005-79904)).
10.7	Form of Amendment to the Malone Award Agreement (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed December 27, 2005 (File No. 000-51360) (the 409A 8-K)).
10.8	Notice to Holders of Liberty Global, Inc. Stock Options Awarded by Liberty Media International, Inc. of Additional Method of Payment of Option Price dated March 6, 2008 (incorporated by reference to Exhibit 10.4 to the May 7, 2008 10-Q).
10.9	Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan (as Amended and Restated Effective November 1, 2006) (the Director Plan) (incorporated by reference to Exhibit 99.2 to the November 2006 8-K).
10.10	Form of Restricted Shares Agreement under the Director Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (Amendment No. 1) filed August 11, 2006 (File No. 000-51360 )).
10.11	Form of Non-Qualified Stock Option Agreement under the Director Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed August 5, 2008 (File No. 000-51360) (the August 5, 2008 10-Q)).

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## [Table of Contents](#)

10.12	Form of Restricted Share Units Agreement under the Director Plan (incorporated by reference to Exhibit 10.1 to the August 5, 2008 10-Q).
10.13	Liberty Global, Inc. Compensation Policy for Nonemployee Directors (As Amended and Restated Effective June 7, 2006) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 12, 2006 (File No. 000-51360) (the June 2006 8-K)).
10.14	Liberty Global, Inc. Senior Executive Performance Incentive Plan (As Amended and Restated Effective May 2, 2007) (the SEP Incentive Plan) (incorporated by reference to Exhibit 10.2 to the May 10, 2007 10-Q).
10.15	Form of Participation Certificate under the SEP Incentive Plan (incorporated by reference to Exhibit 10.3 to the May 10, 2007 10-Q).
10.16	Form of Verification of Incentive Award Terms under the Incentive Plan (incorporated by reference to Exhibit 10.4 to the August 5, 2008 10-Q).
10.17	Liberty Global, Inc. 2008 Annual Performance Award Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 5.026) of the Registrant's Current Report on Form 8-K filed February 26, 2008 (File No. 000-51360)).
10.18	Liberty Global, Inc. 2007 Annual Bonus Plan for executive officers and key employees under the Incentive Plan (description of said plan is incorporated by reference to the description thereof included in Item 5.02(e) of the Registrant's Current Report on Form 8-K filed March 2, 2007 (File No. 000-51360)).
10.19	Deferred Compensation Plan (adopted Effective December 15, 2008).*
10.20	Form of Deferral Election Form under the Deferred Compensation Plan.*
10.21	Liberty Media International, Inc. Transitional Stock Adjustment Plan (the Transitional Plan) (incorporated by reference to Exhibit 4.5 to LGI International's Registration Statement on Form S-8 filed June 23, 2004 (File No. 333-116790)).
10.22	Form of Non-Qualified Stock Option Exercise Price Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.1 to the 409A 8-K).
10.23	Form of Non-Qualified Stock Option Amendment under the Transitional Plan (incorporated by reference to Exhibit 99.2 to the 409A 8-K).
10.24	UnitedGlobalCom, Inc. Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed March 1, 2007 (File No. 000-51360) (the 2006 10-K)).
10.25	UnitedGlobalCom, Inc. 1993 Stock Option Plan (amended and restated effective January 22, 2004) (incorporated by reference to Exhibit 10.6 to the UGC Annual Report on Form 10-K filed March 15, 2004 (File No. 000-49658) (the UGC 2003 10-K)).
10.26	Form of Amendment to Stock Appreciation Rights Agreement under the UnitedGlobalCom, Inc. 2003 Equity Incentive Plan (amended and restated effective October 17, 2003) (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 6, 2005 (File No. 000-51360)).
10.27	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
10.28	Form of Letter Agreement dated December 22, 2006, between United Chile LLC and certain employees of the Registrant, including three executive officers and a director (incorporated by reference to Exhibit 10.22 to the 2006 10-K).
10.29	Notice to Holders of United Chile Synthetic Options, Right to Amend Grant Agreement dated December 16, 2008 with Amendment Election Form.*
10.30	Form of Indemnification Agreement between the Registrant and its Directors (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed March 14, 2006 (File No. 000-51360) (the 2005 10-K)).
10.31	Form of Indemnification Agreement between the Registrant and its Executive Officers (incorporated by reference to Exhibit 10.20 of the 2005 10-K).

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## [Table of Contents](#)

10.32	Personal Usage of Aircraft Policy (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 21, 2005 (File No. 000-51360)).
10.33	Form of Termination Agreement relating to Aircraft Time Sharing Agreement (incorporated by reference to Exhibit 10.3 to the August 5, 2008 10-Q).
10.34	Executive Service Agreement, dated December 15, 2004, between UPC Services Limited and Charles Bracken (incorporated by reference to Exhibit 10.15 to the UGC 2004 10-K).
10.35	Employment Agreement, effective April 19, 2000, among UGC, United Pan-Europe Communications NV, now known as Liberty Global Europe NV (Liberty Global Europe), and Gene Musselman (incorporated by reference to Exhibit 10.27 to the UGC 2003 10-K).
10.36	Addendum to Employment Agreement, dated as of September 3, 2003, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.28 to the UGC 2003 10-K).
10.37	Contract Extension Letter, dated November 2, 2005, among UGC, Liberty Global Europe and Gene Musselman (incorporated by reference to Exhibit 10.26 to the 2005 10-K).
10.38	Amendment to Employment Agreement, dated June 5, 2008, among UPC Broadband Holding Services B.V. (as assignee of Liberty Global Europe N.V.), Registrant (as assignee of UGC) and Gene Musselman (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 5, 2008 (File No. 000-51360)).
10.39	Employment Agreement, effective November 1, 2007, between Liberty Global Services II, LLC and Shane O'Neill (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed November 8, 2007 (the November 8, 2007 10-Q)).
10.40	Executive Service Agreement, effective November 1, 2007, between Chellomedia Services Ltd. and Shane O'Neill (incorporated by reference to Exhibit 10.3 to the November 8, 2007 10-Q).
10.41	Deed of Indemnity, effective November 1, 2007, between the Registrant and Shane O'Neill (incorporated by reference to Exhibit 10.4 to the November 8, 2007 10-Q).
10.42	Executive Service Agreement, dated November 30, 2006, between Liberty Global Europe Ltd. and Miranda Curtis (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 4, 2006 (File No. 000-51360)).
10.43	Employment Agreement, effective July 2, 2007, between Liberty Global Services, LLC and Mauricio Ramos (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2007 (the August 9, 2007 10-Q)).
10.44	Employment Contract, effective July 2, 2007, between VTR Global Com S.A. and Mauricio Ramos (free translation of the Spanish original) (incorporated by reference to Exhibit 10.9 to the August 9, 2007 10-Q).
10.45	VTR Global Com S.A. 2006 Phantom SAR Plan (the VTR Plan) (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K filed February 26, 2008 (the 2008 10-K)).
10.46	Form of Grant Agreement for U.S. Taxpayers under the VTR Plan (incorporated by reference to Exhibit 10.40 to the 2008 10-K).
10.47	Second Amended and Restated Stockholders' Agreement, dated as of August 14, 2007, among the Registrant, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 7 thereof, LGI International, Inc. and Liberty Media International Holdings, LLC, (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report Form 10-Q filed November 8, 2007 (File No. 000-51360)).

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## [Table of Contents](#)

10.48	Amended and Restated Operating Agreement, dated November 26, 2004 (the Operating Agreement), among Liberty Japan, Inc., Liberty Japan II, Inc., Liberty Global Japan LLC, fka LMI Holdings Japan LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and solely with respect to certain provisions thereof, the Registrant (as successor to LGI International) (incorporated by reference to Exhibit 10.27 of LGI International's Annual Report on Form 10-K filed March 14, 2005 (File No. 0000-50671)).
10.49	First Amendment dated as of May 22, 2007, to the Operating Agreement, among Liberty Japan, Inc., Liberty Japan II, Inc., Liberty Global Japan LLC, fka LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to certain provisions thereof, the Registrant (incorporated by reference to Registrant's Current Report on Form 8-K filed June 26, 2007 (File No. 000-51360)).
10.50	Preemptive Rights Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and John Dick (incorporated by reference to Exhibit 10.51 to the 2008 10-K).
10.51	Right of First Offer Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and John Dick (incorporated by reference to Exhibit 10.52 to the 2008 10-K).
10.52	Right of First Offer Agreement dated as of January 4, 2008, among O3B Networks Limited, LGI Ventures BV, Gregory Wyler and Paul Gould (incorporated by reference to Exhibit 10.53 to the 2008 10-K).
21	— List of Subsidiaries*
23	— Consent of Experts and Counsel:
23.1	Consent of KPMG LLP*
23.2	Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba*
23.3	Consent of KPMG AZSA & Co.*
23.4	Consent of PricewaterhouseCoopers Bedrijfsrevisoren bcvba*
31	— Rule 13a-14(a)/15d-14(a) Certification:
31.1	Certification of President and Chief Executive Officer*
31.2	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Financial Officer)*
31.3	Certification of Senior Vice President and Co-Chief Financial Officer (Principal Accounting Officer)*
32	— Section 1350 Certification *

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\* Filed herewith

**LIBERTY GLOBAL, INC.**  
**DEFERRED COMPENSATION PLAN**  
**(Adopted Effective December 15, 2008)**

**1. COVERAGE OF PLAN**

The Plan is unfunded and is maintained for the purpose of providing a select group of management or highly compensated employees the opportunity to defer the receipt of compensation otherwise payable to such eligible employees in accordance with the terms of the Plan.

**2. DEFINITIONS**

2.1. "Account" means each of the bookkeeping accounts established pursuant to Section 5.1 and maintained by the Company in the names of the respective Participants, to which all amounts deferred under the Plan and deemed interest, earnings and losses on such amounts shall be credited or debited pursuant to Section 5.2, and from which all amounts distributed under the Plan shall be debited.

2.2. "Active Participant" means each Participant who is actively employed by the Company as an Eligible Employee.

2.3. "Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, the term "control," including its correlative terms "controlled by" and "under common control with," mean, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

2.4. "Applicable Interest Rate" means 9% per annum, compounded as of the end of each calendar quarter.

2.5. "Approved Transaction" means any transaction in which the Board (or, if approval of the Board is not required as a matter of law, the stockholders of the Company) shall approve (i) any consolidation or merger of the Company, or binding share exchange, pursuant to which shares of common stock of the Company would be changed or converted into or exchanged for cash, securities, or other property, other than any such transaction in which the common stockholders of the Company immediately prior to such transaction have the same proportionate ownership of the common stock of, and voting power with respect to, the surviving corporation immediately after such transaction, (ii) any merger, consolidation or binding share exchange to which the Company is a party as a result of which the persons who are common stockholders of the Company immediately prior thereto have less than a majority of the combined voting power of the outstanding capital stock of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors immediately following such merger, consolidation or binding share exchange, (iii) the adoption of any plan or proposal for the liquidation or dissolution of the Company, or (iv) any

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sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company.

2.6. "Beneficiary" means such person or persons or legal entity or entities, including, but not limited to, an organization exempt from federal income tax under section 501(c)(3) of the Code, designated by a Participant or Beneficiary to receive benefits pursuant to the terms of the Plan after such Participant's or Beneficiary's death. If no Beneficiary is designated by the Participant or Beneficiary, or if no Beneficiary survives the Participant or Beneficiary (as the case may be), the Participant's Beneficiary shall be the Participant's Surviving Spouse if the Participant has a Surviving Spouse and otherwise the Participant's estate, and the Beneficiary of a Beneficiary shall be the Beneficiary's Surviving Spouse if the Beneficiary has a Surviving Spouse and otherwise the Beneficiary's estate.

2.7. "Board" means the Board of Directors of the Company.

2.8. "Board Change" means, during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board cease for any reason to constitute a majority thereof unless the election, or the nomination for election, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

2.9. "Change of Control" means any of the following events, provided that such event also constitutes a Section 409A Change of Control: (i) an Approved Transaction, (ii) a Board Change, or (iii) a Control Purchase.

2.10. "Code" means the Internal Revenue Code of 1986, as amended.

2.11. "Committee" means the committee appointed by the Board to administer the Plan, which shall be the Compensation Committee of the Board or such other committee as the Board may appoint or, if the Board so determines, the Board.

2.12. "Company" means Liberty Global, Inc., a Delaware corporation, including any successor thereto by merger, consolidation, acquisition of all or substantially all the assets thereof, or otherwise.

2.13. "Compensation" means, with respect to any Eligible Employee, base salary (subject to such limitations as the Committee shall impose from time to time) and any payment for services performed for the Company as an annual cash performance award or as a multi-year award under the Performance Incentive Plan, or under any future annual or multi-year performance bonus or award arrangement, but excluding any discretionary bonus payable without regard to pre-established performance objectives.

2.14. "Control Purchase" means any transaction (or series of related transactions) in which (i) any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company, any Subsidiary of the Company or any employee benefit plan sponsored by the Company or any Subsidiary of the Company) shall purchase any common stock of the Company (or securities convertible into common stock of the Company) for cash, securities or any other consideration pursuant to a tender offer or exchange

offer, without the prior consent of the Board, or (ii) any person (as such term is so defined), corporation or other entity (other than the Company, any Subsidiary of the Company, any employee benefit plan sponsored by the Company or any Subsidiary of the Company or any Exempt Person (as defined below)) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) under the Exchange Act in the case of rights to acquire the Company's securities), other than in a transaction (or series of related transactions) approved by the Board. For purposes of this definition, "Exempt Person" means each of (a) the Chairman of the Board, the President and each of the directors of the Company as of December 31, 2008, and (b) the respective family members, estates and heirs of each of the persons referred to in clause (a) above and any trust or other investment vehicle for the primary benefit of any of such persons or their respective family members or heirs. As used with respect to any person, the term "family member" means the spouse, siblings and lineal descendants of such person.

2.15. "Credited Interest Fund" means that portion or all of a Participant's Account to be credited with interest at the Applicable Interest Rate in accordance with Section 5.2.

2.16. "Deceased Participant" means:

2.16.1. A Participant whose employment with the Company is terminated by death; or

2.16.2. An Inactive Participant who dies following termination of his or her employment with the Company.

2.17. "Disability" means:

2.17.1. an individual's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or

2.17.2. circumstances under which, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, an individual is receiving income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the individual's employer.

2.18. "Disabled Participant" means:

2.18.1. A Participant whose employment with the Company is terminated by reason of Disability;

2.18.2. An Inactive Participant who suffers a Disability following termination of his or her employment with the Company; or

2.18.3. The duly-appointed legal guardian of an individual described in Section 2.18.1 or 2.18.2 acting on behalf of such individual.

2.19. "Eligible Employee" means the executive officers of the Company, its subsidiaries and divisions as the Committee shall designate from time to time to participate in the Plan.

2.20. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto. Reference to any specific Exchange Act section shall include any successor section.

2.21. "Hardship" means a Participant's severe financial hardship due to an unforeseeable emergency resulting from a sudden and unexpected illness or accident of the Participant, or, a sudden and unexpected illness or accident of a dependent (as defined by section 152(a) of the Code) of the Participant, or loss of the Participant's property due to casualty, or other similar and extraordinary unforeseeable circumstances arising as a result of events beyond the control of the Participant. A need to send the Participant's child to college or a desire to purchase a home is not an unforeseeable emergency. No Hardship shall be deemed to exist to the extent that the financial hardship is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, (b) by borrowing from commercial sources on reasonable commercial terms to the extent that this borrowing would not itself cause a severe financial hardship, (c) by cessation of deferrals under the Plan, or (d) by liquidation of the Participant's other assets (including assets of the Participant's spouse and minor children that are reasonably available to the Participant) to the extent that this liquidation would not itself cause severe financial hardship. For the purposes of the preceding sentence, the Participant's resources shall be deemed to include those assets of his spouse and minor children that are reasonably available to the Participant; however, property held for the Participant's child under an irrevocable trust or under a Uniform Gifts to Minors Act custodianship or Uniform Transfers to Minors Act custodianship shall not be treated as a resource of the Participant. The Committee shall determine whether the circumstances of the Participant constitute an unforeseeable emergency and thus a Hardship within the meaning of this Section 2.21. Following a uniform procedure, the Committee's determination shall consider any facts or conditions deemed necessary or advisable by the Committee, and the Participant shall be required to submit any evidence of the Participant's circumstances that the Committee requires. The determination as to whether the Participant's circumstances are a case of Hardship shall be based on the facts of each case; provided however, that all determinations as to Hardship shall be uniformly and consistently made according to the provisions of this Section 2.21 for all Participants in similar circumstances.

2.22. "Inactive Participant" means each Participant (other than a Deceased Participant or a Disabled Participant) who is not actively employed by the Company.

2.23. "Initial Election" means a written election on a form provided by the Company, filed with the Company in accordance with Article 3, pursuant to which an Eligible Employee may elect to defer all or any portion of the Eligible Employee's Compensation and designate the time and form of payment of the amount of deferred Compensation to which the Initial Election relates.

2.24. "New Eligible Employee" means an employee of the Company who becomes an Eligible Employee after January 1, 2009.

2.25. "Outside Date" has the meaning set forth in Section 3.5.

2.26. "Participant" means each individual who has made an Initial Election, and who has an undistributed amount credited to an Account under the Plan, including an Active Participant, a Deceased Participant, a Disabled Participant and an Inactive Participant.

2.27. "Performance-Based Compensation" means "performance-based compensation" within the meaning of Section 409A.

2.28. "Performance Period" means the period of at least 12 months during which a Participant may earn Performance-Based Compensation.

2.29. "Person" means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization.

2.30. "Plan" means the Liberty Global, Inc. Deferred Compensation Plan, as set forth herein, and as may be amended from time to time.

2.31. "Plan Year" means the calendar year.

2.32. "Phantom Investment Fund" shall mean any measurement fund, other than the Credited Interest Fund, selected by the Committee in its sole discretion. A Phantom Investment Fund may include mutual funds or any other investment or fund approved by the Committee. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Phantom Investment Fund. Each such action will take effect as of the date specified by the Committee after giving Participants advance written notice of such change.

2.33. "Section 409A" means section 409A of the Code and any Treasury Regulations promulgated under, or other administrative guidance issued with respect to, such Code section, as applicable to the Plan at the relevant time.

2.34. "Section 409A Change of Control" means a change in the ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company, in each case within the meaning of Section 409A.

2.35. "Performance Incentive Plan" means each of (i) the Liberty Global, Inc. Senior Executive Performance Incentive Plan, as amended and restated effective May 2, 2007, and as may be hereafter amended from time to time, and (ii) the Liberty Global, Inc. Management Incentive Plan, as amended and restated effective May 2, 2007, and as may be hereafter amended from time to time.

2.36. "Stock Fund" means that portion, if any, of a Participant's Account attributable to an election to defer Compensation that would otherwise have been payable in the form of equity of the Company, and shall include the number and kind of equity so deferred, as adjusted for dividends and distributions payable in the form of equity, and subject to such further adjustments

as are otherwise applicable with respect to equity awards under the Liberty Global, Inc. 2005 Incentive Plan.

2.37. "Separation from Service" means the termination of a Participant's employment with the Company within the meaning of Section 409A.

2.38. "Subsequent Election" means a written election on a form provided by the Company, filed with the Company in accordance with Article 3, pursuant to which a Participant may elect to defer (or, in limited cases and to the extent permitted under Section 409A, accelerate) the time of payment of amounts previously deferred in accordance with the terms of a previously made Initial Election or Subsequent Election.

2.39. "Subsidiary" means any present or future subsidiary (as defined in section 424(f) of the Code) of the Company or any business entity in which the Company owns, directly or indirectly, 50% or more of the voting, capital or profits interests. An entity shall be deemed a subsidiary of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

2.40. "Surviving Spouse" means the widow or widower, as the case may be, of a Deceased Participant or a deceased Beneficiary (as applicable).

### 3. INITIAL AND SUBSEQUENT ELECTIONS TO DEFER COMPENSATION

#### 3.1. Elections.

3.1.1. Initial Elections. An Initial Election shall be made on the form approved by the Company for this purpose. Each Eligible Employee, by filing an Initial Election at the time and in the form described in this Article 3, shall have the right to defer all or any portion of the Compensation that he or she otherwise would be entitled to receive. The Compensation of such Eligible Employee for a Plan Year shall be reduced in an amount equal to the portion of the Compensation deferred by such Eligible Employee for such Plan Year pursuant to the Eligible Employee's Initial Election. Such reduction shall be effected (a) as to any portion of the eligible Employee's base salary as deferred, on a pro rata basis from each installment of base salary paid in accordance with applicable payroll practices, (b) as to any portion of the Eligible Employee's annual cash performance award so deferred, on a percentage basis from such award as and when otherwise payable, and (c) as to any portion of an installment payment to the Eligible Employee under the Performance Incentive Plan or any similar multi-year performance incentive plan so deferred, on a percentage basis from such installment payment as and when otherwise payable. The amount of any such reduction shall be credited to the Eligible Employee's Account in accordance with Section 5.1.

3.1.2. Subsequent Elections. Each Participant shall have the right to elect to defer the time of payment of amounts previously deferred in accordance with the terms of a previously made Initial Election pursuant to the terms of the Plan by filing a Subsequent Election at the time, to the extent, subject to the requirements and in the form described in this Article 3.



### 3.2. Filing of Initial Election.

3.2.1. Performance-Based Compensation. An Initial Election shall be effective with respect to Performance-Based Compensation if (i) it is filed with the Company not less than six months before the end of the Performance Period during which such Performance-Based Compensation may be earned, (ii) the Eligible Employee has performed services continuously from the later of the beginning of the Performance Period or the date the performance criteria are established through the date the election is made, and (iii) the amount of the Performance-Based Compensation has not become readily ascertainable within the meaning of Section 409A at the time the election is filed. An Initial Election described in the preceding sentence shall become irrevocable on the last day prior to the start of the six-month period referred to in such sentence.

3.2.2. Other Initial Elections. Except as provided in Section 3.3, no Initial Election shall be effective with respect to Compensation other than Performance-Based Compensation unless it is filed with the Company on or before the close of business on December 31 of the Plan Year preceding the Plan Year to which the Initial Election applies. An Initial Election described in the preceding sentence shall become irrevocable on December 31 of the Plan Year preceding the Plan Year to which the Initial Election applies.

3.2.3. Transitional 2009 Election. An Eligible Employee may file an Initial Election on or before the close of business on December 31, 2008, to defer all or any portion of the Compensation that he or she otherwise would be entitled to receive in 2009 and subsequent years, including Compensation for services performed prior to 2009.

3.3. Filing of Initial Election by New Eligible Employees. Notwithstanding Section 3.2, a New Eligible Employee may elect to defer all or any portion of his or her Compensation earned for the performance of services in the Plan Year in which the New Eligible Employee becomes a New Eligible Employee, beginning with the payroll period next following the filing of an Initial Election with the Company and before the close of such Plan Year by making and filing the Initial Election with the Company within 30 days of the date on which such New Eligible Employee becomes a New Eligible Employee. Any Initial Election by such New Eligible Employee for succeeding Plan Years shall be made in accordance with Section 3.2.

3.4. Plan Years to which Initial Election May Apply. A separate Initial Election may be made for each Plan Year as to which an Eligible Employee desires to defer all or any portion of such Eligible Employee's Compensation, or an Eligible Employee may make an Initial Election with respect to a Plan Year that will remain in effect for subsequent Plan Years unless the Eligible Employee revokes such Initial Election or timely makes a new Initial Election with respect to a subsequent Plan Year. Any such revocation of an Initial Election must be in writing and must be filed with the Company on or before December 31 of the Plan Year immediately preceding the Plan Year to which such revocation applies. The failure of an Eligible Employee to make an Initial Election for any Plan Year shall not affect such Eligible Employee's right to make an Initial Election for any other Plan Year.

3.5. Distribution Events.

3.5.1. Initial Election of Distribution Events. Each Eligible Employee shall, contemporaneously with an Initial Election, also elect the time of payment of the amount of the deferred Compensation to which such Initial Election relates. Subject to the terms and conditions of the Plan and Section 409A, the distribution event elected by each Eligible Employee may be (a) up to three specific dates selected by the Eligible Employee, none of which occurs later than December 31 of the 30th calendar year following the Plan Year to which the Initial Election applies (the "Outside Date"), (b) the earlier to occur of one or more of (1) the date or dates selected by the Eligible Employee, (2) the Eligible Employee's Separation from Service, (3) a Change of Control, or (4) a Section 409A Change of Control, or (c) such other distribution event permitted under Section 409A as the Committee may approve and set forth in an election form. If an Eligible Employee fails to elect a distribution event in accordance with the provisions of this Section 3.5, he or she shall be deemed to have elected the earlier to occur of the Outside Date or the Eligible Employee's Separation from Service as the distribution event.

3.5.2. Death or Disability. The death or Disability of a Participant or an Inactive Participant prior to complete distribution of the Account shall be a distribution event.

3.6. Subsequent Elections. Any Subsequent Election with respect to deferred amounts may be made only in accordance with the provisions of this Section 3.6. No Subsequent Election shall be effective until 12 months after the date on which such Subsequent Election is made. Any Subsequent Election must defer the time of payment of such amount for a minimum of five additional years from the previously elected payment date and may not cause receipt by a Participant of a lump-sum or percentage payment or the commencement of installment payments to a Participant to occur on a date that is later than the Outside Date. No Subsequent Election shall be effective to defer the time of any payment due to death or Disability.

3.6.1. Active Participants. The number of Subsequent Elections that an Active Participant may make under this Section 3.6.1 shall not be limited.

3.6.2. Inactive Participants. The Committee may, in its sole and absolute discretion, permit an Inactive Participant to make one or more Subsequent Elections. The number of Subsequent Elections that an Inactive Participant may make under this Section 3.6.2 shall be determined by the Committee in its sole and absolute discretion and need not be the same for all Inactive Participants.

3.6.3. Most Recently Filed Initial Election or Subsequent Election Controlling. Subject to acceleration pursuant to Section 3.5.2, 3.8, Section 7.1, or Article 8 (each to the extent permitted under Section 409A), no distribution of the amounts deferred by a Participant for any Plan Year shall be made before the distribution event designated by the Participant on the most recently filed Initial Election or Subsequent Election with respect to such deferred amount.

3.7. Payment Following Occurrence of Distribution Event. Subject to any required suspension or delay under Section 3.10 or Section 3.11, the Company shall make a lump-sum or percentage payment or commence making installment payments, as applicable, of any amount to which such election applies on the applicable of the following dates (or if such date is not a

business day, on the next succeeding business day): (a) the date of a distribution event that is a specified date designated by a Participant pursuant to an Initial Election or Subsequent Election made in accordance with this Plan, (b) the date 60 days after a distribution event due to death or Disability, or (c) the date 30 days after a distribution event due to Separation from Service, Change of Control, Section 409A Change of Control or any distribution event permitted under Section 409A as the Committee may approve and set forth in an election form .

3.8. Discretion to Distribute in Full Upon or Following a Change of Control . To the extent permitted under Section 409A, in connection with a Change of Control, and for the 12-month period following a Change of Control, the Committee may exercise its discretion to terminate the Plan and, notwithstanding any other provision of the Plan or the terms of any Initial Election or Subsequent Election, distribute the Account balance of each Participant in full and thereby effect the revocation of any outstanding Initial Elections or Subsequent Elections.

3.9. Rabbi Trust. The Committee may authorize the Company to establish an irrevocable trust with a duly authorized bank or corporation with trust powers designated by the Company's Chief Executive Officer ("Rabbi Trust"), pursuant to such terms and conditions as are set forth in the governing trust agreement. Any such Rabbi Trust shall be intended to be treated as a "grantor trust" under the Code, and the establishment of the Rabbi Trust shall not be intended to cause Participants performing services for the Company to realize current income on amounts contributed thereto nor to cause the Plan to be "funded" with respect to the Company, and the Rabbi Trust shall be so interpreted. Any amounts subsequently due to a Participant under the Plan shall be first satisfied by the Rabbi Trust, and any remaining obligations shall be satisfied by the Company, in accordance with the terms of the Plan.

3.10. Required Suspension of Payment of Benefits. Notwithstanding any provision of the Plan or any Participant's election as to the date or time of payment of any amount payable under the Plan, to the extent required under Section 409A, any amount that otherwise would be payable to a Participant who is a "specified employee" of the Company, as determined in accordance with Section 409A, during the six-month period following such Participant's Separation from Service, shall be suspended until the lapse of such six-month period (or, if earlier, the date of death of the Participant). The amount that otherwise would be payable to such Participant during such period of suspension, together with applicable credits or debits in accordance with Section 5.2 on such suspended amount, shall be paid in a single payment on the day following the end of such six-month period (or, if such day is not a business day, on the next succeeding business day) or within 60 days following the death of the Participant during such six-month period.

3.11. Delay of Payment Under Certain Circumstances. Notwithstanding any provision of the Plan or any Participant's election as to the date or time of payment of any benefit payable under the Plan, if the Committee reasonably determines with respect to any payment under the Plan:

3.11.1. that the Company's deduction with respect to any such payment would be limited or eliminated by the application of section 162(m) of the Code, then to the extent deemed necessary by the Company to ensure that the entire amount of any payment under the Plan is deductible, the Company may delay payment of any amount that would otherwise be

paid under the Plan until the earliest date on which the Company reasonably anticipates that the Company's deduction of the payment of the amount will not be limited or eliminated by application of section 162(m) of the Code, and any amounts for which distribution is delayed pursuant to this Section shall continue to be credited or debited with additional amounts in accordance with Section 5.2; or

3.11.2. that the making of such payment would violate (i) the terms of any loan arrangement or similar contract to which the Company is a party and such violation would cause material harm to the Company or (ii) Federal securities law or any other law applicable to the Company, such payment shall be delayed until the earliest date the Company reasonably anticipates that the making of the payment will not cause such violation (or, in the case of (i) above, such violation will not cause material harm to the Company) and any amounts for which distribution is delayed pursuant to this Section shall continue to be credited or debited with additional amounts in accordance with Section 5.2.

#### 4. FORMS OF DISTRIBUTION

##### 4.1. Forms of Distribution.

4.1.1. Distribution Form. Amounts credited to an Account shall be distributed, pursuant to an Initial Election or Subsequent Election, in one of the following forms of distribution:

4.1.1.1. A lump-sum payment;

4.1.1.2. Substantially equal annual installments over a period of two, three, four or five years; or

4.1.1.3. Payment of two or three specified portions, identified as percentages collectively totaling 100%, of the amount of Compensation deferred for a Plan Year.

If an Eligible Employee fails to elect a form of distribution in accordance with the provisions of this Section 4.1, he or she shall be deemed to have elected to receive a lump-sum payment as the form of distribution. In the event the payment event is due to death or Disability, the form of distribution shall be limited to a lump-sum payment.

4.1.2. Payment Form. A Participant who has made an election to defer Compensation that would otherwise have been payable in the form of equity of the Company shall receive a distribution from the Account in the number and kind of equity allocated to the Stock Fund. Unless otherwise approved by the Committee, all other distributions shall be made in the form of cash payments.

4.1.3. Limited Cashout. To the extent permitted under Section 409A, notwithstanding any Initial Election, Subsequent Election or any other provision of the Plan to the contrary:

4.1.3.1. distributions shall be made in the form of a lump-sum payment unless the portion of a Participant's Account subject to distribution pursuant to Section 4.1.1.2, as of the benefit commencement date, is more than \$10,000; and

4.1.3.2. following a Participant's Separation from Service for any reason, if the amount credited to the Participant's Account is \$10,000 or less, the Committee may, in its sole discretion, direct that such amount be distributed to the Participant (or Beneficiary, as applicable) in one lump-sum payment, provided that the payment is made on or before the later of (i) December 31 of the calendar year in which the Participant's Separation from Service occurs or (ii) the 15th day of the third month after the Participant's Separation from Service.

4.2. Determination of Account Balances For Purposes of Distribution. The amount of any distribution made pursuant to Section 4.1 shall be based on the balance in the Participant's Account on the date of distribution and the applicable distribution period. For this purpose, the value of a Participant's Account shall be calculated by taking into account applicable credits or debits in accordance with Section 5.2 through the end of the day immediately preceding the date of distribution.

4.3. Plan-to-Plan Transfers. The Committee may delegate its authority to arrange for plan-to-plan transfers as described in this Section 4.3 to an officer of the Company or committee of two or more officers of the Company.

4.3.1.1. The Committee may, with a Participant's consent, make such arrangements as it may deem appropriate to transfer the Company's obligation to pay benefits with respect to such Participant which have not become payable under this Plan, to another employer, whether through a deferred compensation plan, program or arrangement sponsored by such other employer or otherwise, or to another deferred compensation plan, program or arrangement sponsored by the Company or an Affiliate. Following the completion of such transfer, with respect to the benefit transferred, the Participant shall have no further right to payment under this Plan.

4.3.1.2. The Committee may, with a Participant's consent, make such arrangements as it may deem appropriate for the Plan to assume another employer's obligation to pay benefits with respect to such Participant which have not become payable under the deferred compensation plan, program or arrangement under which such future right to payment arose, or to assume a future payment obligation of the Company or an Affiliate under another plan, program or arrangement sponsored by the Company or an Affiliate. Upon the completion of the Plan's assumption of such payment obligation, the Company shall establish an Account for such Participant, and the Account shall be subject to the rules of this Plan, as in effect from time to time.

## 5. BOOK ACCOUNTS

5.1. Deferred Compensation Account. A deferred compensation Account shall be established for each Eligible Employee when such Eligible Employee becomes a Participant. Compensation deferred pursuant to the Plan shall be credited to the Account on the date such

Compensation would otherwise have been payable to the Participant. All deemed interest, dividends, earnings, losses and other relevant amounts applicable to each Account shall be credited or debited to the Account as they are deemed to occur, as provided in Section 5.2.

5.2. Crediting/Debiting of Account Balances. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, amounts shall be credited or debited to a Participant's Account in accordance with the following rules:

5.2.1. Phantom Investment Portfolio Program. Subject to Section 5.2.4, the Participant may elect the Credited Interest Fund and/or one or more of any established Phantom Investment Funds, for the purpose of crediting or debiting additional amounts to his or her Account.

5.2.2. Election of Phantom Investment Funds. In the event the Committee has established one or more Phantom Investment Funds, a Participant, in connection with his or her Initial Election in accordance with Section 3.1, may elect, on the form provided by the Company, filed with the Company in accordance with Article 3, one or more Phantom Investment Fund(s) (as described in Section 5.2.1) to be used to determine the amounts to be credited or debited to his or her Account. The Participant may (but is not required to) elect, by submitting an election form to the Company that is accepted by the Company, to add or delete one or more of the Credited Interest Fund and Phantom Investment Fund(s) to be used to determine the amounts to be credited or debited to his or her Account, or to change the portion of his or her Account allocated to each. If an election is made in accordance with the previous sentence, it shall apply as of the first business day after the election is filed, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Company, in its sole discretion, may impose limitations on the frequency with which one or more of the Phantom Investment Funds elected in accordance with this Section 5.2.2 may be added or deleted by such Participant; furthermore, the Company, in its sole discretion, may impose limitations on the frequency with which the Participant may change the portion of his or her Account allocated to each previously or newly elected Phantom Investment Fund.

5.2.3. Credited Interest Fund. Subject to Section 5.2.4, a Participant's Account attributable to amounts deferred on or after January 1, 2009 shall be allocated to the Credited Interest Fund until such time as the Committee determines, in its sole discretion, that the Participant may select one or more Phantom Investment Funds and the Participant elects to change the allocation of the Account. To the extent that a Participant does not elect any of the Phantom Investment Funds as described in Section 5.2.2, the Participant's Account shall automatically be allocated to the Credited Interest Fund unless Section 5.2.4 is otherwise applicable.

5.2.4. Stock Fund. Any amount held in the Stock Fund shall remain allocated to the Stock Fund and the Participant shall not be entitled to change the portion of his Account allocated to the Stock Fund; provided, however, that any cash dividends payable with respect to the number and kind of equity allocated to the Stock Fund shall be credited to the Participant's Account in the Phantom Investment Funds or the Credited Interest Fund in accordance with Sections 5.2.2 and 5.2.3.

5.2.5. Proportionate Allocation. In making any election described in Section 5.2.2 above, the Participant shall specify on the applicable election form, in increments of one percent (1%), the percentage of his or her Account to be allocated/reallocated.

5.2.6. Crediting or Debiting Method. Each Participant's Account allocated to the Credited Interest Fund shall be credited with interest at the Applicable Interest Rate. The performance of each Phantom Investment Fund (either positive or negative) will be determined on a daily basis based on the manner in which such Participant's Account has been hypothetically allocated among the Phantom Investment Funds by the Participant, and any portion of a Participant's Account allocated to the Phantom Investment Fund shall be credited or debited based on that performance. Credits and debits under this Section 5.2.6 shall be calculated with respect to Compensation deferred by such Participant in accordance with this Plan from the date such Compensation would otherwise have been payable to the Participant through the end of the day immediately preceding the date on which such deferred Compensation is paid to such Participant (or his or her Beneficiary) in accordance with this Plan.

5.2.7. No Actual Investment. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Phantom Investment Funds are to be used for measurement purposes only, and a Participant's election of any such Phantom Investment Fund, the allocation of his or her Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account shall not be considered or construed in any manner as an actual investment of his or her Account in any such Phantom Investment Fund. In the event that the Company or the trustee of the Rabbi Trust, if any, in its own discretion, decides to invest funds in any or all of the investments on which the Phantom Investment Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Rabbi Trust, if any; the Participant shall at all times remain an unsecured creditor of the Company.

5.3. Status of Deferred Amounts. All Compensation deferred under this Plan shall continue for all purposes to be a part of the general funds of the Company.

5.4. Participants' Status as General Creditors. An Account shall at all times represent the general obligation of the Company. Each Participant shall be a general creditor of the Company with respect to this obligation and shall not have a secured or preferred position with respect to his or her Account. Nothing contained herein shall be deemed to create an escrow, trust, custodial account or fiduciary relationship of any kind. Nothing contained herein shall be construed to eliminate any priority or preferred position of a Participant in a bankruptcy matter with respect to claims for wages.

## 6. NO ALIENATION OF BENEFITS

Except as otherwise required by law, the right of any Participant or Beneficiary to any benefit or interest under any of the provisions of the Plan shall not be subject to encumbrance, attachment, execution, garnishment, assignment, pledge, alienation, sale, transfer or anticipation,

either by the voluntary or involuntary act of any Participant or Beneficiary or by operation of law, nor shall such payment, right or interest be subject to any other legal or equitable process.

#### **7. DEATH OF PARTICIPANT**

7.1. Death of Participant. A Deceased Participant's Account shall be distributed in a lump sum to the Deceased Participant's Beneficiary to whom the right to payment under the Plan shall have passed.

7.2. Designation of Beneficiaries. Each Participant and Beneficiary shall have the right to designate one or more Beneficiaries to receive distributions in the event of the Participant's or Beneficiary's death by filing with the Company a Beneficiary designation on the form provided by the Company for such purpose. The designation of Beneficiary or Beneficiaries may be changed by a Participant or Beneficiary at any time prior to such Participant's or Beneficiary's death by the delivery to the Company of a new Beneficiary designation form.

#### **8. HARDSHIP AND OTHER ACCELERATION EVENTS**

8.1. Hardship. Notwithstanding the terms of an Initial Election or Subsequent Election, if, at the Participant's request, the Committee determines that the Participant has incurred a Hardship, the Committee may, in its discretion and to the extent permitted under Section 409A, authorize the immediate distribution of all or any portion of the Participant's Account.

8.2. Other Acceleration Events. To the extent permitted under Section 409A, notwithstanding the terms of an Initial Election or Subsequent Election, distribution of all or part of a Participant's Account may be made:

8.2.1. To the extent necessary to fulfill a domestic relations order (as deemed in section 414(p)(1)(B) of the Code).

8.2.2. To the extent necessary to comply with a certificate of divestiture (as defined in section 1043(b)(2) of the Code).

8.2.3. To pay the Federal Insurance Contribution Act ("FICA") tax imposed under sections 3101 and 3121(v)(2) of the Code on Compensation deferred under the Plan (the "FICA Amount") plus the income tax at source on wages imposed under section 3401 of the Code with respect to the FICA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding section 3401 wages and taxes, provided that the total amount distributable under this Section 8.2.3 shall not exceed the sum of the FICA Amount and the income tax withholding related to such FICA Amount.

#### **9. INTERPRETATION**

9.1. Authority of Committee. The Committee shall have full and exclusive authority to construe, interpret and administer this Plan and take all actions and make all determinations on behalf of the Company unless otherwise indicated, and the Committee's construction and



interpretation thereof and determinations thereunder shall be binding and conclusive on all persons for all purposes. The Committee shall be entitled to delegate any authority hereunder to the appropriate officers of the Company, as determined by the Committee in its discretion.

9.2. Claims Procedure. If an individual (hereinafter referred to as the "Applicant," which reference shall include the legal representative, if any, of the individual) does not receive timely payment of benefits to which the Applicant believes he or she is entitled under the Plan, the Applicant may make a claim for benefits in the manner hereinafter provided.

An Applicant may file a claim for benefits with the Committee on a form supplied by the Company. If the Committee wholly or partially denies a claim, the Committee shall provide the Applicant with a written notice stating:

9.2.1. The specific reason or reasons for the denial;

9.2.2. Specific reference to pertinent Plan provisions on which the denial is based;

9.2.3. A description of any additional material or information necessary for the Applicant to perfect the claim and an explanation of why such material or information is necessary; and

9.2.4. Appropriate information as to the steps to be taken in order to submit a claim for review.

Written notice of a denial of a claim shall be provided within 60 days of the receipt of the claim, provided that if special circumstances require an extension of time for processing the claim, the Committee may notify the Applicant in writing that an additional period of up to 60 days will be required to process the claim.

If the Applicant's claim is denied, the Applicant shall have 60 days from the date of receipt of written notice of the denial of the claim to request a review of the denial of the claim by the Committee. Request for review of the denial of a claim must be submitted in writing. The Applicant shall have the right to review pertinent documents and submit issues and comments to the Committee in writing. The Committee shall provide a written decision within 60 days of its receipt of the Applicant's request for review, provided that if special circumstances require an extension of time for processing the review of the Applicant's claim, the Committee may notify the Applicant in writing that an additional period of up to 60 days shall be required to process the Applicant's request for review.

It is intended that the claims procedures of this Plan be administered in accordance with the claims procedure regulations of the Department of Labor set forth in 29 CFR § 2560.503-1.

Claims for benefits under the Plan must be filed with the Committee at the following address or, if different, at the address of the Company's principal executive offices:

Liberty Global, Inc.  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Attn: Senior Vice President,  
Global Human Resources  
cc: General Counsel

#### 10. AMENDMENT OR TERMINATION

10.1. Amendment or Termination. Except as otherwise provided by Section 10.2, the Company, by action of the Committee, reserves the right at any time, or from time to time, to amend or modify this Plan, including amendments for the purpose of complying with Section 409A. The Company, by action of the Board, reserves the right at any time to terminate this Plan.

10.2. Amendment of Rate of Credited Earnings. No amendment shall decrease the Applicable Interest Rate with respect to the portion of a Participant's Account that is attributable to an Initial Election or Subsequent Election made with respect to Compensation earned in a Plan Year which election has become irrevocable before the date of adoption of such amendment by the Committee. For purposes of this Section 10.2, a Subsequent Election to defer the payment of part or all of an Account for an additional period after a previously-elected payment date (as described in Section 3.6) shall be treated as a Subsequent Election separate from any previous Initial Election or Subsequent Election with respect to such Account.

#### 11. WITHHOLDING OF TAXES

The Company, or the trustee of any Rabbi Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Company or the trustee of the Rabbi Trust, if any, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Company and the trustee of any Rabbi Trust.

#### 12. MISCELLANEOUS PROVISIONS

12.1. No Right to Continued Employment. Nothing contained herein shall be construed as conferring upon any Participant the right to remain in the employment of the Company, its subsidiaries or divisions, as an executive or in any other capacity.

12.2. Expenses of Plan. All expenses of the Plan shall be paid by the Company.

12.3. Gender and Number. Whenever any words are used herein in any specific gender, they shall be construed as though they were also used in any other applicable gender. The singular form, whenever used herein, shall mean or include the plural form, and vice versa, as the context may require.

12.4. Law Governing Construction. The construction and administration of the Plan and all questions pertaining thereto, shall be governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and other applicable federal law and, to the extent not governed by federal law, by the internal laws of the State of Colorado.

12.5. Headings Not a Part Hereof. Any headings preceding the text of the several Articles, Sections, subsections, or paragraphs hereof are inserted solely for convenience of reference and shall not constitute a part of the Plan, nor shall they affect its meaning, construction, or effect.

12.6. Severability of Provisions. If any provision of this Plan is determined to be void by any court of competent jurisdiction, the Plan shall continue to operate and, for the purposes of the jurisdiction of that court only, shall be deemed not to include the provision determined to be void.

12.7. Compliance with Section 409A. This Plan is intended to comply in all respects with Section 409A and at all times shall be interpreted and operated in compliance therewith.

13. EFFECTIVE DATE

The effective date of the Plan shall be December 15, 2008.

IN WITNESS WHEREOF, LIBERTY GLOBAL, INC. has caused this Plan to be executed by its duly authorized officer as of the 15th day of December, 2008.

LIBERTY GLOBAL, INC.

By:

\_\_\_\_\_  
Name: Elizabeth M. Markowski  
Title: Senior Vice President

**LIBERTY GLOBAL, INC.  
DEFERRED COMPENSATION PLAN  
DEFERRAL ELECTION FORM**

Participant's Name: \_\_\_\_\_

This Deferral Election is subject to all of the terms of the Liberty Global, Inc. Deferred Compensation Plan (the "Plan"). I acknowledge that I have received a copy of the Plan and that my participation is subject to the terms and conditions of the Plan and this Deferral Election. I understand that capitalized terms in this Deferral Election have the meanings assigned to such terms in the Plan.

**I. DEFERRAL ELECTION:**

- A. 2009 Base Salary**  
o I hereby elect to defer \_\_\_\_% (not more than 50%) of my 2009 base salary.
- B. 2008 Cash Performance Award**  
o I hereby elect to defer \_\_\_\_% of my 2008 cash performance award.
- C. Performance Incentive Plan**  
o I hereby elect to defer payment of my "Earned Award", as determined under the Performance Incentive Plan for the Performance Period ending December 31, 2008, in the portion specified for each payment installment as follows (specify percentage or dollar amount—any excess of the specified dollar amount over the amount payable will be disregarded and not carried forward):

Installment Due	Portion Deferred	Apply Deferral to Cash First*
March 31, 2009		
September 30, 2009		
March 31, 2010		
September 30, 2010		
March 31, 2011		
September 30, 2011		

\* Check if the deferral election should be applied first to any cash portion of the installment.

II. **TIMING AND FORM OF DISTRIBUTION**

A. **Timing of Elective Distribution Event**

I hereby elect the following distribution events (check one box and complete, if necessary):

- 1. o The specified date of \_\_\_\_\_ (specify up to three dates not later than December 31, 2039); or
- 2. o The earlier to occur of (specify which of the following are applicable):
  - o The specified date of \_\_\_\_\_ (specify up to three dates not later than December 31, 2039).
  - o My Separation from Service.
  - o A Change of Control.
  - o A Section 409A Change of Control.

B. **Form of Payment**

I hereby elect the following form of payment commencing on the applicable distribution event (check one box and complete, if necessary)

- o A single lump sum payment; or
- o A series of \_\_\_\_\_ (specify five or fewer) substantially equal annual installments, or
- o A portion allocated to each specified date I have designated, as follows (identify percentages totaling 100% and indicate the associated date)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**\* Note:** For certain officers who are defined as "specified employees" under Section 409A, the payment of any deferred compensation due to Separation from Service for any reason (other than death) will be delayed until 6 months after the date of such separation.

III. **PARTICIPANT SIGNATURE AND DATE:**

I understand that this Deferral Election will become irrevocable on December 31, 2008.

I further understand that the Company may take whatever steps the Company, in its sole discretion, deems appropriate or necessary to satisfy the Company's state and federal income tax, social security, Medicare, and any other tax withholding obligations (including in jurisdictions other than the United States) arising in connection with any Compensation subject to this Deferral Election. I understand that social security and Medicare (FICA) tax will arise at the time the payments would otherwise have been made in the absence of this deferral election, and that the Company will withhold amounts necessary to satisfy that obligation from other compensation I am entitled to receive.

This Deferral Election shall be interpreted, and such amounts shall in all events be paid, in a manner consistent with Section 409A so as to avoid adverse tax consequences related to the deferrals.

I am aware that any elections I have hereby made may have significant tax consequences to me and, to the extent I deem necessary, I have received advice from my personal tax advisor before making this Deferral Election.

\_\_\_\_\_  
Participant's Signature

\_\_\_\_\_  
Date Signed

***Deliver by December 31, 2008 to:***

Liberty Global, Inc.  
Attn: Senior Vice President, Global  
Human Resources  
12300 Liberty Boulevard  
Englewood, Colorado 80112

**Notice to Holders of  
United Chile Synthetic Options  
Right to Amend Grant Agreement  
December 16, 2008**

This Notice is delivered to you as a holder of United Chile Synthetic Options ("United Chile Options") granted pursuant to the Letter Agreement dated December 22, 2006 (the "Grant Agreement") between you and United Chile LLC. Capitalized terms used but not defined in this Notice have the meaning given to such terms in the Grant Agreement, a copy of which is attached hereto.

The Term of your United Chile Options will expire on the date set forth in Schedule A of the Grant Agreement or, if earlier, the expiration date established under Section 2(d) of the Grant Agreement. Section 2(d)(iii) of the Grant Agreement provides that if your employment or consulting relationship with LGI and its Subsidiaries (collectively, the "Company") terminates for any reason other than for cause, Disability or death, then the Term of your United Chile Options will expire on the last day of the 90-day period beginning on the date of termination of such employment or consulting relationship. Under Section 2(d)(ii), if you die during the 90-day period referenced in the preceding sentence, the Term of your United Chile Options would expire on the date that is one-year after the date of your death.

**This Notice is delivered to advise you of the determination by the LGI Committee to afford each holder of United Chile Options a one-time opportunity to amend Section 2(d)(iii) of the Grant Agreement to extend the 90-day period therein to a period of one year following the termination of such holder's employment or consulting relationship with the Company. A conforming amendment would also be made to Section 2(d)(ii). If you elect to so amend the Grant Agreement, the amendment will apply to all of your United Chile Options.**

As provided in the Grant Agreement, although the United Chile Options may be exercised at any time during the applicable Term, payment by United Chile will not be made with respect to such exercise until after the Term has expired. As such, if you elect to amend Section 2(d)(iii) of the Grant Agreement and your employment or consulting relationship with the Company terminates for any reason other than cause, Disability or death, then both the exercise period and payment date applicable to your United Chile Options would be extended from 90 days to one year (or, if shorter, to the end of the Term as set forth on Schedule A of the Grant Agreement) from the date of such termination. If you die during the one-year period described above regarding terminations to which Section 2(d)(iii) applies, the Term applicable to your United Chile Options would continue to be extended for a period of one year (or, if shorter, to the end of the Term as set forth on Schedule A of the Grant Agreement) from the date of your death, as is currently the case under Section 2(d)(ii).

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You may elect to amend Section 2(d)(ii) and Section 2(d)(iii) as provided above only by executing and returning the attached Amendment Election Form to United Chile LLC, attention Elizabeth Markowski, no later than Tuesday, December 30, 2008. Delivery of the Amendment Election Form may be effected through any of the following means: (1) personal delivery to LGI's corporate headquarters at 12300 Liberty Boulevard, Englewood Colorado, 80112, USA, (2) facsimile delivery to +1 303.220.6691, or (3) email delivery to [liz@lgi.com](mailto:liz@lgi.com). If delivery is by facsimile or email, please also forward an original executed copy by courier to the attention of Elizabeth M. Markowski at LGI's corporate headquarters at the address set forth above. If you fail to timely deliver the duly executed Amendment Election Form to United Chile LLC, you will be deemed to have elected not to amend the Grant Agreement with respect to your United Chile Synthetic Options.

As a separate matter, Section 5 of the Grant Agreement is being amended pursuant to its terms to delete the word "Disability" from the first sentence. This amendment is required to comply with Internal Revenue Code Section 409A and recently adopted rules related thereto.

Except as specifically set forth in this Notice, all provisions of the Grant Agreement will remain unchanged and in full force and effect. If you have any questions regarding the foregoing, please contact Elizabeth Markowski by phone at 303.220.6648 or in writing at the following email address: [liz@lgi.com](mailto:liz@lgi.com).

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United Chile Synthetic Option Holder  
Amendment Election Form

I hereby elect to amend Section 2(d)(ii) and Section 2(d)(iii) of the Grant Agreement (as defined in the Amendment Notice to which this Election Form is attached) to read, in their entirety, as follows:

"(ii) If you die while employed by or a consultant to LGI and its Subsidiaries or within the one-year period referred to in clause (iii) below, your United Chile Synthetic Options will terminate on the first Business Day following the expiration of the one-year period which began on the date of your death; or

(iii) If your employment or consulting relationship with LGI and its Subsidiaries terminates for any reason other than for cause, Disability or death, then your United Chile Synthetic Options will terminate on the first Business Day following the expiration of the one-year period which began on the date of termination of such relationship."

I understand and agree that this election is irrevocable and that, other than as set forth in the Amendment Notice and in this Amendment Election Form, all terms and conditions of the Grant Agreement remain unchanged and in full force and effect.

\_\_\_\_\_  
EMPLOYEE

\_\_\_\_\_  
DATE

Name	Country
@NetHome Co., Ltd.	Japan
Artson System Pty Ltd.	Australia
Asia Television Advertising LLC	USA-Delaware
Asian Television and Communications International LLC	USA-Colorado
Associated SMR, Inc.	USA-Delaware
At Media Sp. z o.o	Poland
Austar Entertainment Pty Ltd.	Australia
Austar Satellite Pty Ltd.	Australia
Austar Satellite Ventures Pty Ltd.	Australia
Austar Services Pty Ltd.	Australia
Austar United Broadband Pty Ltd.	Australia
Austar United Communications Ltd.	Australia
Austar United Holdco I Pty Ltd.	Australia
Austar United Licenceco Pty Ltd.	Australia
Austar United Mobility Pty Ltd.	Australia
Bazuca.com, Chile S.A.	Chile
Bicatobe Investments B.V.	Netherlands
Binan Investments B.V.	Netherlands
Cable Management Ireland Ltd.	Ireland
Cable Net Kobe Ashiya Co., Ltd.	Japan
Cable Net Shimonoseki Co., Ltd.	Japan
Cablecom (Luxembourg) GP Sarl	Luxembourg
Cablecom GmbH	Switzerland
Cablecom Holdings GmbH	Switzerland
Cablecom Kabelkommunikation GmbH	Austria
Cablecom Luxembourg SCA	Luxembourg
CCE Spektrum Holdco Sro	Czech Republic
CCE Spektrum Holding Zrt	Hungary
CCom Holdings (Luxembourg) Sarl	Luxembourg
Century Programming Ventures Corp.	USA-Nevada
Century United Programming Ventures Pty Ltd.	Australia
Ceska programova spolecnost, spol. Sro	Czech Republic
Channel Ginga	Japan
Chello Central Eruope sro	Czech Republic
Chello Central Europe Srl	Romania
Chello Central Europe Zrt	Hungary
Chello Zone Holdings Ltd.	United Kingdom
Chellomedia B.V.	Netherlands
Chellomedia CE Holding Zrt	Hungary
Chellomedia CEE Holdco B.V.	Netherlands
Chellomedia Direct Programming B.V.	Netherlands
Chellomedia Holding III N.V.	Netherlands
Chellomedia Holdings UK II Ltd.	United Kingdom
Chellomedia Priority B.V.	Netherlands
Chellomedia Programming B.V.	Netherlands
Chellomedia Programming Financing B.V.	Netherlands
Chellomedia Programming Financing Holdco B.V.	Netherlands
Chellomedia Programming Financing Holdco II B.V.	Netherlands
Chellomedia Programming Financing Partnership	USA-Delaware
Chellomedia Services Ltd.	United Kingdom
Chippawa Pty Ltd.	Australia
Chorus Communications Ltd.	Ireland
City Cable Net	Japan

Name	Country
City Telecom Kanagawa	Japan
Club Channel Ltd.	United Kingdom
Continental Century Pay TV Pty Ltd.	Australia
CTV Pty Ltd.	Australia
Dovevale Pty Ltd.	Australia
Edogawa Cable TV	Japan
Eisa Finance Pty. Ltd.	Australia
Encore Asia LLC	USA-Colorado
Encore International LLC	USA-Colorado
Europe Acquisition, Inc.	USA-Delaware
Extreme Networks Europe Ltd.	United Kingdom
Filmmuseum Holdco Zrt	Hungary
Filmmuseum Zrt	Hungary
FM Holding Kft	Hungary
Focus Sat Romania Srl	Romania
Forcom Net sro	Czech Republic
Golden Cable Vision Ltd.	Ireland
Higashi Osaka Cable TV Co., Ltd.	Japan
Horizon TV Distribution Ltd.	Ireland
Hostbasket NV	Belgium
Iberian Program Services C.V.	Netherlands
Iberian Program Services Holdings B.V.	Netherlands
Ilona Investments Pty Ltd.	Australia
Independent Wireless Cable Ltd.	Ireland
Inode AG	Liechtenstein
Interactive Television Network, Inc.	USA-Colorado
InvestCo Belgian Cable 1 Sarl	Luxembourg
InvestCo Belgian Cable 2 Sarl	Luxembourg
Irish Digital (TT) Holdings Ltd	Ireland
J:COM Chiba Co., Ltd.	Japan
J:COM Finance Co., Ltd.	Japan
J:COM Saitama Co., Ltd.	Japan
J:COM Technologies Co., Ltd.	Japan
J:COM West Co., Ltd.	Japan
Jacelyn Pty Ltd.	Australia
JCOM Fukuoka Co., Ltd.	Japan
J-COM Kanto Co., Ltd.	Japan
J-COM Kita-kyushu Co., Ltd.	Japan
J-COM Sapporo Co., Ltd.	Japan
J-COM Shonan Co., Ltd.	Japan
J-COM Tokyo Co., Ltd.	Japan
JimJam CEE Ltd.	United Kingdom
JimJam TV Ltd.	United Kingdom
J-Sports LLC	USA-Delaware
Jupiter Entertainment	Japan
Jupiter Golf Network Co., Ltd.	Japan
Jupiter Sports, Inc.	Japan
Jupiter Telecommunications Co., Ltd.	Japan
Jupiter Visual Communications	Japan
Jyohoku New Media Co., Ltd	Japan
Kabelova televise Karvina A.S.	Czech Republic
Kansai Multimedia Service Co., Ltd.	Japan
Kidillia Pty Ltd.	Australia
Kitakawachi Cablenet Co., Ltd.	Japan
Labesa Holding B.V.	Netherlands

Name	Country
Latin America Media Distribution S.C.A.	Uruguay
LGI China Holdings B.V.	Netherlands
LGI China Holdings Ltd.	Hong Kong
LGI Holdings, LLC	USA-Delaware
LGI International, Inc.	USA-Delaware
LGI Telenet Holdco BV	Netherlands
LGI Telenet I B.V.	Netherlands
LGI Ventures B.V.	Netherlands
LGI/Sumisho Super Media, LLC	USA-Delaware
LGJ Holdings LLC	USA-Delaware
Liberty Cablevision of Puerto Rico Ltd.	Bermuda
Liberty Chile, Inc.	USA-Colorado
Liberty FA Holdings, Inc.	USA-Delaware
Liberty Global Europe B.V.	Netherlands
Liberty Global Europe Financing B.V.	Netherlands
Liberty Global Europe Investments B.V.	Netherlands
Liberty Global Europe Ltd.	United Kingdom
Liberty Global Europe Management B.V.	Netherlands
Liberty Global Europe N.V.	Netherlands
Liberty Global Europe, Inc.	USA-Delaware
Liberty Global Japan II, LLC	USA-Delaware
Liberty Global Japan LLC	USA-Delaware
Liberty Global Services II, LLC	USA-Colorado
Liberty Global Services, LLC	USA-Colorado
Liberty Holdings Chile, Inc.	USA-Delaware
Liberty Home Shop International, Inc.	USA-Colorado
Liberty International Cable Management, Inc.	USA-Colorado
Liberty Japan MC, LLC	USA-Delaware
Liberty Japan V, Inc.	USA-Delaware
Liberty Japan, Inc.	USA-Delaware
Liberty Jupiter Finance, Inc.	USA-Delaware
Liberty Jupiter VOD, Inc.	USA-Delaware
Liberty Jupiter, Inc.	USA-Delaware
Liberty Latin Programming Ltd.	USA-Delaware
Liberty Media International Holdings, LLC	Cayman Islands
Liberty Movies Australia Pty Limited	USA-Delaware
Liberty NC X, Inc.	Australia
Liberty Programming Australia, Inc.	USA-Delaware
Liberty Programming Japan, LLC	USA-Colorado
Liberty Programming South America, LLC	USA-Delaware
Liberty South America, S.R.L.	USA-Colorado
Liberty UGC Holdings, Inc.	Argentina
Liberty UK Radio, Inc.	USA-Delaware
Liberty Uruguay, Inc.	USA-Colorado
Liberty VIV II, Inc.	USA-Delaware
LMI Japan Management, Inc.	USA-Delaware
LMI Japan MC Holdings, Ltd.	Japan
LMI Programming South America S.A.	Uruguay
LMINT Holdings, LLC	USA-Delaware
Mediatti Communications, Inc.	Japan
Mediatti Tojo	Japan
Minorite Pty Ltd.	Australia
Miyagi Network	Japan
Mojo Productions Kft	Hungary
Multicanal (Spain) Holding SLU	Spain

Name	Country
Multicanal Iberia SLU	Spain
Netfront Information Technology Ltd.	Hong Kong
Nidlo B.V.	Netherlands
NTL Communications (Ireland) Ltd.	Ireland
NTL Irish Networks Ltd.	Ireland
PayTV Co chellomedia S.A. N.V.	Belgium
Plator Holding B.V.	Netherlands
Pramer S.C.A.	Argentina
Priority Holding B.V.	Netherlands
Priority Telecom N.V.	Netherlands
Priority Telecom Netherlands B.V.	Netherlands
Priority Telecom Service Corporation, Inc.	USA-Delaware
Priority Wireless B.V.	Netherlands
Priority Wireless Switzerland AG	Switzerland
Reality TV (China) Ltd.	United Kingdom
Reality TV Latin America S.C.A.	Uruguay
Reality TV USA Ltd.	United Kingdom
Romantica (East) Ltd.	United Kingdom
Romantica Television Srl	Romania
Saturn (NZ) Holding Co. Pty Ltd.	Australia
Selectra Pty Ltd.	Australia
Site1 SA	Switzerland
Sky Vision Ltd.	Hong Kong
Spektrum TV Zrt	Hungary
Studio Company Sp. z o.o	Poland
STV Pty Ltd.	Australia
Suir Nore Relays Ltd.	Ireland
Suita Cable	Japan
Takatsuki Cable Network Co., Ltd.	Japan
Telelavaux SA	Switzerland
Telenet BidCo NV	Belgium
Telenet Communications NV	Belgium
Telenet Group Holding N.V.	Belgium
Telenet NV	Belgium
Telenet Solutions Luxemburg NV	Luxembourg
Telenet Vlaanderen NV	Belgium
TES Wireless sro	Czech Republic
The Horror Channel Ltd.	United Kingdom
TM Lease	Japan
Toyonaka/Ikeda Cablenet Co., Ltd.	Japan
Trnavatel s.r.o.	Slovak Republic
Tsuchiura Cable Television Co., Ltd.	Japan
TV Paprika Holdco Zrt	Hungary
TV Paprika Zrt	Hungary
T-VGAS NV	Belgium
TVP Holding Kft	Hungary
UAP Australia Programming Pty Ltd.	Australia
UIH China Holdings, LLC	USA-Colorado
UIH Philippines Holdings, LLC	USA-Colorado
UIH SFCC Holdings L.P.	USA-Colorado
UIH SFCC II, LLC	USA-Colorado
UIH SFCC LP	USA-Colorado
UIM Aircraft, LLC	USA-Colorado
Unite HoldCo I B.V.	Netherlands
United Artists, B.V.	Netherlands

Name	Country
United Asia/Pacific Communications, LLC	USA-Delaware
United AUN, LLC	USA-Colorado
United Austar Partners	USA-Colorado
United Chile Ventures, Inc.	Cayman Islands
United Chile, LLC	USA-Colorado
United Communications Finance, LLC	USA-Colorado
United DLA Holdings Inc.	USA-Delaware
United Football Broadcasting B.V.	Netherlands
United Latin America Management, LLC	USA-Colorado
United Latin America Programming, LLC	USA-Colorado
United Latin America Ventures Inc.	Cayman Islands
United Latin America, LLC	USA-Colorado
United Management, LLC	USA-Colorado
UnitedGlobalCom, Inc.	USA-Delaware
UPC Austria GmbH	Austria
UPC Austria Services GmbH	Austria
UPC Broadband ECC Services B.V.	Netherlands
UPC Broadband France S.A.S.	France
UPC Broadband France SNC	France
UPC Broadband GmbH	Austria
UPC Broadband Holding B.V.	Netherlands
UPC Broadband Holding Services B.V.	Netherlands
UPC Broadband Ireland B.V.	Netherlands
UPC Broadband Ireland Ltd	Ireland
UPC Broadband N.V.	Netherlands
UPC Broadband Operations B.V.	Netherlands
UPC Broadband Slovakia sro	Slovak Rep.
UPC Broadband UK Limited	United Kingdom
UPC Central Europe Holding B.V.	Netherlands
UPC Česká republika a.s.	Czech Republic
UPC Chile Holding BV	Netherlands
UPC Communications Ireland Ltd	Ireland
UPC Czech Holding B.V.	Netherlands
UPC Direct Programming II B.V.	Netherlands
UPC Exploitation Holding B.V.	Netherlands
UPC Financing Partnership	USA-Delaware
UPC France Holding B.V.	Netherlands
UPC HoldCo III B.V.	Netherlands
UPC Holding B.V.	Netherlands
UPC Holding II B.V.	Netherlands
UPC Hrvatska d.d.	Croatia
UPC Internet Holding B.V.	Netherlands
UPC Investment Sp. z o.o	Poland
UPC Ireland B.V.	Netherlands
UPC Ljubljanski Kabel d.d.	Slovenia
UPC Magyarország Kft	Hungary
UPC Murska Sobota d.d.	Slovenia
UPC Nederland B.V.	Netherlands
UPC Nederland Mobile B.V.	Netherlands
UPC Nederland Services B.V.	Netherlands
UPC Oberösterreich GmbH	Austria
UPC Poland Holding B.V.	Netherlands
UPC Polska Sp. z o.o	Poland
UPC Romania Holding B.V.	Netherlands
UPC Romania Srl	Romania

Name	Country
UPC Rotovz d.d.	Slovenia
UPC Scandinavia Holding B.V.	Netherlands
UPC Slovenia Holding B.V.	Netherlands
UPC Switzerland Holding BV	Netherlands
UPC Tabor d.d.	Slovenia
UPC Telekabel Klagenfurt GmbH	Austria
UPC Telekabel Wien GmbH	Austria
UPC Telekabel-Fernsehnitz Region Baden Betriebe GmbH	Austria
UPC Telekabel-Fernsehnitz Wiener Neustadt Neunkirchen Betriebs GmbH	Austria
UPC Telemach Broadband d.o.o.	Slovenia
UPC Velenje d.d.	Slovenia
UPC Western Europe Holding B.V.	Netherlands
UPC Wireless GmbH	Austria
Video 2000 SA	Switzerland
Vinatech Pty Ltd.	Australia
VTR Banda Ancha S.A.	Chile
VTR Galaxy Chile S.A.	Chile
VTR Global Carrier S.A.	Chile
VTR GlobalCom S.A.	Chile
VTR Ingeniería S.A.	Chile
Westward Cables Ltd.	Ireland
Westward Horizon Ltd	Ireland
Windytide Pty Ltd.	Australia
Wollongong/Microwave Pty Ltd.	Australia
Yokohama TV Corp.	Japan
Zomerwind Holding B.V.	Netherlands
Zone Broadcasting (EMC) Ltd.	United Kingdom
Zone Broadcasting (Maximum Reality) Ltd.	United Kingdom
Zone Broadcasting Showtime (Turkey) Ltd.	United Kingdom
Zone Kids Limited	United Kingdom
Zone Licensing Ltd.	United Kingdom
Zone Media Poland Sp. z o.o	Poland
Zone Studios Srl	Romania
Zone Vision (China) Ltd.	United Kingdom
Zone Vision Trustco Ltd.	United Kingdom
Zonemedia Broadcasting Ltd.	United Kingdom
Zonemedia Czech sro	Czech Republic
Zonemedia Enterprises Ltd.	United Kingdom
Zonemedia Group Ltd.	United Kingdom
Zonemedia Management Ltd.	United Kingdom
Zonemedia Networks Srl	Romania
Zonemedia Studios Ltd.	United Kingdom

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Liberty Global, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated February 23, 2009, with respect to the consolidated balance sheets of Liberty Global, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and the related financial statement schedules I and II, and our report dated February 23, 2009 on the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008 annual report on Form 10-K of Liberty Global, Inc. The financial statements of Telenet Group Holding NV, a partially owned subsidiary as of December 31, 2007 and for the year then-ended, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Telenet Group Holding NV, is based solely on the report of the other auditors.

Our report refers to a change in the methods of accounting for income taxes, certain investments and an insurance arrangement.

Our report on the effectiveness of internal control over financial reporting as of December 31, 2008, contains an explanatory paragraph that states that the aggregate amount of total assets and revenue of entities excluded from management's assessment of the effectiveness of Liberty Global, Inc.'s internal control over financial reporting as of December 31, 2008 are \$1,640.0 million and \$49.7 million, respectively. Our audit of internal control over financial reporting of Liberty Global, Inc. also excluded an evaluation of the internal control over financial reporting of these entities.

**KPMG LLP**

Denver, Colorado  
February 23, 2009



Consent of independent registered public accounting firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-128945, 333-128553, and 333-125927) and on Form S-8 (Nos. 333-140111, 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, and 333-128038) of Liberty Global, Inc. of our report dated February 22, 2008 relating to the consolidated financial statements of Telenet Group Holding NV as of December 31, 2007 and for the year then ended, which appears in Liberty Global, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008.

Antwerp, Belgium, February 19, 2009

PricewaterhouseCoopers Bedrijfsrevisoren bcvba

Represented by,

/s/ B. Gabriëls

Consent of Independent Registered Public Accounting Firm

The Board of Directors  
SC Media & Commerce Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, 333-128038 and 333-140111) and on Form S-3 (Nos. 333-128945, 333-128553 and 333-125927) of Liberty Global, Inc. of our report dated February 15, 2008, with respect to the consolidated balance sheets of SC Media & Commerce Inc. (formerly, Jupiter TV Co., Ltd.) and subsidiaries as of June 30, 2007 and December 31, 2006, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the six-month period ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006, which report appears in the December 31, 2008 annual report on Form 10-K of Liberty Global, Inc.

/s/ KPMG AZSA & Co.

Tokyo, Japan  
February 23, 2009

Consent of independent registered public accounting firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-128945, 333-128553, and 333-125927) and on Form S-8 (Nos. 333-140111, 333-125930, 333-125941, 333-125943, 333-125946, 333-125962, 333-128034, 333-128035, 333-128036, 333-128037, and 333-128038) of Liberty Global, Inc. of our report dated June 12, 2007 relating to the consolidated financial statements of Telenet Group Holding NV as of December 31, 2006 and 2005, and for the years then ended, which appears in Liberty Global, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008.

Antwerp, Belgium, February 19, 2009  
PricewaterhouseCoopers Bedrijfsrevisoren bcvba  
Represented by,

/s/ B. Gabriëls

## CERTIFICATION

I, Michael T. Fries, certify that:

1. I have reviewed this annual report on Form 10-K of Liberty Global, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
  - d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2009

/s/ Michael T. Fries

Michael T. Fries  
President and Chief Executive Officer

## CERTIFICATION

I, Charles H.R. Bracken, certify that:

1. I have reviewed this annual report on Form 10-K of Liberty Global, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
  - d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2009

/s/ Charles H.R. Bracken

Charles H.R. Bracken  
Senior Vice President and Co-Chief Financial Officer  
(Principal Financial Officer)

## CERTIFICATION

I, Bernard G. Dvorak, certify that:

1. I have reviewed this annual report on Form 10-K of Liberty Global, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2009

/s/ Bernard G. Dvorak

Bernard G. Dvorak

Senior Vice President and Co-Chief Financial Officer  
(Principal Accounting Officer)

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Liberty Global, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2008 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of December 31, 2008 and December 31, 2007, and for the years ended December 31, 2008, 2007 and 2006.

Dated: February 23, 2009

/s/ Michael T. Fries

Michael T. Fries

Chief Executive Officer

Dated: February 23, 2009

/s/ Charles H.R. Bracken

Charles H.R. Bracken

Senior Vice President and Co-Chief Financial Officer

(Principal Financial Officer)

Dated: February 23, 2009

/s/ Bernard G. Dvorak

Bernard G. Dvorak

Senior Vice President and Co-Chief Financial Officer

(Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

